



Units 3&4 Business Management Practice Exam

2023 Trial 1 – Assessment Guide

Section A (40 marks)

VCAA Key
Knowledge

Question

Answer Guide

A-Team Adventure Tours (AAT) started as a partnership in 2019 between friends, Allegra and Aria, and offers guided historical and adventure tours around Australia. Following a challenging two years, in 2022, Allegra and Aria expanded the business and employed five employees to assist with the increased demand for their tours; however, after six months, three of the employees resigned due to low job satisfaction.

types of
businesses
including sole
traders,
partnerships,
private limited
companies,
public listed
companies, social
enterprises and
government
business
enterprises

Question 1a (2 marks)

Define the term
'partnership.' Refer to
A-Team Adventure
Tours in your response.

Answer:

- A partnership is a type of (unincorporated) business that has between two and twenty owners.
- As AAT has two owners (Allegra and Aria), it is a partnership business.

Marking Protocol:

One mark for each of the above points.

termination
management
including
retirement,
redundancy,
resignation and
dismissal,
entitlement
considerations and
transition
considerations

Question 1b (3 marks)

With reference to the
current situation at A-
Team Adventure Tours,
explain **one**
entitlement
consideration and **one**
transition
consideration.

Answer:

- With three employees having resigned, AAT must fulfil its legal obligation to pay any entitlements owing to the employees and may go further by providing transition supports.
- AAT must pay each of the three resigning employees any unclaimed annual leave, which is a legal requirement of the National Employment Standards.
- AAT may also provide each of the employees a letter of reference to assist them in transitioning into another job or career, especially if the employee(s) provided outstanding work in their short time with the business (however, this is not a legal entitlement).

Marking Protocol:

One mark for each of the above points.

key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria)

Question 1c (6 marks)

Analyse how **one** of the following theories of motivation could be applied to address the issue of low job satisfaction among employees at A-Team Adventure Tours:

- The Hierarchy of Needs Theory (Maslow)
- Goal Setting Theory (Locke and Latham)

Sample Answer 1: Hierarchy of Needs Theory (Maslow)

- *Maslow's Hierarchy of Needs Theory argues that employees have five needs that must be met in a sequential order to increase motivation. The needs are, in order: physiological (e.g. satisfactory pay for survival); safety (e.g. job security/ physical safety); belonging (e.g. positive co-worker relationships); esteem (e.g. feeling confident in one's own abilities); and self-actualisation (e.g. achieving personal/professional goals).*
- *According to Maslow, only one need is present at any time and this unmet need must be fulfilled for the employee to become motivated and progress up the hierarchy to more 'higher-order' needs, which provide longer-term motivation.*
- *Allegra and Aria could use this theory to identify the reason(s) why three staff lacked job satisfaction and subsequently left; one potential reason could be that employees lacked belongingness and connection to one another given the increased demand and workload at AAT.*
- *Employees, being new to the business, could also have lacked self-esteem and confidence in their abilities to guide historical and adventure tours due to their limited experience.*
- *By identifying unmet needs such as these, Allegra and Aria would be able to implement strategies to better manage new employees in order to address the issue of low job satisfaction for existing and new employees.*
- *For instance, they might invest in a stronger induction program which helps to build better connectedness among employees as well as on-the-job training programs so that employees feel more skilled and knowledgeable about their work. These steps, therefore, address the above unmet needs which should provide stronger long-term motivation and satisfaction.*

Sample Answer 2: Goal Setting Theory (Locke and Latham)

- *The Goal Setting Theory of Locke and Latham argues that there are two factors that influence motivation: (1) establishing goals that are clear, specific and challenging (but not overwhelming) and (2) providing ongoing, constructive feedback regarding goal achievement.*
- *According to this theory, employees should experience increased motivation when faced with a more challenging task that is sufficiently complex to spark increased commitment and effort and when employees are able to collaborate with management around their individual goals and progress towards achieving them.*
- *Allegra and Aria could use this theory to work individually with each employee and establish goals that are appropriate to their level of experience.*
- *It may be that the demands on the three employees who resigned were too much for them to handle, leading to low job satisfaction and motivation. By working with employees to set more appropriate and challenging goals which will not overwhelm them, Allegra and Aria can address the low job satisfaction and motivation of their employees.*

- Furthermore, Allegra and Aria can provide each employee with clear, ongoing and constructive feedback regarding their performance and achieving their goals.
- This can help to: reinforce positive aspects of their performance; provide additional motivation; and find ways for each employee to continue improving. This, therefore, could help to address low job satisfaction as employees are more likely to feel valued and accomplished when good performance is recognised.

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

5-6 High	• All elements of the question are addressed, showing an advanced understanding of key terms and concepts. • High-level analysis of how one of the motivation theories could be used to address issues of low job satisfaction. • Response makes accurate and consistent references to the situation at A-Team Adventure Tours, specifically with the issues of low job satisfaction among employees and the resignation of staff.
3-4 Medium	• Some elements of the question are addressed, showing a good understanding of concepts. • High-level analysis of how one of the motivation theories could be used to address issues of low job satisfaction. • Response may lack depth of analysis, showing a basic understanding of how the motivation theory could be used generally, or may lack application to A-Team Adventure Tours and the situations of low job satisfaction among employees and the resignation of staff.
1-2 Low	• Few elements of the question are addressed which shows only basic understanding of concepts. • Response may provide a basic outline of one or two ideas related to the chosen motivation theory.
0 Marks	• Response does not demonstrate any understanding of the question.

The recent trend of inflating oil prices has led to a substantial rise in airline ticket prices and a reduction in the number of customers for Platypus Airlines Ltd; senior management is predicting sales and profits will continue to decline over the next 12 months as inflation and rising interest rates have a negative impact on domestic and international travel. In light of this, senior management is reviewing all areas of the company to reduce operating costs.

proactive and reactive approaches to change

Question 2a (4 marks)

Distinguish between a proactive and reactive approach to change. Refer to Platypus Airlines Ltd in your response.

Answer:

- *Proactive change involves using trends and feedback to forecast patterns and future events before they occur and then putting in place appropriate strategies to ensure that the business is prepared to meet any challenges or opportunities ahead of the competition.*
- *This differs from reactive change, which involves observing a change in the business environment or an action of competitors or suppliers before seeking to implement similar processes to ensure that the business remains relevant.*
- *The key difference is that a business is usually more prepared for change when acting proactively, as systems and processes can be established ahead of time, as opposed to responding to a crisis.*
- *In this instance, Platypus Airlines has been reactive to changes like declining customer numbers and rising operating costs. Being more proactive (e.g. developing a cheaper or more sustainable fuel source) could have allowed the company to continue to be successful despite these challenges.*

Marking Protocol:

One mark for each of the above points.

Note: As this is a distinguish question, a clear point of difference between proactive and reactive approaches to change must be demonstrated. Responses that only provide an explanation of each approach without distinguishing them can achieve a maximum of only three marks.

stakeholders of businesses including owners, managers, employees, customers, suppliers and the general community

Question 2b (2 marks)

With reference to an example, define the term 'stakeholder.'

Answer:

- *A stakeholder is any person or group that has a vested interest in the activities of a business.*
- *This could include shareholders, whose vested interest is a financial return on investment.*

Marking Protocol:

One mark for each of the above points.

stakeholders of businesses including owners, managers, employees, customers, suppliers and the general community

characteristics of stakeholders of businesses including their interests and potential conflicts between stakeholders

the effect of change on stakeholder groups including owners, managers, employees, customers, suppliers and the general community

Question 2c (4 marks)

Analyse one impact that the reduction in customer numbers may have on Platypus Airlines Ltd's employees and one other stakeholder.

Answer:

- *Employees have a vested interest in Platypus Airlines' (PA) continual success so that they can enjoy ongoing job security and earn a stable income that provides them with a better standard of living.*
- *The reduction in customer numbers is likely to have a negative impact on employees, especially if a decision is taken to cut costs by reducing its workforce (i.e. redundancies). This would affect employees' job security and, if a large number of employees are made redundant, it would lead to stress and loss of income amongst other things.*
- *Shareholders have a vested interest in PA's financial performance so that they are able to maximise their return on investment and receive a share of profits (dividends).*
- *The reduction in customer numbers and increasing oil prices (i.e. operating costs) would likely have a negative impact on shareholder returns as profits decrease. Shareholders would likely see a decline in PA's share price and low or no dividends while profits are declining.*

Marking Protocol:

One mark for each of the above points.

Note: 'Analyse' requires students to investigate in more depth and detail the 'how' or 'why' underpinning relationships between concepts. In this instance, full mark answers must elaborate on a positive or a negative impact of the reduction in customer numbers on each stakeholder, providing an insight into 'how' or 'why' they are going to be impacted in this way. Responses that simply state an impact without elaborating in more detail can only achieve a maximum of two marks.

management styles including autocratic, persuasive, consultative, participative and laissez-faire

the appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference

Question 2d (5 marks)

In relation to time, describe and justify an appropriate management style that could be used by senior management at Platypus Airlines.

Sample Answer 1: Persuasive Style

- *The persuasive management style involves senior management at Platypus Airlines (PA) taking control of decision-making (which is centralised) and communicating its decisions to stakeholders in a one-way, top-down manner.*
- *The persuasive style also involves management providing reasons for any decision(s) so that stakeholders (such as employees) understand why a course of action was needed.*
- *In relation to time, this is the most appropriate style for management at PA as the airline is faced with a pending crisis and threat to its financial performance that requires management to act swiftly and decisively.*
- *By applying centralised decision-making without the need to consult its employees, management is able to act quickly to implement cost-cutting strategies (e.g. a reduction in its workforce) and to help to stabilise profit levels during this challenging time.*
- *Further, by taking the time to explain why decisions such as cost-cutting are being made, stakeholders, including employees and customers, can understand the reasons why and may be less resistant, allowing management to act strategically and help PA to survive its challenges.*

Sample Answer 2: Autocratic Style

- *The autocratic management style involves senior management at Platypus Airlines (PA) taking control of decision-making (which is centralised) and communicating its decisions to stakeholders in a one-way, top-down manner.*
- *The autocratic style is most appropriate to crisis situations, allowing management to focus solely on the task at hand, which, in this case, is to implement cost-cutting strategies in order to reduce operating costs while customer numbers are decreasing.*
- *In relation to time, this is the most appropriate style for management for PA as the airline faces an immediate crisis and threat to its financial performance that requires management to act swiftly and decisively.*
- *By applying centralised decision-making without the need to consult its employees, management is able to act quickly to implement cost-cutting strategies (e.g. a reduction in its workforce) and to help to stabilise profit levels during this challenging time.*
- *Therefore, management can implement a strong task-focus and demand that employees abide by a course of action that is chosen, ensuring that no time is wasted; this allows management to act strategically and to help PA to survive the current challenges.*

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

4-5 High	• All elements of the question addressed. • Accurate and sophisticated use of business management terminology (i.e. the chosen management style is accurately characterised). • A comprehensive and sophisticated justification of one management style, showing an in-depth understanding of 'time' as a factor that influences the choice of management style. • A comprehensive and sophisticated justification that provides at least one reason why the chosen management style would be suited to the current situation at Platypus Airlines.
3 Medium	• Most elements of the question addressed. • Accurate and sophisticated use of business management terminology (i.e. the chosen management style is accurately characterised). • Justification may be somewhat limited, providing a superficial link to how the chosen management style could help address the current situation at Platypus Airlines.
1-2 Low	• Few elements of the question addressed, showing only a basic understanding of concepts. • Response may outline one or two characteristics of the chosen management style without going further.
0 Marks	• Response does not demonstrate any understanding of this question. • Alternatively, the response puts forward either one of the consultative, participative or laissez-faire management styles as an appropriate management style.

Note: Given the present situation at Platypus Airlines and the need to act swiftly and decisively to address the pending crisis, it would not be appropriate for management to implement the consultative, participative or laissez-faire management styles. Responses that attempt to use these styles cannot be awarded any marks.

driving forces for change in business including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes

restraining forces in businesses including managers, employees, time, organisational inertia, legislation and financial considerations

Question 3 (4 marks)

Explain how **one** driving force and **one** restraining force may have influenced change in a contemporary business that you have studied.

Sample Answer 1: Pursuit of Profit and Employees

- *Pursuit of profit is a driving force that might compel a business to adopt change in order to increase revenue or decrease business expenses so as to become more profitable.*
- *In 2020-21, while faced with the challenge of restricted domestic and international travel, Qantas implemented a widespread redundancy program, reducing its workforce by 8,500 to reduce operating costs while the airline was unable to provide its regular services. This change was influenced by a pursuit of profit, with Qantas experiencing a decrease in profits from 2018 (which saw a ~ \$1 billion profit) to losses totalling almost \$4 billion in 2020-21.*
- *Contrastingly, employees can act as a restraining force that can prevent or stop a business from adopting change successfully as employees may take action, such as organised industrial action (e.g. strikes), to force management to consider another course of action, rendering the change ineffective.*
- *Qantas employees may have resisted the decision to implement the redundancies due to their fears of job loss, low job security and loss of income, amongst other things. As such, Qantas management may have been forced to consider other cost-cutting strategies as well as redundancies or in place of them in order to reduce employee resistance and ensure a successful change.*

Sample Answer 2: Competitors and Financial Considerations

- *Competitors are rival businesses in the same market or industry; these may be a driving force for a business to adopt change in order to better compete directly with other businesses for a larger portion of customers and sales.*
- *In 2021, Regional Express (Rex) expanded its flight schedule to include domestic flights between capital cities in Australia and to compete directly with Qantas and Virgin for customers on these routes. This competitive pressure influenced Qantas to use its fleet of international aircraft (which was grounded across 2020-21) in order to expand its domestic routes and increase the supply of seats; this enabled Qantas to drive down prices and attract more customers to better compete with Rex.*
- *Financial considerations are a potential restraining force that might restrict or stop a business from adopting change due to the significant up-front and/or ongoing costs or impact on cash flow that is caused by the change.*
- *Qantas was required to implement widespread cost-cutting strategies in 2020-21 to survive, with the redundancy of 8,500 employees costing the company \$900 million. This could have acted as a restraining force, especially as there were considerable restrictions on Qantas' revenue and income during this period.*

Marking Protocol:

One mark for each of the above points, or any other answer explaining how one driving/restraining force has influenced change in a contemporary business.

The real corporate culture of a business can sometimes be very different from its official corporate culture, which can lead to problems with performance – both financially and non-financially – to which the business must respond with positive change. If the culture for change is not positive, however, the changes will likely fail.

corporate culture, both official and real

corporate culture and strategies for its development

Question 4a (4 marks)

Compare real corporate culture and official corporate culture. Refer to **one** strategy that can be used to develop each in your response.

Answer:

- Both real and official corporate cultures aim to represent the shared values, beliefs and 'way of life' within a business.
- However, official corporate culture differs from its real counterpart as it presents written statements such as values, a mission or vision statement and/or other expressions of what the business is, stands for and aspires to be.
- Conversely, real corporate culture reflects the actual presiding values of the business and refers to the informal (unwritten) aspects of the business; it is the culture that is actually achieved as evident in dress, language and interactions, amongst other things.
- A similarity is that businesses are able to implement strategies to strengthen both real and official corporate culture. For example, introducing policies that guide/direct employee behaviour towards other staff and customers can strengthen the official (written) culture as well as alter the way in which staff interact in a real sense.

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

4 High	• All elements of the question addressed. • High-level comparison of real and official corporate culture, including clear points of difference and similarity, showing an in-depth understanding of concepts. • Response clearly refers to a strategy that can be used to develop real corporate culture and a strategy that can be used to develop official corporate culture. • Note: It is possible for the response to include more than one similarity or difference, but both sides must be represented for full marks. The strategy chosen can explore both real and official corporate culture (i.e. there does not have to be a separate strategy for each).
3 Medium	• Some elements of the question addressed, showing a good understanding of concepts. • A reasonable attempt at comparing multiple similarities or differences but not both (or one side is explored superficially). • Response may lack a 'comparison' of both types of corporate culture or may not fully explore how a strategy can be used to develop each type of corporate culture. • Note: This is the maximum score that can be awarded to a response that explores only one side (i.e. only similarities or only differences) in relation to real and official corporate culture.
1-2 Low	• Few elements of the question addressed, showing only a basic understanding of concepts. • Response may only state one similarity and one difference, two similarities only or two differences only, with no attempt made to explore a strategy that can be used to develop each type of corporate culture. • Response may provide one or two accurate definitions of real and official corporate culture with no attempt to reference similarities or differences, nor a strategy (or strategies) to develop each.
0 marks	• Response does not demonstrate any understanding of either concept.

Question 4b (6 marks)
Explain how **two** principles of Senge's Learning Organisation can be used to create a positive culture for change.

Answer:

- *Senge's theory argues that there are five principles that are consistent with a learning organisation (personal mastery, building a shared vision, mental models, team learning and systems thinking), which when implemented successfully, should create a positive culture for change and help to encourage support for any business transformation.*
- *Building a shared vision involves management working together with employees in an open and consultative way in order to co-create a common goal and direction for the business.*
- *By involving employees and empowering them to create a common vision, there should be increased commitment among employees towards the goal as they are more invested in wanting to achieve the business' vision, rather than simply following management directives.*
- *This can help to create a positive culture for change in the sense that employees may feel more heard and valued, thereby promoting the values of openness, honesty and clear communication in creating the vision, reducing the likelihood of a change being resisted.*
- *The mental models principle encourages a business and its personnel to break down and challenge any assumptions and beliefs about the business, what it stands for, how it operates and what makes it successful.*
- *Implementing this principle can encourage employees to be more open to taking risks and innovating. This can help in promoting a more positive culture for change as employees may be less fearful of making mistakes in their efforts to generate new business opportunities and innovate.*

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

5-6 High	• All elements of the question addressed. • Accurate and sophisticated use of business management terminology (i.e. two principles of Senge's Learning Organisation theory are explained to a very high standard). • High-level application of the theory to the context of creating a positive culture for change in a business. • Note: This could include: how using Senge's theory could promote specific values and beliefs around change; cultural symbols or rituals that result from using the theory; or ideas that relate to a more positive climate for change to take place in a business.
3-4 Medium	• Most elements of the question addressed. • Accurate use of business management terminology (i.e. two principles of Senge's Learning Organisation theory are explained to a good standard). • Response makes no attempt or a superficial attempt to apply the theory to the context of creating a positive culture for change in a business.
1-2 Low	• Few elements of the question addressed, showing only a basic understanding of concepts. • Response may provide one or two basic ideas related to Senge's Learning Organisation theory.
0 marks	• Response does not demonstrate any understanding of either concept.

Section B (35 marks)

Sheeran Electric Cars Pty Ltd has become a leading producer of electric and hybrid cars, being rated as the highest-performing electric car manufacturer for quality, productivity, safety and both employee as well as customer satisfaction in 2022. The company has established an excellent workplace relations record, which its founder and CEO, Anthony Sheeran, believes stems from the following factors: its strong corporate culture and focus on people; its pursuit of excellence in all aspects of its operations; and its ability to distinguish itself from other car manufacturers, which are still producing petrol-only cars.

Established 10 years ago, the company initially struggled to gain any substantial market share as its hybrid and electric cars were considered to be relatively new innovations. Issues with its operations were widespread, leading to long delays for new car orders, faulty cars being returned and a feeling of distrust between management and employees.

In 2014, faced with low sales, huge financial losses and the prospect of bankruptcy – but with a product he believed could change the world – Anthony decided to take a risk and expanded his management team. He introduced two experienced managers in Operations and Human Resources to address concerns with quality, waste and low employee motivation. The rest, as Anthony says, ‘is history’ as the company is now highly profitable and an international benchmark that is used by other electric and hybrid car manufacturers.

*the relationship
between human
resource
management and
business
objectives*

Question 1 (2 marks)

Outline the relationship between human resource management and business objectives.

Answer:

- *Human resource management (HRM) is the area that is responsible for managing relationships between employees and the business, including establishing (e.g. recruiting, selecting) and maintaining (e.g. training) a high-performing and motivated workforce as well as terminating employees at the end of the employment relationship.*
- *By implementing strategies such as on-the-job training, which develops employee skills and abilities, a business may be more able to achieve its objectives (such as increased sales and net profits) as employees will likely develop the necessary skills to perform their tasks to a higher standard.*

Marking Protocol:

One mark for each of the above points.

*the roles of
participants in
the workplace
including human
resource
managers,
employees,
employer
associations,
unions and the
Fair Work
Commission*

Question 2 (3 marks)

Explain how the human resource manager could have supported Sheeran Electric Cars Pty Ltd to develop an ‘excellent workplace relations record.’

Answer:

- *The human resource (HR) manager may have supported improved workplace relations at Sheeran Electric Cars (SEC) by negotiating more openly and in ‘good faith’ with employees or their union, thereby addressing issues of distrust among employees.*
- *The HR manager is responsible for implementing agreements that are consistent with workplace relations laws. In doing so, this can help to limit conflict between management and employees, reducing disputes and strengthening SEC’s workplace relations record.*
- *The HR manager could have also implemented better processes to manage employee grievances, taking these to senior management for consideration and resolution (including mediation) to improve workplace relations.*

Marking Protocol:

One mark for each of the above points.

Question 3 (4 marks)

Compare the characteristics of operations management within a manufacturing business (such as Sheeran Electric Cars) with those of a service business.

Answer:

Examples of what could be raised in responses include (but are not limited to):

Similarities

- *Both involve overseeing an operations system.*
- *Both use an operations system that is comprised of three elements – Inputs, Processes and Outputs.*
- *Both produce an output that is sold for money.*

Differences

- *Tangible or intangible outputs.*
- *Outputs can be stored or be unable to be stored.*
- *Outputs are consumed after production or consumed during provision.*
- *Outputs can be homogenous or individualised.*
- *Low customer input or high customer input in processing.*

Sample Answer:

- *A similarity between the operations of a manufacturing business, such as Sheeran Electric Cars (SEC), and a service business, such as Just Cuts (a hairdressing business), is that both aim to improve the efficiency (how well resources are used to create outputs) and effectiveness (how well business objectives are achieved) of their operations systems.*
- *Both operations systems also aim to convert raw materials into a finished good (a car for SEC) or service (a haircut for Just Cuts) output.*
- *One key difference relates to the degree of tangibility of the end output created. For SEC, its cars are tangible which can be seen/touched and stored for repeated usage; however, for Just Cuts, its outputs, which include haircuts and hairstyling, are intangible, meaning that the service is consumed as it is produced and, therefore, cannot be seen/touched or stored for repeated use.*
- *Another difference is the amount of customer contact during operations. For SEC, customers will 'consume' and use the electric car after it is a finished output, meaning that there is no customer contact during operations; however, for Just Cuts, as the service is being carried out on/for the customer, they must be physically present for it to occur, meaning that there is a high degree of customer contact during operations.*

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

4 High	• All elements of the question addressed. • High-level comparison of operations management, including clear points of difference and similarity that show an in-depth understanding of concepts. • Response clearly refers to Sheeran Electric Cars Pty Ltd as a manufacturing example and one service business example to illustrate the points of similarity and difference. • Note: It is possible for the response to include more similarities or differences, but both sides must be represented for full marks.
3 Medium	• Some elements of the question addressed, showing a good understanding of concepts. • A reasonable attempt at comparing multiple similarities or differences but not both (or one side is explored superficially). • Note: This is the maximum score that can be awarded to a response that explores only one side (i.e. only similarities or only differences) in relation to operations management for manufacturing and service businesses or a response that explores both sides and does not clearly relate to Sheeran Electric Cars Pty Ltd or a named service business. Responses must relate back to the case study for full marks.
1-2 Low	• Few elements of the question addressed, showing only a basic understanding of concepts. • Response may provide one similarity and one difference, two similarities only, or two differences only, with little attempt to relate ideas back to the case study. • Response may provide one or two accurate definitions of manufacturing and service businesses, loosely referencing related concepts (e.g. tangibility).
0 marks	• Response does not demonstrate any understanding of either concept.

the two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies

Question 4 (10 marks)

Evaluate Porter's generic strategies of lower cost and differentiation to improve business performance. Refer to Sheeran Electric Cars Pty Ltd in your response.

Answer:

- *The lower cost strategy involves a business seeking to gain a competitive advantage over rivals by implementing cost-cutting strategies that enable it to achieve the lowest business costs in the industry and, therefore, higher profit margins by offering prices that are lower than its competitors.*
- *In relation to Sheeran Electric Cars (SEC), cost-cutting strategies, such as sourcing materials and parts from overseas or completely manufacturing its range of electric and hybrid cars offshore, could reduce business costs when compared with manufacturing in Australia, where wages are much higher.*
- *This may provide a basis for charging a lower price for SEC's range of cars, providing a competitive advantage as the business would be much more effective at attracting price-sensitive customers away from other car brands.*
- *However, SEC has already faced issues around faulty cars and low quality in the past. Implementing a strategy like overseas manufacturing to reduce business costs may see a return to issues around quality, as the labour force available offshore may not be as skilled or able to produce quality to international benchmark standards, as SEC has been able to achieve in Australia.*
- *The differentiation strategy involves a business creating a competitive advantage over rivals through its unique product or service offerings, allowing it to charge a premium price for its product, which can be difficult to substitute, increasing its profit margins.*
- *In relation to SEC, the business has invested heavily in researching and developing hybrid and electric technologies in its cars so as to 'distinguish itself' from petrol-only car manufacturers.*
- *Developing a unique point of difference that is valued by (i.e. appeals to) a specific need in the market, such as reducing carbon emissions and one's environmental impact, can help SEC to attract a target market for its cars that are brand-loyal and willing to pay a premium price.*
- *This can help to sustain sales and profits into the future as other car manufacturers may find it difficult to replicate SEC's technology and quality, enabling the business to outperform its competitors.*
- *However, the differentiation strategy requires significant and ongoing investment in research, development and advertising as well as, generally, higher operating costs due to the greater quality of the parts and the materials that are used. This may lead to a much higher price for SEC's cars, making them less affordable and less available to a wider market.*
- *Overall, given the uniqueness of SEC's technology and innovation and its focus on developing a car that can 'change the world,' it is clear that the business will likely experience more success in gaining a competitive advantage through the differentiation strategy.*

Marking Protocol:

This answer is globally marked (i.e. an overall mark is awarded for the entire answer). The following criteria could be used to assess a response:

9-10 Very High	• All elements of the question are addressed to a very high standard. • A sophisticated evaluation of Porter's generic strategies of lower cost and differentiation which shows an advanced understanding of: ○ the lower cost approach; ○ the differentiation approach; and ○ at least one strength and weakness of each approach. • Response makes consistent references to Sheeran Electric Cars Pty Ltd, including references to its historical challenges (e.g. operations issues) or current business success (e.g. being the industry benchmark). • Response provides an overall assessment as to the suitability or effectiveness of one of the two strategies in the context of Sheeran Electric Cars Pty Ltd's situation.
7-8 High	• Most elements of the question are addressed to a high standard. • A high-level evaluation of Porter's generic strategies of lower cost and differentiation which shows an in-depth understanding of: ○ the lower cost approach; ○ the differentiation approach; and ○ at least one strength and weakness of each approach. • Response may lack consistent references to Sheeran Electric Cars Pty Ltd, including references to its historical challenges (e.g. operations issues) or current business success (e.g. being the industry benchmark). • Response may provide an overall assessment as to the suitability or effectiveness of one of the two strategies in the context of Sheeran Electric Cars Pty Ltd's situation.
5-6 Medium	• Some elements of the question addressed, showing a good understanding of concepts. • There may only be a focus on one aspect of the response, for example: ○ Response provides a comprehensive explanation of Porter's generic strategies with some attempt to relate each to Sheeran Electric Cars Pty Ltd; however, there is no evaluation present. OR ○ The response provides a good understanding of one of Porter's generic strategies (i.e. lower cost or differentiation) and evaluates this to a good standard. • Response may make no attempt or a superficial attempt to relate this theory to Sheeran Electric Cars Pty Ltd.
3-4 Low	• Few elements of the question addressed, showing only a basic understanding of these concepts. • Little to no evaluation of Porter's generic strategies; the response may provide a basic explanation of each approach without going any further.
1-2 Very Low	• A very limited response that shows a simple understanding of either the lower cost approach or the differentiation approach only (but not both). • Response may make one or two points about the lower cost approach or the differentiation approach without going any further.
0 marks	• Response does not demonstrate any understanding of the concepts.

Question 5 (6 marks)

Describe how Sheeran Electric Cars Pty Ltd could have implemented Lewin's Three Step Change Model to address concerns that are related to its operations.

Answer:

- *The first step of Lewin's change model is to 'unfreeze' the business environment and prepare it for change. In this step, management (and change agents) establish the need for change and help stakeholders (employees, customers, suppliers, etc.) to see it as necessary for the ongoing success of the business.*
- *For instance, in observing the concerning trends in product faults, quality and delays in its operations before the new managers were hired in 2014, Anthony may have presented shareholders and his staff with key performance indicators to indicate the need for change to address these issues and avoid further declines in performance.*
- *The second step is to 'change,' which involves the process of actually carrying out planned changes and moving the business from its current to the desired state.*
- *For instance, Anthony identified the need for more experienced management of operations and human resource professionals and expanded Sheeran's management team to implement strategies and improve its performance in these areas.*
- *The final step is to 'refreeze,' which involves solidifying the changes that were implemented and establishing the new business practices as the new 'way of life' for the business. This is important so that people do not revert back to old habits and positive changes remain in the business.*
- *For instance, Anthony may have created a new organisational structure, dividing the business into units so that plans could be created that focus on a specific area – for example, in improving output quality, reducing waste in operations and improving workplace relations in human resources. This could help employees in each business unit to avoid reverting back to the old habits that previously led to operational and HR issues.*

Marking Protocol:

One mark for each of the above points.

motivation strategies including performance-related pay, career advancement, investment in training, support strategies and sanction strategies

advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation

Question 6 (4 marks)
Justify **two** motivation strategies that could have addressed concerns of low employee motivation at Sheeran Electric Cars Pty Ltd.

Motivation strategies include:

- performance-related pay (Sample Answer 1);
- career advancement;
- investment in training (Sample Answer 1);
- support strategies (Sample Answer 2); and/or
- sanction strategies (Sample Answer 2).

Sample Answer 1:

- *Performance-related pay refers to a financial reward to employees (as individuals or groups) whose work performance has reached or exceeded a set benchmark or standard. This can be in the form of bonuses or a commission, amongst other options.*
- *Performance-related pay can be highly effective in boosting employee motivation and job satisfaction as employees may see a relationship between their effort and performance and their pay. This may energise them to increase their efforts in order to achieve these rewards.*
- *Investment in training, meanwhile, involves Sheeran providing training programs that increase the skills, abilities and knowledge of employees to enable them to perform their work tasks more effectively and efficiently.*
- *Given that Sheeran's cars are highly innovative and unique when compared to petrol-only cars, employees may lack the confidence and knowledge to manufacture hybrid and electric cars; investing in on- or off-the-job training to develop their skills could help to improve their performance and motivation whilst also providing them with a sense of value to the business.*

Sample Answer 2:

- *Support strategies involve actions that are taken by management to encourage positive employee performance, such as praise, recognition, coaching or mentoring and other programs that help employees to navigate difficult situations.*
- *By implementing support strategies such as coaching and mentoring, Anthony may have been able to address the distrust between management and his employees. Supporting employees who are underperforming may help them to feel more cared for and valued by Sheeran, boosting motivation and performance.*
- *Sanction strategies involve some form of consequence or punishment for failing to follow correct/accepted business practices or policies. This could include a verbal or written warning from management, a demotion or even dismissal.*
- *Anthony may have held meetings with underperforming staff, providing them with a written warning and threatening dismissal if their poor performance continued. This could have helped to stimulate employees to improve their performance, thereby addressing concerns about output quality, waste and delays through fear and wanting to avoid negative consequences.*

Marking Protocol:

One mark for each of the above points in either Sample Answer 1 or Sample Answer 2.

Note: Marks should be given to any other reasonable answers.

strategies to improve both the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management

the pull, one-piece flow, takt, zero defects strategy to improve the efficiency and effectiveness of operations related to lean management

Question 7 (6 marks)

Explain how the following strategies could have improved the efficiency or effectiveness of operations at Sheeran Electric Cars Pty Ltd:

- Total Quality Management
- Lean management

Answer:

- *Total Quality Management (TQM) is a business-wide approach to quality management where all members of the business commit to achieving excellence in every aspect of the business' operations.*
- *Sheeran Electric Cars (SEC) could have implemented TQM by focusing on its core principles, including the customer being the main focus of how 'quality' is defined, striving for kaizen (continuous improvement) in all processes, involving all employees (i.e. quality is everyone's responsibility) and defect-free production.*
- *TQM could have assisted SEC in improving effectiveness (how well the business is able to achieve its stated objectives) by empowering employees to take responsibility for the quality and waste issues that the business was experiencing and to establish quality standards to which all employees could have been held accountable.*
- *Lean management is a waste-minimisation strategy that aims to improve the efficiency and effectiveness of operations by limiting waste and costs and improving quality throughout the operations system. The aim is to eliminate processes that do not add value to a product as it is being produced.*
- *SEC could have implemented lean principles such as one-piece flow and zero defects. One-piece flow would have involved sequencing production processes so that manufacturing could have flowed more smoothly, limiting idle time and other motion wastes. Likewise, introducing a focus on zero defects would have involved introducing quality-maximisation strategies such as TQM to reduce defective wastes.*
- *This could have helped to improve the effectiveness of SEC as the reduction in waste would likely have resulted in lower operating costs, thereby increasing net profit margins, allowing SEC to better achieve its financial objectives and increase shareholder returns.*

Marking Protocol:

One mark for each of the above points.