sol-0954

Solutions

Unit 3: Managing a business

Area of Study 1: Business foundations

Topic 1: Business foundations

1.2 Types of businesses

TEST your understanding

1 Explain the difference between a sole trader and a partnership.

The difference between a sole trader and a partnership is that in a partnership, ownership of the business is shared between two or more people, whereas a sole trader is a business owned and operated by one person.

2 Identify three advantages and three disadvantages of setting up a business as a sole trader. For each advantage and disadvantage, explain why you believe it is an advantage or a disadvantage.

Advantages and disadvantages of sole trader structure are as follows.

Advantages	Disadvantages
• Low cost of entry • Simplest form • Complete control • Less costly to operate • No partner disputes • Owner's right to keep all profits • Less government regulation • No tax on profits, only on personal income	• Unlimited liability for business debts • End of business when owner dies • Difficult to operate if sick or injured • Need to carry all losses • Burden of management • Need to perform wide variety of tasks • Difficulty of raising finance for expansion

Student explanations will vary depending on the advantages and disadvantages selected. For example, low cost of entry is an advantage of a sole trader because the costs of beginning a sole trader business can almost be considered to be negligible. This means a prospective business owner can start a sole trader business operating from home using the internet to provide a service to customers. Such a business would face very few costs.

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3 Outline the advantages and disadvantages of a partnership.

Advantages and disadvantages of a partnership structure are as follows.

Advantages	Disadvantages
• Low start-up costs • Less costly to operate than a company • Shared responsibility and workload • Pooled funds and talent • Minimal government regulation • No taxes on business profits, only on personal income • On death of one partner, business can keep going	• Personal unlimited liability • Liability for all debts, including partner's debts, even before the partnership has begun • Possibility of disputes • Difficulty in finding a suitable partner • Divided loyalty and authority

4 Eve operates a successful homemade-casserole business as a sole trader. She is interested in taking on partners in her business.

(a) What advantages will Eve gain from a partnership arrangement that she does not have as a sole trader?

The key advantages gained by going into a partnership include:

- shared responsibility and workload
- pooled funds and talent
- on death of one partner, business can keep going
- less costly form of shared ownership than a company.

(b) What disadvantages could Eve experience from the partnership arrangement?

The key disadvantages of going into a partnership include:

- possibility of disputes
- divided loyalty and authority.

5 Explain what limited liability is and how it affects shareholders in a company.

Limited liability is where the shareholders of a company will not be held personally responsible for the debts of that business. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for the shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business.

6 Explain the key differences between a private limited company and a public listed company.

The key differences between a public listed company and a private limited company include the following:

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- Public listed company shares are listed and traded on the ASX, while shares in private limited companies can only be issued or sold to people approved by the directors.
- Private limited companies are usually small- to medium-sized businesses, while public listed companies are often large-scale businesses.
- Public listed companies must issue a prospectus to the public when issuing shares, while private limited companies are not required to do this.
- Public listed companies have no maximum number of shareholders, while private limited companies have an upper limit of 50 non-employee shareholders.

7 Identify what you believe to be the three main advantages and three main disadvantages of a private limited company. Explain each selection.

Advantages and disadvantages of a private limited company are as follows:

Advantages	Disadvantages
• Easier to attract public finance • Limited liability — separate legal entity • Easy transfer of ownership • A long life — perpetual succession • Experienced management through board of directors • Greater spread of risk • Company tax rate lower than personal income tax rate • Growth potential • Can have one shareholder and one director	• Cost of formation • Double taxation — company and personal • Personal liability for business debts if directors knew that debts could not be paid • Requirement to produce an annual report of audited accounts • Public disclosure — reporting of certain information • Rapid growth may lead to inefficiencies

Student explanations will vary depending on the advantages and disadvantages selected.

8 Outline the advantages and disadvantages of a public listed company.

Advantages and disadvantages of a public listed company are as follows:

Advantages	Disadvantages
• Can attract extra capital by issuing shares on the share market • Greater potential for growth through capital being able to be raised from the public • Limited liability — separate legal entity • Easy transfer of ownership • A long life — perpetual succession • Experienced management through board	• Cost of formation • Double taxation — company and personal • Personal liability for business debts if directors knew that debts could not be paid • Requirement to produce an annual report of audited accounts • Required to abide by stringent compliance rules and disclose corporate

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of directors • Greater spread of risk • Company tax rate lower than personal income tax rate • Growth potential • Recent legislation allows for only one shareholder and one director	financial information • Highly complex business structure • Requires greater accountability and compliance than for a private limited company • Rapid growth may lead to inefficiencies

9 In what ways does a social enterprise differ from a company?

A social enterprise is owned and operated as a private business with the objective of fulfilling a social need. On the other hand, a company exists to make profit. The social enterprise may make a profit, but will concentrate on some sort of community or environmental need.

10 Summarise the advantages and disadvantages of a social enterprise.

Advantages and disadvantages of a social enterprise are as follows:

Advantages	Disadvantages
• Can open up new markets — the social enterprise may meet a need that commercial businesses choose not to • Meeting a social need can have a positive effect on profit and market share	• Difficulty in obtaining capital to start the business — it can be hard to find finance • Significant operating costs — social enterprises will often take on costs that conventional businesses would not • Focusing on both social and financial objectives can be difficult

11 What is the main purpose of a government business enterprise?

The main purpose of a government business enterprise is to make a profit while it carries out government policies by delivering community services. GBEs also aim to increase the value of their assets and returns to their shareholder (the government).

12 Outline the advantages and disadvantages of a government business enterprise.

Advantages and disadvantages of a government business enterprise are as follows:

Advantages	Disadvantages
• A GBE is able to carry out government policies, delivering community services in areas where private sector businesses might hesitate to invest • A GBE can operate with some independence from government • Provision of healthy competition to businesses operating in the private sector	• Political interference in the day-to-day operation of the GBE • Inefficiencies caused by government 'red-tape' — excessive regulation or rigid conformity to rules • Management of GBEs can be less effective than that of the private sector

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Advantages	Disadvantages
— this can lead to lower prices in the markets where GBEs are competing	• There can be less accountability within a GBE, resulting in less productivity and negative attitudes among staff

APPLY your understanding

13 **Shane is planning to manufacture home water filtration units and sell the products locally. He then wants to use the proceeds of these sales to provide the same product to communities in developing countries. Explain to Shane why a social enterprise would be an appropriate business type for this idea.**

A social enterprise would be an appropriate business type for this venture because it will allow Shane to operate his venture just like a commercial business, but with the aim of fulfilling a social need. Operating as a social enterprise, Shane will therefore be able to manufacture home water filtration units and sell them locally to make a profit. He can then use the proceeds of the sales to provide the same product to communities in developing countries.

14 **Construct a table with six columns labelled as in the example below. From the list of businesses provided, write each name in the correct column for its particular business type. The first business has been entered for you, as an example.**

The businesses should fit as follows.

Sole trader	Partnership	Private limited company	Public listed company	Social enterprise	Government business enterprise
Ray Coulton Carpentry	David Tyler and Sons	Tip Top Bakeries Pty Ltd	Fairfax Limited	Bigga Community Group	Perpetual Water
Paul Banwell Motors	M&M Communications	Tynan Motors Pty Ltd	Ozemail Limited	Rural Services Co-op	
Jacinta's Newsagency		R&R Antiques Pty Ltd	Newcrest Mining Ltd		
Sue King Plumbing					

15 **Use internet sources to research a social enterprise. An example is KereKere. Answer the following questions for the social enterprise that you find.**

Answers provided for KereKere. KereKere is a food and beverage company in the business of enriching communities.

(a) **Who owns the social enterprise?**

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KereKere is owned by James Murphy.

(b) Who manages this business?

KereKere is managed by James Murphy.

(c) What is the objective of the social enterprise?

KereKere's objective is to contribute to initiatives that celebrate community.

(d) How does the business contribute to the community?

KereKere contributes $500 each month to community events and/or environmental, social or cultural causes. KereKere also takes on two people facing barriers to finding work each year. New recruits are trained and nurtured to work with fellow staff members to provide quality, sustainable products and service.

16 Use the Defence Housing Australia weblink in the Resources tab to find out what this government business enterprise does. Answer the following questions.

(a) Who owns Defence Housing Australia?

The Australian Government owns Defence Housing Australia.

(b) Who manages this business?

A board of directors and an executive management team, including a managing director and a chief operating officer, manages Defence Housing Australia.

(c) What is the objective of Defence Housing Australia?

The objective of Defence Housing Australia is to provide housing and related services to ADF members and their families in accordance with the DHA Act and service agreements with the Department of Defence.

(d) How many staff does Defence Housing Australia employ?

Defence Housing Australia employs more than 650 staff.

1.2 EXAM questions

Question 1 (2 marks)

Source: Adapted from VCE 2020, Business Management Exam, Section B, Q.1; © VCAA

Using evidence from the case study, outline what type of business Manitta Mining is.

Manitta Mining is a public listed company. This is evidenced by the reference to the share price of the business being listed on the ASX **[1 mark]**. Public companies are those that have their shares traded openly on the ASX **[1 mark]**.

Question 2 (2 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1a; © VCAA

Outline the characteristics of a private limited company.

The characteristics of a private limited company include that they are a separate legal entity with limited liability that can have between 1 and 50 shareholders **[1 mark]**. There are restrictions on who can buy shares in a private limited company and it is not listed on the ASX **[1 mark]**.

Question 3 (2 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1a; © VCAA

Define the term 'partnership' as a type of business.

A partnership is a business owned **[1 mark]** by between two and 20 people **[1 mark]**.

Question 4 (2 marks)

Source: Adapted from VCE 2018, Business Management Exam, Section B, Q.1; © VCAA

Describe one feature of a social enterprise like Ocean Skate Hub.

A feature of a social enterprise is a business that primarily generates revenue with a social objective in mind **[1 mark]**, such as providing employment and services for various societal groups, such as young people in the case of Ocean Skate Hub **[1 mark]**.

Question 5 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.1a & b; © VCAA

(a) Define the term 'sole trader'.

A sole trader business is a business owned by one person **[1 mark]**.

(b) Outline one reason why a business may choose to operate as a partnership rather than as a sole trader.

A partnership has the advantage of having more than one contributor of the finance/capital needed to set up and establish a new business or to make a change to an existing business **[1 mark]**.

This allows the business to begin operating with reduced risk (linked to one person borrowing) as there is less need to borrow funds from an external source **[1 mark]**.

1.3 APPLY YOUR SKILLS Analysing and discussing social enterprises

TEST your skills

1 Read 'Vanguard does the laundry to provide jobs' case study. Outline why Luke Terry established Vanguard Laundry Services.

Luke Terry established Vanguard Laundry Services to recruit unemployed people with mental illnesses to do laundry for St Vincent's Private Hospital in Toowoomba.

2 Identify what Vanguard's objective is.

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Vanguard's objective is to provide jobs to unemployed people who have a lived experience with mental illnesses. One of Vanguard's goals is for its workers to, eventually, move on to other employment.

3 Explain what Vanguard does with any surplus it makes.

Any surplus Vanguard makes is re-invested back into improving the laundry services or supporting local mental health employment projects.

4 Outline the benefits that Vanguard brings to the Toowoomba community.

As well as providing jobs to unemployed people, who have a lived experience with mental illnesses, the Vanguard laundry also benefits the wider community. This is because the Vanguard workers are much less likely to rely on welfare. The employees are also less likely to visit hospital or need hospital services.

5 Read the 'i=Change' case study. Outline i=Change's business objective.

i=Change's objective is to fund global development projects — typically ones that aid impoverished women and girls. The business aims to partner with online retailers to encourage them to integrate social responsibility into their e-commerce platforms.

6 Outline how Meltzer's online cause-based marketing platform works.

Meltzer's online cause-based marketing platform works through online retailers committing to a donation with every sale, usually a $1 donation. Customers choose where the donation goes, via the i=Change platform, at checkout. The customer is able to click a link to read about the life-changing project that the business will be donating to, or can choose to donate more if they wish. Customers can share their choice. The entire donation is forwarded to the charity project that the customer chooses.

7 Why does Meltzer believe that social enterprises need to be profitable businesses?

Meltzer believes that social enterprises need to be profitable businesses in order to have an impact on the area of social change that is being focused on — to be able to pay employees and continue to use the profits to achieve the company's chosen social objectives.

8 Using internet sources, find an example of a social enterprise. For example, you might use the Social Traders weblink to identify names of social enterprises in Australia.

(a) What is the objective of the social enterprise?

Student responses will vary depending on the social enterprise researched. For example, Zambrero Australia is a Mexican food company with the objective 'Mexican with a mission'.

(b) Explain how the social enterprise achieves its objective.

Student responses will vary depending on the social enterprise researched. For example, Zambrero achieves its objective by donating a meal to someone in need every time that a customer purchases a burrito or bowl at Zambrero. The meal is distributed by Zambrero's partners in the 'Plate 4 Plate' program: Foodbank Australia (a food relief organisation),

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which distributes to locals, and Rise Against Hunger (an international hunger relief agency), which distributes food to countries across Africa, Asia and the Americas.

9 Identify whether or not the following businesses are social enterprises. Justify each response.

(a) Sports4U Pty Ltd designs, develops and sells sporting apparel including compression wear and general fitness garments. Its mission is to advance human performance through the development of the best available athletic garments at the lowest possible prices.

Sports4U Pty Ltd is not a social enterprise. This business is focused on selling athletic garments to make a profit.

(b) Delia is a sole trader operating a landscape gardening business. She started the business to pay off her and her husband's mortgage.

Delia's landscape gardening business is not a social enterprise. The business has been established to make a profit.

(c) Christine owns a café that has environmental and social objectives. It provides jobs for young people with learning difficulties and other disabilities. As well as being used to provide training programs, revenue from the café funds other local community programs.

Christine's café is a social enterprise. The business has the primary objective of fulfilling social needs — it has environmental and social objectives. The café provides jobs for young people with learning difficulties and other disabilities, provides training programs, and revenue from the café funds other local community programs.

(d) Ossivision Australia is a private company that has an objective of aiding the homeless community. The business puts the proceeds from the sale of its sunglasses towards acquiring blankets and distributing them to the homeless.

Ossivision Australia is a social enterprise. The business has the primary objective of fulfilling a social need — aiding the homeless community. Proceeds from the sale of sunglasses go towards acquiring blankets and distributing them to the homeless.

(e) Assistenz Health is a public company that produces and distributes health care products to pharmacies. Its vision is to improve health care while creating unprecedented value and opportunity for customers, employees and investors.

Assistenz Health is not a social enterprise. The business has been established to make a profit.

1.3 EXAM questions

Question 1 (2 marks)

Define the term 'social enterprise'.

A social enterprise is a business that has the objective of fulfilling a social need. While it may make a profit, it will concentrate on some sort of community or environmental need **[1 mark]**. In doing so, a social enterprise can open up new markets. That is, the social enterprise may meet a need that commercial businesses choose not to because the area of need may be seen as one without the potential to be profitable **[1 mark]**.

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Question 2 (4 marks)

Discuss the use of a social enterprise as a type of business.

A social enterprise is a business that has the objective of fulfilling a social need. While it may make a profit, it will concentrate on some sort of community or environmental need. This makes social enterprises valuable in our community as they focus on social needs rather than profitability. However, a social enterprise may find that its actions have a positive effect on profit and market share. Customers who believe that the business is meeting a social need are more likely to deal with the business, and may refer the business to other customers. Furthermore, this type of business may attract employees who are drawn to its values.

However, the owner(s) of a social enterprise may experience difficulty in obtaining capital to start the business — this is because without a focus on profits, a bank would be reluctant to lend this type of business money for risk of not getting their investment back. In addition, social enterprises can face significant operating costs — they will often take on costs that conventional businesses would not as the decision is not being driven by profit but rather a value driven desire to do the right thing for society.

Award 1–2 marks for discussion of advantages of a social enterprise as a type of business.

Award 1–2 marks for discussion of disadvantages of a social enterprise as a type of business.

1.4 Business objectives

TEST your understanding

1 **Identify why businesses should analyse their performance.**

Businesses should analyse their performance to determine if the desired objectives were achieved and, if not, where and why they failed.

2 **Differentiate between effectiveness and efficiency.**

Effectiveness indicates the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is 'doing the right things'. On the other hand, efficiency refers to how well a business uses the resources needed to achieve an objective. The most efficient use of resources occurs when benefits are greater than the costs of resources employed.

3 **Outline the difference between an objective and a strategy.**

An objective is a desired outcome or specific result that a business intends to achieve, whereas a strategy is an action that a business takes to achieve an objective. An objective gives a business direction; that is, it provides the business with a path to follow, increasing its chances of being successful. A strategy outlines how the business will attempt to achieve an objective.

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4 **Explain the importance of business objectives.**

Business objectives are important because without them a business would have no direction and nothing to aim towards. Business objectives provide a business with a path to follow, increasing its chances of being successful.

5 **Examine the four businesses' objectives outlined in the figure at the end of section 1.4.2, and then answer the following questions.**

(a) **Are there common features of these objectives? What are they?**

There are features common to all the objectives. All the statements express some sort of purpose or expectation.

(b) **What are the differences between these objectives?**

The statements differ according to the type of business. For example, Bakers Delight, a private limited company, focuses on being competitive, or being the best bread retailer. The Social Studio, a social enterprise, focuses on creating awareness and changing public perceptions.

(c) **Would it be important for employees, managers and customers to be familiar with a business's objectives? Why?**

It is important that employees and managers, in particular, are aware of the objectives of a business, because their input should contribute to the achievement of the business's objectives. Businesses consider it important that customers are aware of their vision or mission statement so that they know what the business is about.

APPLY your understanding

6 **What are your objectives for this year? Do you have a strategy to achieve those objectives? Complete the following table to see how strategies are linked to objectives (both personal and business ones). The table has been started for you.**

Responses to this question will vary. For example, a student might suggest that they are aiming for higher than a 40 in Business Management. One strategy to achieve this objective would be to complete 10 practice exams. This is similar to a business, which might have the objective of making profit and would achieve this objective using strategies such as launching new advertising campaigns, improving customer service training, developing new products, improving productivity or reducing costs.

7 **Use the NAB weblink in the Resources tab to determine NAB's objective. List the strategies you find.**

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NAB's objective is reflected in its vision, which is 'to be Australia and New Zealand's most respected bank'. To achieve this vision, NAB has a number of strategic objectives:

- turn customers into advocates
- engage its people
- generate attractive returns for shareholders.

8 Use the Australia Post weblink in the Resources tab to find out what type of business it is. Outline Australia Post's objectives.

Australia Post is a Government Business Enterprise.

It has four strategic objectives:

- running the business efficiently and well
- enabling an innovative, creative and customer-centric culture
- accelerating the business in eCommerce Delivery
- designing and scaling the business in eCommerce Services.

1.4 EXAM questions

Question 1 (2 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.1a; © VCAA

Define the term 'business objective'.

A business objective is a goal, specific target or outcome **[1 mark]** plus one of the following:

- that the business is aiming to achieve **[1 mark]**
- within a specified period of time **[1 mark]**
- that guides the business decision-making/direction of the business **[1 mark].**

Question 2 (2 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1b; © VCAA

Describe a business objective (other than 'to make a profit') that would be relevant to 123 Childcare Centre.

To fulfil a need for providing a service within the local community **[1 mark]**. This is Mary's objective as she has seen that there is demand for 'high quality and reliable childcare' **[1 mark]**.

Question 3 (3 marks)

Distinguish between the objectives 'to make a profit' and 'to increase market share'.

The objective of making a profit relates to ensuring that revenue is greater than expenses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue).

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For example, if a business's expenses totalled $100 000 per year and revenue from sales was $200 000, the business would have made a profit **[1 mark]**.

Most businesses not only want to make a profit but also want to maximise their profit and increase it from year to year **[1 mark]**.

On the other hand, the objective of increasing market share relates to a business's proportion of total sales in a market or an industry. For example, if a business's sales totalled $100 000 per year with
$1 billion a year spent in that business's market, the business's market share would be 10 per cent. If a business can increase its proportion of sales in the market, market share will increase **[1 mark]**.

Question 4 (2 marks)

Explain the business objective 'to meet shareholder expectations'.

The objective of meeting shareholder expectations relates to the owners of a company expecting to make a return on their investment **[1 mark]**. Whether a business makes a profit is particularly important for shareholders because they expect to receive dividends (a proportion of the profits) and/or make a capital return on their investment. If part of the profit gained by the company is returned to shareholders, or the value of a company's shares increase, shareholders will have their expectations met **[1 mark]**.

Question 5 (4 marks)

Anja has established a social enterprise called 'Social Bikes'. Describe two business objectives that Social Bikes will need to achieve.

One business objective that Social Bikes will need to achieve is 'to make a profit'. Making a profit relates to ensuring that revenue is greater than expenses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue). Social Bikes will ensure that its revenue is greater than expenses, but will reinvest a majority of its profit back into the business so that it can continue to fulfil a social need, or will distribute a majority of the profit to meet the community or environmental need.

A second business objective that Social Bikes will need to achieve is 'to fulfil a social need'. Fulfilling a social need may relate to concentrating on some sort of community or environmental need. Social Bikes might, for example, produce or sell bikes while aiming to contribute in some way to making the world a better place. Such objectives might include improving human wellbeing or focusing on the environment.

Award 1 mark for describing one business objective.

Award 1 mark for describing a second business objective.

Award 1 mark for applying the first business objective to Social Bikes.

Award 1 mark for applying the second business objective to Social Bikes.

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1.5 Business stakeholders

TEST your understanding

1 Define what is meant by the term 'stakeholder'.

Stakeholders are groups and individuals who interact with the business and have a vested interest in its activities.

2 State the type of interest a stakeholder will have in a business.

The type of interest a stakeholder will have in a business could be a vested interest or a financial interest.

3 Identify two likely interests of customers as stakeholders of a business.

Customers will be interested in value for money when purchasing the good or service, and good customer service from the business.

4 Explain how the interests of owners and managers may differ.

An owner is not always a manager and so owners would like to see an increase in profits and subsequent increase in their return on investment. Managers may be seeking steady growth so they can be rewarded financially and/or they gain additional responsibility as the business grows.

5 Outline the interests of the suppliers of a business.

Suppliers would like the business to adopt them as exclusive suppliers of inputs so the supplier has a regular, guaranteed income. They would also like to be paid promptly and have a positive relationship with the business.

6 Explain why the general community may have an interest in local businesses.

Businesses often employee people in the local area and hope the business will contribute to the local community through involvement in community life, such as community programs, sponsoring local events and sporting clubs.

7 Describe the interests of the employees of a business.

Employees work for the business and, in return, expect to be valued as members of the business. They expect to be paid fairly, trained properly and treated ethically in return for their contribution to production. Employees also need to know that their job is secure in the long term. Employees would expect that their employer would provide them with some reassurance that their job is secure, perhaps verbally or through the use of a long-term contract with the business.

APPLY your understanding

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8 **Choose a contemporary business with which you are familiar and use the internet to research the internal stakeholders of the business; for example, you could find out how many owners the business has. Do these owners have direct involvement in the operations of the business?**

Answers will vary according to the business selected. For example, according to its 2019 Sustainability Report, Woolworths employs more than 190 000 team members. These people expect to be paid fairly, trained properly and treated ethically in return for their contribution to production. Woolworths encourages a diverse and inclusive culture. According to its Sustainability Report, Woolworths is committed to maintaining a workplace that safeguards the health and wellbeing of its team members (as well as customers and visitors).

According to its website, Woolworths has 445 000 shareholders (the vast majority of whom are Australian 'mum and dad' investors). These owners are not directly involved in the operations of the business. Rather, Woolworths has an annual general meeting (a yearly meeting of the shareholders) where the directors of the company present an annual report containing information for the shareholders about the company's performance and strategy.

9 **Use the information in this subtopic to identify the stakeholders and their interests, using the table below.**

Stakeholder	Description	Interest
Owners	The individuals or entities that own the business and have the right to benefit from the profit that it makes	Want the business to make profit — they depend on the success of the business for their income or wealth
Shareholders	The individuals or entities that purchase shares in a company, so they are partial owners of the business	Want the business that they have invested in to be profitable
Management	The people who have the responsibility for running a profitable or successful business	Want the business to perform financially and, in return, expect to be fairly remunerated
Employees	The people working for the business	Expect to be paid fairly, trained properly and treated ethically in return for their vital contribution to production
Competitors	Other businesses that produce and sell rival, or competing, goods or services to those of the business	Want to have a competitive edge over the business. Likely to be prepared to respond to any change in the actions of the business to gain a competitive edge.
Customers	The people who purchase or use the products of the business	Expect to purchase quality products at reasonable prices and receive high levels of service. Are becoming increasingly aware of socially responsible businesses and many will purchase products from businesses they know have acted in a socially responsible manner.

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Stakeholder	Description	Interest
Suppliers	The businesses or individuals who supply resources and materials to the business, allowing it to conduct its operations	Provide raw materials that will be used in the business's production process — these must be quality materials that are supplied reliably. Suppliers expect to be paid promptly and in full.
Members of the community	The individuals who live in the same area (such as a city or town) as other groups of individuals	Expect that a business will give back to society something of what they take out in generating profit. Expect businesses to show concern for their future welfare through their own employment within businesses. Expect that businesses will show concern for the environment.

10 **Use the Business stakeholder weblinks in the Resources tab to look at the websites of the following businesses. Choose one and complete the table below.**

- **Scentre Group**
- **Village Roadshow**
- **Visy**
- **Link Housing Ltd**

Name of business	
Number of owners/shareholders	
Number of managers	
Number of employees	

Responses will vary according to the business chosen and current information on websites. For example, the Scentre Group has thousands of shareholders, 19 senior managers on its executive team, and just over 2800 full-time, casual, part-time and temporary employees.

1.5 EXAM questions

Question 1 (2 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.1a; © VCAA

Fran is the newly appointed manager of an Australian software business. The business is a public listed company working towards the achievement of its business objectives.
With reference to this business, define the term 'stakeholder'.

Stakeholders are individuals or groups with a vested interest in the performance and activities of a business **[1 mark]**. As a manager, Fran is a stakeholder of the business **[1 mark]**.

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Question 2 (4 marks)

Source: VCE 2008, Business Management Exam, Q.2d; © VCAA

Identify two stakeholders of Country Foods. Discuss the potential impact of this closure on these stakeholders.

Two stakeholders are employees and the local community.

Employees would be concerned by the closure of one of the plants as they will lose income, making it more difficult for them to buy their own goods and services, and affecting their living standards.

The local communities in which the closed factory resides will also be negatively affected. The closure of the factory will cause job losses but there then may be secondary job losses as those now unemployed reduce their spending, causing other businesses to suffer a drop in sales and profits.

Award 2 marks for each stakeholder and their interests explained.

Question 3 (4 marks)

Source: VCE 2006, Business Management Exam, Q.1b; © VCAA

Apart from the stakeholders mentioned in the mission statement, identify two other stakeholders of Southern Furniture Ltd and explain their importance to the organisation.

Two stakeholders will be employees and suppliers.

Employees are the ones who will produce the products the business sells. They are important as they will determine the quality of the product, produce the products in such a manner that costs are kept as low as possible and provide the customer service that will provide a positive experience for customers. Their efforts will determine the success of the business.

Suppliers provide the inputs in the production process such as components or materials. They are important as they must provide quality inputs to ensure quality outputs. They must also be able to meet orders on time and at an agreed price, so the business suffers no delays in production or supply.

Award 2 marks for each stakeholder and their interests explained.

Question 4 (2 marks)

Source: VCE 2005, Business Management Exam, Q.2a; © VCAA

Distinguish between shareholders and stakeholders.

Stakeholders are groups or individuals with a vested interest in the activities of a business **[1 mark]**. Shareholders also have an interest in the activities of the business but their interest is an ownership interest as they own shares in the business. All shareholders are stakeholders but not all stakeholders and shareholders **[1 mark]**.

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1.6 Potential conflicts between stakeholders and corporate social responsibility considerations

TEST your understanding

1 **Explain why there are potential conflicts between the interests of stakeholders.**

There are potential conflicts between the interests of stakeholders because not all interests of all stakeholders are compatible. For example, a business might find new suppliers to purchase materials from in order to cut costs. These suppliers might reduce costs by using socially irresponsible practices. Some members of the community could be upset that particular suppliers are making use of socially irresponsible practices.

2 **Looking at the information in the table in section 1.6.1, identify in what ways the interests of stakeholders conflict.**

There are many ways in which the interests of stakeholders conflict. For example, employees and unions require safe working conditions and reasonable wages, but this will cost the business money in the short term. If the management of a business tried to retain a high dividend to satisfy shareholders, they may be forced to raise the prices of the business's products. This action will upset customers, who expect reasonably priced products. If the business left prices at the original level, so reducing its profits, this would satisfy customers, but could cause disquiet among shareholders. If management decided to cut costs in other areas, such as through neglecting maintenance, this could possibly put employees, customers or members of the community in danger.

3 **Suggest ways in which a business could reconcile the following pairs of conflicting interests.**

(a) **Consumers demanding cheaper products and employees wanting higher wages**

A business might find a way to cut costs in other areas, but this could cause conflicts in other ways such as concerns over quality or ethical suppliers.

(b) **Shareholders desiring a higher return on their investment and society wanting a clean environment**

Businesses can be environmentally friendly while still maintaining shareholder interests. Customers today are very interested in buying environmentally friendly products, leading to profits for green businesses.

(c) **Managers being required to keep costs of production down and ethical suppliers wanting higher prices for inputs**

Ethical supplies may be more expensive, and management may need to find other areas to cut costs, such as lean production strategies.

4 **List some business activities that could involve corporate social responsibility considerations.**

Some business activities that could involve corporate social responsibility considerations include production of goods and services, dealings with suppliers, treatment of employees, relationships with customers, and financial management.

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5 **Complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies**.

Advantages	Disadvantages
Customers are more likely to want to deal with a socially responsible business.	It can be expensive to introduce and implement socially responsible strategies.
Employees and potential employees are more likely to want to deal with a socially responsible business, resulting in a positive workplace and a pool of highly talented applicants.	It can be time-consuming to introduce and implement socially responsible strategies.
An improved reputation, leading to improved financial performance	Many competitors are adopting the same strategies so it may not guarantee the business an improved reputation.
A reduction in costs in the long-term as waste is reduced, energy costs reduced and employee costs, such as training and recruitment, reduced	

APPLY your understanding

6 **Campbell Anderson, former president of the Business Council of Australia, said: 'Business is acutely aware that being out of step with community expectations can mean losing market share and poor employee morale and productivity, all of which can dramatically affect the bottom line.' Discuss this statement, using business examples.**

A lack of social responsibility can damage a business's reputation and reduce its competitive advantage. Failing to address corporate social responsibility considerations can mean losing market share, and can result in poor employee morale and low productivity. This can dramatically affect the bottom line.

The Melbourne-based company, Thank you, launched in 2008 with bottled water and has since expanded to products including handwash, lotions and baby products. They have recently dropped bottled water from their product line — explaining that it is unsustainable and it does not make sense for an environmentally aware company to produce it.

While there are some businesses that no doubt behave in a socially irresponsible manner and continue to trade successfully, there are many businesses that have behaved unethically and in a socially irresponsible manner and have experienced a fall in their performance. One example is the US energy company Enron, which filed for bankruptcy in 2001 after it was revealed that it had committed accounting fraud.

7 **You have been asked by a friend whether it is a good idea to purchase shares in businesses that have good environmental performance. What advice would you give to your friend?**

There is evidence to support the case that businesses that adopt environmentally sound practices can be rewarded with an increase in share price. For example, Ethisphere, a research-

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based international business dedicated to defining and measuring standards of ethical business practices, has found that businesses that support the rule of law and operate with decency and fair play will always succeed in the long term. This is because more customers will want to deal with a socially responsible business, therefore improving sales, financial performance and return on shares.

8 'To be effective, corporate strategy must take into account the interests, needs, and expectations of all the business's stakeholders. Companies should have a strategy that combines business goals and broad social interests.' Do you agree? Explain your answer.

Many businesses today do focus on financial goals as well as social interests. It is very difficult for managers to reconcile conflicting interests because being considerate of social responsibilities can increase costs; however, it is common for businesses to report on the triple bottom line, which shows that social responsibility is a priority for them rather than traditional profit alone.

1.6 EXAM questions

Question 1 (2 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5a; © VCAA

Define the term 'corporate social responsibility'.

Corporate social responsibility is the obligation a business has over and above its legal responsibilities **[1 mark]** to the wellbeing of employees and customers, shareholders and the community, as well as the environment **[1 mark]**.

Question 2 (5 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.5; © VCAA

Outline the interests of two relevant stakeholders of Ocean Skate Hub. Explain how these interests may be in conflict.

Two stakeholders of Ocean Skate Hub are the young people who make use of the services provided and the employees who work for the social enterprise. The users of the services provided have an interest in access to high-quality facilities at a time that meets their needs. The employees of Ocean Skate Hub are interested in secure employment, while maintaining a healthy work–life balance.

As Ocean Skate Hub seeks to expand its offerings to include classes for older members of the community, it is possible that the staff will need to be redeployed to work in a range of different areas. This can help to ensure that they have more secure employment; however, this may also mean that they are unable to provide the same level of service for their existing users. While this will meet the needs of the employees, the business may find that its existing users are less enthused about the changes that are set to occur.

Award 1 mark for outlining the interests of the first relevant stakeholder.

Award 1 mark for outlining the interests of the second relevant stakeholder.

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Award 2 marks for explaining how a single event may result in a conflict between the two stakeholders.

Award 1 mark for strong links to the case study throughout.

Question 3 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4c; © VCAA

Analyse the impact that the reduction of the level of wastage may have on Small Goods Pty Ltd's suppliers and one other stakeholder.

A reduction of wastage from its production process will impact on Small Goods' suppliers due to increased efficiencies in production, which may lead to a reduction in purchases of materials/inputs.

Improved processes will maximise resource usage and minimise wastage of the materials. This will have a negative impact on the supplier as Small Goods orders fewer products from the suppliers.

Shareholders of this private company will be impacted by the change to reduce wastage as there may be a decline in profit levels when implementing the waste minimisation changes which may cost a significant amount to the business initially, but as the changes become embedded in the business the shareholders should be positively impacted with an improved return on their investment as a reduction in wastage should decrease costs and increase profit levels.

Other stakeholders can include managers, employees, customers, the general community and competitors.

Award 1 mark for an appropriate impact on suppliers from the reduction of waste at Small Goods Pty Ltd.

Award 1 further mark for the analysis of this impact.

Award 1 mark for an appropriate impact on a second stakeholder from the reduction of waste at Small Goods.

Award 1 further mark for the analysis of this impact.

Question 4 (4 marks)

Source: VCE 2007, Business Management Exam, Q.2e; © VCAA

Discuss the differing opinions that two stakeholders may have had about James Meehan's decision to introduce enterprise bargaining.

Employees would be happy with the decision as enterprise bargaining allows the employees to bargain for higher wages and improved working conditions. As agreements must be better off than the Award, employees would benefit and be in favour of such a move.

The shareholders of the company may not be in favour of this move. An increase in wages and/or improvements in working conditions may lead to higher costs and reduced profits, reducing the return shareholders receive on their investment.

Award 2 marks for an appropriate stakeholder's interest discussed.

sol-0955

Solutions

Unit 3: Managing a business

Area of study 2: Human resource management

Topic 2: Human resource management

2.2 BACKGROUND KNOWLEDGE Overview of the employment cycle

TEST your understanding

1 **Identify the three phases of the employment cycle.**

The three phases of the employment cycle are the establishment phase, the maintenance phase and the termination phase.

2 **Explain the difference between a job description and a job specification.**

A job description lists the duties, tasks and responsibilities associated with a job, while a job specification includes the qualifications, skills and experience an employee must have to carry out the job.

3 **Identify three possible methods of selecting the most suitable applicant to fill an employment position.**

Possible methods of selecting the most suitable applicant to fill a position include:

- requiring applicants to provide detailed information on an application form
- carrying out interviews
- using various forms of testing, including aptitude testing and psychological testing
- examining references and other background checks.

4 **Explain why it is important to carry out an induction program with new employees.**

It is important to carry out an induction program to ensure that new employees have full knowledge of the tasks and responsibilities associated with their new job, and to ensure that if they are part of a team, they get to know other members of that team.

APPLY your understanding

5 **Peter has completed a degree in marketing and has gained employment with a real estate agency to manage their advertising, both through their website and through a section in the local newspaper.**

(a) **Describe an induction process that may help Peter settle into his new position.**

Peter would need an introduction to the specifics of the real estate industry, because his marketing qualification would probably be general rather than industry-specific. He may

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also need to meet members of the agency team to learn how they prefer to market properties they are selling.

(b) **Following his induction, identify the additional training that might be useful for Peter, and for his employer.**

Peter may need to learn how to work with the agency's website to be able to upload advertisements directly on to the site, and to learn any interactive aspects that are used in the promotion of properties for sale.

(c) **Explain how a process of performance management could benefit both Peter and the real estate business.**

Appropriate performance management processes would involve the setting of goals or objectives, perhaps related to house sales. Peter's performance would be measured against his ability to achieve those objectives. This would benefit Peter because he would be motivated by meeting the objectives (particularly if he was rewarded for it). It would benefit the business as it would make Peter a more effective and productive employee.

6 **Why might an employer need to manage a voluntary termination of employment differently from an involuntary termination? Identify the issues that might arise with each type of termination.**

Voluntary termination usually means the employee has volunteered to leave the business, often because he or she is moving to a new position with a different employer, or is retiring from the workforce. The employer may need to manage issues associated with handover, transition, payment pending, notice periods, holiday pay and long service.

Involuntary termination involves the employee leaving unwillingly. In the case of involuntary termination, the departing employee may need additional assistance, such as references to help them find a new position or career counselling. They too may have issues surrounding negotiation of pay, notice, holiday pay and long service.

2.3 The relationship between human resource management and business objectives

TEST your understanding

1 **Outline what is meant by 'human resources'.**

Human resources are the employees of a business, and should not be seen as just another resource, but as its most important asset. Human resources consist of skills and experience.

2 **Define what you understand by 'human resource management'.**

Human resource management is the effective management of all aspects of the formal relationship between the employer and the employee.

3 **Explain why human resources are the most important resource used by businesses.**

Human resources are the most important resource used by an organisation because they coordinate and combine other resources such as equipment and raw materials to produce

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goods and services. The manner in which they do this will determine the efficiency and effectiveness of the organisation.

4 Describe the relationship between HR and business objectives.

All business objectives are achieved due to the contribution of human input, so well-designed human resource management policies and practices are essential for businesses to achieve those objectives. A focus on positive work relationships can improve motivation and increase productivity and, consequently, contribute to the achievement of business objectives.

5 Outline why employee motivation is central to HR management.

Motivated employees are more likely to work hard to achieve business objectives, so employee motivation will be central to human resource management.

APPLY your understanding

6 An accident in the workplace has closed a factory for two days. Explain how you think a human resource manager could attempt to avoid a similar situation in the future.

Accidents can be avoided by establishing appropriate procedures for adhering to suitable OH&S practices, improving training of staff, and establishing work teams to implement these procedures. This would assist in preventing such an incident in the future.

7 A company has an objective of 'increasing exports to Asian markets'. Outline the HR strategies that might be put in place to achieve that objective.

HR policies and practices that could assist in this objective include:

- selection of sales staff who speak Asian languages
- training of staff to develop sales skills
- keeping prices competitive with Asian markets through improved productivity, achieved by training, performance appraisal, flexible work practices and improved staff motivation.

8 Explain why a business might want to gain certification from the Top Employers Institute.

Certification indicates that the business is an 'employer of choice', and that it offers outstanding conditions of employment for its employees. This can be a huge benefit for a business, because it will attract quality employees whose skills and talents will greatly assist in achieving business objectives. It will also give the employee more potential employees to choose from, as applicant numbers may increase.

2.3 EXAM questions

Question 1 (2 marks)

Outline the relationship between human resource management and business objectives.

A business will typically have objectives such as improving profits, expanding the business and increasing market share. The knowledge, skills and efforts of employees will have a significant influence on how well a business is able to achieve these objectives. The management of employees includes the hiring of suitable workers to perform the specific tasks required, ensuring those workers

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are suitably trained and providing motivation to encourage them to put an appropriate level of effort into their work.

Award 1 mark for demonstrating an understanding of human resource management and business objectives.

Award 1 mark for outlining the relationship between the two terms.

Question 2 (4 marks)

Jess has purchased new software to improve the management of her clothing store. She has four employees who will need to use the software to carry out their duties.

(a) Explain one business objective that Jess might be attempting to achieve through this purchase. (2 marks)

Students could explain any one of the following objectives:

- Increasing profits — the purchase of new software can improve productivity, which will have a positive impact on profits
- Expanding the business — the purchase of new software can allow the business to process purchases and sales more efficiently, providing the owner with more time to implement expansion strategies
- Increasing market share — the purchase of new software can improve customer service, drawing new customers away from competing businesses.

Award 1 mark for identifying an appropriate business objective.

Award 1 mark for explaining how this purchase might help achieve the objective.

(b) Identify two human resource strategies Jess might implement to achieve the business objective explained in part a. (2 marks)

For each of the business objectives identified, the following HR strategies would be appropriate:

- training employees to use the new software to ensure that the productivity benefits are fully realised, and customer service is improved.
- providing rewards to those employees who have improved their skills by completing training in the use of the new software This could include improved pay and would provide additional motivation to employees.

Award 2 marks for a satisfactory description.

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Question 3 (4 marks)

Analyse the importance of the relationship between operations management and business objectives.

Business objectives are the desired outcomes or goals that a business intends to achieve. Many businesses wish to maximise profit, for example. Employees are essential in contributing to the achievement of these business objectives. As this is the case, the relationship between managing employees and business objectives is a very important one. The successful management of employees should ensure that employees are motivated and productive and efficient. This will in turn contribute to profit and other objectives including increased sales, improved goods or services, growth in market share, and a positive customer experience.

Award 1–2 marks for a limited understanding of the relationship between operations management and business objectives.

Award 3–4 marks for a good understanding of the relationship between operations management and business objectives.

Question 4 (4 marks)

With reference to a contemporary business case study, explain how managing employees relates to business objectives.

Human resource management is responsible for the relationship between the employer and employees. It coordinates all the activities involved from acquiring to terminating employees. Managing employees is an important area of the business because employees make a vital contribution to the achievement of business objectives (the desired outcomes or goals that a business intends to achieve). Employees are an essential input in the production process and, ultimately, it is staff who will achieve the objectives of the business.

The relationship that a business has with its employees will also directly impact on its ability to achieve its objectives. A particular focus of the human resources area of management responsibility is on positive work and employment relationships, where staff are provided good work–life balance and are fulfilled and developed to their full potential. This assists employee motivation and labour productivity, ultimately supporting the attainment of objectives such as increased sales, growth, positive customer experience and profit.

At Google, employees are referred to as the People Operations team (known elsewhere as HR). Google states that its 'administrative staff are the curious and creative colleagues that anchor us to our foundations and help us shoot for the moon', thus showing that employees are very important in allowing the business to achieve its aims. Google manages its staff well, as it lives by the mantra 'find them, grow them, keep them', and is dedicated to staffing, development, and a distinct and inclusive culture. Well-designed strategies related to the management of employees at a business, such as training and performance-related pay, as well as a focus on positive work and employment relationships should ensure that 'human input' contributes most effectively to the achievement of business objectives.

Global marking may be used:

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Award 1–2 marks for a limited understanding of the relationship between human resource management and business objectives. The student may provide limited reference to a contemporary business case study.

Award 3–4 marks for a good understanding of the relationship between human resource management and business objectives. The student should provide sound reference to a relevant contemporary business case study.

2.4 Theories of motivation

TEST your understanding

1 **Define the term 'motivation'.**

Motivation refers to the individual, internal process that directs, energises and sustains a person's behaviour.

2 **Identify the five needs in Maslow's motivation theory.**

The five needs in Maslow's motivation theory are:

- self-actualisation needs
- esteem needs
- social needs
- safety needs
- physiological needs.

3 **Explain how goal setting affects a person's motivation.**

Goal setting, and working towards those goals, provides motivation by developing a sense of purpose in the employee. This produces improved performance, which brings positive feedback, which can further enhance motivation.

4 **Identify Lawrence and Nohria's four drives.**

The four drives identified by Lawrence and Nohria are the drive to acquire, the drive to bond, the drive to comprehend and the drive to defend.

APPLY your understanding

5 **Explain why Maslow's theory is important.**

Maslow's motivational theory is important because it attempts to explain how people behave and how they can be motivated. Maslow believed that all people have needs to be satisfied and that they will work towards satisfying those needs. Maslow's theory suggests that organisations must create workplaces that attempt to satisfy all the needs of an employee, including their needs to achieve recognition. Organisations that motivate workers through pay rises or job

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security are only satisfying lower order needs and employees will not be fully motivated. Employees with higher order needs will become despondent, dissatisfied and may end up disliking their jobs.

6 Have you set goals for yourself recently? Explain how this affected your motivation.

Students may refer to goals that they have set regarding their studies, work or sporting commitments. Students may report that goals allowed them to be more focused.

2.4 EXAM questions

Question 1 (6 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1c; © VCAA

123 Childcare Centre is a business operating as a partnership. It provides childcare services for children aged five and under. Mary Kidd, one of the partners at the centre, wants to meet the demand for high-quality and reliable childcare in her local area. However, employees complain of long hours and their motivation is low. Staff turnover is a problem and Mary is unsure of how to address this.

Maslow's Hierarchy of Needs has been suggested to Mary as an appropriate motivational theory for improving employee performance. Describe this theory of motivation and explain how it could be applied at 123 Childcare Centre to reduce the level of staff turnover.

The following is an example of high-scoring response.

Maslow's Hierarchy of Needs is a motivational theory that suggests there are five needs for employees in a business, and that once one need has been achieved it becomes obsolete as a motivating factor. Level of staff turnover is a measure of the number of employees who leave the business and are replaced within a given period of time.

The first need is physiological, as Mary should provide her employees with basic pay and wages; however, this likely will not help to reduce staff turnover as it is an expected entitlement.

The second need is safety, which involves Mary ensuring she follows OH&S laws and ensures the staff at the Childcare Centre aren't in danger working in an environment where they may hurt themselves.

The third need is belonging, as Mary should attempt to create a sense of community between the staff and parents of the kids at the Childcare Centre, so the staff feel supported and loved and are less likely to leave the business.

The fourth need is self-esteem as the staff could be offered performance related pay or a bonus by Mary, if they contribute extra to 123 Childcare Centre, by giving extra time to create activities for the children. As a result, staff turnover may decrease because the childcare workers feel as though their extra efforts are being recognised and rewarded.

The final need is self-actualisation, where the child carers have a desire to be challenged at work, and may be given an increased level of responsibility in being asked to plan a class or trip for the kids. As a result, Mary may see a decrease in staff turnover because the childcare workers feel as

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though they are working to their full potential at 123 Childcare, and are less likely to leave the business.

Global marking may be used:

Award 5–6 marks for demonstrating a clear understanding of Maslow's Hierarchy of Needs (reference to levels (need not be all five), referenced in order, the concept that employees progress through the levels as each level is satisfied) clearly linked to the reduction of the level of staff turnover at 123 Childcare Centre.

Award 3–4 marks for demonstrating a fair understanding of Maslow's Hierarchy of Needs (references to most levels (may not name all 5)) and limited reference to staff turnover at 123 Childcare Centre.

Award 1–2 marks for displaying some understanding of Maslow's Hierarchy of Needs (some reference to levels but only one or two names of these levels provided) with no or little reference to staff turnover at 123 Childcare Centre.

Question 2 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3c; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Locke and Latham's Goal Setting Theory has been recommended to Aaron to motivate his employees. Examine whether this theory is appropriate for Car Bright.

Locke and Latham's Goal Setting theory focuses on employees being motivated through the setting of specific and challenging goals that have some level of task complexity and commitment by the employee to fulfil. Ongoing feedback by the manager is also critical to their achievement.

Aaron could apply this theory to Car Bright by meeting with each of his employees and collaboratively setting specific goals regarding their performance and the number of cars they wash in a certain time period. They could then receive positive feedback or even a monetary reward if they achieve their goals. If employees are struggling, further training could also be offered. Employee performance should improve as employees will be more motivated.

However, Locke and Latham's theory may not be appropriate for Aaron's business as the process of setting goals can be time consuming. This theory is more suitable to businesses that have professional, highly skilled staff who can form realistic goals that will motivate their level of performance.

Global marking may be used:

Award a total of 1 mark if only an outline/definition of Locke and Latham's Goal Setting Theory is given and the student does not attempt to apply the theory to the business or examine its appropriateness to Aaron's business.

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Award a total of 1–2 marks for a limited examination that may include one feature of Locke and Latham's Goal Setting Theory and an identification of how it could be beneficial or unhelpful to address staff motivation when applied to Aaron's business.

Award a total of 3–4 marks for a detailed examination that may include two features of Locke and Latham's Goal Setting Theory and an identification of how the theory could be beneficial or unhelpful to address the staff motivation when applied to Aaron's business.

Question 3 (4 marks)

Source: VCE 2014, Business Management Exam, Q.1b; © VCAA

Welham Consulting is a large accounting firm with an excellent reputation. Welham Consulting takes pride in hiring the best university graduates. It is also well known for paying its staff high salaries that are above the industry average. Despite this, staff turnover is unacceptably high and the Senior Manager believes that not all staff are working to their full potential.

Explain, with reference to Maslow's hierarchy of needs, why the high salaries at Welham Consulting do not appear to be motivating staff.

Maslow's motivation theory is based on a hierarchy of five needs that include lower level extrinsic needs such as physiological and safety and security needs, as well as higher level intrinsic needs such as social, esteem and self-actualisation needs.

Maslow emphasised that all employees have needs and will be motivated to achieve those needs. Once a need has been met, it is no longer a motivator and the employee continues to move up the hierarchy in the order of importance.

It is in Welham Consulting giving high salaries to employees that only the first level on the hierarchy, physiological needs, has been satisfied. Maslow's higher level needs such as esteem and self-actualisation needs do not state high pay as a motivating factor, but rather Welham should implement development opportunities and increased responsibility in order to motivate employees through satisfying their higher level needs on the hierarchy.

Award a total of 1–2 marks for references to Maslow's Hierarchy of Needs.

Award a total of 1–2 marks for application of Maslow's Hierarchy of Needs to the situation at Welham Consulting.

Question 4 (4 marks)

Outline the strengths and weaknesses/limitations of Lawrence and Nohria's Four Drive Theory.

Students should outline strengths and weaknesses from the following:

Strengths	Weaknesses
The drives work independently, allowing management and employees to be flexible in the behaviours or strategies selected or implemented.	Other drives besides the four outlined by Lawrence and Nohria may exist — these don't necessarily explain all the individual characteristics that may motivate a person.
Four Drive Theory is very adaptable to complicated or intricate environments or	Some of the workplace applications involve competition between employees, which can have

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Strengths	Weaknesses
situations.	detrimental effects; for example, a workplace may suffer from a lack of cooperation or a lack of information sharing
The four drives will convert into effort that is directed at improving behaviour, thereby improving business performance and achieving objectives.	

Award 1 mark for each strength and 1 mark for each weakness identified (up to total of 4 marks).

Question 5 (6 marks)

TechSol is an IT consultancy business that is expanding rapidly. It hired four new computer science graduates at the beginning of the year, but now all of them have indicated that they wish to leave because of low job satisfaction. Examine how TechSol could make use of Lawrence and Nohria's Four Drive Theory to improve the motivation of its employees.

TechSol could make use of the Four Drive Theory in the following ways:

- **Drive to acquire** — the business needs to ensure that levels of pay are comparable to those of competing businesses so that employees are not easily lured away. The business also needs to recognise and reward good performance, provide opportunities for employees to take pride in their work, and establish high standards so that employees are stimulated and challenged.
- **Drive to bond** — managers and leaders need to engage and interact with all employees in a positive and encouraging manner. Positive corporate culture should be developed and fostered, teamwork and collaboration should be encouraged, and collective achievements celebrated. Employees should also be encouraged to trust and support each other, and personal friendships between employees should be fostered and supported.
- **Drive to learn** — the business needs to ensure opportunities to acquire new skills are provided. Tasks need to be made as interesting as possible to avoid repetitiveness and boredom, challenges need to be built into all work assignments to increase satisfaction when a difficult task has been completed, employees need to be encouraged to gain new skills through additional training, and management needs to demonstrate that it values all duties as making a significant contribution to business success.
- **Drive to defend** — managers and leaders need to ensure the workplace is welcoming and supportive, and intimidation is not used as a management technique. All employees need to be treated fairly and consistently, rewards processes need to be open and transparent, an atmosphere of trust needs to be fostered by ensuring consistent and honest treatment of all employees, and employees need to be encouraged to speak up and air problems and concerns without fear of reprisals.

Award 2 marks for an appropriate identification of the four drives.

Award 4 marks for providing an examination of the actions that could be taken to implement this theory, with links to improving the motivation of employees at TechSol.

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2.5 EXTEND YOUR KNOWLEDGE Comparing theories of motivation

TEST your understanding

1 Distinguish between extrinsic rewards and intrinsic rewards and provide an example of each.

Extrinsic rewards are tangible or physical rewards given to someone for achieving something. They can be a financial reward, a certificate or trophy, or some other form of recognition coming from another person or organisation.

Intrinsic rewards are intangible rewards that come from within the person achieving success or performing well. They come from that sense of satisfaction or fulfilment that the person feels at having accomplished something, or successfully met a challenge.

2 Identify one similarity between Maslow's Hierarchy of Needs and Locke and Latham's Goal Setting Theory.

Students should draw on the tables of similarities and differences outlined in this subtopic.

An example response:

Maslow's Hierarchy of Needs is a motivational theory which recognises that employees wish to fulfil themselves and achieve job satisfaction. This is similar to Locke and Latham's Goal Setting Theory, in the way that a goal is set, and achievement of that goal is fulfilling and motivating for an employee.

3 Identify one difference between Lawrence and Nohria's Four Drive Theory and Locke and Latham's Goal Setting Theory.

Students should draw on the tables of similarities and differences outlined in this subtopic.

An example response:

A major difference between the theories is that Lawrence and Nohria's Four Drive Theory is responding to internal 'drives' whereas Locke and Latham's theory assumes that the motivation is an external goal.

EXTEND your understanding

4 Outline how each of the following theories makes use of both extrinsic rewards and intrinsic rewards as a means of motivating employees.

(a) Maslow's Hierarchy of Needs

Maslow's theory combines extrinsic rewards, such as pay and conditions (physiological needs) and a safe working environment and job security (safety and security needs) with intrinsic rewards such as a sense of belonging (social needs), responsibility and recognition (esteem needs), and creative and interesting tasks (self-actualisation needs). Opportunities for advancement and promotion that are integral to satisfying esteem and self-actualisation needs could also be regarded as extrinsic rewards.

(b) Locke and Latham's Goal Setting Theory

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Locke and Latham's theory involves providing employee input into the formulation of goals, ensuring goals are challenging and stimulating for employees, and providing a sense of satisfaction for having achieved goals, which are all intrinsic rewards. A monetary or similar reward for achieving goals would be an extrinsic reward.

(c) Lawrence and Nohria's Four Drive Theory

Lawrence and Nohria's theory includes satisfying the drive to acquire, which will generally involve the provision of extrinsic rewards such as a suitable level of pay and opportunities for promotion. The drive to bond usually provides intrinsic rewards such as feeling of belonging and commitment to the business. The drive to learn combines intrinsic and extrinsic rewards — the satisfaction of gaining additional skills and knowledge is an intrinsic reward, while the achievement of a qualification such as a diploma or degree is an extrinsic reward. The drive to defend is usually satisfied through intrinsic rewards, such as the sense of trust that comes from fair and honest treatment by management.

5 Imagine you are the HR manager in a business employing 40 employees of varying ages and experience. The CEO has identified low levels of motivation in the workforce as a contributing factor to the business not achieving many of its objectives and has asked you to prepare a report on how employee motivation might be improved. Your report must be between 400 and 500 words and should include responses to the following questions:

(a) Identify the similarities and differences between the three theories of motivation you have studied.

Students should draw on the similarities and differences outlined in the tables provided in this subtopic.

An example response:

Maslow's Hierarchy of Needs is a motivational theory which recognises that employees wish to fulfil themselves and achieve job satisfaction. This is similar to Locke and Latham's Goal Setting Theory, in the way that a goal is set, and achievement of that goal is fulfilling and motivating for an employee. Lawrence and Nohria's Four Drive Theory has the similar aspect of the drive to acquire; while this might relate to possessions, these are still motivational rewards. A major difference between the theories is that Lawrence and Nohria's Four Drive Theory is responding to internal 'drives' whereas Locke and Latham's theory assumes that the motivation is an external goal. Maslow's Hierarchy of Needs is a needs-based theory.

(b) Identify and justify the theory you would recommend be adopted for the business.

Responses will vary according to student choices and conditions described within the business**.** Students need to provide a justification for their choice, based on the strengths of the theory, in application to the business.

An example response:

Locke and Latham's Goal Setting Theory would be best for the business. This is because setting goals that are challenging should motivate employees and improve their performance. In addition, staff should perform at a higher standard due to their clear and specific goals, leading to a higher rate of productivity. Better relationships between

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management and employees will occur as managers work with each employee to collaboratively set goals and provide feedback.

2.5 EXAM questions

Question 1 (4 marks)

Describe two differences between Maslow's and Locke and Latham's theories of motivation.

Maslow's Hierarchy of Needs makes use of a long-term, step-by-step process that eventually leads to self-actualisation, whereas Locke and Latham describe a goal-setting process whereby goals might be achieved within a shorter time period.

Maslow's Hierarchy of Needs is focused on the individual and internal needs of the employee such as esteem needs. By contrast, Locke and Latham's Goal Setting Theory is related to the goals of the employee relative to the employees' position in the business, as well as in relation to the overall goals of the business.

Award 2 marks for describing a difference between Maslow's and Locke and Latham's theories of motivation.

Repeat for a second difference.

Question 2 (2 marks)

Explain one similarity between Locke and Latham's and Lawrence and Nohria's theories of motivation.

In both Locke and Latham's and Lawrence and Nohria's theories of motivation, cooperation between manager and employee is important. Using Locke and Latham's theory, cooperation comes from the employee and manager working together to set goals. In addition, the process of feedback involves cooperation between the employee and manager.

In regard to Lawrence and Nohria's theory, a similar process occurs where employees and managers must work together. A manager will need to work closely with employees to understand how each of the four drives will affect the motivation of each employee. This means that the manager can then ensure each drive is met by the business.

Award 1–2 marks for explaining a similarity between Locke and Latham's and Lawrence and Nohria's theories of motivation.

Question 3 (4 marks)

Distinguish between Maslow's and Lawrence and Nohria's theories of motivation. (4 marks)

Maslow's Hierarchy of Needs is a motivational theory showing a series of steps, moving from a position of receiving extrinsic rewards, to a greater emphasis on intrinsic rewards. An employee must have their needs satisfied at one level in the hierarchy before moving to the next one. At the lowest level, employees are said to be motivated by physiological needs. At the next level are safety and security needs, then social needs, followed by the higher-level needs (esteem and self-actualisation).

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By contrast, Lawrence and Nohria's theory identifies four drives that they believe shape the way in which all human beings think and behave. These drives include satisfying the drive to acquire, the drive to bond, the drive to learn and the drive to defend.

A clear point of difference between the two theories of motivation is that Lawrence and Nohria's theory does not assume a sequential series of steps, as Maslow's Hierarchy of Needs does. Rather, all four drives can occur simultaneously. In addition, Maslow's theory has the five different levels of needs, while Lawrence and Nohria's four drives are all considered to be of equal significance.

Award 1 mark for demonstrating an understanding of Maslow's theory of motivation.

Award 1 mark for demonstrating an understanding of Lawrence and Nohria's theory of motivation.

Award 2 marks for clearly identifying points of difference between the two terms.

Question 4 (4 marks)

Compare Locke and Latham's and Lawrence and Nohria's theories of motivation.

In both Locke and Latham's and Lawrence and Nohria's theories of motivation, cooperation between manager and employee is important. Using Locke and Latham's theory, cooperation comes from the employee and manager working together to set goals. In addition, the process of feedback involves cooperation between the employee and manager. Regarding Lawrence and Nohria's theory, a similar process occurs where employees and managers must work together. A manager will need to work closely with employees to understand how each of the four drives will affect the motivation of each employee. This means that the manager can then ensure each drive is met by the business.

However, Locke and Latham's and Lawrence and Nohria's theories have several differences. In Locke and Latham's theory, employees are motivated to achieve goals whereas in Lawrence and Nohria's theory, employees are motivated to satisfy four drives. Additionally, in Locke and Latham's theory, an employee will typically pursue one specific goal at any given time, while Lawrence and Nohria's theory assumes that an employee can satisfy all four drives simultaneously.

Award 1–2 marks for explaining similarities between Locke and Latham's and Lawrence and Nohria's theories of motivation.

Award 1–2 marks for explaining differences between Locke and Latham's and Lawrence and Nohria's theories of motivation.

Question 5 (4 marks)

Compare Maslow's and Locke and Latham's theories of motivation.

Both Maslow's and Locke and Latham's theories of motivation focus on achieving one thing at a time — in Locke and Latham's theory, an employee will typically pursue one specific goal at any given time, while according to Maslow's Hierarchy of Needs, employees are believed to be motivated by achieving one need in the hierarchy at a time. The idea is that employees will have a lower need (e.g. safety and security) met before they can progress to social needs, then the higher-level needs (esteem and self-actualisation).

However, Maslow's and Locke and Latham's theories have a number of differences. Maslow's Hierarchy of Needs makes use of a long-term, step-by-step process that eventually leads to self-

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actualisation, whereas Locke and Latham describe a goal-setting process whereby goals might be achieved within a shorter time period. In addition, Maslow's Hierarchy of Needs is focused on the individual and internal needs of the employee such as esteem needs. By contrast, Locke and Latham's Goal Setting Theory is related to the goals of the employee relative to the employees' position in the business, as well as in relation to the overall goals of the business.

Award 1–2 marks for explaining similarities between Maslow's and Locke and Latham's theories of motivation.

Award 1–2 marks for explaining differences between Maslow's and Locke and Latham's theories of motivation.

2.6 Motivation strategies

TEST your understanding

1 **Identify two methods of performance-related pay.**

Students can select two methods from:

- pay increase
- bonus
- commission
- share plan
- profit sharing
- gainsharing.

2 **Define the term 'career advancement'.**

Career advancement refers to the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities.

3 **Outline one possible advantage and one possible disadvantage of investment in training.**

Students can select one possible advantage from the following:

- indicates to employees that the business values their contribution, and that the business will support them in advancing their careers
- benefits the business by improving the skills of employees so that they feel more confident and perform more productively
- improving skills can satisfy higher level needs in Maslow's hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives
- may improve employee retention as staff loyalty and motivation are improved.

Students can select one possible disadvantage from the following:

- profit sharing

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- unless there are sufficient jobs within the business requiring higher level skills, training may be wasted
- a business may be unable to afford the costs of training
- the business may pay the cost of training, only to have the employee leave for a position in another business
- if a business has poor systems, poor facilities or equipment, or if employees are performing the wrong tasks or in the wrong job, training will not motivate them.

4 Distinguish between support strategies and sanction strategies.

Support refers to offering an employee some form of assistance or services such as counselling or mentorship. Providing such support can motivate employees to do better and it has a positive effect on the employee's longer term motivation.

By contrast, sanction strategies refer to penalties or forms of discipline imposed on employees for poor performance. Sanction strategies may range from a verbal warning, to a re-assignment of duties, a demotion or a reduction in salary. In serious cases, an employee may be terminated from the business.

APPLY your understanding

5 Explain why it is important for employers to provide career advancement opportunities.

Employers should provide career advancement opportunities, as the strategy will motivate employees who want to experience a sense of achievement and more responsibility. Employees who have performed well in the past will be rewarded. The strategy also allows employees to increase their contribution to the business.

By providing career advancement, an employer can provide a means of retaining valuable and talented employees. Employees may be prepared to work hard for a long period of time in anticipation of gaining more responsibilities or a promotion. Consequently, a business should be able to improve performance across the business as employees work hard and increase their effort.

6 Explain why investment in training is able to provide benefits for both employers and employees.

Investment in training can ensure that employees have the skills to carry out their responsibilities. This should result in improvements in productivity for the business and is likely to ensure that the business achieves its objectives. For employees, the provision of additional skills can increase job satisfaction, and promote higher levels of both short- and long-term motivation. In the short term, a job requiring higher skills will usually pay more, while in the long term, training may provide employees with a sense of accomplishment.

7 Outline why it is usually better to use support strategies rather than sanction strategies.

Support strategies tend to work better than sanction strategies as support will be fairly effective in the short term, as well as the long term. For example, support will work well in the short term when an employee has done a particularly good job, or achieved a pre-arranged goal or target and receives recognition. As the confidence of employees increases, they may be willing to

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undertake more challenging work or take greater risks and this is where support can have a positive effect on employees' long-term motivation. Encouraging these employees, recognising them and providing them with assistance and the means to undertake these tasks will foster a sense of loyalty, and willingness to remain in the work environment. By contrast, the fear of sanctions can be a motivating factor for employees in the short term, but can have adverse effects in the long term.

8 Jane is the human resource manager at a pharmaceuticals company. She is a strong believer in using Maslow's Hierarchy of Needs as a means of motivating employees within the company.

(a) Explain how each of the following strategies may help Jane to meet the motivational needs of employees.

- Providing career advancement opportunities

Career advancement can help to meet the esteem needs of employees according to Maslow's Hierarchy of Needs. Further, they may help the employee to self-actualise.

- Investing in the training of employees

Investing in the training of employees can ensure that employees have the skills to pursue other career options. These may lead to the fulfilment of the esteem and self-actualisation needs as described above. Further, if these also lead to increases in pay, the employee can fulfil lower level needs. This depends on what is motivating the employee at the time.

(b) Identify and explain three difficulties that Jane may face in implementing these strategies.

Jane may find it is difficult to determine which stage each individual employee is at according to Maslow's Hierarchy of Needs and therefore she might be unclear about which strategy she might need to take to motivate employees.

Jane might also find that Maslow's Hierarchy of Needs is only a theory — it is not supported by empirical evidence and the stages in the hierarchy do not apply to all individuals.

Furthermore, the Hierarchy of Needs is very simplistic and does not account for how complex people really are. There may be things that motivate people that other theories account for. Perhaps Jane should consider other theories to help her.

2.6 EXAM questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.5c; © VCAA

Alex is the manager of a large gaming store. The business sells games for gaming consoles.

Alex has recently been informed that the store has been sold to a multinational chain. As changes are implemented, approximately 20% of all staff will need to be retrenched. Alex is concerned that some stakeholder groups will resist the changes. He has noticed that employees seem to be lacking motivation since the announcement of the sale of the business.

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Propose and justify one strategy that Alex could use to increase employee motivation at the gaming store.

Performance-related pay refers to attaching an employee's performance or work with a financial, or non-financial, reward. In this case, Alex could implement this motivation strategy by offering financial rewards, such as bonuses, to employees who display behaviour that aligns with the business objectives related to the change. This would increase employees' motivation, as they would have strong incentives to complete their work to the best of their ability. Additionally, due to the possibility of some employees being retrenched, this would also motivate them to work hard due to the additional financial benefits.

Award 1 mark for proposing a relevant strategy.

Award 1 mark for providing justification for the choice of strategy.

Award 1 mark for relating the chosen strategy to the gaming store.

Question 2 (10 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.4; © VCAA

When motivating employees, managers can use a range of strategies.

Evaluate two different motivation strategies. Identify and justify which one of these strategies would be most effective for the short-term motivation of employees and which one would be most effective for the long-term motivation of employees.

Motivation refers to the level of energy, creativity and commitment one brings when performing a task. As employees are vital stakeholders in the achievement of business objectives, ensuring they remain motivated at work in crucial for both individual and business success and sustainability.

One motivation strategy is performance-related pay. This involves a financial reward being given to employees whose work has reached of exceeded a set standard. It may be in the form of bonuses or sales commissions. This extrinsic motivation acts to motivate many employees driven by money and driven to acquire material goods and possessions. This can act to improve their productivity at work, as they work more efficiently, knowing such reinforcement is available for admirable performance.

This allows a business to achieve its objectives as employees strive to have their achievement recognised, working hard to generate a higher quality product or provide better customer service, both of which can improve customer satisfaction, sales, and thus a business's profit due to increased revenue. However, this strategy can create a competitive culture within the business. This can lead to resentment and disputes as some employees feel overlooked and their contributions to the business unrecognised. It can also be a significant cost to a business due to the provision of money, increasing expenses. This strategy can enhance performance/motivation for some, but should not be the only option to employees. It can be largely unsustainable, and more effective for short-term motivation. This is because employees will strive to reach the bonus or have their wage increased, and once achieved, are likely to revert to their prior performance and overall not remain motivated once acquired. Therefore, this provides short-term motivation for employees.

Another motivation strategy is investment in training, which acts to increase skills and knowledge of employees so they are better able to perform their jobs.

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By investing in training, such as on-the-job training including role modelling or mentoring, or off-the-job, whereby a business pays for an external course provider in the form of a lecture or conference, employees will feel valued and satisfied within a business. Such job satisfaction will increase their willingness to work hard to achieve business objectives, improving their productivity due to their motivation and engagement. It also allows them to develop a wider breadth of skills, to produce a better quality good or provide a better quality service for the business.

Although this can be costly, and also halt productivity as employees may be away from their place of work, it acts to increase motivation as their abilities and self-efficacy increase simultaneously. Thus, this provides long-term motivation to employees when a business makes a commitment to providing ongoing training options and opportunities for growth and development, as employees know they are provided the opportunity to work to the best of their ability and remain valued and required in the business, improving their levels of motivation into the long term.

Responses to this task can be marked globally.

Award 9–10 marks for identifying and briefly explaining two distinct motivation strategies, accurately considering the advantages and disadvantages of each strategy, then selecting and justifying one of the two strategies as being more appropriate for short-term motivation while selecting and justifying the other strategy as being more appropriate for long-term motivation.

Award 7–8 marks for identifying and briefly explaining two distinct motivation strategies with some analysis of the advantages and disadvantages of each, possibly not indicating as to which strategy would be better for short- or long-term motivation or not providing any justification to indicate why one strategy might be better than the other in certain circumstances.

Award 5–6 marks for naming two distinct motivation strategies, only considering the strengths and weaknesses of each strategy in a minor way, with no link to short- and long-term motivation or no justification provided to indicate why one strategy might be better than the other in certain circumstances.

Award 3–4 marks for adequately analysing one motivation strategy and linking it to either short- or long-term motivation (but with no mention of a second strategy) OR mentioning two strategies, but analysing the strengths and weaknesses of each relatively superficially.

Award 1–2 marks for demonstrating almost no analysis at all (this might be because adequate strategies are mentioned, but very little analysis is completed) OR focusing on motivation theories rather than motivation strategies.

Question 3 (2 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3a; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Describe an appropriate motivation strategy that Aaron could use to improve the performance of his employees.

Aaron could implement performance-related pay.

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This is where employees receive a financial reward based on meeting or exceeding performance expectations. By offering monetary rewards to employees who achieve expectations in their work, such as fully cleaning all cars, this will motivate the employees to work hard at their job and perform highly in order to receive the financial incentive such as a bonus which benefits them.

Award 1 mark for a brief or limited description of a suitable strategy for Aaron's business.

Award 1 mark for a more detailed outline of a suitable strategy for Aaron's business.

Question 4 (8 marks)

Peter runs a courier business, where productivity is measured by the number of deliveries carried out by each driver per day.

(a) Explain how Peter could use performance-related pay to provide short- and long-term motivation to his employees to increase the number of daily deliveries they perform. (4 marks)

Performance-related pay is the monetary compensation provided to employees relative to how their performance is assessed according to set standards. Performance-related pay is generally seen as a short-term motivation strategy because it provides immediate tangible rewards for employees linked to how well they perform or meet a target. Peter could use performance-related pay by providing a base level of pay each week and then adding in bonuses tied to the number of daily deliveries made by each driver. As a long-term incentive, annual rewards for most successful drivers (for example, rewarding the top ten performers with financial bonuses) could provide an added incentive.

Award 1–2 marks for demonstrating an understanding of performance-related pay.

Award 1–2 marks for explaining how this can impact on short-term and long-term motivation.

(b) Explain the advantages and disadvantages of performance-related pay. (4 marks)

The advantages of performance-related pay are focused around the immediate benefits it gives in raising productivity and encouraging employees to work faster for a monetary reward. Performance-related pay provides a financial reward to employees directly related to improved performance. Another advantage of performance-related pay is that any reward offered is generally predictable and easily calculated.

However, a disadvantage of performance-related pay is that other employees doing similar work may expect similar rewards, even if their performance is not as good, leading to jealousies, conflict and lower morale. Further, a business may not be able to keep up with performance-related pay indefinitely as it will lead to increased wage costs as employees become better at the tasks.

Award 1–2 marks for explaining the advantages of performance-related pay.

Award 1–2 marks for explaining the disadvantages of performance-related pay.

Question 5 (6 marks)

Explain the term 'career advancement' and analyse how it might satisfy any two of the four drives identified by Lawrence and Nohria in their motivational theory.

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Career advancement occurs when a person takes on a job that has greater responsibilities or increased opportunities for leadership. It can also occur when an employee is promoted to a position that brings rewards, such as increased salary and increased responsibilities. Accordingly, career advancement can occur within a workplace, or by moving to a new workplace.

Career advancement satisfies some of the four drives as outlined by Lawrence and Nohria. For example, it would satisfy the drive to achieve as greater responsibility or a promotion would allow an employee to acquire status and influence. Career advancement is likely to come about because of good performance, so this motivation strategy also satisfies the drive to acquire through recognising such good performance.

Career advancement would also satisfy the drive to learn as this drive involves being challenged by interesting and varied experiences. Taking on a job or position that has greater responsibilities or opportunities for leadership would provide an employee with new challenges that would satisfy their drive to learn. This strategy would provide an employee with stimulation and increase job satisfaction.

Award 1–2 marks for explaining the term 'career advancement'.

Award 1–2 marks for an analysis of how career advancement might satisfy one of the four drives identified by Lawrence and Nohria in their motivational theory.

Award 1–2 marks for an analysis of how career advancement might satisfy a second of the four drives identified by Lawrence and Nohria in their motivational theory.

Question 6 (8 marks)

Charlie is the owner of a publishing business called Monster Publishing. A survey has revealed that some employees are lacking in motivation.

(a) Explain how Charlie could use investment in training to provide short- and long-term motivation to his employees. (4 marks)

Investment in training refers to the direction of finances, or resources such as time, into the teaching of skills to employees. Charlie could use this strategy to provide his employees with both short- and long-term motivation. In the short-term, the opportunity to gain extra skills can be a motivating factor for Charlie's employees. Providing his employees with additional skills can increase job satisfaction, promoting higher levels of motivation. In addition, a more highly skilled job will usually pay more, so Charlie's employees will often take the opportunity to take on additional training in the short term to give them access to those types of jobs.

In the longer term, improved skills and access to more challenging and interesting work can satisfy esteem needs by providing Charlie's employees with a sense of accomplishment, and self-actualisation needs through the personal growth that comes from gaining new skills. Achieving a higher level of skills may also provide a sense of achievement in his employees and can also satisfy a drive to learn. Ultimately, the notion that Monster Publishing values employees enough to invest in developing their skills should motivate Charlie's employees in the longer term.

Award 1–2 marks for explaining how investment in training can provide short-term motivation for Charlie's employees.

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Award 1–2 marks for explaining how investment in training can provide long-term motivation for Charlie's employees.

(b) Explain the advantages and disadvantages of support. (4 marks)

Students should draw their explanation from the following:

Advantages of support	Disadvantages of support
Support and encouragement can positively influence employee attitudes, and help them to improve in confidence, improving motivation	It may be difficult to find reasons to support and encourage some employees
Many forms of support, such as encouragement, can be provided with little to no cost	Requires a business to have a positive corporate culture
Services such as counselling and mentoring should help employees to develop meaningful professional relationships	Employees may become too dependent on the support service provided (whether it be counselling or mentoring) or on the person offering the counselling or mentoring

Award 1 mark for each advantage, and 1 mark for each disadvantage.

2.7 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation

TEST your understanding

1 Identify five motivation strategies that have been found to be effective in motivating staff.

Motivation strategies that have been found to be effective in motivating staff include:

- regular attention from leadership, which can occur through frequent discussions or one-on-one conversations about performance and developing action plans
- praise or recognition, which can occur through awards nights or functions, and also through the use of an email or thank you note; employees can also be encouraged to praise or recognise each others' work
- responsibility, which may involve providing employees with the chance to lead projects or special task forces; this allows staff to feel that their contribution to the organisation is valuable
- providing creative, challenging and varied work, which can be achieved simply by removing unnecessary parts of a job, such as excessive paperwork or systems that are overly bureaucratic
- performance-related pay.

2 Identify two factors that could deter managers from using non-financial motivators.

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Factors that can deter managers from using non-financial motivators include:

- a traditional managerial belief that only money matters as a form of incentive
- the greater time and commitment required from senior managers to use non-financial motivators.

3 Outline how the business objectives of Telstra and SunRice are met through the motivation strategies each business uses.

Like all businesses, Telstra and SunRice set out to make profit as one of their key objectives. Because employees at SunRice, for example, have an opportunity to share in those profits and therefore earn more money, increasing profits is also a key objective for the employees of the business. In this way, the objectives of the business are aligned with the motivation of employees. Both businesses also offer rewards programs, which demonstrates that each business values their employees, providing employees with motivation to achieve better results.

EXTEND your understanding

4 Survey your family and friends about what motivates them in the workplace. Use a selection of the main motivators as categories, including pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. Present your results neatly in graphs and explain your conclusions. Compare your findings with those of your classmates.

Students may find that family and friends are motivated by pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. They may find that employees in lower-level jobs are seeking promotions and recognition. They may also find that some employees accept a lower wage in order to work in something that they enjoy or with people that they get along with. This may reveal that people do not always progress up Maslow's Hierarchy of Needs. They may also find that employees do not enjoy goal-setting.

5 Outline the ways in which Telstra and SunRice demonstrate how each of the following theories of employee motivation can be applied in a practical business situation:

(a) Maslow's Hierarchy of Needs

Telstra's use of team celebration of staff achievements can help satisfy the social and esteem needs of employees. The recognition of employees through the rewards programs that both Telstra and SunRice offer would also satisfy esteem needs.

(b) Locke and Latham's Goal Setting Theory

Goals would be set at both businesses, with management working with employees to develop the goals. These goals would be broken down into challenging but achievable monthly, weekly and even daily targets that are measurable and regularly celebrated when staff achieve them.

(c) the Four Drive Theory of Lawrence and Nohria.

The drives of acquiring and achieving are rewarded by the employee share scheme at SunRice. The bond and belonging drive is encouraged by regular celebration of employees and the meeting of goals, while the learn and comprehending drive is supported by the encouragement

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of employees to suggest and share ideas for improvement. The defending drive is supported by the inclusive and positive management style.

2.7 EXAM questions

Question 1 (2 marks)

Define the term 'performance-related pay'.

Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards. An example is commission, or a percentage bonus related to performance.

Award 1 mark for stating 'monetary compensation' or similar.

Award 1 mark for stating 'provided when equalling or exceeding set standards' or similar.

Question 2 (2 marks)

Outline two benefits of career advancement.

Students may address benefits to employees or the business, or both.

Career advancement can benefit employees within the workplace as they will have more exposure to leadership and more variety in their roles. This means they are more likely able to fulfil their social, esteem and self-actualisation needs and therefore feel more motivated. A second benefit is to the business, in that this will reduce staff turnover.

Award 1 mark for an outline of one benefit of career advancement.

Award 2 marks for an outline of a second benefit of career advancement.

Question 3 (3 marks)

Distinguish between career advancement and support as motivation strategies.

Career advancement occurs when a person takes on a job that has greater responsibilities or increased opportunities for leadership. This can occur within a workplace, or by moving to a new workplace — many employees today are willing to change employers in order to move up to a better paid or more challenging or interesting job.

By contrast, support means offering an employee some form of assistance or service; this may mean extra encouragement, assistance or mentorship. Providing such support can motivate employees to do better and it has a positive effect on the employee's longer-term motivation.

Career advancement is more about the employee taking on more responsibility or authority through promotion to fulfil higher level needs, whereas support is what the business can offer to employees to help them to cope with any difficulties that may impede their work performance.

Award 1 mark for demonstrating an understanding of career advancement.

Award 1 mark for demonstrating an understanding of support.

Award 1 mark for clearly identifying points of difference between the two terms.

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Question 4 (6 marks)

Explain how a manager might apply one theory of motivation and a related motivational strategy to manage employees effectively. In your response, refer to a contemporary business case study.

A motivational theory to manage employees effectively might be Maslow's Hierarchy of Needs. Maslow's Hierarchy of Needs is a theory that arranges human needs in a hierarchy, based on the order in which they must be fulfilled. With each need acting as a source of motivation for employees, there are five levels, with the most basic needs situated at the bottom of the hierarchy, progressing to higher level needs at the top. An employee's level of needs at a specific level must be satisfied before they can move up to the next level, and once a particular need is satisfied, it is no longer a motivator.

In mid-March 2020, responding to the ensuing COVID-19 pandemic, Telstra told all of its Australian-based office staff that those who could do so needed to work from home. Human resource strategies were vital at this time as, without employees continuing to work, Telstra would not have been able to continue meeting the needs of its customers.

Maslow's Hierarchy of Needs can be applied to the workplace at Telstra during this time. The business would have continued to use motivation strategies satisfying the lower order needs of Maslow's hierarchy. For example, Telstra would have maintained remuneration and appropriate conditions of employment, such as leave. These conditions satisfy employees motivated by physiological needs. Particularly relevant during the working from home period would be assuring employees that their positions are secure for the foreseeable future. Job security would satisfy those employees who are motivated by safety and security needs.

Telstra could have made use of motivation strategies that satisfy social needs. During remote work it is likely that staff missed face-to-face contact with other employees. Management at Telstra might provide video conferencing opportunities for employees to meet online. The use of online social events would satisfy employees who are motivated by social needs. Telstra would also have made use of motivation strategies that satisfy higher order needs (esteem needs and self-actualisation). Telstra should maintain opportunities for training and development that would meet esteem needs of staff. Training could have been offered remotely providing employees with flexibility and autonomy in their jobs and would have satisfied the employees who are motivated by self-actualisation.

Global marking may be applied:

Award 1–2 marks for a limited understanding of motivational theory and/or related motivational strategies. No reference to a contemporary business case study, or the response only refers to a contemporary business case study.

Award 3–4 marks for an understanding of motivational theory and related motivational strategies. Application to a contemporary business case study may be limited.

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Award 5–6 marks for a good understanding of motivational theory and related motivational strategies, which is appropriately applied to a contemporary business case study.

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2.8 APPLY YOUR SKILLS Evaluating motivation strategies

TEST your skills

1 Read the 'Turning up at work, but leaving motivation at home' case study. The Gartner Global Labor Market Survey found that only 13.9 per cent of Australian workers were putting a high discretionary effort into their work.

(a) Define the term 'discretionary effort'.

Discretionary effort is the amount contributed over and above what is basically required to complete a task.

(b) Outline why discretionary effort would be significant for Australian businesses.

Discretionary effort is significant for Australian businesses because the Global Labor Market survey has revealed that only 13.9 per cent of Australian workers are putting high levels of discretionary effort into their work.

2 Identify two factors in the workplace that Australian workers rate more highly than money.

Factors in the workplace that Australian workers value more highly than money include work–life balance, respect in the workplace, and the location of the work premises.

3 Read the case study 'The motivation dilemma'.

(a) Explain how Dr Matthews believes that an employer can identify a prospective employee who has the right levels of motivation for a job vacancy.

Dr Matthews believes that finding out what a job applicant wants to do with their life, their personal goals and what type of job they are looking for will provide clues as to the factors that motivate the potential employee. It is important to match the applicant's goals and values with those of the business. If these are aligned, the applicant will bring a strong level of motivation with them.

(a) Outline why Dr Matthews believes that people who are motivated primarily by levels of pay are not the best people to hire.

Dr Matthews believes that people who are only motivated by level of pay will always be looking out for a higher paid job, and so are unlikely to stay with the business for long. This makes them potentially unsuitable.

(b) Define the term 'demotivation'. Outline two types of behaviour that could lead to a manager being a 'demotivator.

Demotivation is when factors in the workplace tend to reduce the motivation levels of staff. It can occur when managers claim all credit for successful outcomes but blame others when things go wrong. It can also occur when management fails to provide consistency or when a manager gives confusing instructions or work guidelines.

4 Read the 'Keeping your employees motivated' case study.

(a) Identify three ways listed in the case study in which communication between employer and employees is seen to be important as a motivating strategy.

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The ways in which communication is seen as important in the case study include the communication of a vision for the business, getting feedback from employees, and publicly celebrating and rewarding achievements.

(b) Identify two key features of a successful employee rewards program, as suggested in the case study.

The key features of a successful employee rewards program are to link rewards to performance and positive behaviours, to keep regards relatively small and frequent to allow for everyone to participate, and to set up occasions for staff to celebrate together.

APPLY your skills

5 Based on Dr Matthews' hints for maintaining high levels of motivation in 'The motivation dilemma' case study, propose and justify two motivation strategies that would be consistent with her views.

Motivation strategies that would be consistent with Dr Matthews' views include career advancement, investment in training and support strategies.

For example:

- First day procedures are an example of where support is essential to ensure that the new employee is made to feel comfortable, has a satisfactory induction experience, and is introduced to supervisors and provided with supportive mentoring.
- Provision of professional and personal development opportunities is an example of investment in training and is a means of motivating employees and contributing to a sense of belonging. Improved skills through training can also lead to career advancement for the employee.
- Face-to-face time with managers is another example of support and provides the employee with role models and a deeper understanding of how the business wants it workforce to operate.
- Informal feedback and advice are also another form of support that can increase worker confidence and motivation to contribute.
- Recognition and reward are also another form of support and, if it leads to the employee taking on greater responsibility, can lead to career advancement.

Sample response:

Support strategies is a motivation strategy that Dr Matthews has clearly prioritised. This refers to the assistance or services (such as counselling and mentoring) provided by a business to help employees cope with difficulties that may impede their work performance. Dr Matthews has consistently emphasised the importance of support for employees through a strong induction process, mentoring, face-to-face time with managers, and informal advice and feedback. All of these approaches will engender trust on the part of the employee and increase motivation. In addition, meaningful professional relationships should develop between management and staff, resulting in employees feeling valued and further boosting motivation.

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6 Outline the extent to which you believe that each of Seek's eight suggestions can contribute to the following motivation strategies.

(a) Performance-related pay

Rewarding employees, particularly with monetary rewards, can contribute to this motivation strategy.

(b) Career advancement

'Keep them keen' by taking opportunities to discuss career progression opportunities with employees.

(c) Investment in training

'Keep them keen' by encouraging employees to develop personal goals (and support them in any training opportunities they may wish to undertake to achieve these).

(d) Support

Get feedback from employees, openly reward achievements, and celebrate by setting up occasions for staff to celebrate together are all methods that can be used to support staff.

(e) Sanctions

This piece includes no suggestions for sanctions, because it only proposes positive actions.

7 Collins Construction has been in operation for 10 years and employs 30 people throughout Victoria. Sales and staff morale have been declining. The HR manager has been asked to improve the situation.

(a) Propose two motivation strategies that will assist the HR manager to motivate the employees. Justify which strategy would be the most suitable for Collins Construction.

Students could select any two of the following motivation strategies:

- performance-related pay
- career advancement
- investment in training
- support strategies
- sanction strategies.

Sample response:

Because sales are low, performance-related pay directly linked to improving sales activity by employees could be a suitable motivation strategy. Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards. An example is commission, or a percentage bonus related to performance. A system of awarding bonuses for completing sales could work in these circumstances, because this directly rewards improved performance while still providing staff with their normal rate of pay. Because staff will be working harder to complete sales so that they achieve bonuses, they should improve their productivity,

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consequently improving levels of engagement and commitment to the business. In this way, declining sales and staff morale should be addressed.

(b) Evaluate how one motivation strategy will assist the HR manager to motivate employees.

An evaluation requires students to point out the advantages and disadvantages of the strategy chosen, and to come to a conclusion based on their interpretation of those advantages and disadvantages. Students can select any of:

- performance-related pay
- career advancement
- investment in training
- support strategies
- sanction strategies.

A satisfactory answer will provide an evaluation based on the weight given to each of the advantages and disadvantages, and demonstrate that the student understands and can analyse those advantages and disadvantages.

For example:

Career advancement refers to the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities. Career advancement has the aim of providing more interesting and responsible work for employees, satisfying self-actualisation needs, and the drives to bond and learn. Career advancement is very likely to satisfy employees who desire a sense of achievement or extra responsibility. An employee who has been promoted is likely to feel that they can contribute more to the business, improving productivity, levels of engagement and commitment to the business. Career advancement is very suitable as a motivator because it can provide a valuable means of rewarding employees and motivating them to stay loyal to the business.

However, a disadvantage of career advancement is its potential to reduce the motivation of employees who are not given responsibilities or who are overlooked for promotion. It is not always possible to provide promotion opportunities for all employees as promotion positions cannot simply be created at a business. Employees will often be required to compete for a promotion. Employees may be motivated in the short-term to try to advance their careers, but as they miss out on promotion or additional responsibilities in the long-term, rivalries and conflict may be created. Furthermore, there may be resentment within a workplace if a promotion was not merited, or if it was not carried out fairly and equitably. In some cases, employees may be promoted beyond their capacity. An employee's productivity and motivation may actually fall if they are given more responsibilities or broader responsibilities.

Overall, despite some limitations, career advancement still remains a good longer-term option for motivating employees beyond simple monetary rewards. Career advancement provides a business with the opportunity to increase the contribution of employees, and would therefore support a business in demonstrating that they value the contribution of

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employees to the business, providing them with responsibility and involving them more in decision-making, motivating employees both in the short-term and in the long-term.

2.8 EXAM questions

Question 1 (8 marks)

Gemma is disappointed by the discretionary effort that her employees are putting into their work for her sheet metal business.

(a) Examine the key principles of Maslow's Hierarchy of Needs for improving motivation at Gemma's business. (4 marks)

Maslow's Hierarchy of Needs is a motivational theory that attempts to explain how people behave and how they can be motivated. Maslow believed that all people have needs to be satisfied and that they will work towards satisfying those needs. Maslow's theory suggests that organisations must create workplaces that attempt to satisfy all the needs of an employee, including their needs to achieve recognition.

Higher order needs are clearly not being satisfied within Gemma's business as they are not putting any extra effort into their work. By implementing policies and processes that can satisfy the esteem needs and self-actualisation needs of employees, motivation can be increased, leading to an improvement in discretionary effort. Greater recognition of effort, promotion for good workers and increased responsibilities, along with the remodelling of tasks to make them more creative and interesting, can also increase motivation and increase discretionary effort.

Global marking may be used:

Award 1–2 marks for a description of Maslow's Hierarchy of Needs.

Award 3–4 marks for an examination of Maslow's Hierarchy of Needs and how it can improve motivation.

Award 5–6 marks for application to Gemma's business.

(b) Propose and justify a motivation strategy that will assist Gemma to motivate the employees at her business. (4 marks)

Gemma may choose to use the motivation strategy of performance-related pay. This can be motivating in a manufacturing environment where employees are rewarded through monetary compensation when they perform their duties in a manner that equals or exceeds a set of pre-determined goals or criteria. Performance-related pay can usually work as a means of motivating employees. An employer can provide motivation with direct payments to employees, such as pay increases, bonuses and commissions, as well as other methods including share plans, profit sharing and gainsharing. Employees who achieve the set standards in the production of sheet metal, or reach above the standards, will be motivated to work hard at their job and perform well in order to receive the financial incentive. This strategy should improve productivity levels, consequently improving levels of engagement and commitment to the business.

Award 1–2 marks for proposing a motivation strategy to motivate employees. Student may provide a limited justification or show a limited understanding.

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Award 3–4 marks for proposing a motivation strategy to motivate employees. Student may provide a sound justification and show a good understanding.

Question 2 (4 marks)

Compare performance-related pay and investment in training.

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 (as well as other resources such as time) 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.

Award 1–2 marks for explaining similarities between performance-related pay and investment in training.

Award 1–2 marks for explaining differences between performance-related pay and investment in training.

Question 3 (4 marks)

Compare performance-related pay and career advancement.

Both performance-related pay and career advancement 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. However, these two motivation strategies are different in that performance-related pay involves all or some of the remuneration given to employees being provided relative to how their performance is assessed according to set standards, whereas career advancement refers to the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring greater rewards.

Performance-related pay and career advancement are also similar in that both involve a financial element. Performance-related pay may involve an increased salary or fringe benefits and career advancement involves promotion positions within a business that usually come with a pay increase. However, career advancement is more focused on providing interesting and responsible work for employees, satisfying higher order needs, whereas performance-related pay is focused on providing

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a financial reward to directly motivate employees to improve performance, generally providing short-term motivation.

Award 1–2 marks for explaining similarities between performance-related pay and career advancement.

Award 1–2 marks for explaining differences between performance-related pay and career advancement.

Question 4 (4 marks)

Compare investment in training and support.

Both investment in training and support 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. Investment in training is closely related to support, because a willingness to encourage staff to improve their skills, and providing resources to assist with this, is one of the clearest indications that employee development, both personal and professional, is valued by the employer, and the employee wishing to engage in such self-improvement is valued by the business.

However, these two motivation strategies do have differences. Investment in training refers to the direction of finances, or resources such as time, into the teaching of skills to employees, whereas support is the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance. Another difference is that training tends to be more visible, and the employee learns skills or gains a qualification, which helps to raise job satisfaction and boost motivation, whereas support is often less obvious when given through such methods as encouragement, counselling or mentoring, and generally works through helping employees to improve in confidence, improving motivation.

Award 1–2 marks for explaining similarities between investment in training and support.

Award 1–2 marks for explaining differences between investment in training and support.

Question 5 (5 marks)

Evaluate the use of career advancement for motivating employees in a business.

Career advancement refers to the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities. This strategy is suitable as a motivator because it can provide a valuable means of rewarding employees and motivating them to stay loyal to the business. In the short-term, career advancement will usually result in employees receiving a pay rise and greater job security, so this strategy should influence employees who are motivated by lower-order needs. The opportunity to be involved in decision-making in a leadership position, or to hold a more challenging or stimulating position with greater responsibility or authority, can influence employees who are motivated by higher-order needs, positively influencing long-term motivation and increasing commitment to the business. The prospect of personal growth will also motivate many employees.

However, a limitation of career advancement is its potential to reduce the motivation of employees who are not given responsibilities or who are overlooked for promotion. It is not always possible to

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provide promotion opportunities for all employees, as promotion positions cannot simply be created at a business. Employees will often be required to compete for a promotion. Employees may be motivated in the short-term to try to advance their careers, but as they miss out on promotion or additional responsibilities in the long-term, rivalries and conflict may be created. Furthermore, there may be resentment within a workplace if a promotion was not merited, or if it was not carried out fairly and equitably. In some cases, employees may be promoted beyond their capacity. An employee's productivity and motivation may actually fall if they are given more responsibilities or broader responsibilities.

Overall, despite some limitations, career advancement still remains a good longer-term option for motivating employees beyond simple monetary rewards. Career advancement provides a business with the opportunity to increase the contribution of employees, and would therefore support a business in demonstrating that they value the contribution of employees to the business, providing them with responsibility and involving them more in decision-making, motivating employees both in the short term and in the long term.

Award 2 marks for pointing out advantages/strengths of career advancement as a motivator.

Award 2 marks for pointing out disadvantages/limitations of career advancement as a motivator.

Award 1 mark for an overall judgement of career advancement as a motivator.

2.9 Training options

TEST your understanding

1 **Outline the purpose of training within a business.**

Training is aimed at improving the skills and knowledge of employees, to allow them to contribute more productively to the business. New employees will often require initial training to allow them to learn the details of their new job, while more experienced employees may need training to allow them to move to new roles within the business, or to take on additional responsibilities.

2 **Identify one way in which training can benefit the employee and one way in which it can benefit the employer.**

Training can benefit employees in the following ways:

- opportunities for self-improvement and promotion
- improved job satisfaction resulting from better performance
- the challenge of learning new things
- adaptability in dealing with changes.

Benefits to employers from training of staff include:

- higher productivity through better job performance and more efficient use of resources
- more effective achievement of goals and objectives
- fewer accidents and errors

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- better staff retention rates and a reduction in costly staff turnover
- a more capable and 'mobile' workforce
- employees better prepared to deal with serious problems or crises when they arise.

3 Distinguish between on-the-job training and off-the-job training.

On-the-job training occurs when employees learn a specific set of skills to be used within the business, with that training occurring within the business environment, using available resources. Off-the-job training occurs when employees receive training away from the workplace, often at a university, TAFE college or specialised training institution.

APPLY your understanding

4 Eliza is the human resource manager at a sports equipment manufacturer. The business is suffering from quality issues and increasing numbers of customer complaints. Eliza wants to introduce off-the-job training. Outline one advantage and one disadvantage of off-the-job training as a strategy for improving the situation at Eliza's business.

Student responses will vary according to the advantages and disadvantages selected. The advantages and disadvantages should relate to improving the quality issues and reducing the number of customer complaints.

A sample response:

One advantage of off-the-job training as a strategy for improving the situation at Eliza's business is the availability of a wider range of skills and qualifications than those in the workplace. Highly skilled employees should ensure that quality improves and that customer complaints fall.

One disadvantage of off-the-job training as a strategy for improving the situation at Eliza's business is that training can be expensive, particularly if provided by a specialist provider. The costs may be prohibitive for a smaller business; if Eliza's business is a small manufacturer, the costs of training off-the-job may limit the improvements the business can make to quality and customer satisfaction.

5 Define succession planning and outline why many businesses undertake succession planning. You could use the Succession planning weblinks in the Resources tab to assist you.

Succession planning is a process of ensuring that potential managers and leaders within a business are ready to step up into senior positions if a vacancy occurs. Organisations undertake succession planning to:

- prepare all employees for new leadership roles
- ensure that when someone leaves, a current employee can take on that person's duties
- develop a more diverse and flexible workforce
- ensure staff talents and skills are recognised
- improve staff morale and motivation, and commitment to the organisation
- provide promotion opportunities to high-performing employees.

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2.9 EXAM questions

Question 1 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3b; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Aaron is considering investing in training for his employees. Discuss a suitable training option that could be used for Car Bright's employees.

Car Bright should use on-the-job training. This is where employees improve their skills and knowledge while at the workplace, often while performing their actual job. Using on-the-job training will allow for Aaron's employees to improve their car cleaning services more effectively, as they are able to learn with the actual equipment that they need to use. Furthermore, this will likely be more cost effective for Aaron to implement rather than sending employees elsewhere for training.

On-the-job training will result in highly skilled employees at Car Bright in this manner. However, this form of training can result in poor habits from trainers within the workplace being passed down to employees as it often relies on employees to teach other employees. Furthermore, there may be workplace interruptions which interfere with the learning of Car Bright's employees at the workplace.

Global marking may be used:

Award a total of 4 marks for providing benefits and limitations of the training option selected and relating it to Car Bright's employees.

Question 2 (2 marks)

Source: VCE 2015, Business Management Exam, Q.3d; © VCAA

S&J Solar Panels is a manufacturing organisation that is rapidly expanding in a growing market. Due to high demand and increasing competition, the Operations Manager began importing partially assembled materials from overseas to keep costs low and save time. As a result, the employees were no longer required to produce entire solar panels. They were, however, required to develop new skills in order to complete the new production process. S&J Solar Panels now guarantees delivery of solar panels to customers within seven days, whereas competitors operate on a 28-day delivery service. The new production process had been in place for a period of time when the Operations Manager discovered that many of the imported materials were faulty. As a result, a number of new strategies will need to be introduced.

Outline one form of training that management could consider to ensure that employees have the required skills.

Off-the-job training involves attending seminars, workshops or demonstrations to improve the skills of an employee so that they can perform their job as effectively and efficiently as possible. An external source of information and variety in the way the employee is trained encourages the information to stick with them so that they feel more adaptable and capable when performing tasks.

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Award 1 mark for outlining one form of training.

Award 1 mark for linking the selected form of training to ensuring that employees have the required skills.

Question 3 (4 marks)

Explain the advantages and disadvantages of one training option.

On-the-job training is when employees need to learn a specific skill set to perform particular tasks in the workplace. It is the most cost-effective way to train an employee, as no travel expenses or other costs are incurred, and employees get to use the actual equipment that is required to do the job. This means that they may be more productive sooner.

The disadvantage of on-the-job training is that the quality of the trainer may vary — not everyone has the ability to teach others. In addition, the poor practice or bad habits of older staff may be passed on to younger employees.

Award 1–2 marks for an explanation of the advantages of one training option.

Award 1–2 marks for an explanation of the disadvantages of one training option.

Question 4 (6 marks)

Virginia has purchased new IT equipment to track the receipt, processing and despatch of orders for her online fashion business. She needs to train her employees to use this system.

Discuss the use of both on-the-job training and off-the-job training. Justify the use of the method you would recommend in this situation.

On-the-job training refers to learning a specific set of skills to perform particular tasks within the workplace. This training usually occurs in the working environment, and uses the equipment, machinery and documents that are present in that workplace. By providing on-the-job training, Virginia's business will be able to provide employees with skills and knowledge in using the new IT equipment while they are actually working, resulting in the employees and the business remaining productive. Consequently, Virginia's business should be able to increase productivity and reduce costs across the business as job performance is improved and the management of its employees becomes more efficient.

A limitation of on-the-job training relates to the quality of the trainer. Not all employees at Virginia's business will have the ability to teach others and the training delivered may be sub-standard or poorly planned, resulting in employees with poor skills or under-developed knowledge. Furthermore, the bad habits of older or more experienced staff acting as trainers may be passed on to younger employees, often without recognising that they are doing so.

Off-the-job training refers to the process of teaching employees how to do their job more efficiently and effectively by boosting their knowledge and skills, in a location external to the business's workplace. Off-the-job training can lead to Virginia's business developing a more capable workforce because of the availability of a wider range of skills and qualifications than those offered by its in-

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house learning and development centre. Employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within Virginia's business.

A disadvantage of off-the-job training is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only will Virginia's business need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. Training can take up time by diverting resources from production. Instead of performing work, employees will be learning skills at an external venue.

Overall, a well-targeted and well-structured off-the-job training program should benefit Virginia's business because it can provide broader experiences in the use of the new IT equipment, free from workplace distractions, which should result in better job performance, leading to greater job satisfaction and productivity across the business.

Award 1–2 marks for pointing out advantages and disadvantages of on-the-job training.

Award 1–2 marks for pointing out advantages and disadvantages of off-the-job training.

Award 1–2 marks for justifying the use of a recommended method in this situation.

Question 5 (6 marks)

All Parts Manufacturing Pty Ltd is a business that manufactures components for the automotive, mining, agricultural and rail industries. The company has identified that the provision of training does not meet the needs of the business. The business has recommended that there should be a review of training options.

Outline the training options that All Parts could use to implement the recommendations. Discuss how the use of these strategies could overcome the problems identified.

All Parts Manufacturing realises that its training does not meet the needs of the business. The business has the option of training the employees who need to learn a specific skill set to perform particular tasks in the workplace on-the-job. This training option refers to learning a specific set of skills to perform particular tasks within the workplace. On-the-job training usually occurs in the working environment, and uses the equipment, machinery and documents that are present in that workplace.

By providing on-the-job training, All Parts will be able to provide employees with skills and knowledge while they are actually working, resulting in the employees and the business remaining productive. On-the-job training is also a very cost-effective alternative, as there are no travel expenses or other costs incurred, such as paying for an outside course provider. Consequently, All Parts should be able to increase productivity and reduce costs across the business, as job performance is improved and the management of its employees becomes more efficient.

However, on-the-job training may not be suitable, as the company already recognises that its training is not adequate. This might indicate that there are not enough skilled people in the business to carry out on-the-job training. Not all employees at All Parts will have the ability to teach others and the training delivered may be sub-standard or poorly planned, resulting in employees with poor skills or under-developed knowledge. Furthermore, the bad habits of older or more experienced

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staff acting as trainers may be passed on to younger employees, often without recognising that they are doing so.

If this is the case, the business can use off-the-job training. This involves teaching employees how to do their job more efficiently and effectively by boosting their knowledge and skills, in a location external to the business's workplace. Off-the-job training can help All Parts develop a more capable workforce because of the availability of a wider range of skills and qualifications than those offered by its in-house learning and development centre. Employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within the business.

Another advantage of off-the-job training is that the teaching of skills can be more intense, without workplace distractions for both trainer and trainee. This should lead to higher productivity and better job performance for employees at All Parts if it makes use of this training option.

A disadvantage of off-the-job training is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only will All Parts need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. Training can take up time by diverting resources from production. Instead of performing work, employees will be learning skills at an external venue.

Award 2 marks for outlining at least two suitable training options.

Award 2 marks for pointing out advantages and disadvantages of one training option for overcoming the problems identified at All Parts.

Award 2 marks for pointing out advantages and disadvantages of at least one more training option for overcoming the problems identified at All Parts.

2.10 APPLY YOUR SKILLS Comparing and evaluating training strategies

TEST your skills

1 **Define the term 'training'.**

Training is the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills.

2 **Identify two training strategies implemented by Hector Henriquez to assist him in being able to take time off from running his business.**

Training strategies used by Hector include hiring multi-skilled staff who can be trained to fill a variety of roles, sharing of knowledge and experience among staff, and producing instruction manuals that comprehensively cover all procedures used within the business.

3 **Besides the opportunity for Hector to take time off from his business, identify two other benefits that Visual Graphics gains from the employment and training strategies utilised.**

Other benefits include a more highly trained and flexible workforce; ability to respond to a variety of challenges; and a more highly motivated staff, capable of performing a number of different and interesting tasks.

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4 **Explain why staff training and development was such a high priority for Leah Calnan at Metro Property Management.**

Staff training and development was such a high priority in this business because Leah Calnan wants to counter the high turnover of staff within the real estate industry. By providing a high level of training and improving the skills of her employees, she hopes to enable them to take on more responsibilities, increase their commitment to her business, and be less likely to seek other opportunities elsewhere.

5 **Outline the strategy that Marriott use to deal with the impending retirement of its head teppanyaki chef.**

Marriott identified a mature-age security guard who was willing and able to undertake training as a teppanyaki chef, and took on younger staff as trainee chefs. This allowed a period of transition as the retiring head chef gradually reduced his hours and the new chef took over.

APPLY your skills

6 **Propose and justify two training options that Leah Calnan could use to help her retain staff at Metro Property Management.**

Training options available to Leah Calnan include on-the-job and off-the-job training. On-the-job training occurs when employees learn a specific set of skills to be used within the business, with that training occurring within the business environment, using available resources. This training option would allow less-experienced employees to learn from their more-experienced colleagues. It also helps to create a sense of teamwork and collegiality among staff and further allows staff training to occur within a familiar and comfortable environment. This could be important in an industry with a high staff turnover.

Off-the-job training occurs when employees receive training away from the workplace, often at a university, TAFE college or specialised training institution. This training option would allow staff to gain additional qualifications and knowledge of the real estate industry and its legal requirements. Supporting staff to participate in off-the-job training by allowing them time off to attend classes, and assisting with any fees, is a form of investment in training, and is a useful motivation strategy, increasing the employee's commitment to the business, again assisting with preventing the high staff turnover.

7 **Evaluate the use of on-the-job or off-the-job training for managing employees at the Marriott in Surfers Paradise.**

It is likely that the Marriott would use both on-the-job and off-the-job training in the management of its employees. Off-the-job training, which refers to the process of teaching knowledge and skills to employees in a location external to the business's workplace, would be very appropriate for Marriott. In order to become a qualified teppanyaki chef, the security guard would need to attend an appropriate training course at a TAFE college or other specialised training institution. The benefit of this for the prospective chef is the qualification he gains, which is transferable to other workplaces. It also ensures that the chef is familiar with the relevant theory associated with the profession of teppanyaki chef, and may be able to use that knowledge to develop new recipes to attract additional customers. It also ensures that he has

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been through a professional assessment process, and his skills have been tested by an appropriate accreditation process.

However, a limitation of off-the-job training as a training option is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only will Marriott need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. In particular, off-the-job training can take up time by diverting resources from production — instead of performing work, employees will be learning skills at an external venue. These limitations could have a negative impact on Marriott achieving its business objectives, such as productivity and profit.

Ultimately, employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within Marriott. In reality, it is unlikely that either on-the-job or off-the-job training can provide all the skills necessary for the business, so a combination of both would be appropriate. However, the use of off-the-job training should lead to higher productivity and better job performance for Marriott.

8 Visual Graphics, Metro Property Management and the Marriott Resort in Surfers Paradise all used staff training to achieve different purposes. Identify and explain two issues that each of these businesses has in common in relation to their use of staff training.

Issues in common among these businesses include a desire to retain reliable and valued staff, and to motivate staff by making sure their work is interesting and challenging. At Visual Graphics, Hector wanted to be able entrust staff to carry out their duties, and be able to make decisions in his absence. This requires a stable group of staff, all equipped with a variety of skills, so that the business is not reliant on any one person to function. For Leah, the objective was similar: retain valued staff to avoid the costs associated with staff turnover, and to demonstrate that they are valued through their contributions to weekly and monthly staff meetings. The Marriott Resort could see value in retraining one of their existing employees, presumably because that person was reliable and already a valued employee. The security guard gains a new and more interesting career, and is motivated to work hard in his new position. The costs of losing the chef and having to hire a new employee were also overcome.

2.10 EXAM questions

Question 1 (9 marks)

Aktive Pty Ltd is a clothing manufacturer. The business currently makes use of on-the-job training to ensure that its high-quality standards are maintained.

(a) Compare on-the-job training with one other training option that could be implemented by Aktive to manage employees. (4 marks)

Aktive uses on-the-job training, but it could also make use of off-the-job training. The options are similar in that they both refer to the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills. Another similarity between on-the-job

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training and off-the-job training is that both involve the use of a person who teaches the knowledge and skills to employees.

However, the two training options differ in that an experienced co-worker, a leader or a manager with particular or specific expertise will often provide on-the-job training. The two training options differ also in that on-the-job training involves employees learning skills to perform tasks in the workplace, whereas off-the-job training involves employees learning skills away from the workplace, often at a university, TAFE college or specialised training institution. Aktive could send employees to an external training institution to improve their skills, thereby improving their performance.

Award 1–2 marks for explaining similarities between on-the-job training and one other training option, related to Aktive Pty Ltd.

Award 1–2 marks for explaining differences between on-the-job training and one other training option, related to Aktive Pty Ltd.

(b) Evaluate the suitability of on-the-job training for Aktive in ensuring that it maintains its high-quality standards. (5 marks)

On-the-job training occurs when employees learn a specific set of skills to be used within the business, with that training occurring within the business environment, using available resources. For Aktive to maintain their high-quality standards it may mean that new employees are taught the necessary skills to ensure that quality is high. By providing on-the-job training, Aktive will be able to provide employees with skills and knowledge in meeting quality standards while they are actually working, resulting in the employees and the business remaining productive. On-the-job training is also a very cost-effective alternative, as there are no travel expenses or other costs incurred, such as paying for an outside course provider.

However, a limitation of on-the-job training relates to the quality of the trainer. Not all employees at Aktive will have the capacity to teach others; consequently any training delivered in the workplace may be sub-standard or poorly planned, resulting in workers with poor skills or under-developed knowledge. Furthermore, the bad habits of older or more experienced staff acting as trainers may be passed on to younger employees, often without the trainers recognising that they are doing so.

Overall, a well-targeted and well-structured on-the-job training program should benefit Aktive because it results in better job performance in its employees, leading to greater job satisfaction and productivity, as well as reduced costs in the longer term, across the business.

Award 1–2 marks for explaining advantages/benefits of on-the-job training.

Award 1–2 marks for explaining disadvantages/limitations of on-the-job training.

Award 1 mark for an overall conclusion or judgement regarding the suitability of on-the-job training for improving quality standards at Aktive Pty Ltd.

Question 2 (6 marks)

Asurance is an insurance company that is seeking to improve productivity. Discuss two suitable training options that could be used for employees at Asurance. Recommend which option the business should adopt.

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On-the-job training occurs when employees learn a specific set of skills to be used within the business, with that training occurring within the business environment, using available resources. By providing on-the-job training, Asurance will be able to provide employees with skills and knowledge in meeting quality standards while they are actually working, resulting in the employees and the business remaining productive. On-the-job training is also a very cost-effective alternative, as there are no travel expenses or other costs incurred, such as paying for an outside course provider. However, it is possible that not all employees at Asurance will have the capacity to teach others; consequently, any training delivered in the workplace may be sub-standard or poorly planned, resulting in workers with poor skills or under-developed knowledge. Furthermore, the bad habits of older or more experienced staff acting as trainers could possibly be passed on to younger employees, often without the trainers recognising that they are doing so.

Off-the-job training also allows employees to learn a specific set of skills; however, this occurs when employees receive training away from the workplace, often at a university, TAFE college or specialised training institution. Accordingly, off-the-job training would provide employees at Asurance with a wider range of skills and qualifications than those offered within its workplace. Employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within the business. Another advantage of off-the-job training is that the teaching of skills can be more intense without workplace distractions for both trainer and trainee. This should lead to higher productivity and better job performance. However, a limitation of off-the-job training as a training option is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only will Asurance need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. This option can take up time by diverting resources from production — instead of performing work, employees will be learning skills at an external venue.

Asurance should adopt off-the-job training as it will result in employees gaining new skills and certification. They will learn best practice and therefore it is recommended that Asurance use this type of training to improve productivity.

Award 1 mark for outlining at least one advantage/benefit of a training option that could be used for employees at Asurance.

Award 1 mark for outlining at least one disadvantage/limitation of a training option that could be used for employees at Asurance.

Repeat for a second suitable training option.

Award 1–2 marks for a recommendation of the most suitable training option.

2.11 Performance management strategies

TEST your understanding

1 Define the term ‘performance management’.

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Performance management aims to improve both individual and business performance by relating the business's performance objectives to the individual's performance objectives. It is concerned with setting objectives for both the business and the employee.

2 Identify the key steps in the process of management by objectives.

Management by objectives uses the following key steps:

- A clear definition of organisational objectives, which can be understood and embraced by employees.
- The negotiation of individual objectives that are consistent with the organisational objectives, and which can be achieved by each employee.
- Regular monitoring of the progress made by the employee in achieving those objectives.
- Positive feedback to the employee from managers or supervisors to support the employee in his or her progress towards the agreed goals.
- A thorough appraisal of the employee's achievements at the conclusion of the designated period.

3 Outline two different methods of conducting a performance appraisal.

Students need to be able to outline any two of the following methods used to conduct a performance appraisal:

- *Essay method* — the manager keeps a journal on each employee being appraised, with comments on specific job-related issues such as customer service and personal presentation.
- *Critical incident method* — this method is similar to the essay method, except that only exceptionally good or exceptionally bad incidents are recorded.
- *Comparison method* — each employee is ranked according to a predetermined set of performance characteristics such as accuracy, speed, interpersonal skills and communication skills.

4 Identify two main advantages of employee self-evaluation.

Two main advantages of employee self-evaluation are the personal reflection that comes from an employee honestly examining their own performance and the identification of possible training needs. Other advantages include allowing employees to be actively involved in the process of performance management, allowing employees to assess their own contribution to the business (as well as their strengths and weaknesses), providing an opportunity for the business to gain an insight into how employees perceive their performance.

APPLY your understanding

5 Read the 'Regular feedback equals successful performance appraisal' case study.

(a) Outline the benefits of a regular informal catch up with employees.

The benefits of a regular informal catch-up with employees are:

- it allows expectations to be set and reset on a more frequent basis

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- it allows for projects to be kept on track, and milestones to be achieved, and to review not only what has been achieved but also how it has been achieved
- it allows for more frequent recognition of effort and achievement
- as a form of continuous development, it keeps employees more engaged, improving productivity.

(b) Explain how the author of the article believes performance appraisals can contribute to ongoing employee development.

The author believes that performance appraisals can contribute to ongoing employee development because they are a key aspect of keeping your team engaged, and 'buying in' to what the business is trying to achieve. Feedback from peers and leaders is an important gauge for what an employee is doing well, and what needs further development.

6 Survey five people, asking them to respond to the following statements. Collate your results and write a paragraph to explain what the survey has revealed about performance management. Share your results with your class.

		Yes	No
1	I am required to complete regular performance appraisals.		
2	Performance appraisals are a worthwhile experience.		
3	When appraising work, everyone should be given the same score.		
4	If the business as a whole has not made a profit, no employee should receive a bonus.		
5	Poor performers should be sifted out and sacked.		
6	Pay increases should be linked to good individual performance.		
7	A good rating in a performance review is more likely to reveal excellent self-promotion skills than anything else.		

Responses will vary depending on student survey results, but should include reference to which employee management strategies are likely to be preferred in a business.

2.11 EXAM questions

Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.1c; ©VCAA

In 2017, John was employed as the manager of a bakery with 80 employees. In 2020, the business has had the following business objectives:

• to increase profits by 10%

• to reduce staff absenteeism by 20%.

John has adopted an autocratic management style.

Propose and justify one performance management strategy, other than a change in management style, that John could use to reduce staff absenteeism.

John may use appraisals as a performance management strategy in response to the reduction in staff absenteeism. This refers to the formal assessment of how an employee is performing their role in the business. By allowing discussion regarding the determination of standards of performance required by the employee, or the objectives that the employee is trying to achieve, appraisals should allow positive relationships to build between management and individual employees. Appraisal also allows managers to provide employees with feedback, both positive and negative — to encourage employees to continue with positive behaviours, as well as to let them know what is required to be recognised as more productive employees in the future.

Employees who improve their performance are more likely to feel confident in their own abilities and their position in the business, thereby becoming more satisfied in attending work. Employees should be more likely to attend work as they feel valued by the business and competent in their abilities, reducing staff absenteeism.

Award 1 mark for proposing an appropriate performance management strategy.

Award 2 marks for the justification of the strategy, linking the strategy to the reduction of staff absenteeism.

Question 2 (6 marks)

Fatima is keen to introduce a staff performance management process into her restaurant. Explain how each of the following might operate in her workplace.

Employee self-evaluation

Employee self-evaluation is a means by which employees carry out a process of self-assessment, based on a set of agreed criteria. Such a process would involve employees examining their own performance, and evaluating their strengths and weaknesses, asking whether they could have performed better during the period under review, and identifying ways in which they can improve performance in the future. They can be asked to examine their current role and consider how that role can be enhanced into the future. The use of self-evaluation would allow employees at Fatima's restaurant to be actively involved in the process of performance management and understanding their role in the business.

Award 1 mark for explaining employee self-evaluation.

Award 2 marks for explaining how employee self-evaluation might operate in Fatima's workplace.

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Management by objectives

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. The process requires a clear definition of the business goals, clearly communicated to all employees. Individual employee goals are then negotiated, and progress towards achieving these is regularly monitored. Regular feedback is provided to employees, based on their progress towards achieving goals, with a final appraisal to assess how well the goals were achieved. The use of management by objectives would allow employees at Fatima's restaurant to be involved in determining their goals and the course of action that they will follow to achieve these goals.

Award 1 mark for explaining management by objectives.

Award 2 marks for explaining how management by objectives might operate in Fatima's workplace.

Question 3 (3 marks)

Distinguish between management by objectives and employee observation as performance management strategies.

Employee observation is a performance management strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a more comprehensive picture of past and current performance. For example, feedback from all levels of staff may be sought through a process of 360 degrees feedback.

By contrast, 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. The main difference is that employee observation can include input or feedback from all people within the business, whereas this is unlikely to occur in management by objectives.

Award 1 mark for demonstrating an understanding of management by objectives.

Award 1 mark for demonstrating an understanding of employee observation.

Award 1 mark for clearly identifying a point of difference between the two terms.

Question 4 (4 marks)

The human resource manager of Southern Industrial Sales has identified a problem with employees at the business. She believes that staff performance can be improved by implementing a more effective performance management strategy.

Describe one performance management strategy that could be used to achieve both business and employee objectives at Southern Industrial Sales. Justify the use of this strategy.

One performance management strategy that Southern Industrial Sales can use is management by objectives. This is a strategy by which management and employees work together to agree on a set of goals for each employee. The goals will relate to either their area of responsibility or to the tasks that they are required to complete as part of their job, ultimately contributing to the objectives of the business as a whole. The goals will be regularly monitored so that management and employees are aware of their progress in achieving the goals. This seems to be what Southern Industrial Sales wants to do.

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The use of management by objectives would be an appropriate strategy for Southern Industrial Sales to use to improve staff performance because it would allow employees to be involved in determining their goals and the course of action that they will follow to achieve these goals. In this way, they are more likely to understand their responsibilities and the results expected of them. Therefore, employees should understand how important it is to achieve these goals, as they can appreciate how they relate to the achievement of business objectives. As a consequence, they are more likely to be motivated and committed to achieving their personal objectives.

With the full commitment of all managers and employees in the business, the goals of the new employees should contribute to Southern Industrial Sales's objectives. Because managers and subordinates know what is expected of them, there should be no role confusion.

Award 1–2 marks for describing a suitable performance management strategy.

Award 1–2 marks for justifying how the strategy would achieve both business and employee objectives at Southern Industrial Sales.

Question 5 (4 marks)

Discuss the use of employee observation as a performance management strategy.

Employee observation is a performance management strategy in which a variety of opinions on the performance of employees is sought, with the aim of arriving at a more comprehensive picture of past and current performance.

The use of employee observation would allow a business to gain feedback from a range of different parties in order to arrive at a comprehensive picture of the performance of each one of the company's employees. In this way, each employee could be provided with the opportunity to improve their future performance as they become aware of their strengths and weaknesses.

In addition to identifying the strengths and weaknesses of employee performance, employee observation is very useful for evaluating skills in leadership, teamwork and interpersonal abilities. In doing so, the use of this strategy would contribute to the improvement of skills and knowledge of employees at a business, hopefully leading to increased job satisfaction and feelings of value.

However, staff may feel stressed as a business makes use of employee observation, knowing that they are being observed. Furthermore, the process could prove to be damaging if one of the participants happens to have a personal vendetta against the employee.

Award 1–2 marks for outlining advantages/strengths of employee observation as a performance management strategy.

Award 1–2 marks for outlining disadvantages/limitations of employee observation as a performance management strategy.

2.12 EXTEND YOUR KNOWLEDGE Getting value from performance management

TEST your understanding

1 **Identify and explain two problems that have arisen with the use of annual reviews as a method of performance management.**

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Problems that have arisen with the use of annual reviews include:

- The review has often become little more than a routine tick-the-box exercise in many companies. In attempting to streamline and simplify the process, the original reason for having reviews has been lost.
- Employees will often react negatively to a low rating in their review and this can become a demotivating factor. This has often meant that managers have given higher ratings to avoid conflict, so the review becomes meaningless.
- Any business with groups of people working together has its social dimensions, where interpersonal relations are important. The supervisor or manager may also be a close friend to some colleagues, and not so close to others, and so a review may be influenced more by personal relationships than by an accurate assessment of an employee's skills or value the business.

2 **Outline one approach that is considered preferable to annual employee performance reviews.**

A preferable approach is a less formal, continuous appraisal and feedback approach, where there is ongoing engagement between employee and supervisor. This approach is likely to be less threatening to the employee, and allows for more open communication between employees and management.

3 **Explain what the head of people and performance at Deloitte might have meant when he described annual reviews as being like a 'drive-by shooting'.**

The head of people and performance might have described annual reviews as a bit like a 'drive-by shooting' because he believed that the process is such that 'You never know when you're going to get hit!' This suggests that he believes the process to be too random, and not hitting the targets that it is meant to.

4 **In addition to weekly 'check-ins', identify two other strategies that Deloitte has put in place as part of its performance management strategy.**

Strategies put in place include ongoing coaching and mentoring built into the process. Contact can occur on a regular scheduled basis, with a view to promoting staff engagement and development. In addition to weekly check-ins, contact can also occur at the completion of a particular task or project.

EXTEND your understanding

5 **Explain why a 'tick-the-box' activity might have little value in appraising employee performance.**

A 'tick-the-box' activity involves ranking the employee's performance against a pre-determined checklist. Such a list may be relevant to some workers, but not to others. It may not even be possible to devise a checklist that will cover all the skills, abilities, potential goals and areas of development that can be applied to all employees, so the activity becomes a routine, bureaucratic exercise, which fails to provide employees with genuine feedback to identify their strengths and weaknesses, or provide guidance for future development.

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6 **One of the issues identified as a problem with annual reviews is an unwillingness of some managers to rate some employees poorly for fear of demotivating them. Analyse whether this is a real problem, or if managers should be brutally honest with their employees.**

Student responses will vary according to opinion, but responses could include some reference to the management style of supervisors, and the importance of maintaining positive workplace relationships.

- Annual reviews that are brutally honest may cause negativity and demotivation.
- Annual reviews can potentially cause conflict, so honesty may be avoided.
- Reviews can be influenced by personal links and friendships, making it difficult to be honest.

7 **The weekly 'check-in' at Deloitte can be initiated by the employee rather than the employer. Explain why this is a positive approach, and outline the benefits that both the employer and employee gain from such an approach.**

Student responses will vary according to group discussion but, once again, the importance of maintaining positive workplace relationships should be included in discussion.

- Ten-minute check-ins mean that there is no need for extensive preparation or formality.
- Feedback from a face-to-face check-in is immediate, so this is beneficial for the employee and reduces fear in waiting.
- Formal reviews cause anxiety so this approach is better.

2.12 EXAM questions

Question 1 (3 marks)

Distinguish between appraisals and self-evaluation as performance management strategies.

An appraisal is a performance management strategy that refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business. An appraisal may be carried out via a manager keeping track of an employee's performance, for example, in relation to sales or customer service.

By contrast, self-evaluation is a process whereby employees carry out self-assessment, based on a set of agreed criteria. Employees will assess their contribution to the business, their own strengths and weaknesses, and how they can improve their performance.

A key difference between the two performance management strategies is that an appraisal involves a manager providing a judgement on an employee based on a performance measurement, whereas self-evaluation assumes that the employee themselves is able to assess their own performance.

Award 1 mark for demonstrating an understanding of appraisals.

Award 1 mark for demonstrating an understanding of self-evaluation.

Award 1 mark for clearly identifying a point of difference between the two terms.

Question 2 (4 marks)

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Rafael wants the company that he started five years ago to be considered a high-performance business. Propose and justify one performance management strategy that will enable him to manage employees effectively and achieve his objective.

One performance management strategy that Rafael's company could use is management by objectives. This is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole. Included in the process are the means of measuring progress towards the achievement of these goals, so that management and employees are aware of their progress in achieving the goals. Each employee should be aware of the objectives of the business, as well as their own responsibilities in achieving those objectives.

The use of management by objectives would be an appropriate strategy for Rafael's company to use to manage employees effectively because it would allow employees to be involved in determining their goals and the course of action that they will follow to achieve these goals. In this way, they are more likely to understand their responsibilities and the results expected of them. Therefore, employees should understand how important it is to achieve these goals, as they can appreciate how they relate to the achievement of business objectives. Employees are more likely to be motivated and committed to achieving their personal objectives. With the full commitment of all managers and employees in the business, the goals of employees should contribute to the company's objectives.

Management by objectives can also highlight the area/s where an employee has training needs, which can lead to career development. This should enable Rafael to manage employees effectively and achieve the company's objective of being considered a high-performance business.

Award 1–2 marks proposing a suitable strategy.

Award 1–2 marks for justifying how the selected strategy might enable Rafael to manage employees effectively and achieve the objective of being considered a high-performance business.

Question 3 (4 marks)

Analyse the benefits of appraisals as a performance management strategy.

Performance appraisal is the formal assessment of how efficiently and effectively an employee is performing their role in the business. 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. In doing so, appraisals facilitate communication and further allow positive relationships to develop between management and employees. Appraisals allow managers to provide employees with feedback, both positive and negative — to encourage employees to continue with positive behaviours, as well as to let them know what is required to be recognised as more productive employees in the future. Employees who improve their performance are more likely to feel confident in their own abilities and their position in the business, thereby becoming more satisfied in attending work.

Award 1–2 marks for a limited analysis of the benefits of appraisals as a performance management strategy.

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Award 3–4 marks for a thorough analysis of the benefits of appraisals as a performance management strategy.

Question 4 (6 marks)

Other than appraisals, evaluate the use of one performance management strategy to achieve business and employee objectives.

Self-evaluation is another performance management strategy used to achieve business and employee objectives. This is a process whereby employees carry out self-assessment, based on a set of agreed criteria. Employees will assess their contribution to the business, their own strengths and weaknesses, and how they can improve their performance.

Self-evaluation allows employees to be actively involved in the process of performance management and assists them in understanding their role in the business. These two benefits are likely to act as motivators for employees, supporting them in achieving personal objectives. With the full commitment of employees, the attainment of employee goals should contribute to a business's objectives. Self-evaluation does provide the opportunity for the business to gain an insight into how employees perceive their performance, as well as understand their strengths and weaknesses. This might highlight the need for training, supporting the business in achieving its objectives. However, the provision of such training is likely to increase expenses for the business. But this might be worthwhile.

However, self-evaluation has limitations in supporting employees and the business in achieving objectives. This is because employees can often overstate their own performance when completing a self-evaluation. They are also likely to hide their shortcomings. Further, some employees may feel ill-equipped to undertake a self-assessment.

Overall, the use of self-evaluation is a worthwhile performance management strategy that can be used to achieve business and employee objectives. Despite some limitations, it would allow a business to encourage its employees to actively assess their own performance, which would be expected to improve motivation and productivity as employees become aware of their role in the business. As they are made aware of strengths and weaknesses, employees should be able to develop an understanding of how to improve.

Award 1–2 marks for explaining advantages/benefits of one other performance management strategy to achieve business and employee objectives.

Award 1–2 marks for explaining disadvantages/limitations of one other performance management strategy to achieve business and employee objectives.

Award 1–2 marks for an overall conclusion or judgement regarding the use of one other performance management strategy to achieve business and employee objectives.

2.13 Termination management

TEST your understanding

1 **Distinguish between voluntary and involuntary termination of employment, providing an example of each.**

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Voluntary termination is when the employee leaves the organisation voluntarily, through retirement or resignation. Involuntary termination is when the employee has no choice in the matter, such as retrenchment or dismissal.

2 **Identify two reasons why a person may decide to resign from their current employment.**

A person may decide to resign from their current position because they have had an offer of employment from another employer, because of a desire to start their own business or for a lifestyle change, or because they are bored or disillusioned with their current position.

3 **Explain what redundancy is.**

Redundancy occurs when a person's position no longer exists, due to technological changes, an organisational restructure, or a merger or acquisition.

4 **Outline how a business could use the resignation or retirement of employees as a means of downsizing its workforce.**

A business can use retirement or resignation to downsize their workforce by not replacing the employee who leaves. This usually then involves re-assigning duties to the remaining employees to cover the loss of the departing worker.

5

(a) **Explain the entitlements that may be owed to an employee who has been made redundant.**

Entitlements owed to an employee who has been made redundant include any wages or salary owing, as well as leave entitlements such as accrued annual leave and long service leave. Employees are usually entitled to a period of notice, or additional pay in lieu of notice. Employees made redundant are often entitled to a redundancy payment, which is usually calculated on a pro-rata basis, related to the number of years of service to the business.

(b) **Outline how a business might also assist that employee to find alternative employment.**

A business may be able to offer an employee an outplacement service which includes career coaching and interview training.

APPLY your understanding

6 **Explain how a dismissal would be considered to be unfair.**

Unfair dismissal occurs when an employer dismisses an employee for discriminatory reasons. Some examples of discrimination under Commonwealth workplace relations laws include dismissal because of race, colour, sex, sexual preference, age, disability, marital status, family responsibilities, pregnancy, and so on.

A dismissal would be considered to be unfair if it is, in the words of the *Fair Work Act 2009*, 'harsh, unjust or unreasonable', and where it is not a case of genuine redundancy. Other than in

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cases of serious misconduct, an employer is expected to provide the employee with a written warning that he or she is at risk of dismissal and the reasons for this. The employer is also required to provide the opportunity to improve performance or rectify the problem.

7 Following the introduction of new equipment, Ace Engineering Pty Ltd has found that it only needs to retain four of its team of eight machine operators, so four positions are now redundant. Outline a process that the management could follow that would be fair to all affected employees.

A process that could be followed in this case would include the following steps:

- All machine operators are informed of the situation and given an opportunity to volunteer to leave.
- If no-one volunteers, a fair and ethical process will need to be implemented to determine which four employees are asked to leave. This should involve open and sensitive discussions with all employees involved, as well as their supervisors.
- The employees made redundant should be given an appropriate period of notice and supported to find new employment. This may involve allowing them paid time off work to attend interviews with prospective employers, as well as the provision of positive references.

8 Termination management is about managing the final phase of the employment cycle, when the employee leaves. Identify the issues a human resource manager must be aware of when dismissing an employee.

A HR manager must be aware of some of the following issues when dismissing an employee:

- relevant legislation, particularly in relation to unfair dismissal and unlawful termination, including anti-discrimination issues
- issues of how much notice is required by either an employment contract or Award
- employee entitlements — such as accrued leave
- the need to provide advice and training to improve an employee's performance before considering dismissal for poor work performance
- the employment classification of the employee, whether casual, permanent, on probation, temporary or on a fixed-term contract, because different procedures apply in each of these cases.

9 Outline the latest employee rights and rules that apply to termination of employment. (You could use the Termination of employment weblink in the Resources tab to assist your response.)

The website explains the following:

Post-termination entitlements

- In most cases, workers employed on a permanent basis will be owed entitlements at the time their employment ends. These can include payment for accrued annual leave and accrued or pro-rata long service leave if the employee is eligible.
- If a permanent employment relationship is terminated, the employee must be provided with notice or payment in lieu of notice (except if the employee is guilty of serious misconduct).

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The amount of notice (or payment in lieu) will depend on the age of the employee and how long they have been employed on a continuous basis by the employer.

- If a worker believes that they have not received payment for all their entitlements at the time their work ends, they can apply to the Office of the Fair Work Ombudsman, which can then investigate and take action to make sure that all legal entitlements are paid.

Redundancy

- Some industrial instruments such as Awards and enterprise agreements provide workers with the right to receive payment in the case of redundancy. Redundancy payments usually depend on how long the worker has been continuously employed by the same employer.
- In cases where a worker is made redundant due to the business going broke and the worker does not receive any redundancy entitlements they are owed, the worker may be eligible to receive payment from the government for these entitlements.

What are unlawful termination and unfair dismissal?

- Unlawful termination is when an employer fires a worker for discriminatory reasons.
- Workers who believe that they have been sacked on discriminatory grounds can lodge an application with the Office of the Fair Work Ombudsman within 21 days of being sacked.
- Workers who believe that they have been unfairly dismissed can lodge an application with the Office of the Fair Work Ombudsman within 21 days of being sacked.
- Unfair dismissal does not apply to workers who are employed by a company with fewer than 15 workers, workers employed on a seasonal basis, workers who are on probation, or workers who were sacked for genuine operational reasons.
- If a worker believes that they have been sacked for reasons relating to trade union membership, for making a complaint or for participating in proceedings against their employer, they can also make a complaint to the Office of the Fair Work Ombudsman on the basis of their right to freedom of association.

2.13 EXAM questions

Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section B, Q.6; ©VCAA

Describe one employee entitlement issue and one employee transition issue that may result from the ATI-TUDE store closures.

One employee entitlement issue will be the payment of outstanding wages and redundancy payouts. Management needs to ensure that all owed wages, including long service leave and annual leave, as well as redundancy payments which are usually a few cycles of pay based on employees' total time working at the store, must be paid. This is especially relevant as the stores are closing and staff will be made redundant.

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One employee transition issue can be their ability to be re-employed. Management should offer outplacement services, for example hire people to conduct mock job interviews, host classes on writing and updating resumes to increase chances of their re-employment in the retail industry after the store closures. Management can also offer more flexible working hours to facilitate current employees' attendance at job interviews.

Award 2 marks for a description of each issue.

Award 2 marks for referencing the case study when describing each of the two issues.

Question 2 (2 marks)

Define the term 'redundancy'.

Redundancy occurs when the job a person does no longer exists, usually due to technological changes, an organisational restructure, or a merger or acquisition.

Award 1 mark for 'a person's job no longer exists' or 'a person's job is no longer necessary' or similar.

Award 1 mark for 'changing circumstances' or 'technological changes' or 'restructure'.

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Question 3 (4 marks)

Distinguish between retirement and resignation.

Retirement occurs when an employee decides to give up full-time or part-time work and no longer be part of the workforce; this can occur when the employee would like to finish their working lives and spend time on leisure/family interests. In Australia there is no mandatory age at which employees must retire — some people retire in their mid to late 50s, but many now choose a gradual transition to retirement, often reducing their working days over a period of years.

By contrast, resignation occurs when an employee quits their existing job. Resignation can occur when an employee is moving to a position in another business or starting their own business, through boredom with a present job or the desire for a change of lifestyle. Usually, the employee will need to give the employer sufficient notice of his or her intention to resign.

The main difference between the terms is that retirement refers to the time of life when an employee permanently leaves the workforce, whereas resignation simply refers to the voluntary ending of the employment relationship — resignation does not involve a person leaving the workforce completely.

Award 1 mark for demonstrating an understanding of retirement.

Award 1 mark for demonstrating an understanding of resignation.

Award 2 marks for clearly identifying points of difference between the two terms.

Question 4 (1 mark)

Define the term 'dismissal'.

Dismissal occurs when the behaviour of an employee is unacceptable, and a business terminates their employment.

Award 1 mark for 'occurs when an employee's behaviour is unacceptable'.

Question 5 (4 marks)

Using examples, distinguish between entitlement and transition issues.

Entitlement issues relate to the rights to benefits that an employee may have at the time of leaving the workplace, either on a voluntary or an involuntary basis. For example, employees who have been made redundant or dismissed must be given notice of their termination. These employees are also eligible for payments for outstanding annual leave entitlements and long service leave entitlements. A redundancy payment may also be included in the employees' entitlements.

By contrast, transition issues relate to the assistance the employee may receive during 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 during a series of redundancies, for example, a business 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. Other examples of transition issues include assistance to find another position through the provision of outplacement services or advice, and

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assistance regarding income planning and future lifestyle choices as support in the transition to retirement.

The main difference between the two terms is that entitlement issues are the rights that employees have when leaving the workplace, whereas transition issues relate to the process or a period of changing from one job to another or from a set of circumstances to another. In general, the law requires entitlements to be provided, whereas the advice and support provided to employees arising as transition issues generally are offered above and beyond the law.

Award 1 mark for demonstrating an understanding of entitlement issues.

Award 1 mark for demonstrating an understanding of transition issues.

Award 2 marks for clearly identifying points of difference between the two terms.

Question 6 (5 marks)

Josh has had 15 sick days off work during the last three months. He phones in sick again on a day when the business is under pressure to meet some large orders and needs everyone available. Thomasia, his boss, is also aware that Josh was recently caught stealing money from another employee in the workplace.

Propose and justify a termination management strategy to deal with this situation.

In this case, a suitable termination management strategy would be dismissal. Dismissal occurs when the behaviour of an employee is unacceptable and a business terminates their employment. Josh might be given dismissal on notice (when an employee is not performing the job satisfactorily).

Normally an employee caught stealing from a workmate could be summarily dismissed (when an employee commits a serious breach of their employment contract), but it appears from the facts provided here that Thomasia has not acted on this information so far. If summary dismissal does not occur at the time of the offence, it is much harder for the employer to raise the issue later in relation to some other unrelated issue of employee behaviour.

Assuming Josh has not provided medical certificates or some other documentation to support his high level of absence, it would be appropriate to dismiss him on notice. Thomasia might also inform him that she is aware of the theft issue and that he is lucky he was not subject to summary dismissal at the time.

Responses to this task can be marked globally.

Award 4–5 marks for a detailed proposal of the selected termination management strategy, with appropriate links to the situation, and detailed justification of the strategy.

Award 2–3 marks for a generally appropriate proposal of the selected termination management strategy, with some links to the situation, and generally appropriate justification of the strategy.

Award 1 mark for a limited attempt at explaining reasons for a proposal, with limited or no links to the situation, and limited or no justification of the strategy.

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2.14 Workplace relations — the roles of participants in the workplace

TEST your understanding

1 Define the term 'workplace relations'.

Workplace relations refers to the interaction between employers and employees, or their representatives, to achieve a set of working conditions that will meet the needs of employees as well as allowing the business to achieve its objectives. Workplace relations also refers to the total relationship between employers and employees relating to conditions of employment such as levels of pay, working hours, duties, responsibilities and entitlements.

2 Outline how employees might be involved in the employee relations processes.

One way in which employees could be directly involved in the employee relations process is if they are required to negotiate employment conditions directly with their employer. This would require strong communication skills and a good understanding of employee's rights. Secondly, an employee may act as a workplace representative — this means that they liaise with human resources and the employees on a number of issues relating to employee rights.

3 Identify two roles of human resource managers in the workplace.

The role of human resource managers in the workplace includes the management of all aspects of the relationship between employer and employee, including:

- managing all aspects of the employment cycle, including the establishment phase, maintenance phase and termination phase; these phases include all staff planning, recruitment, selection, induction, training, performance management, and entitlement and transition issues
- negotiating employment agreements with employees and their representatives
- training other managers and supervisors to facilitate the implementation of agreements within their areas of responsibility
- ensuring the implementation of all key terms of agreements
- dealing with disputes and conflict that may arise during the life of an agreement.

4 Describe what a trade union is.

Trade unions are organisations that represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for the employees. Other roles that a trade union has include working with management to help resolve workplace issues and acting as an advocate for employees. Unions will also investigate suspected breaches of workplace laws, discrimination laws or workplace safety laws.

5 Identify a role of employer associations.

Employer associations represent and assist employers.

6 Outline the role of the Fair Work Commission in the employee relations system.

The Fair Work Commission is the body set up to approve agreements reached at the enterprise level and ensure they are consistent with the *Fair Work Act 2009*, ensure that all parties comply with those agreements, act as an independent umpire in the resolution of industrial disputes, and set a minimum wage for the lowest paid workers through its Minimum Wages Panel. It also

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administers the Office of the Fair Work Ombudsman, which has the role of promoting compliance with the legislation.

APPLY your understanding

7 Hannelore Wuth is the human resource manager for Delite Cakes and Pastries, which has a factory supplying supermarkets throughout Victoria. The current employment agreement with employees is due to expire in three months. Hannelore is new to the company and was not involved in negotiating the current agreement.

(a) Identify and explain the key issues Hannelore needs to be aware of before she begins the process of negotiating a new agreement.

Before beginning the process of negotiation, Hannelore needs to be aware of all the legislative requirements that apply to the making of agreements. These include the relevant Award and the relevant provisions of the Fair Work Act, including the dates of operation, dispute resolution procedures and the process for the lodging of an Award for certification with the Fair Work Commission. Secondly, she needs to determine what information will be provided to employee representatives to assist with the negotiation process. In addition, she needs to be aware of potential changes to work practices that could be implemented to achieve productivity improvements, and she needs to have consulted widely to improve her awareness of such changes.

(b) Outline the three most important issues that Hannelore needs to keep in mind during the negotiation process.

The three most important issues Hannelore should keep in mind are, firstly, the need to keep an open mind and be prepared to examine in good faith all proposals put forward in the negotiation process; secondly, the importance of keeping the big picture in mind, by ensuring that all aspects of an agreement are consistent with the organisation's strategic objectives; and, thirdly, that care is exercised with the wording of the agreement to ensure that ambiguous language is avoided and that all parties clearly understand all the implications and expectations of the agreement.

8 Amalgamated Printing and Containers (APC) Ltd is a printing company that produces cardboard packaging and containers for a number of different manufacturers. The current employment agreement is due to expire in six months, and the company now needs to enter negotiations to develop a new agreement with its employees. Most of the employees are members of the Australian Manufacturing Workers Union, and members are prepared to strike to gain improvements in their working conditions. Other companies that rely on APC Ltd to provide their packaging would be seriously affected by any such action.

Outline the role each of the following could have in the development of the new agreement.

- **The human resource manager**

APC Ltd's human resource manager will meet with employees or the Australian Manufacturing Workers Union to carry out the actual negotiation process, and ensure that work conditions negotiated are consistent with legislative requirements and that they are also consistent with the overall objectives of the business. The human resource manager will

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also be responsible for ensuring that any changes to wages, hours of work, leave entitlements and flexibility arrangements that arise from a new agreement are communicated to other managers to be implemented across the workplace.

- **Australian Manufacturing Workers Union**

  The Australian Manufacturing Workers Union would consult with the workers at APC Ltd and help them formulate a log of claims to present to the employer. They would then attempt to negotiate a new agreement with the employer and attempt to win the best possible deal for their members. If these negotiations were not successful, the union might recommend strike action to its members to put pressure on the employer's representatives. When they believed they had negotiated the best possible deal, the union would give its members at APC the opportunity to vote to approve the agreement.

- **Printing Industries Association of Australia (employer organisation)**

  The Printing Industries Association of Australia would advise the employer on the legislative requirements that need to be followed in negotiating an agreement, and would support and assist the members of the human resource management department at APC Ltd who are given the task of carrying out the negotiations.

2.14 EXAM questions

Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.3a; © VCAA

Established in 2018, Abs Are Us is a chain of gyms located across Victoria. Minh and Tony have been employed in permanent, full-time personal training roles. Both employees are informed by the Abs Are Us Human Resource Manager that their wages and conditions will be determined by the Fitness Industry Award 2010.

Explain the role of either unions or employer associations in a workplace such as Abs Are Us.

Unions act as a representative of employees. They champion the rights of employees and act as negotiators on behalf of groups of workers in the fight to attain better pay and conditions of employment. In a workplace such as Abs Are Us, where an Award is the method of determining pay/conditions, unions will act as a provider of information for employees in regards to what their rights under this particular Award entails. Furthermore, shop stewards can also act as a link to the Fair Work Commission for employees who believe their rights have been breached by their employer. Lastly, unions will also organise annual or biannual strikes, go slows or pickets in order to encourage the Fair Work Commission to improve conditions of employment and wages across the entire industry.

Award 3 marks for an explanation of the role of either unions or employer associations plus how that role is applied.

Award 2 marks for an explanation of the role of either unions or employer associations plus a limited reference to how the role is applied.

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Award 1 mark for a list rather than an explanation of the role of either unions or employer associations.

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Question 2 (6 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.5; © VCAA

Jackson Incorporated is currently trying to determine new wages and conditions of work for its employees. Some of the employees are worried that their expectations will not be met.

Explain the role of each of the following workplace relations participants during this process.

- **Human Resource Managers**
- **Fair Work Commission**

The Human Resource Manager is responsible for coordinating the activities involved in acquiring, developing, maintaining and terminating employees. Part of the managing aspect involves facilitating negotiation of new agreements, overseeing the implementation of the wages and conditions that are contained in a new agreement or in the Award, and involvement in dispute resolution if it arises. The Human Resource Manager will be able to reassure employees that their conditions will be met.

The Fair Work Commission (FWC) is the national workplace relations tribunal. It is an independent body that determines industry Awards and sets the minimum wage. If Jackson Incorporated negotiated a new agreement, it would need to be ratified by the FWC. They may also become involved if a dispute occurred through mediation and arbitration.

Award a total of 1 mark for a limited explanation of the participants' role as part of workplace relations. This may include only one aspect of their role.

Award a total of 2 marks for further explanation.

Award a total of 3 marks for a full explanation of the participants' role as part of workplace relations.

Repeat for the second participant.

Question 3 (3 marks)

Distinguish between the role of employer associations and the role of unions as participants in the workplace.

Employer associations are groups that represent and assist employers. They will give advice and assist employers in workplace matters, for example, providing advice to a human resource manager about a process for negotiating new pay and work conditions and other matters. An employer association could also keep a business up-to-date with changes to employment laws, offer training or professional development in workplace matters or represent the interest of businesses.

By contrast, trade unions are organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members. Trade unions can enter into 'bargaining' and they will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for the employees. Unions will also investigate suspected breaches of workplace laws, discrimination laws or workplace safety laws.

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A major point of difference is that employee associations will represent businesses, whereas unions have members employed by a business with a direct stake in the employee relations processes of that business.

Award 1 mark for demonstrating an understanding of the role of employer associations as participants in the workplace.

Award 1 mark for demonstrating an understanding of the role of unions as participants in the workplace.

Award 1 mark for clearly identifying a point of difference between the two terms.

Question 4 (3 marks)

Genuine Energy Ltd is determining new levels of pay and conditions of work for its employees. Explain the role of employees during this process.

One role of employees during the process of determining new levels of pay and conditions of work is being directly involved in negotiating employment conditions with their employer. An individual employee may act as a workplace representative — this means that they would liaise with the human resource manager at Genuine Energy as well as other employees on issues relating to the new employment conditions. This would require strong communication skills and a good understanding of employee's rights. Alternatively, employees may be called on to vote to approve a new agreement that has been negotiated on behalf of all the employees at Genuine Energy by a representative organisation, such as a union. Employees may also be involved in taking industrial action to make management at Genuine Energy understand that their pay needs to be increased and/or work conditions improved.

Award 1 mark for explaining the role of employees during the process of determining pay and work conditions.

Award 1 mark for further detail explaining the role of employees.

Award 1 mark for making links to the process at Genuine Energy Ltd.

Question 5 (4 marks)

Distinguish between the role of employees and the role of human resource managers as participants in the workplace.

An employee is any person who works within a business, is paid a wage or salary in return for their work by that business, performs duties at the direction of the owner of the business and is considered to be a part of that business. An employee can negotiate as a participant in the workplace for their own entitlements. This may happen if they are required to negotiate individual employment conditions directly with the employer. Alternatively, they may be called on to vote to approve a new agreement that has been negotiated on behalf of all employees in that workplace by a representative organisation, such as a union (a collective agreement). Employees may be involved in taking industrial action to make the employer understand that their pay needs to be increased and/or work conditions improved.

A human resource manager, however, has a number of specific roles related to negotiating employment agreements with employees and their representatives. Human resource managers

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oversee the implementation of agreements within their areas of responsibility, ensuring the implementation of all key terms of agreements and dealing with disputes and conflict that may arise during the life of an agreement. The human resource manager is likely to be required to act as an intermediary between employees (who may be represented by unions) and senior management as disputes or conflict arise. Human resource managers will also train other managers and supervisors to facilitate the implementation of agreements. They operate according to the objectives and prevailing style of the business.

Award 1 mark for demonstrating an understanding of the role of employees as participants in the workplace.

Award 1 mark for demonstrating an understanding of the role of a human resource manager as a participant in the workplace.

Award 2 marks for clearly identifying points of difference between the two terms.

2.15 Awards and agreements

TEST your understanding

1 Define the term 'Award' as a method of establishing wages and conditions of work.

An Award is a legally binding document determined by the Fair Work Commission that sets out minimum wages and conditions for whole industries or occupations.

2 Identify two key elements that must be included in an enterprise agreement.

All collective agreements must contain the 10 National Employment Standards. These are as follows:

- Maximum weekly hours of regular work
- The right to request flexible work arrangements
- Parental leave and related entitlements
- Annual leave
- Personal, carer's and compassionate leave
- Community service leave
- Long service leave
- Public holidays
- Notice of termination and redundancy pay
- Fair Work Information Statement.

3 Identify two advantages and two disadvantages of enterprise agreements.

Enterprise agreements give the employer and the employee much more flexibility. This is because enterprise agreements can be tailored to specific workplace needs. Secondly,

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enterprise agreements can be individualised to reward greater effort and contribution to productivity improvements by employees in a business.

However, the main disadvantage is that enterprise agreements are time-consuming to negotiate. Employees must be consulted during enterprise bargaining and a proposed agreement must go through an approval process before it will be approved by the Fair Work Commission. Secondly, to implement conditions that are better than the relevant Award may be very expensive for a business.

4 Explain what an individual common law employment contract is.

An individual common law employment contract is an employment contract that covers those employees who are not under an Award or collective enterprise agreement.

APPLY your understanding

5 Explain the role of industry-wide Awards in the current employee relations environment.

Industry-wide Awards still apply in any business that has not developed an enterprise agreement with its workforce. They also provide a set of minimum standards for employees working within an industry.

6 Outline the requirements that must be satisfied before the Fair Work Commission will approve an enterprise agreement.

Before it will approve a collective agreement, the Fair Work Commission needs to be satisfied that there is evidence of genuine agreement by both parties, a majority of employees has been consulted, employees will be better off under the agreement than they would have been under the relevant Award, the agreement is consistent with the 10 National Employment Standards, and there is no unlawful content in the agreement.

7 Use the Fair Work Commission weblink in the Resources tab to find the modern Award relevant to the retail or hospitality industry, or any other industry in which you or your classmates have part-time employment. Identify and briefly explain the key matters that are covered by this Award.

Hint: Modern Awards are expressed in simple English and are easily downloaded. Some teachers may prefer to print copies of a variety of Awards for student use in the classroom if access to computer facilities is limited. Students should be able to identify and explain the relevant matters contained in the modern Awards listed below.

General Retail Industry Award 2010

- A list of types of retail organisations covered by the Award, and a list of those types of retailers not covered by this Award
- Consultation and dispute resolution procedures
- The types of employment, such as full-time, part-time or casual, and the entitlements of each
- Termination and redundancy entitlements of employees
- Job classification structures, the duties expected of an employee at each level of the classification structure, and the minimum weekly wage rates for each classification, as well as for trainees and juniors

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- Allowances such as clothing, travel and meal allowances
- Accident pay
- Superannuation arrangements
- Times of the day regarded as normal hours of work and rostering arrangements, rostered days off, and provisions for Sunday work
- Overtime, penalty rates and shift work
- Rest breaks and meal breaks
- Leave, public holidays and leave loadings.

Hospitality Industry (General) Award 2010

- Definitions and list of types of workplaces covered by this Award
- Consultation and dispute resolution procedures
- The types of employment, such as full-time, part-time or casual, and the entitlements of each
- Termination and redundancy entitlements of employees
- Job classification structures, such as cooking and waiting, the duties expected of an employee at each level of the classification structure, and the minimum weekly wage rates for each classification, as well as for trainees and juniors
- Casino gaming classifications, duties and wage rates
- Allowances such as meal, clothing and equipment, laundry, and working late or early allowances
- Arrangements for payment of wages
- Annualised salary arrangements
- Superannuation arrangements
- The ways in which normal working hours may be worked, make-up time and spread of hours
- Penalty rates and overtime
- Industry-specific arrangements, such as breakages, accommodation and meal arrangements
- School-based apprenticeship arrangements.

8 Obtain a copy of either an enterprise agreement that applies to an employer in one of the industries mentioned in question 7, or an individual common law contract as provided by your own or a classmate's employer, and compare it with the relevant Award.

(a) Identify the features that this document contains that are the same as the relevant Award.

Hint: It may be useful to collect and print a variety of different employment contracts and enterprise agreements for student use if only a small percentage of students in the class have casual employment. A class set of Awards covering three or four different industries, with related contracts and enterprise agreements, could be created. This activity obviously lends itself to group discussion.

(b) Identify those provisions, if any, that improve on the basic conditions allowed for in the Award.

Hint: It may be useful to collect and print a variety of different employment contracts and enterprise agreements for student use if only a small percentage of students in the class

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have casual employment. A class set of Awards covering three or four different industries, with related contracts and enterprise agreements, could be created. This activity obviously lends itself to group discussion.

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2.15 EXAM questions

Question 1 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.3ba; © VCAA

Established in 2018, Abs Are Us is a chain of gyms located across Victoria. Minh and Tony have been employed in permanent, full-time personal training roles. Both employees are informed by the Abs Are Us Human Resource Manager that their wages and conditions will be determined by the Fitness Industry Award 2010.

Compare Awards and agreements as methods of determining wages and conditions of work.

A similarity between Awards and agreements is that both must follow the 10 National Employment Standards set by the Fair Work Commission, such as all employees having a maximum weekly hours of work. Another similarity is both involve the Fair Work Commission in approving of wages and conditions of work, such as Awards being set as the minimum standards, and all agreements must be approved by the Fair Work Commission to ensure they are above the standards of the relevant Award.

A difference is that Awards cover whole industries and occupations for wages and conditions of work, such as the Fitness Industry Award, whereas agreements are tailored to individual workplaces to suit the needs of the workplace, such as flexible starting and finishing hours to assist new mums to transition back into work at a law firm.

Award up to 2 marks for each valid similarity or difference between Awards and agreements (note that both must be present for full marks) for a total of 4.

Question 2 (7 marks)

Source: VCE 2018, Business Management Exam, Section B, Q.4; © VCAA

Employee wages and conditions of work are currently determined via the Sporting Organisations Award 2010. However, Tessa and Charlie are considering establishing an agreement.

Explain Awards and agreements as methods of establishing employee wages and conditions of work. Propose and justify which method Tessa and Charlie should adopt.

Awards act as a minimum safety net for wages and conditions of work as they must comply with the national employment standards and minimum wage. They set out the minimum wage and working conditions for a specific industry, there are 122 industry Awards and they are set and refined by the Fair Work Commission every four years.

Enterprise agreements are wages and working conditions for a particular business, negotiated between the employer and employee or their representatives. Once a business has completed negotiations the Fair Work Commission must approve the agreement, ensuring a number of factors are met, such as both parties bargained in good faith and employees are better off than in an Award.

I believe Tessa and Charlie should stick with their industry Award, being the *Sporting Organisations Award 2010*. As Ocean Skate Hub is a social enterprise, they are distributing their profits to benefit the community, and an Award would mean they are able to put more money towards their activities for the community such as infrastructure for their skate parks and tools for their gardening services,

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rather than as wages and working conditions for employees as enterprise agreements are much more expensive.

Furthermore, Awards are handled outside of the workplace, allowing Tessa and Charlie to concentrate on their new expansion plans. Whereas an enterprise agreement can be a timely process with negotiations, meaning Tessa and Charlie would not have much time to implement their expansion plans and plan new activities, thus making the *Sporting Organisations Award 2010* much more appropriate for Ocean Skate Hub.

Global marking may be used:

Award 7 marks for demonstrating a clear understanding of both Awards and agreements, proposing one of the two options, and including a relevant justification (such as an advantage of the proposed system) and specific application to the case study.

Award 5–6 marks for demonstrating a good understanding of both Awards and agreements, proposing an option with some justification OR making a limited link to the case study material.

Award 3–4 marks for demonstrating a fair understanding of both Awards and agreements/demonstrating a higher understanding of only one of the two methods of pay and working conditions (i.e. either Awards or agreements), proposing a very limited option with very limited justification OR making no link to the case study material.

Award 1–2 marks for demonstrating a limited understanding of both Awards and agreements and providing no justification or reference to the case study provided.

Question 3 (4 marks)

Distinguish between Awards and agreements as methods of determining wages and conditions of work.

An Award is a legally binding document determined by the Fair Work Commission that sets out minimum wages and conditions for whole industries or occupations. Awards provide a safety net for employees because they include the minimum standards of pay and conditions. It is illegal to pay a worker below the Award wage, or to impose conditions, such as working hours, that are worse than those specified in the Award. Awards are currently administered by the Fair Work Commission.

By contrast, agreements, such as enterprise agreements, incorporate wages and conditions of work made at the workplace level and negotiated between employers and groups of employees or their representatives. An enterprise agreement would be expected to provide better wages and conditions than that provided in an Award, usually in return for improved productivity. An enterprise agreement cannot contain wages or conditions that are below the standard provided by the relevant Award. New agreements must be approved by the Fair Work Commission.

A main difference between the two methods is that Awards provide the safety net of basic employment conditions for all employees, whereas enterprise agreements must be approved by the Fair Work Commission to ensure that employees will be better off overall than if they were being covered by the relevant Award.

Award 1 mark for demonstrating an understanding of Awards.

Award 1 mark for demonstrating an understanding of agreements.

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Award 2 marks for clearly identifying points of difference between the two terms.

Question 4 (2 marks)

Jacinta has just been successful in her application for a top managerial role in a major accounting firm. Her salary is $160 000 per year plus bonuses for excellent performance.

Explain the type of agreement that Jacinta is likely to be employed under.

Jacinta will probably be under a common law individual contract because her salary is above the high-income threshold. An individual employment contract covers those employees who are not under any Award or collective/enterprise agreements. Awards are seen to have less relevance to employees earning high salaries, so an employee earning above the high-income threshold can enter an individual agreement with their employer, rendering the Award not applicable to them. These types of employment contracts can be enforced through the courts in the same way as any other legally binding contract between two parties.

Award 1–2 marks for an explanation of the type of agreement.

Question 5 (2 marks)

Identify two considerations that the Fair Work Commission must examine when approving an enterprise agreement.

As Australia's national workplace tribunal, The Fair Work Commission has a number of roles including approving enterprise agreements. When examining an enterprise agreement, the FWC will need to inspect the agreement and ensure that all processes have been followed. It must also make sure that all parties can agree and comply with the terms.

Award 1 mark for identifying a consideration.

Repeat for a second consideration.

Question 6 (4 marks)

Discuss the use of enterprise agreements as a method of establishing wages and conditions of work.

Enterprise agreements give the employer and the employee flexibility when establishing wages and conditions. This is because enterprise agreements can be tailored to specific workplace needs and reflect the skill/expertise of the employees and the work they do. For example, greater effort and contribution to productivity improvements by employees of a business can be rewarded. Secondly enterprise agreements can be individualised to reward greater effort and contribution to productivity improvements by employees in a business.

An enterprise agreement is a much simpler method for determining wages and conditions of work when compared to using a modern Award. A business may have more than one Award that applies to the employees in its workplace, and if it relies on Awards to set conditions, this could mean implementing numerous different Awards in the same workplace. A business might make an enterprise agreement that incorporates Award entitlements into a base rate that will be paid to employees.

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However, enterprise agreements are time-consuming to negotiate. Employees must be consulted during enterprise bargaining and a proposed agreement must go through an approval process before it will be approved by the Fair Work Commission. It can also be expensive to negotiate and then implement conditions that are better than the relevant Award. In this case, a business may find that it is a costly way to establish wages and conditions.

Award 2 marks for discussion of advantages/benefits of enterprise agreements as a method of establishing wages and conditions of work.

Award 2 marks for discussion of disadvantages/limitations of enterprise agreements as a method of establishing wages and conditions of work.

2.16 EXTEND YOUR KNOWLEDGE Determining enterprise agreements and Awards

TEST your understanding

1 **Define 'negotiation'.**

Negotiation is a method of resolving disputes whereby discussions between the parties result in a compromise and a formal or informal agreement about a dispute.

2 **Identify the skills that are important to be an effective negotiator.**

An effective negotiator should demonstrate communication skills, planning skills, trustworthiness, problem-solving and decision-making skills, and adaptability and flexibility.

3 **Outline why a win–win attitude is important for negotiation in today's workplace.**

A win–win attitude is important because it allows for negotiated agreements to be mutually beneficial, and allows all parties to feel good about the outcome and be committed to the solution.

4 **Identify four examples of the types of things that may be negotiated between an employer and an employee.**

Examples of issues that could be negotiated between employer and employee are wages, hours of work, commencement dates, standards of performance, overtime rates, termination procedures and non-monetary benefits.

5 **Identify two differences between the processes for completing enterprise agreements and making, or varying, Awards.**

The process for completing enterprise agreements includes pre-approval steps, including the employer explaining the terms of the agreement to employees in an appropriate manner and asking employees to vote for it. The process for making or varying Awards contains no such steps. Rather, the Fair Work Commission (FWC) will conduct reviews of all modern Awards every four years.

Once an enterprise agreement is made, a bargaining representative for the agreement must apply to the FWC for approval of the agreement. For Awards, the FWC will conduct four-yearly reviews of all modern Awards — no-one needs to apply. The FWC can vary Awards at other

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times, if necessary to achieve the modern Awards objective. It can also vary Awards at other times to remove an ambiguity or uncertainty, or to correct an error.

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EXTEND your understanding

6 **After reading the 'Preparing for enterprise agreement negotiations' case study, outline how the 10 steps for a successful enterprise agreement should contribute to a win–win for both parties in a negotiation process.**

Each of the 10 steps is focused on contributing to open communication, honesty and ethical dealings between employers and employees. Accordingly, negotiations are likely to be more successful when making use of these steps, leading to a win–win for both sides in the process.

7 **Outline the steps that need to be followed to make an enterprise agreement. Use your existing knowledge of enterprise agreements, as well as the information in the 'Enterprise agreement approval process' case study.**

Students may devise a flow chart which summarises the following information:

- *Pre-approval steps to be taken by employers* — these are the steps taken before the agreement is approved. The employer must meet a number of conditions including explaining the terms of the agreement to employees in an appropriate manner so that everyone understands. A vote will take place, and the agreement must be checked to ensure that there is no unlawful content.
- *Applying to the Commission for approval* — once the agreement is made, a bargaining representative will take the agreement to the Commission for approval.
- *What the Commission considers* — that all the pre-approval steps have been taken, that a number of other conditions are satisfied such as the 'better off' test, no unlawful terms etc.

2.16 EXAM questions

Question 1 (9 marks)

Eastern Water is a company with an excellent industrial relations record that results from its positive corporate culture. The business decided three years ago to introduce enterprise bargaining to develop the relationship between staff and management further and for the business to become more productive. This change has succeeded beyond expectations and other water providers now benchmark their performance against the company.

(a) Justify the use of enterprise agreements as methods of determining wages and conditions of work at Eastern Water. (4 marks)

An enterprise agreement is an agreement on pay and conditions of work made at the workplace level and negotiated between groups of employees (or their union representatives) and employers. Enterprise agreements must include the 10 National Employment Standards, but above this they include the outcomes of negotiations between employers and employees. Enterprise agreements must meet certain standards, such as the 'better off overall test'.

The use of enterprise agreements at Eastern Water allows a level of flexibility — an enterprise agreement can be tailored to meet the needs of Eastern Water's workplace. Greater effort and contribution to productivity improvements by employees of the business can be rewarded.

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Furthermore, an agreement is a much simpler method for determining wages and conditions of work when compared to using a modern Award. Eastern Water may have more than one Award that applies to the employees in its workplace, and if it relies on Awards to set conditions, this could mean implementing numerous different Awards in the same workplace. Eastern Water might make an enterprise agreement that incorporates Award entitlements into a base rate that will be paid to employees.

The use of enterprise agreements as a method of determining wages and conditions has clearly been successful at this business as it has become a benchmark in good practice for the industry.

Award 1–2 marks for describing enterprise agreements.

Award 1–2 marks for justifying the use of enterprise agreements as a method of determining wages and conditions at Eastern Water.

(b) Evaluate the use of enterprise agreements as methods of determining wages and conditions of work at Eastern Water. (5 marks)

Enterprise agreements give the employer and the employee much more flexibility. This is because enterprise agreements can be tailored to meet the needs of Eastern Water's workplace. Greater effort and contribution to productivity improvements by employees of the business can be rewarded. In Eastern Water's case, there was already a positive corporate culture, and this would provide a good basis for negotiations. However, it can be expensive to negotiate an agreement and then go through the approval process with the Fair Work Commission.

Similarly, a significant disadvantage of enterprise agreements is that they are time-consuming to negotiate. Employees must be consulted during enterprise bargaining and a proposed agreement must go through an approval process before it will be approved by the Fair Work Commission. However, an agreement is a much simpler method for determining wages and conditions of work when compared to using a modern Award. Eastern Water may have more than one Award that applies to the employees in its workplace, and if it relies on Awards to set conditions, this could mean implementing numerous different Awards in the same workplace. Eastern Water might make an enterprise agreement that incorporates Award entitlements into a base rate that will be paid to employees.

Ultimately, enterprise agreements would seem to be the best method of determining wages and conditions for Eastern Water as the method has supported the business in its positive culture and productivity has increased. Now the process is a benchmark for this industry.

Global marking may be used:

Award 1–2 marks for an understanding of enterprise agreements as a method of determining wages and conditions.

Award 3–4 marks for a limited evaluation of enterprise agreements as a method of determining wages and conditions at Eastern Water.

Award 5 marks for a thorough evaluation of enterprise agreements as a method of determining wages and conditions at Eastern Water.

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Question 2 (4 marks)

Outline two similarities and two differences between Awards and agreements as methods of determining wages and conditions of work.

Awards are legally binding sets of minimum wages and conditions of work that apply to whole industries or occupations. An Award for a particular industry or occupation represents the minimum level of wages and working conditions for that industry, while an enterprise agreement would be expected to provide better wages and conditions than that provided in an Award, usually in return for improved productivity.

Awards and agreements are similar in that they both provide a legally binding set of conditions for the employer and the employee to ensure that wages and conditions are fair. Furthermore, they both contain the minimum standards required by the Fair Work Commission.

Agreements, such as enterprise agreements, are different in that they incorporate wages and conditions of work made at the workplace level and negotiated between employers and groups of employees or their representatives.

Award 1–2 marks for outlining similarities between Awards and agreements.

Award 1–2 marks for outlining differences between Awards and agreements.

2.17 BACKGROUND KNOWLEDGE Disputes in workplace relations

TEST your understanding

1 **Distinguish between a strike and a lockout.**

A strike is a withdrawal of labour by employees, while a lockout is a refusal by employers to allow employees to work.

2 **Outline the main causes of industrial conflict.**

The main causes of industrial conflict include:

- disputes relating to the negotiation of Awards and agreements, such as remuneration issues and employment conditions
- health and safety issues
- job security issues, particularly at a time of major re-structuring of the organisation
- managerial issues, usually relating to the decisions that involve management attitudes and interpretation of an existing Award or enterprise agreement
- union issues, such as demarcation disputes or the recognition by employers of employee participation in union activities.

3 **Explain why industrial disputes over 'managerial policy' are the most common in Australia when compared to the other causes of industrial conflict.**

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Industrial disputes over managerial policy are common causes of conflict compared to other causes of conflict because in recent years there has been an increasing emphasis on enterprise bargaining. This means that there is more negotiation going on and therefore more dispute over the terms and conditions of employment.

4 Outline the circumstances under which industrial action will be 'protected' under current legislation.

For industrial action by employees to be protected, the union involved must conduct a secret ballot of members, the majority must vote in favour of the action, and the employer must be informed at least three working days in advance.

5 Describe the steps that the Fair Work Commission could take to deal with unprotected industrial action.

If unprotected industrial action is taken, the Fair Work Commission can order that the action cease, and set up a process of conciliation and arbitration to resolve the issue. Legal action can also be taken in the Fair Work Division of the Federal Court, which can order the payment of compensation or impose fines.

APPLY your understanding

6 Read the 'Blockade of Melbourne wharf by Maritime Union' case study. Many members of other unions came to support the MUA picket. Outline possible reasons for why this occurred.

Members of other unions came to support the picket line because they believed the worker at the centre of the dispute was being victimised and bullied as he was an active unionist and had made complaints about bullying in the workplace to the Fair Work Ombudsman.

7 Jules works for Empire Engineering. His union is currently negotiating a new enterprise agreement with the employer, but negotiations are not going well. The union wants to arrange for the employees to take industrial action in the near future.

(a) Identify the type of action employees might take.

The employees could take protected industrial action in the form of a strike.

(b) Outline what employees might hope to achieve by taking industrial action.

The employees would hope that the lack of production resulting from the strike, and the risk of a drop in sales and profits, might force the employer to bargain in good faith and give them better wages or conditions.

(c) Explain what has to happen for industrial action to be 'protected'.

For the industrial action to be protected, the union has to apply to the Fair Work Commission for permission to hold a ballot of its members at Empire Engineering. If the Fair Work Commission is satisfied that the union has made a genuine attempt to negotiate with the employer, but these negotiations have failed, an order will be issued for a ballot to be conducted by the Australian Electoral Commission. For the ballot to be successful, at least 50 per cent of the workers eligible to vote must do so, and at least 50 per cent of those must vote in favour of the action. The employer must then be given at least three days' notice of the strike action.

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2.18 Dispute resolution

TEST your understanding

1 Define the term 'mediation'.

Mediation is a dispute resolution method that uses the involvement of an impartial third party agreed to by both parties, who arrive at a mutually agreeable resolution themselves. The mediator will not normally offer any solutions to the dispute, but will simply assist them to work towards a non-binding agreement.

2 Define the term 'arbitration'.

Arbitration is a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing submissions from the parties in dispute and determining the outcome. This decision will be binding on the parties.

3 Identify the term used to describe the way in which the following disputes have been resolved.

(a) A third party is called in to assist the employer and employee to work towards a mutually beneficial solution themselves.

Mediation

(b) A Fair Work Commission tribunal member orders Sener Sofas to reinstate 12 workers who were sacked last month.

Arbitration

(c) Millar Machines finally reaches agreement with the union after regular meetings with a Fair Work Commission tribunal member and the union. The tribunal member actively works with all parties, helping them to reach a solution.

Conciliation

(d) Lafitani is fed up with his workmates playing practical jokes on him. He complains to Rhonda Pok, his supervisor, who records the complaint and, because it is serious, takes it to the company's group specially established to help deal with such problems.

Negotiation

APPLY your understanding

4 Explain the conciliation and arbitration procedures utilised by the Fair Work Commission.

When using conciliation as the method to resolve a dispute, a tribunal member or member of staff trained as a conciliator in unfair dismissal matters brings both parties together in an attempt to reach an agreement. Arbitration at the Fair Work Commission involves a tribunal member considering each party's arguments and making a decision to resolve the dispute. The decision is legally binding if the matter has been sent to arbitration.

5 Identify a similarity and a difference between mediation and arbitration.

Both mediation and arbitration have a neutral third party overseeing the resolution of a dispute. In mediation, the third party facilitates discussion and coordinates negotiations, with

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the parties in dispute responsible for reaching a final agreement, whereas in arbitration, the third party presides over the hearing and determines the outcome.

2.18 EXAM questions

Question 1 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.2; © VCAA

Distinguish between mediation and arbitration as a means of dispute resolution.

Mediation is a formal process where the two disputing parties bring in a third party who facilitates the conversation between the disputing parties. Both parties then communicate with each other and reach their own decision. This differs from arbitration, which is where the two parties put their case forward to an independent third party who then makes the final decision.

In mediation, the disputing parties will decide on their own agreement, however it is not necessarily legally binding upon the decision, while in arbitration the third party decides on a resolution for them and this is legally binding.

Award 2 marks for a definition of each of the two terms.

Award 1 mark for showing a clear differentiation between the two terms.

Question 2 (4 marks)

Ellen believes she has been overlooked for promotion because of her gender, particularly as she has higher qualifications and more experience than the man who received the promotion. She wants to have the matter resolved as soon as possible.

Outline a dispute resolution process that could be implemented by the human resource manager to attempt to resolve Ellen's issue.

The first step in a process that could be used to resolve the dispute between Ellen and her management is for the two parties to meet with the human resource manager. The cause of the issue or problem — the dispute over the promotion — needs to be outlined and discussed.

Ellen and her management would then need to negotiate. This would involve both parties listening to each other and attempting to produce a resolution. The outcome should be satisfactory to both sides. A formal or informal agreement may be created as a solution to the dispute.

If no resolution can be reached, the dispute may be referred to mediation. This involves an independent third party assisting the parties who are in dispute to work towards their own agreement. The third party will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms.

If necessary, a final step in a typical dispute resolution process is arbitration. For example, if a resolution still cannot be reached following the use of other methods, the dispute may be referred to the Fair Work Commission for arbitration. This involves the tribunal member hearing both arguments in the dispute in a more formal court-like setting and determining the outcome. The decision will be legally binding on all parties.

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Award 1 mark for identifying and describing a step in a dispute resolution process (only one mark in total if the response simply identifies or lists a number of steps).

Repeat for at least four steps.

Question 3 (4 marks)

Compare mediation and arbitration as a means of dispute resolution.

Both mediation and arbitration should result in the resolution of disputes in the workplace. Both have a neutral third party overseeing the resolution of a dispute. They are also similar in that they are both formal methods of dispute resolution.

Mediation is the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. The third party assists the parties in dispute to develop an agreed solution, but will usually not offer suggestions or solutions. By contrast, arbitration is a process that occurs when a third party hears the arguments from both parties in a dispute in a formal hearing and determines the outcome, which is then legally binding on the parties. In mediation, the parties are always in charge of the procedure and determine the conditions for the mediation, whereas in arbitration the third party determines the way in which rules of evidence and procedure will be applied.

Award 1–2 marks for explaining similarities between mediation and arbitration as a means of dispute resolution.

Award 1–2 marks for explaining differences between mediation and arbitration as a means of dispute resolution.

Question 4 (4 marks)

Discuss mediation as a means of dispute resolution.

Mediation is a dispute resolution method that uses the involvement of an impartial third party agreed to by both parties, who arrive at a mutually agreeable resolution themselves. The mediator will not normally offer any solutions to the dispute, but will simply assist the parties to work towards a non-binding agreement.

Mediation is generally more cost effective than other means of dispute resolution, as it usually occurs in a less formal setting. The use of mediation will also usually result in resolution in a shorter space of time than other means of dispute resolution, if the parties are able to compromise. Mediation may last from a few hours to a few days. Furthermore, mediation will usually result in positive working relationships being maintained as the parties in dispute are encouraged to work together towards reaching a decision.

However, an agreement reached at mediation is not of itself legally binding. If the two parties reaching an agreement do not sign a terms of settlement, the decision made will not be legally binding, meaning that one or both of the parties is under no obligation to honour their commitment/s. Mediation is also not compulsory to attend (and it is also not compulsory to reach an agreement) so one party may refuse to attend or cooperate. This may result in mediation becoming a waste of time and money.

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In addition, mediation can be ineffective in the case of a power imbalance — if one party is stronger than the other (which is very likely to be management).

Award 1–2 marks for outlining advantages/benefits of mediation as a means of dispute resolution.

Award 1–2 marks for outlining disadvantages/limitations of mediation as a means of dispute resolution.

2.19 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work

TEST your skills

1 Read 'Workplace disputes: how to extinguish the flame and avoid a fire'.

(a) Explain why a manager's skill in resolving disputes at the workplace level is crucial in avoiding the escalation of an industrial dispute.

The manager's skill in resolving disputes is crucial because it encourages trust and communication between employees and managers, and can prevent the unnecessary involvement of external bodies such as unions, the Fair Work Commission, or workplace health and safety authorities, all of which may become involved if a dispute escalates.

(b) Outline why a manager who adopts an autocratic management style may find it difficult to resolve disputes at the workplace level.

A manager who adopts an autocratic management style will not be accustomed to an environment of open communication with employees. He or she is less likely to listen seriously to staff or take their concerns on board, and may be more likely to dismiss the issue without proper consideration.

(c) Identify steps a manager should take when confronted with an employee complaint in the first instance at the workplace level.

When confronted with an employee grievance, a manager should first treat the issue seriously and talk in private and listen carefully to the employee's concerns. Then it is important to establish and be clear about exactly what the problem is, and the source of that problem. It is important to remain calm, and not make accusations or blame other employees or members of the organisation. The manager should assure the employee that the matter will be investigated, and provide a timeline for resolving the issue. It may then be necessary to investigate the problem firsthand, including talking to any witnesses or other interested parties to establish the facts.

If a number of alternative solutions are apparent, it may be useful to involve others, including the aggrieved employee, in the process of deciding the best solution. Once a decision has been made, it should be communicated to all interested parties, along with the reasons for the decision.

2 After completing the 'Employment contracts for Business Management students' activity, answer the following questions.

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(a) Define the term 'common law individual contract'.

An individual common law employment contract is an employment contract that covers those employees who are not under an Award or collective enterprise agreement.

(b) Describe what an enterprise agreement is.

An enterprise agreement is an agreement on pay and conditions made at the workplace level and negotiated between the employer and groups of employees or their representatives (such as a union).

(c) Outline how the enterprise agreement was negotiated in your classroom.

Student responses will vary. However, they may describe meeting with representatives of the school or forming a union to assist. They should refer to negotiation between representatives of both parties to form an agreement that can be applied to all.

(d) Outline the outcome of the enterprise agreement (what conditions were in the agreement?).

Student responses will vary. However, they may mention specific workplace pay and conditions above and beyond.

(e) Outline how the common law individual contracts were negotiated in your classroom.

Student responses will vary. Students however must refer to the matter that these negotiations are individual and will apply to only you. They are usually for professionals and managerial employees.

(f) Outline the outcome of your individual contract.

Student responses will vary. Reference to individual negotiations based on performance and experience and bargaining power may be made.

(g) Compare the conditions of the enterprise agreement to the conditions of your individual contract. Identify which has the better conditions. Explain why you think that this is the case.

Student responses will vary; however, it may be the case that the individual contracts have different work terms and conditions than the enterprise agreement.

(h) Compare the conditions of your individual contract to the conditions of the individual contracts negotiated by other students in your class. Identify which has the better conditions. Explain why you think that this is the case.

Student responses will vary; however, it may be the case that the individual contracts are the cause of some inequalities and differences in pay and conditions between students of the same qualification and skill.

APPLY your skills

3 Read the following scenarios and identify in each case:

i. why the dispute was not resolved adequately

ii. what skills the manager lacked.

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(a) **Jennifer told her manager that the new procedure for ensuring the customer received product within 24 hours meant that she consistently had to miss lunch. Her manager said that it was a cost-effective way of losing weight and laughed it off.**

Jennifer's grievance was not resolved adequately because the manager did not take the grievance seriously, and so did not pursue it further.

The manager clearly lacked communication and interpersonal skills because he or she not only failed to take Jennifer's problem seriously, but also made a joke of her concerns.

(b) **Tran told his manager that he wanted to talk to him because he thought the equipment he was using was dangerous. Tran's manager said he was more than happy to talk about it, but that it would have to wait at least three weeks because he was so busy. He also added that it has never been a problem in the past.**

Tran's complaint was not resolved because the manager did not agree to deal with the matter in a timely manner, and did not listen to the details of the complaint.

The manager lacked time-management skills in not finding time to deal with an employee, and problem-solving and prioritising skills in not giving a high priority to a workplace safety issue. He also lacked delegating skills, in not being able to refer Tran to an assistant manager, supervisor or experienced colleague who could assist Tran in solving the problem. This would be a suitable strategy if he was too busy to deal with the matter himself.

(c) **Geoff wants to talk to his manager about a co-worker who constantly has personal telephone conversations and will not lower her voice. Geoff's manager said: 'You're a big boy, I'm sure you can handle it yourself.'**

Geoff's grievance was not resolved because the manager was not prepared to take responsibility for solving the issue.

The manager lacked interpersonal, problem-solving and decision-making skills. He was not prepared to take responsibility for resolving a potentially divisive source of conflict between two of his subordinates in the workplace.

(d) **Trina wanted to ask her manager for a pay rise. She felt that she had worked very hard, and it was time that her manager acknowledged her efforts. Trina's manager organised a time to meet and discuss the issue. He listened to everything Trina had to say, and then exploded, saying that Trina was lucky to get the pay she got and should be thankful she has a job in the current economic climate.**

Trina's grievance was not resolved because the manager was not prepared to remain calm and provide Trina with clear reasons for his decisions. Even if the business cannot afford to give Trina a pay rise, this should be explained to her in a calm and supportive manner.

The manager lacked interpersonal and communication skills, as well as self-managing skills, in that he could not control his bad temper and was unwilling to provide a reasonable explanation for his unwillingness to agree to her request.

4 **In your opinion, which method of determining wages and conditions of work produces better outcomes for businesses — enterprise agreements or common law individual contracts? Explain your response.**

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Student opinions will vary according to the success of processes used. However, students will be required to discuss the different results that arise from enterprise agreements and common law/individual contracts. This might include reference to the time taken to negotiate individual contracts or to negotiate a suitable enterprise agreement.

5 Imagine that legislation has just been introduced allowing students to be paid for the work they complete at school. Propose and justify a method of determining wages and conditions of work that your school could use to manage students (employees) effectively.

Student proposals will vary, but it is important that a proposal be justified by pointing out the benefits of the method they have chosen. Students may refer to enterprise agreements and the involvement of a union. They may consider that this is better for the 'employees' in that particular scenario. They may refer to the size of the 'business' and how long it might take to negotiate individual contracts.

2.19 EXAM questions

Question 1 (2 marks)

Describe the role of a human resource manager in a dispute in a workplace.

The role of human resource managers in the workplace relations environment includes dealing with disputes and conflict that may arise. Human resource managers need a thorough understanding of legal matters in the relevant areas and they need to establish facts in the matters. Further they need to treat any complaint seriously and in private, listen to what the employee is saying, establish exactly what the problem is, identify the source or sources of dissatisfaction and remain calm. A human resource manager may be required to liaise with the Fair Work Commission.

Award 1–2 marks for a description of the role of the human resource manager in a dispute in a workplace.

Question 2 (4 marks)

Explain two characteristics of enterprise agreements.

One characteristic of enterprise agreements is that pay and work conditions can be tailored to meet the specific needs of the individual workplace. This means that they can be set above Award wage and condition levels to recognise enterprise-level conditions and encourage productivity relevant to that particular workplace.

Another characteristic is that employees must be consulted before and during the formation of an enterprise agreement. The proposal must go through an approval process before it will be approved by the Fair Work Commission.

Award 1–2 marks for a characteristic explained.

Repeat for a second characteristic.

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Question 3 (8 marks)

Employees at Bill's Burgers are concerned that their pay and conditions of employment have fallen considerably behind employees working at other fast-food chains. Currently, the staff at Bill's are under the Fast Food Industry Award. They have requested that management negotiate an enterprise agreement.

(a) Explain Awards and agreements as methods of establishing employee wages and conditions of work. Identify and justify which method Bill's Burgers should adopt. (5 marks)

Awards are legally binding sets of minimum wages and conditions of work that apply to whole industries or occupations such as the fast-food industry. They are applied to industries that have high levels of potential and available employees. Agreements incorporate wages and conditions of work made at the workplace level and negotiated between employers and groups of employees or their representatives.

An enterprise agreement would be expected to provide better wages and conditions than that provided in an Award, usually in return for improved productivity. An enterprise agreement cannot contain wages or conditions that are below the standard provided by the relevant Award. The use of enterprise agreements at Bill's Burgers would also allow a level of flexibility — an enterprise agreement can be tailored to meet the needs of Bill's Burgers' workplace.

Furthermore, an agreement is a much simpler method for determining wages and conditions of work when compared to using a modern Award. Bill's Burgers may have more than one Award that applies to the employees in its workplace, and if it relies on Awards to set conditions, this could mean implementing numerous different Awards in the same workplace. Bill's Burgers might make an enterprise agreement that incorporates Award entitlements into a base rate that will be paid to employees.

For these reasons, and as it appears some of the competitors of Bill's Burgers have done, Bill should consider an enterprise agreement. This means he may increase staff retention and also productivity.

Award 2 marks for explaining Awards and agreements.

Award 1 mark for identifying which method Bill's Burgers should adopt.

Award 2 marks for justifying the selected method of establishing wages and conditions.

(b) Explain a dispute resolution process to resolve the conflict between the employees at Bill's Burgers and management. (3 marks)

The employees at Bill's Burgers are prepared for negotiation and therefore a dispute resolution method such as negotiation might be appropriate. This would involve both parties listening to each other and attempting to produce a resolution. If no resolution can be reached, the dispute may be referred to mediation.

Mediation is the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. This should result in the resolution of disputes in the workplace. The employees at Bill's recognise the issue and should be able to provide benchmarks from other businesses in the industry so that their claims appear reasonable.

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If necessary, a final step in a typical dispute resolution process is arbitration. For example, if a resolution still cannot be reached following the use of other methods, the dispute may be referred to the Fair Work Commission for arbitration.

Award 1–2 marks for an explanation of a dispute resolution process.

Award 1 mark for application to Bill's Burgers.

2.20 Review

Practice school-assessed coursework answers

Outcome 2

Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees.

ASSESSMENT task — structured questions

Time allowed: 65 minutes

Marks allocated: 40 marks (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Section A (27 marks)

Question 1 (6 marks)

Dana's children's party business is struggling financially. She realises that termination is a necessary strategy for a number of her employees in order for the business to survive.

a. **Define the term 'termination'. 2 marks**
Termination refers to an employee leaving a particular workplace, ending the employment relationship.

Award 1 mark for 'an employee leaving the business' or similar.

Award 1 mark for 'ending the employment relationship' or similar.

b. **Analyse one termination management strategy that Dana could implement to effectively manage her business and employees. (4 marks)**

One termination management strategy that Dana could use in this situation is redundancy. This is the termination of employment by an employer when a person's job no longer needs to be performed or when the business needs fewer people to do the job. This is usually due to a business closing all or part of its business, technological change, a business restructure or relocation, or a merger or acquisition. Dana will need to make use of a redundancy procedure that is both fair and effective because those employees remaining in the business need to not feel threatened, and be able to continue to contribute to the business in a positive manner.

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Dana 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 provided with the opportunity to nominate themselves for voluntary redundancy. This will give employees the opportunity to leave Dana's business of their own will and may lead to employees feeling somewhat valued. Some may be approaching retirement age, or might have been considering seeking employment elsewhere, and so could be prepared to leave if offered a reasonable level of redundancy benefits.

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). The decision to make employees redundant is purely based on the need of the business to respond to its financial situation.

Other accepted termination strategies: retirement, resignation, dismissal, entitlement issues, transition issues.

Mark globally:

Award 3–4 marks for a detailed analysis of a termination strategy that Dana could implement to effectively manage her business and employees, including links to the situation at Dana's business.

Award 1–2 marks for a limited analysis of a termination strategy, which may not include links to the situation at Dana's business.

Question 2 (11 marks)

Impending strike action

Members of the Manufacturing Workers Union employed at Supa Dupa Foods Ltd yesterday voted to take strike action, if they have received no response to their log of claims for a new enterprise agreement by the end of the work week.

A union spokesman claimed that although an offer had been received from the company in June, company representatives had not been prepared to enter into negotiations to develop a new agreement, and the current agreement was due to expire at the end of this month.

'The company's offer is completely unacceptable to our members employed at the Dandenong factory,' the spokesman said. 'They have only offered a 2 per cent pay rise for each of the next three years, and have not responded to our superannuation claims.'

The union spokesman went on to claim that the workforce had achieved productivity gains of over 6 per cent per year over the last two years, and that the company had made record profits over the last three years.

It is understood that the union is seeking a 5 per cent pay rise per year over the next three years and an increase of employer contributions to the employees' superannuation from 9 per cent to 12 per cent.

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Mr James Moore, Human Resources Manager for Supa Dupa Foods, described the union's claim as excessive. He claimed that the company could not afford to meet the union demands.

Read the case study 'Impending strike action' and answer the following questions.

a. Distinguish between the Supa Dupa Foods agreement and Awards as methods of determining wages and conditions of work. (3 marks)

An Award is a legally binding document determined by the Fair Work Commission that sets out minimum wages and conditions for whole industries or occupations. Awards provide a safety net for employees because they include the minimum standards of pay and conditions. It is illegal to pay a worker below the Award wage, or to impose conditions, such as working hours, that are worse than those specified in the Award. Awards are currently administered by the Fair Work Commission.

By contrast, agreements, such as the Supa Dupa Foods enterprise agreement, incorporate wages and conditions of work made at the workplace level and negotiated between employers and groups of employees or their representatives. Supa Dupa Foods' enterprise agreement would be expected to provide better wages and conditions than that provided in an Award, usually in return for improved productivity. Supa Dupa Foods' enterprise agreement must be approved by the Fair Work Commission.

A main difference between the two methods is that Awards provide the safety net of basic employment conditions for all employees, whereas enterprise agreements must be approved by the Fair Work Commission to ensure that employees will be better off overall than if they were being covered by the relevant Award.

Award 1 mark for demonstrating an understanding of Awards as a method of determining wages and conditions of work.

Award 1 mark for demonstrating an understanding of the Supa Dupa Foods agreement.

Award 1 mark for clearly identifying a point of difference between Awards and enterprise agreements.

b. Identify and explain two possible means of resolving the dispute that have not yet been used by the parties. (4 marks)

The parties have not used negotiation or mediation to resolve the dispute.

Negotiation occurs when the two parties sit down and attempt to discuss the issues directly with each other to arrive at a resolution. Negotiation will occur without the involvement of external third parties. Successfully negotiating a resolution to a dispute usually results in all parties feeling optimistic about the decision and committed to the outcome.

Mediation is when an impartial third party is brought into the negotiations to assist the parties to arrive at a resolution, although the third party cannot usually offer solutions or enforce any solutions reached in the discussion. The mediator will simply assist the parties in dispute to work towards a mutually agreeable non-binding agreement themselves.

Other accepted means of resolving the dispute: conciliation, arbitration.

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Award 1 mark for identifying a possible means of resolving the dispute that has not yet been used by the parties.

Award 1 mark for explaining the means.

Repeat for a second means that has not yet been used by the parties.

c. If the parties cannot reach agreement, describe the workplace participant that could become involved, and explain the processes that participant could use to arrive at a resolution. (4 marks)

If the parties cannot reach agreement, the Fair Work Commission (FWC) could become involved.

The FWC is Australia's national workplace tribunal. It has the power to carry out a range of functions under the Fair Work Act, including making and varying Awards and approving agreements reached between employers and employees at the enterprise level.

The FWC could become involved either because other businesses that Supa Dupa Foods might supply (such as Coles, Woolworths and other supermarkets) are affected, or because either of the direct parties to the dispute make application for it to become involved. It can order the parties to participate in a conciliation conference, convened by a Fair Work Commission commissioner, and if this fails it could order the parties to attend an arbitration hearing. The conciliator can offer solutions to the conflict and can require the parties to continue negotiations and report back to another conciliator.

Arbitration operates like a court hearing, where both sides present their case and call witnesses. The matter is resolved when the FWC issues an order that is binding on both parties.

Award 1–2 marks for a description of the Fair Work Commission.

Award 1–2 marks for an explanation of the processes that the Fair Work Commission could use to arrive at a resolution.

Question 3 (10 marks)

Part of the furniture

Dani is the Human Resources Manager in a large furniture manufacturing company. She has become concerned about the performance of two valuable employees.

- Peter has worked in the company for many years and is on a relatively high salary due to his experience and skill development. A supervisor in his section of the factory for several years, he recently seems to have lost interest in his work, especially after being overlooked for promotion to the position of production manager three months ago.
- Veronica is a single mother with young children. She works in the sales and marketing department and is responsible for promoting new products to furniture retailers who sell the company's products, and ensuring orders are filled promptly. She is scheduled to start work at 8.00 am, but is often late to arrive. While she is a great worker who produces good results and is well liked in the company, and has developed strong relationships with many of the retailers, she says that she is unhappy with the pay she receives and is looking for a

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new job.

Read the case study 'Part of the furniture'. Explain what you think currently motivates the two workers referred to in the case study. Apply the key principles of one theory of motivation you have studied to the motivation of the employees at the furniture company.

Peter appears to be motivated by the prospect of career advancement, because his level of motivation appears to have declined since he missed out on a recent promotion opportunity. He is already on a high salary, so money is not his primary motivation. It appears that he is motivated by the desire to take a more active leadership and decision-making role.

Veronica appears to be motivated by monetary rewards, because she appears to be looking for a higher paid position elsewhere. She may also be frustrated by a lack of flexibility in her working hours, which appear to clash with her family responsibilities, and so a change in her working hours may overcome her desire to look for a new job.

For the second part of this question, students could choose from the theories of Maslow, Locke and Latham, or Lawrence and Nohria, and apply these to each of the employees included in the case study.

Maslow: In Peter's case, the desire for career advancement suggests that he has not yet had his self-actualisation needs met by his employment. He may have achieved some parts of his esteem needs in that he has received a level of responsibility, and recognition and promotion to the level of supervisor. Perhaps his current role needs to be enhanced to give him greater fulfilment and opportunities for personal growth and development in a way that can overcome his disappointment at missing out on the production manager position. He should be reassured that he did not miss out on that position because of any personal or professional failings, and should be encouraged to apply for future promotion positions that may arise in the future.

In Veronica's case, it appears that even the basic physiological need is not being met, because she claims that she is not happy with her current level of pay. Nevertheless, she is obviously a good worker who connects well with colleagues and customers, so that suggests that some higher level needs, such as her social needs and esteem needs, are being met. Her concern with her level of pay may actually be an excuse for her frustration at trying to balance her work and domestic responsibilities. Offering her flexible working hours and even an opportunity to do some work from home may be a means of overcoming some of these negative feelings. Much of her work involves customer relations and promotion, none of which necessarily has to be carried out in a standard working day, starting at 8.00 am. As long as she is able to maintain her promotional activities, prompt processing of orders and customer relations roles, it doesn't really matter when or where she performs these duties. A better balance between her work and home life may help to achieve her self-actualisation needs.

Locke and Latham: In Peter's case, goal-setting theory may have some value, if it involves setting goals that develop or enhance his level of responsibility or decision-making abilities, to compensate for his missing out on the production manager position. The key here would be the level of challenge in the goals, and ensuring the challenge is enough to engage him and provide him with a level of motivation that appears to have declined recently.

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In Veronica's case, goal-setting could work very well, particularly if the achievement of goals is accompanied by a financial reward. It would be possible to move the emphasis of Veronica's work from attending at certain hours to one of achieving particular goals in product promotion, processing of orders and customer relations. As long as the goals are achieved within the time frame agreed to, it would not matter where or when during the working day that the tasks associated with achieving these goals were performed. Giving her flexible working hours to achieve these goals could improve her motivation, and give her a sound basis on which to improve her level of pay.

Lawrence and Nohria: In Peter's case, it appears that some aspects of all four drives are not being met. He has had some of the drive to acquire satisfied by his relatively high level of pay, and status and power as a supervisor, but clearly has ambitions for further status and influence. It is not clear from the text to what extent the drive to bond has been satisfied, but we can infer that his disappointment at missing out on promotion may have undermined his feelings of belonging. His loss of interest in his work also suggests that his drive to learn may have been reduced. He may also feel that the failure to win the promotion to production manager means that he is not fully valued by the business owners, and may seek to defend his current position rather than actively engage in further professional development. It may be necessary for management, and particularly HR, to address these issues. Showing a strong and active appreciation of his contribution to the business would help in satisfying the drive to acquire and achieve. Encouraging his colleagues and team members to support and show him positive recognition may assist in enhancing his drive to bond. Providing him with additional leadership training would show that he is valued, and would help his drive to learn. Reassuring him that his current role is valued and not under threat, and that he is welcome to apply for other promotion positions could help satisfy the drive to defend.

In Veronica's case, it is also clear that not all four drives are being satisfied. Veronica says that she is unhappy with the pay that she receives, suggesting that the drive to acquire is not being satisfied. It is not clear to what extent the drive to bond has been satisfied, but we might infer from her decision to look for another job that she is not experiencing feelings of belonging at the furniture manufacturing company. She has, however, formed strong relationships with many of the business's retailers. Again, it is not clear to what extent the drive to learn has been satisfied. However, it might be assumed that she is not being challenged mentally or being provided with interesting and varied experiences (otherwise she would want to continue working at the manufacturing company).

It may be necessary for management, and particularly HR, to address these issues. Showing a strong and active appreciation of Veronica's contribution to the business would help in satisfying the drive to acquire and achieve, as would an increase in pay. Encouraging her colleagues and team members to support her and show her positive recognition may assist in enhancing her drive to bond. Providing Veronica with opportunities to learn new skills on a regular and ongoing basis would support her in growing and becoming an even better operator for the business, improving her morale. To satisfy the drive to defend, management should ensure that the work environment is safe and non-threatening. Management could also reassure Veronica that her role is valued and not under threat.

Award 1–2 marks for explaining what currently motivates Peter.

Award 1–2 marks for explaining what currently motivates Veronica.

Award 1–3 marks for application of the key principles of one theory of motivation to Peter.

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Award 1–3 marks for application of the key principles of one theory of motivation to Veronica.

Section B (13 marks)

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

Telstra's management of employees

Telstra Corporation Limited is a telecommunications company that provides a range of communications services including fixed-line and mobile access, internet access, and pay television. Employing approximately 26 000 staff, the business's objectives relate to making profit, providing customers with the best experience and delivering the best technology, as well as doing business responsibly.

During the COVID-19 pandemic, Telstra experienced an increase in call centre volumes. Because its call centres in the Philippines and India were affected by lockdowns, Telstra announced that it had been required to recruit extra temporary call centre staff. Far more applications were received than the 1000 vacancies which were advertised, leading Telstra's human resource executive Alex Badenoch to say that the business did not anticipate so many people applying. She told *The Australian*, 'This shows there's plenty of talent in the market and we look forward to welcoming some of our new team members from this week to help us better serve our customers during this unprecedented time'.

In early April 2020, 500 applicants had been hired by Telstra and were ready to begin training. Due to social distancing rules, the company introduced remote training and virtual training to ensure consistency in the service that its employees were providing to customers. A help desk of subject-matter experts was set up to assist new staff during and after training. Telstra anticipated that thousands more new roles would need to be created; these new employees would also need to be trained. In fact, in its 2021 Sustainability Report, Telstra said that it had assessed the capabilities required to prepare its staff for the future world of work. To build this capability, the company invested over $21.4 million in training and development in the 2021 financial year. This investment included finances directed towards training in technology, decision making and negotiation skills, as well as all company access to LinkedIn learning. More than 13 000 employees participated in a technical learning platform and recorded nearly 96 000 hours of learning.

Telstra is also focused on building a high performance culture. In its 2021 Sustainability Report, Telstra noted that each quarter, its employees have a conversation with their leader about how they have performed against their objectives and key results (OKRs), the feedback they have received from colleagues, and their development needs. At the end of the financial year, staff receive an individual performance rating that equally assesses what they achieved and how they role-modelled the company's values and desired behaviours. The overall rating informs pay decisions and outcomes.

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Read the 'Telstra's management of employees' case study, then answer the following questions.

Question 1 (4 marks)

Outline the relationship between the management of human resources at Telstra and its business objectives.

The management of human resources is responsible for coordinating all the activities involved from acquiring to terminating employees. Employees make a vital contribution to the achievement of business objectives (the desired goals, outcomes or specific results that a business intends to achieve) as a crucial input in the production process. Ultimately, it is staff who will achieve the objectives of the business.

The relationship that Telstra has with its employees will also directly impact on its ability to achieve its objectives. A particular focus of the human resources area of management responsibility at Telstra would be on positive work and employment relationships, where staff are provided good work–life balance and are fulfilled and developed to their full potential. This assists employee motivation and labour productivity, ultimately supporting the attainment of the company's objectives such as providing customers with the best experience and delivering the best technology, doing business responsibly, and making profit. Well-designed strategies related to the management of employees at Telstra, including training and performance management, help to ensure that 'human input', as a factor of production, contributes most effectively to the achievement of business objectives.

Award 1 mark for demonstrating an understanding of what the management of human resources involves.

Award 1 mark for demonstrating an understanding of what business objectives are (this does not need to be an explicit definition).

Award 2 marks for explaining the links between management of human resources at Telstra and the achievement of its business objectives.

Question 2 (5 marks)

Discuss the use of on-the-job training or off-the-job training at Telstra.

Response for on-the-job training:

On-the-job training occurs when employees need to learn a specific set of skills to perform particular tasks within the workforce. For example, in 2020, Telstra provided on-the-job training to its hundreds of new employees through remote training and virtual training that would ensure consistency in customer service. On-the-job training allows Telstra to provide its employees with skills and knowledge in meeting customer needs effectively while they are actually working, resulting in the employees and the business remaining productive. On-the-job training is also a very cost-effective alternative, as there are no travel expenses or other costs incurred, such as paying for an outside course provider. Consequently, Telstra should be able to increase productivity and reduce costs across the business through the use of on-the-job training as job performance is improved and the management of its employees becomes more efficient.

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However, a limitation of on-the-job training relates to the quality of the trainer. Not all employees at Telstra will have the ability to teach others and the training delivered may be sub-standard or poorly planned, resulting in new employees with poor skills or under-developed knowledge. Furthermore, the bad habits of older or more experienced staff acting as trainers may be passed on to younger employees, often without the staff recognising that they are doing so.

Alternative response for off-the-job training:

Off-the-job training refers to the process of teaching employees how to do their job more efficiently and effectively by boosting their knowledge and skills, in a location external to the business's workplace. While the training that Telstra provided to its hundreds of new employees in 2020 was most likely carried out as on-the-job training, the use of off-the-job training would still benefit the company. The training in customer service could have been carried out by a specialised training institution away from the workplace. Such training could lead to the business developing a more capable workforce because of the availability of a wider range of skills and qualifications than those offered by Telstra's remote training and virtual training. Employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within Telstra. Another advantage of off-the-job training is that the teaching of skills can be more intense without workplace distractions for both trainer and trainee. This would lead to higher productivity and better job performance for employees at Telstra if it made use of this training option.

A disadvantage of off-the-job training is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only would Telstra need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. Training can take up time by diverting resources from production. Instead of performing work, employees would be learning skills at an external venue.

Award 1–2 marks for outlining advantages/benefits of on-the-job training or off-the-job training.

Award 1–2 marks for outlining at least one disadvantage/limitation of on-the-job training or off-the-job training.

Award 1 mark for application to Telstra.

Question 3 (4 marks)

Outline the performance management strategy that Telstra is using and explain how this strategy would be used by the company to achieve both business and employee objectives.

Telstra appears to be using appraisals. Performance appraisals are formal assessments of how efficiently and effectively employees are performing their role in the business. 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. Appraisals should allow positive relationships to build between management and individual employees as discussions are held regarding performance.

Appraisals will also allow Telstra to provide feedback from management to employees regarding their work performance. Providing constructive feedback to employees can be motivating, as most

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will want to continually improve their knowledge and skills. In this way, employee objectives should be achieved.

Telstra could also make use of appraisals to identify employees' training and development needs; training and development can then be provided to those employees where required, further improving their performance. Employees who improve their performance are more likely to feel confident in their own abilities and their position in the business, thereby becoming more satisfied and more motivated. Ultimately, business objectives should be achieved as employees are able to make positive contributions to the achievement of those objectives.

Award 1–2 marks for outlining appraisal as a performance management strategy.

Award 1 mark for explaining how appraisal would be used by Telstra to achieve business objectives.

Award 1 mark for explaining how appraisal would be used by Telstra to achieve employee objectives.

2.20 Exercise

TEST your understanding

1 Outline how human resource strategies are linked to overall business objectives.

The business needs to attract and retain employees who are capable of working in such a way that they will enhance the business's ability to achieve its objectives. If one of the objectives is to be a reliable supplier of a particular product, employees would be expected to perform in a way that ensured this objective was achieved. Such an objective could be supported by the human resource area by offering training or through performance management strategies.

2 Choose one motivational theory and explain how it could be used by a business to motivate staff.

Student responses will vary depending on the motivational theory chosen. Answers could include one of the following:

- *Hierarchy of Needs* — could be used by a business to motivate employees by giving priority to satisfying the higher order needs of those employees. Satisfying physiological needs through a satisfactory level of pay, and safety and security needs through a safe workplace and a level of job security, may prevent employees from wanting to leave and work elsewhere, but will achieve little more than this. To get the best out the workforce, it is important to provide motivation to employees to become more productive. Satisfying the social, esteem and self-actualisation needs can encourage employees to work harder and more productively, and provide opportunities for those employees to receive both financial and non-financial rewards as a result of their efforts.
- *Goal-setting* — can provide employees with targets and objectives that can be rewarded when they have been achieved. Making these targets challenging but realistic can provide personal satisfaction for employees and motivate them to achieve more in the future. Achievement of goals can be celebrated and rewarded with financial or non-financial benefits.

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- *Four Drive Theory* — takes account of the four basic drives that are seen to be part of human nature. These are the drive to acquire, the drive to belong, the drive to comprehend, and the drive to defend. By harnessing these drives in the workplace, fundamental human needs can be satisfied and rewarded.

3 Explain how an employer can use performance-related pay to improve employee motivation.

The promise of performance-related pay (i.e. monetary compensation provided to employees based on meeting or exceeding standards) can provide the motivation for an employee to work more productively. By offering financial rewards to employees based on their performance, such as meeting or exceeding set goals, employees will be motivated to work hard at their job and perform well in order to receive the financial incentive. For example, commissions are paid as a percentage of sales, so an employee in a sales position will be motivated to make more sales to maximise his or her commissions.

4 Outline how career advancement can be used to align business objectives with the personal objectives of employees.

Career advancement can be very motivating for an employee as it provides the employee with satisfying work, which may fulfil esteem or actualisation needs. Career advancement may be a particular objective of an employee. Furthermore, an advancement in career may come with a pay increase. These will both lead to improved productivity, and as such allow the employee to simultaneously work towards the business's objectives.

5 Other than performance-related pay and career advancement, identify two motivation strategies that can be used to motivate employees.

Other than performance-related pay and career advancement, investment in training, support strategies and sanction strategies can be used to motivate employees.

6 Outline one advantage and one disadvantage of on-the-job training.

Students could outline one advantage and one disadvantage from the following table.

Advantages	Disadvantages
The most cost-effective alternative, because no travel expenses or other costs are incurred.	Quality of the trainer may vary — not everyone has the ability to teach others.
Employees are often actually working while training, so are more productive.	Bad habits of older staff may be passed on to younger employees.
Trainees use the actual equipment that is required to do the job.	The learning environment may be noisy, with distractions from other work activities.
Employees are in a familiar environment, with colleagues they are used to working with.	If real tools and equipment are used, it may disrupt production.
Immediate feedback from more experienced colleagues is available.	The trainer may have to leave their own duties to carry out the training.

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7 Outline one advantage and one disadvantage of off-the-job training.

Students could outline one advantage and one disadvantage from the following table.

Advantages	Disadvantages
Availability of a wider range of skills and qualifications than those in the workplace.	May be too theoretical without access to workplace tools or equipment.
Outside experts and specialists can provide broader experiences.	More expensive, with fees charged, travel costs, etc..
Usually more structured and organised, with clear assessment processes.	Lost working time while the employee is absent from the workplace.
Can provide a formally recognised qualification for employees.	Employees with an externally recognised qualification may be tempted to leave to find a better job.
Can be more intense without workplace distractions for both trainer and trainee.	May not relate directly to the exact skills required in the workplace.

8 Define the following terms.

(a) Management by objectives

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.

(b) Employee observation

Employee observation is a strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a comprehensive picture of past and current performance.

9 Outline one entitlement issue and one transition issue related to:

(a) retirement

Entitlement issues relating to retirement include the payment of wages or salary owing, the paying out of leave entitlements, including accrued annual leave and long-service leave. Employees who are retiring may also be entitled to access their superannuation.

Transition issues relating to retirement include a possible reduction in days worked over a period of time to allow the employee to transition to retirement, advice of superannuation and pension issues, and advice and support on income management and lifestyle choices.

(b) redundancy

Entitlement issues relating to redundancy include the payment of wages or salary owing, the paying out of leave entitlements, including accrued annual leave and long-service leave. Employees facing redundancy may also be entitled to a period of notice before ceasing work, and a redundancy payout based on the number of years' service to the business.

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Transition issues relating to redundancy include the provision of advice on future employment issues, as well as assistance with writing resumes and preparing for job interviews, the provision of references to other potential employers, as well as time off to attend job interviews.

10 Explain the difference between resignation and dismissal.

Resignation is the voluntary ending of the employment relationship, instigated by the employee, while dismissal is the involuntary ending of the relationship, at the instigation of the employer, usually due to unsatisfactory performance on the part of the employee.

11 Outline the role of the following participants in the workplace.

(a) Human resource managers

The role of human resource managers in the workplace relations environment includes negotiating employment agreements with employees and their representatives, training other managers and supervisors to facilitate the implementation of agreements within their areas of responsibility, ensuring the implementation of all key terms of agreements, and dealing with disputes and conflict that may arise during the life of an agreement.

(b) Employees

As the workers within a workplace who are paid a wage or salary in return for their work, employees will be engaged in the process of developing new or changed agreements. This may happen if they are required to negotiate individual employment conditions directly with the employer. Alternatively, they may be called on to vote to approve a new agreement that has been negotiated on behalf of all employees in that workplace by a representative organisation, such as a union (a collective agreement). Employees may be involved in taking industrial action to make the employer understand that their pay needs to be increased and/or work conditions improved.

(c) Employer associations

Employer associations represent the interests of employers in workplace relations issues. They have input into the regular four-yearly review of Awards, and assist employers by keeping them up-to-date with legislative changes in relation to workplace relations, and assisting their members in the negotiation of workplace agreements.

(d) Unions

Unions represent workers within particular industries. They may be called on to represent workers in the development and negotiation of an enterprise agreement, or to assist in ensuring provisions of that agreement are implemented. They can also be called on to assist with workplace disputes, by representing individual workers or groups of workers in those disputes. They will also investigate suspected breaches of workplace safety laws and anti-discrimination laws.

(e) The Fair Work Commission

The Fair Work Commission is Australia's national workplace tribunal. It approves enterprise agreements between employers and employees; it can help resolve disputes at the workplace level through mediation; it deals with matters relating to unfair dismissal

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allegations; it sets the minimum wage each year for Australia's lowest paid workers; it approves protected industrial action, by ensuring that all processes have been followed; it reviews all Awards every four years; and it is an independent tribunal that can resolve disputes through its formal conciliation and arbitration procedures.

12 Distinguish between Awards and agreements.

Awards are legally binding sets of minimum wages and conditions of work that apply to whole industries or occupations. Agreements, such as enterprise agreements, incorporate wages and conditions of work made at the workplace level and negotiated between employers and groups of employees or their representatives. An Award for a particular industry or occupation represents the minimum level of wages and working conditions for that industry, while an enterprise agreement would be expected to provide better wages and conditions than that provided in an Award, usually in return for improved productivity. An enterprise agreement cannot contain wages or conditions that are below the standard provide by the relevant Award.

13 Identify two circumstances where the Fair Work Commission might not approve an enterprise agreement.

The Fair Work Commission might not approve an enterprise agreement if:

- there is evidence to suggest that either the employer or the employees did not genuinely agree to terms of the agreement
- there has not been genuine consultation with the employees by the relevant union or any other group or individual representing the employees
- employees will be no better off overall by entering into the agreement than they would have been under the relevant Award
- the agreement is not consistent with one or more of the National Employment Standards
- the agreement includes unlawful content, such as provisions that might contradict equal employment opportunity legislation.

14 Describe a process that a human resource manager could use to resolve a workplace dispute.

The first step in a process that could be used to resolve a workplace dispute is for the two parties to meet with the human resource manager. The cause of the issue or problem needs to be outlined and discussed. The two parties would then need to negotiate. This would involve both parties listening to each other and attempting to produce a resolution. The outcome should be satisfactory to both sides. A formal or informal agreement may be created as a solution to the dispute.

If no resolution can be reached, the dispute may be referred to mediation. This involves an independent third party assisting the parties who are in dispute to work towards their own agreement. The third party will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms.

If necessary, a final step in a typical dispute resolution process is arbitration. For example, if a resolution still cannot be reached following the use of other methods, the dispute may be referred to the Fair Work Commission for arbitration. This involves the tribunal member hearing

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both arguments in the dispute in a more formal court-like setting and determining the outcome. The decision will be legally binding on all parties.

APPLY your understanding

15 **An accountant in a major accounting firm is often late to work, his productivity has decreased, and some clients have complained that he is slow to respond to their requests. As the human resource manager, how would you handle this situation? Apply a motivational theory that you think could be used to improve his performance.**

The first step is for the human resource manager to discuss the issues with the accountant in a non-threatening manner to identify issues that may be affecting his performance, and to undertake methods to reduce these if possible. In determining a motivational theory, any of the three outlined in the chapter are appropriate here. The most important aspect of student responses is that they make use of the terminology used by Maslow, Locke and Latham, or Lawrence and Nohria in their answers, because the ability to demonstrate an understanding of the theory and apply it is what is being assessed. Student responses should apply key features of the theory they choose to the workplace.

Examples could include:

- *Maslow* — identify whether lower to middle-order needs such as pay, security and social needs are being satisfied, because poor performance may be a result of resentment at these not being satisfied. Identify ways of satisfying esteem and self-actualisation needs through recognition, reward and promotion opportunities, and offer these as incentives for improved performance.
- *Locke and Latham* — discussion with the accountant should identify his personal goals, and determine ways in which these can be used to negotiate work-related goals. Setting goals that are clear, realistic and challenging, with a commitment from the employee, and regular feedback, may help to give the accountant some purpose and motivation in his work. Rewards and recognition will motivate the employee to attain the goals.
- *Lawrence and Nohria* — it is likely that one or more of the four basic drives are not being satisfied in the workplace for this employee. Discussion with the employee can identify whether it is the drive to acquire and achieve, the drive to bond and belong, the drive to comprehend and learn, or the drive to defend that is missing.

The drive to acquire and achieve can be satisfied by giving the employee more opportunities to demonstrate his skills and abilities and be rewarded financially for doing so. Providing greater opportunities for the accountant to develop working relationships with colleagues through increased team-based tasks, or increasing occasions for social interaction among all staff may take care of the belonging drive. Additional training opportunities or the chance to work in different areas of the business could satisfy the need to comprehend, while providing a supportive environment can take care of the need to defend.

16 **Describe the two most effective strategies that you would recommend a business use to maximise the motivation of its employees. Examine the advantages and disadvantages of each motivation strategy and identify the strategy that you believe would be best for motivating employees.**

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Responses will vary according to the strategies selected. Students should describe two strategies from:

- performance-related pay
- career advancement
- investment in training
- support strategies
- sanction strategies.

Advantages and disadvantages of motivational strategies are summarised below.

Strategy	Advantages	Disadvantages
Performance-related pay	• Provides a financial reward to employees directly related to improved performance • Should improve productivity levels, consequently improving levels of engagement and commitment to the business • Rewards are generally predictable and easily calculated • Will only apply when there is actual performance improvement	• Other employees doing the same work may expect a similar level of pay, even if their performance is not as good, leading to jealousies and lower morale. • A business may not be able to afford performance-related pay. • If the value of the rewards is not maintained or increased each year, it may lead to employee dissatisfaction. • If base pay is too low, some employees may not earn enough, so may leave, resulting in high staff turnover. • Not all employees will be motivated by pay.
Career advancement	• Can provide a means of retaining valuable employees • Can be used to reward past performance and provides the opportunity to increase the contribution of employees to the business in the future • The promoted employee is likely to feel that they can contribute more to the business, improving productivity, levels of engagement and commitment to the business • Will satisfy employees who desire a sense of achievement or extra	• Promotion positions cannot just be created — they have to have some purpose. • Employees may have to compete for a limited number of promotion positions, creating some rivalries and conflict. • Promotion of an employee could cause resentment among other employees, who may feel they deserve the position more. • Employees may be promoted beyond their capacity.

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Strategy	Advantages	Disadvantages
	responsibility	
Investment in training	• Indicates to employees that the business values their contribution, and that the business will support them in advancing their careers • Benefits the business by improving the skills of employees so that they feel more confident and perform more productively • Improving skills can satisfy higher level needs in Maslow's hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives • May improve employee retention as staff loyalty and motivation are improved	• Unless there are sufficient jobs within the business requiring higher level skills, training may be wasted. • A business may be unable to afford the costs of training. • The business may pay the cost of training, only to have the employee leave for a position in another business. • If a business has poor systems, poor facilities or equipment, or if employees are performing the wrong tasks or in the wrong job, training will not motivate them.
Support strategies	• Many forms of support, such as encouragement, can be provided with little to no cost. • Services such as counselling and mentoring should help employees to develop meaningful professional relationships. • Support and encouragement can positively influence employee attitudes, and help them to improve in confidence, improving motivation.	• It may be difficult to find reasons to support and encourage some employees. • Employees may become too dependent on the support service provided (whether it be counselling or mentoring) or on the person offering the counselling or mentoring. • Requires a business to have a positive corporate culture
Sanction strategies	• Sanctions for poor behaviour in the workplace can motivate some workers to improve their work performance. • May quickly stop inappropriate behaviour of some employees	• Excessive emphasis on sanctions can reduce employee sense of belonging, and therefore have a negative impact on motivation. • May cause resentment in employees, which may result in conflict between management and staff • Tends to act as only a short-term

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Strategy	Advantages	Disadvantages
		motivator

Student responses will vary according to the weighting they give each of these advantages and disadvantages. They may recommend that pay increases, bonuses and sanctions are only appropriate as infrequent measures and that, in the longer term, they may be counterproductive. Students may recommend that the strategies of career advancement and training fulfil higher level needs for the employees and are more motivating in the longer term.

17 Read the hypothetical case study and explain in one paragraph why Natasha's termination was handled inappropriately.

Firstly, the initial unsatisfactory performance assessment should have led to either appropriate retraining or redeployment to a position that was better able to use Natasha's skills and aptitudes. The failure of that appraisal to identify the issues was the supervisor's fault, not Natasha's. Following the complaint from the other supervisor, Natasha should have been made aware of the complaint, given an opportunity to respond, and then provided with the means to improve her performance, possibly through a training program.

If poor performance continued, it may then have been necessary to give Natasha notice, but an ethical employer would recognise the root of the problem, and if a position using her creative talents could not be found in the organisation, she should be assisted (with good references and so on) to find a position as a graphic designer in another organisation.

18 Read the 'Supporting staff in regional business' case study and answer the questions that follow.

(a) Propose and justify an appropriate training option for Timboon Fine Ice Cream.

The most appropriate training option for this business is on-the-job training. On-the-job training occurs when employees learn a specific set of skills to be used within the business, with that training occurring within the business environment, using available resources. This training option is a less expensive form of training, as new employees learn the skills in the actual place of work.

The reason that this training is most appropriate for this business are the diversity of skills and experience among the employees. These types of specific skills or experience may not be covered or taught in off-the-job training, as it can be general. On-the-job training will allow new staff to learn on-the-job from the more experienced employees, starting with the less complex tasks. The family and community orientation of the business means that new workers will feel supported and valued as they learn new skills. This is likely to contribute to the motivation of any new employees.

(b) Analyse the use of a performance management strategy within Tim and Caroline's business.

Management by objectives is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole.

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This performance management strategy would suit this business as the owners have clearly developed strong interpersonal relations with their employees, and an atmosphere of trust. This means that employee goals and areas for improvement can be discussed in a non-threatening atmosphere, and strategies and goals for improved performance negotiated in a supportive manner. The goals are likely to provide motivation and direction for the employees. In addition, the business can also continue to expand, knowing that the employees are supportive.

2.20 EXAM questions

Question 1 (6 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.6; © VCAA

With reference to two principles of Lawrence and Nohria's Four Drive Theory of motivation, describe how Rabwood Mutual could use this theory to improve one of the KPIs shown in the graphs.

Lawrence and Nohria's Four Drive Theory is a motivational theory that suggests employees are motivated by four basic principles in any order: acquire, bond, learn, defend.

Rabwood Mutual could therefore implement the drive to acquire. Acquire refers to employees being motivated by gaining promotional opportunities and/or an increase in pay.

Rabwood could cater for the drive to acquire by providing employees with promotional opportunities, such as being promoted to Head of Finance or Senior Consultant of Budgeting. Rabwood could also motivate employees using the acquire principle by promoting employees internally rather than recruiting externally. If employees are provided with career advancement and increased responsibility, they are more likely to attend work because they feel valued within the business. This would assist in decreasing rates of staff absenteeism, which was at a high of 11% in October 2021.

A second drive theory that Rabwood could implement is learn. This refers to employees improving their knowledge and skills within a business. Rabwood could fulfil the drive to learn by providing off-the-job training options, as well as on-the-job training, because on-the-job training has not been successful in reducing rates of staff absenteeism. Off-the-job training, such as learning new financial strategies from experts, may enhance employees' skills, which could help them feel more capable and confident in their work at Rabwood. If employees feel capable and confident, they're more likely to attend work, which would assist in decreasing the rate of staff absenteeism.

Award 1 mark for describing a drive from Lawrence and Nohria's Four Drive Theory (drive to acquire, drive to learn, drive to bond or drive to defend).

Award 1 mark for describing how Rabwood Mutual could use this drive to improve one of the three KPIs: number of customer complaints, rate of staff absenteeism or rate of productivity growth.

Award 1 mark for specifying strategies that Rabwood Mutual could implement to achieve this.

Repeat for a second drive.

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Question 2 (4 marks)

Describe one advantage and one disadvantage of on-the-job training as a strategy for improving the effectiveness of employees.

Source: VCE 2021, Business Management Exam, Section B, Q.3; © VCAA

On-the-job training refers to developing the skills, knowledge and abilities of employees through teaching and demonstration within the workplace. This form of training is beneficial for Rabwood Mutual (RM) as it allows its employees to become familiar with the specific equipment, facilities and operations at each branch location. On-the-job training would increase employee effectiveness because they would become aware of the particular business operations occurring at the specific branch, which would mean that RM's desired business objectives could be better achieved.

However, a disadvantage is that this strategy involves existing employees assisting and teaching new employees, which disrupts work flow and decreases productivity. This would decrease effectiveness because it does not encourage RM's desired business objectives to be fulfilled regarding the increased value of inputs from a given level of outputs for a period of time.

Award 1 mark for describing one advantage of on-the-job training.

Award 1 mark for explaining how this will improve the effectiveness of employees at Rabwood Mutual.

Award 1 mark for describing one disadvantage of on-the-job training.

Award 1 mark for explaining how this will not improve the effectiveness of employees at Rabwood Mutual.

Question 3 (4 marks)

With reference to the situation at Rabwood Mutual, compare resignation and dismissal as forms of termination.

Source: VCE 2021, Business Management Exam, Section B, Q.4; ©VCAA

Resignation relates to the voluntary termination of an employee because they do not wish to work at that business anymore, usually because they have taken a position elsewhere. Dismissal is the involuntary termination of an employee because they have failed to meet the required standards of a business or because they have displayed unlawful or unacceptable behaviour. The key similarity is that both forms of termination require the employee to receive entitlements, such as accrued leave or money for the work they have completed.

In regard to Rabwood Mutual (RM), the unexpected resignation of three staff members would likely involve RM having to conduct an exit interview to determine the employees' sudden reasons for leaving. RM would need to develop solutions to prevent this from occurring again in order to decrease the level of staff turnover. This transition issue would not occur with the dismissal of an employee at RM because the employee does not need to identify their reasons for leaving. Instead RM may offer them outplacement service help them find a new job.

Award 1 mark for explaining a similarity between resignation and dismissal.

Award 1 mark for relating the similarity to the situation at Rabwood Mutual.

Award 1 mark for explaining a difference between resignation and dismissal.

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Award 1 mark for relating the difference to the situation at Rabwood Mutual.

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Question 4 (6 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.6; ©VCAA

With reference to a contemporary business case study, explain how managers could apply one theory of motivation and a related motivational strategy to successfully manage employees.

Lawrence and Nohria's Four Drive Theory states that humans have four main drives that shape the way humans think and behave. These four drives include the drive to acquire (status and money), the drive to bond (social relationships), the drive to learn (develop abilities) and the drive to defend (defend themselves and the business).

In 2017 Bakers Delight was exposed for underpaying employees. This theory could be applied to re-motivate staff. The drive to acquire could be satisfied by providing pay through an agreement that allows employees to acquire material items. The drive to bond could be applied through managers holding regular social gatherings where employees mingle with each other and build rapport. Bakers Delight could satisfy the drive to learn by offering training programs that can satisfy the curiosity and improve product knowledge and customer service skills. The drive to defend could be satisfied by ensuring Bakers Delight has grievance procedures in place that everyone is aware of to be used when the need to defend arises.

Motivation strategy that Bakers Delight could use is support — emotional/physical guidance provided to employees. This could be used to manage their employees as it will help to develop a positive corporate culture if employees see each other being supported. It will also help Bakers Delight employees feel valued by the business and that managers greatly appreciate their contribution towards business objectives.

Global marking may be used:

Award 5–6 marks for comprehensive and accurate knowledge and understanding of the chosen theory of motivation. Detailed explanation, with appropriate examples from the contemporary case study, of how the theory of motivation and appropriately selected motivational strategy can be used to manage employees. Includes accurate and appropriate use of terminology.

Award 3–4 marks for adequate and accurate knowledge and understanding of the chosen theory of motivation. Some explanation, with appropriate examples from the contemporary case study, of how the theory of motivation and appropriately selected motivational strategy, can be used to manage employees. Generally accurate and appropriate use of terminology.

Award 1–2 marks for limited knowledge and understanding of the chosen theory of motivation. Some explanation, with limited/no examples from the contemporary case study, of how the theory of motivation and appropriately selected motivational strategy, can be used to manage employees. Limited use of terminology with inaccuracies.

Award 0 marks where there is no knowledge of a theory or motivation strategy and/or no attempt to engage with the question asked. Only referred to a contemporary business with no link to motivation or employees.

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Question 5 (5 marks)

Stacey is responsible for human resource management in a food processing factory in regional Victoria.

(a) Define the term 'human resources'. (2 marks)

'Human resources' refers to all the people who work within a business, and particularly all the skills, knowledge and personal characteristics they bring to the workplace.

Award 1 mark for 'employees who work for the business' or 'people who work for the business'.

Award 1 mark for 'the skills and abilities they bring to the business' or 'regarded as an asset for the business' or similar.

(b) Outline how human resource management can contribute to the achievement of the business objectives of the food processing factory. (3 marks)

Human resource management is responsible for the relationship between the employer and employees. Employees are an essential input in the production process and, ultimately, it is staff who will achieve business objectives (the desired outcomes or goals that a business intends to achieve).

The achievement of the food processing factory's objectives, which might include improving profits, expanding the business and improving market share, ultimately depends on how well employees carry out their tasks. A particular focus of the human resources area of management responsibility is on positive work and employment relationships, where staff are provided good work–life balance and are fulfilled and developed to their full potential. This assists employee motivation and labour productivity, ultimately supporting the attainment of objectives. Well-designed strategies related to human resource management at the food processing factory, such as training and performance-related pay, should also ensure that 'human input' contributes most effectively to the achievement of business objectives.

Global marking may be used:

Award 1 mark for a limited understanding of the relationship between human resource management and the business objectives of the food processing factory.

Award 2–3 marks for a good understanding of the relationship between human resource management and the business objectives of the food processing factory.

Question 6 (10 marks)

Crompton's Cleaning Service is a domestic cleaning and housekeeping business owned by Cathy Crompton. It caters to the upper end of the market, charging higher fees but offering 'blue ribbon' service. Following a staff survey, it was found that some of the employees are lacking motivation. In addition, some customers have complained that their homes have not been cleaned to a standard they would expect for their higher fees.

(a) Propose and justify one motivation strategy that Cathy could use to improve the performance of her employees. (4 marks)

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Performance-related pay may be a motivation strategy that Cathy can use to improve the performance of her employees. Performance-related pay provides a financial reward to employees directly related to improved performance. It should improve productivity levels, consequently improving levels of engagement and commitment to the business.

For example, if employees at her cleaning and housekeeping business meet or exceed certain standards, Cathy would offer them some sort of financial bonus. This is a strategy that would improve the performance of her employees as the performance-related rewards would be predictable and easily calculated, i.e. a bonus for positive customer feedback would apply when there is actual performance improvement. This should be motivating for the employee. While not all employees will be motivated by pay, this strategy should provide an immediate and tangible reward for effort and/or commitment to the business in the short-term.

Award 1–2 marks for proposing a motivation strategy to motivate employees. Student may provide a limited justification or show a limited understanding of the strategy.

Award 3–4 marks for proposing a motivation strategy to motivate employees. Student may provide a sound justification and show a good understanding of the strategy.

(b) Locke and Latham's Goal Setting Theory has been recommended to Cathy to motivate her employees. Examine whether this theory is appropriate for Crompton's Cleaning Service. (6 marks)

Locke and Latham's theory focuses on the attainment of goals that are clear and specific, and challenging but not overwhelming, and stresses the importance of feedback. This theory would be appropriate for Crompton's Cleaning Service as employees will be motivated as they achieve goals in the workplace.

Locke and Latham's motivation theory has a range of benefits. Setting goals that are clear and specific, and challenging but not overwhelming will motivate employees and improve their performance, thereby contributing to the business objectives of Crompton's Cleaning Service. To motivate employees who currently have low motivation, it may be prudent to explore goals that are related to productivity in an attempt to improve the ways that staff work. Staff will perform at a higher standard due to their clear and specific goals, leading to a higher rate of productivity and better motivation. Better relationships between management and employees will occur as managers work with each employee to collaboratively set goals and provide feedback. Regular communication and feedback can ensure that employees are focused and that they remain 'on track' with the goals.

However, a weakness of Locke and Latham's theory is that the goals that individual employees set may clash with each other, with Crompton's objectives, or may not even support the attainment of business objectives. Furthermore, Goal Setting Theory only focuses on the setting of goals to improve performance. There are other factors that can contribute to improved performance.

Award 1–2 marks for identifying aspects of Locke and Latham's Goal Setting Theory.

Award 1–4 marks for an examination of whether this theory is appropriate for a cleaning business.

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Question 7 (6 marks)

'Motivated employees will always produce better results for a business than those lacking in motivation.'

Analyse this statement, with particular reference to the use of Maslow's Hierarchy of Needs in motivating employees.

Motivated employees will generally be stimulated to produce their best work on most occasions, and so will contribute to business productivity, improving profits, business growth and market share. Maslow's Hierarchy of Needs ranks different levels of human needs, which can be applied to the levels of motivation desired within employees.

At the first level are physiological needs — basic human needs of food, shelter and clothing. At this basic level, employees will be motivated to work to earn money to purchase these products. The next level of needs is that relating to safety and security. Being provided with a safe workplace and job security can also motivate employees to work to a satisfactory level. The third level of needs is related to social needs. Human beings like to belong and feel accepted by others. The social environment of the workplace, the interaction with others and the building of friendships can motivate a worker to want to keep their job with that employer, and so motivate them to work hard.

At the higher levels, satisfaction of the esteem need can provide even greater motivation because it comes from the respect and sense of accomplishment that accompanies the recognition and additional responsibilities that may be assigned to that worker. The highest level in the hierarchy is that of the self-actualisation need. Provision of interesting and challenging tasks and an opportunity for advancement can provide a sense of personal fulfilment and growth, motivating the employee to strive to produce their best work.

Global marking may be used:

1–2 marks for demonstrating an understanding of each of the five levels of the hierarchy in relation to motivation and employee performance.

3–6 marks for an analysis of the links between motivation and employee performance, referencing Maslow's Hierarchy of Needs.

Question 8 (6 marks)

Harry wishes to use performance-related pay to help motivate his employees.

(a) Define the term 'performance-related pay'. (2 marks)

Performance-related pay is the monetary compensation provided to employees relative to how their performance is assessed according to set standards.

Award 1 mark for 'monetary compensation' or 'financial reward' or similar.

Award 1 mark for 'based on meeting or exceeding set standards' or similar.

(b) Compare performance-related pay to one other motivation strategy. (4 marks)

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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.

Award 1–2 marks for explaining similarities between performance-related pay to one other motivation strategy.

Award 1–2 marks for explaining differences between performance-related pay and one other motivation strategy.

Question 9 (8 marks)

Two strategies for providing motivation for employees include career advancement and investment in training.

(a) Evaluate the use of career advancement as a motivational strategy. (4 marks)

Career advancement has a number of advantages as a motivational strategy, but is not without some weaknesses. Providing opportunities for career advancement can assist in retaining valuable employees who might otherwise seek opportunities elsewhere. Staff turnover can be costly for a business, so a strategy that can help retain valued employees is worth implementing.

Career advancement can also be a way of rewarding past performance, and so can work as a valuable motivator for all employees to perform well and give themselves the opportunity of promotion. Career advancement also provides employees with additional authority and responsibility, as well as more challenging and interesting work, and so can help satisfy the esteem and self-actualisation needs of employees.

However, the risks in the use of this strategy include the possibility that some employees who perform well at a particular level may be promoted to a position that is beyond their capabilities. Management has to be able to make a precise assessment of an employee's suitability for such a position. Genuine promotion positions have to be available within the business — they cannot just be created for a particular employee without the possibility of incurring additional costs and creating friction between staff.

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Overall, if the business provides a supportive, fair and transparent culture, the weaknesses of career advancement can be overcome. Career advancement can usually operate as a valuable motivation strategy because it should encourage employees to remain with a business, and not seek opportunities elsewhere.

Award 1–3 marks for a discussion of advantages and disadvantages of strategy.

Award 1 mark for an overall conclusion that applies appropriate weight to the relevant advantages and disadvantages of career advancement.

(b) Explain the effect of investment in training on short- and long-term employee motivation. (4 marks)

Investment in training can have both short-term and long-term benefits as a motivational strategy. As such, it is of benefit to both the employee and the employer. In the short-term, the opportunity to gain extra skills can be a motivating factor for the employee. Providing employees with additional skills can increase job satisfaction, promoting higher levels of motivation. In addition, a more highly skilled job will usually pay more, so employees will often take the opportunity to take on additional training in the short term to give them access to those types of jobs.

In the longer term, improved skills and access to more challenging and interesting work can satisfy esteem needs by providing the employee with a sense of accomplishment, and self-actualisation needs through the personal growth that comes from gaining new skills. Achieving a higher level of skills may also satisfy a sense of achievement in employees and can also satisfy a drive to learn. Ultimately, the notion that the business values employees enough to invest in developing their skills should motivate employees in the longer term.

Award 1–2 marks for explaining the effect of investment in training on short-term motivation.

Award 1–2 marks for explaining the effect of investment in training on long-term motivation.

Question 10 (5 marks)

Evaluate either on-the-job training or off-the-job training as an option for effectively managing employees.

Student responses should make use of the following advantages and disadvantages of each type of training in reaching their opinion.

Advantages of on-the-job training	Disadvantages of on-the-job training
The most cost-effective alternative, because no travel expenses or other costs are incurred	Quality of the trainer may vary — not everyone has the ability to teach others.
Employees are often actually working while training, so are more productive.	Bad habits of older staff may be passed on to younger employees.
Trainees use the actual equipment that is required to do the job.	The learning environment may be noisy, with distractions from other work activities.
Employees are in a familiar environment, with colleagues they are used to working with.	If real tools and equipment are used, it may disrupt production.
Immediate feedback from more experienced	The trainer may have to leave their own duties to carry

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colleagues is available.	out the training.

Advantages of off-the-job training	Disadvantages of off-the-job training
Availability of a wider range of skills and qualifications than those in the workplace	May be too theoretical without access to workplace tools or equipment
Outside experts and specialists can provide broader experiences.	More expensive, with fees charged, travel costs, etc.
Usually more structured and organised, with clear assessment processes	Lost working time while the employee is absent from the workplace
Can provide a formally recognised qualification for employees	Employees with an externally recognised qualification may be tempted to leave to find a better job.
Can be more intense without workplace distractions for both trainer and trainee	May not relate directly to the exact skills required in the workplace

One training option is off-the-job training — the process of teaching employees how to do their job more efficiently and effectively by boosting their knowledge and skills, in a location external to the business's workplace. Off-the-job training can help to develop a more capable workforce because of the availability of a wider range of skills and qualifications than those offered by in-house learning. Employees with improved abilities and skills are likely to be more motivated and may be more capable of seeing career paths within the company.

Another advantage of off-the-job training is that the teaching of skills can be more intense without workplace distractions for both trainer and trainee. This should lead to higher productivity and better job performance.

A disadvantage of off-the-job training is its financial cost. Training is often expensive, particularly when it is delivered away from the workplace. Not only will the business need to pay for the cost of the training itself, but other expenses such as travel costs may arise. Furthermore, training can be costly in terms of the time it takes to teach employees knowledge and skills. Training can take up time by diverting resources from production. Instead of performing work, employees will be learning skills at an external venue.

Overall, a well-targeted and well-structured off-the-job training program should benefit a business because it can provide broader experiences, free from workplace distractions that should result in better job performance, leading to greater job satisfaction and productivity across the business.

Award 1–2 marks for pointing out advantages of the training option selected.

Award 1–2 marks for pointing out disadvantages of the training option selected.

Award 1 mark for arriving at a conclusion/opinion based on evaluation of advantages and disadvantages.

Question 11 (4 marks)

Describe the relationship between performance management and training.

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Performance management provides a focus on improving both business and individual performance through relating business performance objectives to individual employee performance objectives. Training is the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills. Performance management processes can often identify some areas in which an employee needs to improve his or her work performance, and sometimes this improvement can be achieved through additional training. The nature and type of training can be determined by the particular employee's strengths and weaknesses identified in the performance management process.

Award 1 mark for demonstrating an understanding of the term 'performance management'.

Award 1 mark for demonstrating an understanding of the term 'training'.

Award 1–2 marks for describing the relationship between the two.

Question 12 (3 marks)

Distinguish between dismissal and redundancy.

Dismissal refers to the ending of the employee relationship, at the instigation of the employer, usually due to unsatisfactory performance on the part of the employee, or unacceptable behaviour. For example, an employee who is found to have engaged in criminal activity may be summarily dismissed, while an employee's poor performance identified during an appraisal may result in their dismissal on notice.

By contrast, redundancy refers to the termination of employment by an employer when a person's job no longer needs to be performed or when the business needs fewer people to do the job. For example, redundancy will usually occur due to a business closing all or part of its operations, technological change, a business restructuring/relocating, or a merger/acquisition. Redundancy can be either voluntary (when employees are informed of the situation and given the opportunity to nominate themselves for redundancy), or involuntary (which occurs when an employee is asked to leave the business against his or her will because their job no longer exists), whereas dismissal will always be involuntary.

Award 1 mark for demonstrating an understanding of dismissal.

Award 1 mark for demonstrating an understanding of redundancy.

Award 1 mark for clearly identifying points of difference between the two terms.

Question 13 (5 marks)

Identify and explain two roles of the Fair Work Commission in workplace relations in Australia.

The Fair Work Commission roles include approving enterprise agreements between employers and employees; helping resolve disputes at the workplace level through mediation; dealing with matters relating to unfair dismissal allegations; setting the minimum wage each year for Australia's lowest paid workers; approving protected industrial action, by ensuring that all processes have been followed; reviewing all Awards every four years; and being an independent tribunal that can resolve disputes through its formal conciliation and arbitration procedures. Any two of these roles could be identified and explained.

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The following is an example of an identification and an explanation:

One of the roles of the Fair Work Commission (FWC) is approving enterprise agreements between employers and employees. The agreement will be reached at the enterprise level (between the business and the employees), but the agreement will need to be submitted to the FWC for final approval, which ensures that all parties comply with the agreement.

Award 1 mark for identifying two roles of the Fair Work Commission in workplace relations in Australia.

Award 1–2 marks for explaining a role.

Award 1–2 marks for explaining a second role.

Question 14 (4 marks)

Using examples, distinguish between mediation and arbitration.

Mediation is a means of dispute resolution involving an independent third party, a mediator, assisting the parties who are in dispute to work towards their own agreement. The mediator will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms. Their main role is to encourage the parties to examine all the issues. The Fair Work Commission (FWC) can assist to resolve a workplace dispute through the use of mediation.

This is very different to arbitration, which involves an independent third party hearing arguments from both parties in dispute and then making a legally binding decision to resolve the conflict. This is the most formal dispute resolution method and occurs in a setting very much like a court. For example, if mediation fails to resolve a dispute, the FWC can conduct an arbitration, with a tribunal member hearing both arguments in the dispute and making a determination that is binding on the parties.

A main difference between the two means of dispute resolution is that, in mediation, the disputing parties will decide on their own agreement, which is not necessarily legally binding, whereas in arbitration the third party determines the outcome, which is then legally binding on the parties.

Award 1 mark for demonstrating an understanding of the term 'mediation'.

Award 1 mark for demonstrating an understanding of the term 'arbitration'.

Award 1 mark for clearly differentiating between the two terms.

Award 1 mark for the use of examples.

Question 15 (4 marks)

Propose and justify one performance management strategy for managing employees effectively.

Students can propose and justify any of the following performance management strategies:

Management by objectives

It can be justified by outlining the following benefits:

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- When employees have involvement in setting goals and choosing the course of action to be followed to achieve those goals, they are more likely to work productively and fulfil their responsibilities.
- The use of management by objectives means that both manager and employee know what is expected of them, reducing ambiguity and confusion in relation to roles.

Employee self-evaluation

It can be justified as follows:

- Employee self-evaluation can highlight the need for training, and allows employees to request training opportunities to assist them to improve work performance and productivity.
- It engenders an atmosphere of trust between employee and employer, because it demonstrates to the employees that the employer is prepared to give them responsibility for their own performance appraisal.

Employee observation (for example, through 360-degree feedback)

It can be justified as follows:

- It is a useful strategy for identifying strengths and weaknesses, and the broad range of observations from a variety of different sources can provide a comprehensive picture of employee performance.
- This process is very useful in evaluating skills such as leadership, teamwork and interpersonal abilities.

The following is a sample response:

A performance management strategy that is very useful for managing employees effectively is **appraisals.** This refers to the formal assessment of how an employee is performing their role in the business.

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. Appraisals should allow positive relationships to build between management and individual employees as discussions are held regarding performance.

Appraisal also allows managers to provide employees with feedback, both positive and negative — to encourage employees to continue with positive behaviours, as well as to let them know what is required to be recognised as more productive employees in the future. Employees who improve their performance are more likely to feel confident in their own abilities and their position in the business, thereby becoming more satisfied in attending work.

Award 1–2 marks for suggesting and explaining one strategy.

Award 1–2 marks for justifying that strategy.

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Solutions

Unit 3: Managing a business

Area of study 3: Operations management

Topic 3: Operations management

3.2 The relationship between operations management and business objectives

TEST your understanding

1 **Explain what is meant by 'operations management'.**

The term 'operations management' refers to the area of management that is concerned with the strategies that are used to create, operate and control the transformation of inputs into output, or goods and services, to satisfy the demands of customers. The operations management area makes use of strategies including management of materials, quality, waste and use of technology to support the business in achieving its objectives.

2 **Outline how operations management can improve a business's ability to compete with its competitors.**

Operations has the task of creating a quality product or service, allowing a business to compete against other businesses on price.

Operations is also responsible for ensuring a level of quality that may set the business apart from other businesses, allowing it to compete.

3 **Outline some of the tasks that Harry Souris carries out as National Operations Manager for M&J Chickens.**

Tasks carried out by Harry Souris include liaising with teams to maintain stock control and to ensure that things are running smoothly, maintaining quality and service at M&J Chickens' warehouses, forecasting stock movements and liaising with suppliers.

4 **In your own words, describe the relationship between operations management and business objectives.**

Operations management is the area responsible for producing a business's product and consists of all the activities involving the transformation of inputs into finished output. Without an operations area of management, a business would have no product and, therefore, would not be able to achieve its objectives (the desired goals, outcomes or specific results that a business intends to achieve).

A business's operations area maximises efficiency and effectiveness through the use of strategies such as quality management, technological development, management of materials and speed of delivery. These operations strategies should influence the cost, quality and availability of a business's product, which supports the attainment of its business objectives

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including increasing profit, increasing market share, fulfilling a social need and providing a reasonable return for investors. The operations area will also work closely with other areas in the business to achieve objectives, and in a large business, the operations manager will work with managers of other areas to ensure that operations objectives align with business objectives.

APPLY your understanding

5 **'Operations management is the part of the business that actually gets the job done.' Demonstrate this concept on a smaller scale by describing the materials you would need and the process you would undertake to make a pizza (your finished product).**

Operations is responsible for making the product — in this case, a pizza. Operations would source the ingredients for the pizza: dough, sauce, cheese and any toppings wanted by customers. They would then combine these ingredients and place the pizza in the oven. Once cooked, the pizza is placed in a box, cut into pieces and then served/delivered to customers.

6 **One strategy to produce goods more quickly is to use better technology. For example, using a manual grater to grate cheese might not be as efficient as using an electric grater. Fill in the table below and list some strategies that an operations manager might use to achieve the listed business objectives. The first entry has been completed for you.**

Business objective	Operations strategy
Increase the quality of service provided	**Introduce Total Quality Management**
Increase the quality of the product	Inspect products to make sure they meet standards (quality control)
Reduce production costs	Minimise waste through the implementation of lean management
Minimise impact on the environment	Improve the quality of products through the use of, for example, quality assurance Minimise waste through the implementation of lean management Reduce the amount of inputs used (improve productivity) — this could be achieved, for example, through the use of technological developments such as computer-aided manufacturing
Increase profit	Reduce costs by introducing technological developments such as an automated production line

7 **Select a well-known business, such as BHP or Woolworths Group Limited, and list at least three of their business objectives. This information can be found on the company's website, in its annual report or in speeches made by the company CEO. For each objective, state what**

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strategies the operations manager might employ to help achieve the objective at the operational level.

BHP's strategy is to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market. Its plan focuses on cost efficiencies, latent capacity (attractive returns, limited risk), major projects, exploration, technology, onshore US (value and flexibility). The operations manager would use the strategies of management of materials, quality, waste and use of technology to achieve these objectives.

Woolworths Group Limited's objectives relate to customers putting the business first across all of its brands. It has six priorities: a customer-first, team-first culture; connected, personalised and convenient shopping experiences; differentiating food customer propositions; accelerating innovation in its drinks business; unlocking value in its portfolio; and E2E processes — 'better for customer' and 'simpler for stores'. The operations manager would use the strategies of management of materials, quality, waste and use of technology to achieve these objectives.

8 Use the internet to find a job advertisement for an operations manager (sometimes called a production manager or a factory manager). The advertisement will probably outline responsibilities involved in the position. List the skills required to fulfil these responsibilities.

A typical operations management advertisement would have responsibilities such as helping develop strategic and financial plans; developing and achieving business objectives (which would involve management skills such as planning and communicating); growing and expanding divisions; building high-performing teams; being a strong coach and motivator (requiring management skills such as interpersonal skills, delegating and leading); and maintaining high levels of quality (which might require a management skill such as decision-making).

3.2 EXAM questions

Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section B, Q.2; © VCAA

Explain the relationship between operations management and the business objectives of Manitta Mining.

Each business has a set of objectives it is attempting to achieve, whether it be to increase profits, market share or to fulfil a social need. To do that, Manitta Mining produce a product and this is done through their operations. Operations management oversees the transformation of inputs into outputs aiming to maximise efficiency by lowering costs and increasing productivity making it more likely that the business will achieve its objectives.

One of Manitta Mining's objectives is to improve workplace safety. Operations can assist here by the business implementing an automated production line that completes repetitive and dangerous tasks previously done by labour. This should improve performance in this area.

Award 1 mark for explaining operations management.

Award 1 mark for explaining business objectives of Manitta Mining.

Award 1 mark for explaining the relationship with a link to a specific objective of Manitta Mining.

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Question 2 (2 marks)

Explain the importance of the relationship between operations management and business objectives.

Operations consists of all the activities in which managers engage to oversee the transformation of inputs into finished output **[1 mark].** Through the use of strategies such as quality management, technological development, management of materials and waste minimisation, the operations management area supports the attainment of objectives (the desired outcomes or specific results that a business intends to achieve), including increasing profit, increasing market share, providing a return for investors and contributing to social needs. This is an important relationship because, without an operations area, a business would have no product and, therefore, would not be able to achieve its objectives **[1 mark]**.

Question 3 (4 marks)

With reference to a contemporary business case study, explain how operations management relates to business objectives.

Operations management is the area responsible for producing a business's product and consists of all the activities involving the transformation of inputs into finished output. At Australia Post, the business provides a service mostly concerned with delivering post and parcels.

Without an operations area of management, a business would have no product and, therefore, would not be able to achieve its objectives (the desired goals, outcomes or specific results that a business intends to achieve). In Australia Post, the business has an objective of managing customer enquiries more efficiently and delivering parcels and letters on time during the Christmas period.

A business's operations area maximises efficiency and effectiveness through the use of strategies such as quality management, technological development, management of materials and speed of delivery. In this area, Australia Post has committed to investing $423.9 billion in their operational network. On top of this, they have trained their staff to deliver effective customer service. These operations strategies should influence the cost, quality and availability of a business's product, which supports the attainment of its business objectives.

Global marking may be used:

1–2 marks for demonstrating an understanding of how operations management and business objectives are related.

3–4 marks for effective application of a contemporary business to show an understanding of how operations management and business objectives are related.

Question 4 (6 marks)

Describe how the operations area can support a business in achieving objectives such as 'to make a profit' and 'to meet shareholder expectations'.

Management responsibility focuses on effectiveness and efficiency. Effectiveness refers to the degree to which a business has accomplished its stated objectives. Objectives are the long-term goals of a business. Efficiency refers to how well a business uses resources in achieving these objectives.

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The use of operations management strategies such as managing waste, quality and the use of technology should reduce the business's costs but, at the same time, improve the quality of the product. This might mean implementing automated production lines or lean management. If the business can cut down its inputs but increase its outputs, then it has been productive. In this sense, the operations management strategies will allow the business to be more profitable. This in turn supports shareholder expectations by paying a greater dividend as a result of the higher profits.

Global marking may be used:

1–2 marks for briefly describing management responsibility and/or business objectives.

3–4 marks for describing how management responsibility can support a business in achieving objectives.

5–6 marks for a sound description of how management responsibility can support a business in achieving multiple objectives as stated in the question.

Question 5 (3 marks)

Explain what is meant by 'operations management' and why it is important for a business.
Operations consists of all the activities in which managers engage to oversee the transformation of inputs into finished output **[1 mark].** Through the use of strategies, the operations management area supports the attainment of objectives (the desired outcomes or specific results that a business intends to achieve), including increasing profit, increasing market share, providing a return for investors and contributing to social needs **[1 mark]**. This is important because, without an operations area or with an inefficient operations system, a business would have an inferior product that didn't meet customer needs, impeding it from achieving its objectives **[1 mark]**.

3.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

TEST your understanding

1 Identify three ways in which a manufacturing business could improve productivity.

A manufacturing business can improve productivity by:

- automating production lines
- improving the layout of the workspace
- introducing inspections of goods for quality.

2 Identify three ways in which a service business could improve productivity.

A service business can improve productivity by:

- streamlining the layout of facilities
- improving the quality of service provided
- using technology to personalise customer service.

3 Explain the difference between the efficiency and effectiveness of operations.

Efficiency refers to how well a business uses resources to achieve objectives. In other words, the business is 'doing things right'. For example, if a business improves productivity or reduces the

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amount of waste produced while achieving its objectives, this is considered to be efficient. In contrast, effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is 'doing the right things'. For example, if a business's objective was to make profit and it did so, it has been effective in achieving its objectives.

4 Outline how a business can use one operations strategy to improve effectiveness.

Student' responses will vary according to the strategy selected. For example, a business can use Just in Time to improve effectiveness. By ensuring that the right amounts of materials arrive just as they are needed for production, storage costs are reduced, and the risk of waste occurring is reduced (also minimising costs). This will impact positively on profit. Further, the right materials arriving in the right places, in the right quantities and at the right times mean that a business's production process will operate as planned. Effective operations will contribute to the attainment of business objectives such as profit.

5 Describe one operations strategy that a business can use to improve efficiency.

Student responses will vary according to the strategy selected. For example, a business can use Just in Time to improve efficiency. By ensuring that the right amounts of materials arrive just as they are needed for production, the business does not need to maintain inventory. This reduces the risk of inputs becoming damaged or lost, perishing or never being used, thereby minimising waste. Because the business does not need an oversupply of materials, the actual amount of inputs used can be reduced, improving productivity. Just in Time ensures that the operations process only produces what is needed, when it is needed, and in the quantity required at the right time.

EXTEND your understanding

6 Productivity can be calculated by using the formula Productivity = Output/Input.

(a) Calculate the labour productivity (output per employee) of bakeries A–D in the following table.

Bakery	Input (employees)	Daily output (loaves of bread)	Labour productivity (loaves per day/employee)
A	**50**	**2000**	40
B	**80**	**4000**	50
C	**20**	**600**	30
D	**10**	**700**	70

(b) Working in groups of three or four, suggest why:

i. bakery D's labour productivity is so high

Student responses will vary. Bakery D's labour productivity may be high because it has been able to reduce costs, improve quality or increase its speed of delivery, perhaps through the use of a strategy such as automation.

ii. bakery C's labour productivity is so low.

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Student responses will vary. Bakery C's labour productivity may be low because it has been unable to reduce costs, improve quality or increase its speed of delivery. Further it may be operating with out-of-date technology.

7 In your own words, explain how a business can be:

(a) both effective and efficient

A business can be both effective and efficient. That is, a business can accomplish its objectives at the same time as using a minimal amount of resources to achieve those objectives. A business that improves productivity (efficiency) is also likely to find that profit improves (effectiveness), as the reduced costs associated with productivity improvements reduce expenses.

(b) effective but not efficient

A business can be effective but not efficient; that is, a business can accomplish its objectives, but not use its resources well. For example, a business may achieve a profit, but have high costs.

(c) efficient but not effective.

A business can be efficient but not effective; that is, a business can use its resources well, but not accomplish its objectives. For example, a business may have low costs, but not produce enough. This would result in sales being low, and therefore profit would be low.

8 Use the internet to research a business that has improved productivity. You could search for either a private limited company or a public listed company. Prepare a report that covers:

(a) how the business improved productivity

Student responses will vary according to the business selected. Students are more likely to find information about public listed companies. Students may use company annual reports for information. For example, BHP is one business that has been able to improve productivity. Its 2019 Annual Report points out that it has reduced unit costs by over 20 per cent since the 2014 financial year. The following answers use BHP as the example.

BHP has improved productivity by reducing costs. It has done this by simplifying its portfolio and streamlining its systems. It has reduced labour. The company has made great use of technology to reduce costs, such as autonomous drills and trucks, and integrated remote operations centres.

(b) whether or not you believe that the business is effective

BHP has been effective. Its net profit for the year to 30 June 2019 was $US8.30 billion.

(c) whether or not you believe that the business is efficient.

BHP has been efficient. It has been able to reduce costs, thereby using its resources better as it achieves its objectives.

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3.3 EXAM questions

Question 1 (2 marks)

Define the term 'efficiency' in relation to operations management.

Efficiency refers to how well a business uses resources to achieve objectives. In other words, the business is 'doing things right'. For example, if a business improves productivity or reduces the amount of waste produced in its operations while achieving its objectives, this is considered to be efficient.

Award 1–2 marks for a definition.

Question 2 (3 marks)

Explain how a business could implement Just in Time to improve the efficiency or effectiveness of its operations system.

The Just in Time approach makes sure that the right amounts of materials will arrive just as they are needed for production. This can reduce storage costs because the business no longer needs to maintain large stockpiles of materials in inventory. Production can continue to flow, with materials arriving just as they are needed.

Just in Time also reduces the risk of any waste occurring in storage. Because less stock is kept in inventory, there is less likelihood that resources will be lost due to theft, damage or spoilage. As fewer resources are used or wasted, productivity is likely to increase, therefore the business becomes more efficient. This efficiency will likely make it easier for a business to meet its objectives effectively.

Award 1–2 marks for an explanation of how a business could implement Just in Time.

Award 1 mark for an understanding of how this might impact efficiency or effectiveness.

Question 3 (3 marks)

Identify one technological development and outline how it could be used by a business to improve the efficiency and effectiveness of its operations.

New technologies, such as those focused on automated production and design, can be incorporated into the production process of a business. Such technology can be used to increase production and improve the quality of the product, as well as to reduce errors and waste — thereby reducing costs and improving efficiency. In this way, technological developments can support the business in achieving its objectives, such as making a profit, increasing sales and increasing market share.

Award 1 mark for an identification of one technological development.

Award 1–2 marks for an outline of how it could be used by a business to improve the efficiency and effectiveness of its operations.

Question 4 (4 marks)

Explain two reasons why it might be easier to increase productivity in a manufacturing business than in a service business.

It is easier to increase productivity in a manufacturing business because of the heavier reliance on capital equipment and materials. This means that many processes in a manufacturing business can

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be made quicker with less wastage, due to automated systems such as conveyor belts and machines that replace human labour.

Secondly, productivity in manufacturing can be easier to count and quantify. This is because it is measured on output in numbers. The more that is produced with fewer or the same inputs, the more productive the business is. Service businesses do not necessarily measure productivity in terms of output or speed. The output is often inseparable from the person delivering the service.

Award 1–2 marks for one explanation of why it might be easier to increase productivity in a manufacturing business than in a service business.

Award 1–2 marks for a second explanation of why it might be easier to increase productivity in a manufacturing business than in a service business.

Question 5 (4 marks)

Distinguish between efficiency and effectiveness.

Efficiency refers to how well a business uses resources to achieve objectives. In other words, the business is 'doing things right'. For example, if a business improves productivity or reduces the amount of waste produced while achieving its objectives, this is considered to be an efficient use of resources. While somewhat related, effectiveness is different because it refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is 'doing the right things'. For example, if a business's objective was to make profit and it did so, it has been effective in achieving its objectives. Being efficient can directly affect effectiveness.

Award 1–2 marks for a definition of term(s).

Award 1–2 marks for demonstrating an understanding of the difference(s) between the two.

3.4 Key elements of an operations system

TEST your understanding

1 Distinguish between 'input', 'process' and 'output'.

An input is a resource used in the process of production. The process, or transformation, is the conversion of inputs (resources) into output, which is the end result of a business's efforts — the good or service that is delivered or provided to the consumer.

2 Identify the inputs, processes and outputs of the following businesses.

(a) Coles supermarkets

Inputs include:

- staff
- materials (e.g. computer software and electricity)
- capital equipment (e.g. warehouses, trucks and forklifts)
- time
- money.

The process would involve products being delivered to warehouses from suppliers, and then delivered to retail stores and made available to customers. The output is customers satisfied with the large range of products available.

(b) Four 'n' Twenty pies

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Inputs include:

- staff
- materials (e.g. meat)
- capital equipment (e.g. machinery)
- time
- money.

Processes include combining the raw materials and quality control, and output is the pies.

(c) RACV

Inputs include:

- staff
- materials (e.g. paper and computer software)
- capital equipment (e.g. computers and vehicles)
- time
- money.

Processes would include customers contacting RACV through the website or by phone, and signing up for membership or insurance. RACV also provides roadside assistance. The output is the delivery of insurance or assistance to the customer.

3 Miriam's Interior Decorating Service is a business specialising in home redecorating. Outline the range of operations activities offered in such a business.

Miriam's Interior Decorating Service would offer a service in looking at the homes of clients, making recommendations and writing quotes. It would also offer to perform the actual redecorating of the home, which may involve the management of a range of subcontractors.

APPLY your understanding

4 The Rio Tinto Group is an international mining company. Rio Tinto finds, mines and processes mineral resources, which are then converted to products such as coal, copper, gold and silver. Use the Rio Tinto weblink in the Resources tab to identify the inputs, transformation processes and outputs that Rio Tinto would use to produce its products.

Rio Tinto's operations system would include inputs (miners and managers, materials such as minerals, capital equipment such as heavy machinery and trucks, time and money), processes (finding, mining and processing mineral resources) and output (aluminium, uranium, coal, copper, gold, diamonds and silver).

5 Monash Health provides health services through major hospitals and community health facilities across south-eastern Melbourne. Use the Monash Health weblink in the Resources tab to identify the inputs, transformation processes and outputs that Monash Health would use to provide its services.

Monash Health's operations system would include inputs (nurses and doctors, materials such as tape and medicine, capital equipment such as medical equipment, time and money), processes (patients reporting to emergency, doctors attending to patients) and output (the provision of health services through major hospitals and community health facilities across south-eastern Melbourne).

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3.4 EXAM questions

Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.
Outline the three key elements of the operations system. Apply one of these elements to WCTY Cleaning Services.

The first element of the operations system is inputs. These are the raw materials and resources, sourced from suppliers that will be used within operations to produce a profitable product/service. The second element is transformations. Transformations is where inputs are put through many processes within the operations system to become an output. The third element is outputs. An output is the final/end product/service the business invested its time and resources into producing, the profitable end product/service. WCTY Cleaning Service is a service-based business, but their inputs remain fairly similar to a manufacturing business. Their inputs would be labour, and the cleaning tools such as vacuums, mops and washing machines, that are used to perform the service of cleaning homes.

Award 1 mark for a theoretical explanation of inputs.

Award 1 mark for a theoretical explanation of processes.

Award 1 mark for a theoretical explanation of outputs.

Award 1 mark for an accurate application of one of the elements of the operations system to WCTY Cleaning Services.

Question 2 (6 marks)

Source: VCE 2018, Business Management Exam, Section B, Q.2; © VCAA

Describe the key elements of Ocean Skate Hub's operations system.

The following is an example of a high-scoring response.
The key elements of the operations system include inputs, processes and outputs. Inputs are the resources used in the business. For Ocean Skate Hub's operations system this includes labour (their local employees), finances and the location/site of the indoor and outdoor skating parks and the sports products they buy for their sports store. Next there is processes. Processes involve the transformation of inputs into outputs (the final product). In relation to Ocean Skate Hub this may include the actual construction of the skating parks, and the ordering of sports products for their sports shop. In relation to their café, that could involve the making of coffee for their customers. The outputs is the last element and involves the final product that is served to the customers. This for Ocean Skate would be quality services from the café, sports products from the store and quality experiences at the skating parks.
Award 1 mark for each of three elements described.

Award 1 mark for linking each of three elements to the business.

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Question 3 (2 marks)

Explain the difference between inputs and outputs.

Inputs are the resources used in the process of production, whereas the output is the end result of the business's efforts — the finished good or service that is delivered or provided to the consumer. Inputs include materials (such as raw materials, components and parts), capital equipment (such as the plant, machinery and equipment), labour, information and time. On the other hand, outputs can be tangible (physical products that can be handled and stored before they are sold to the consumer) or intangible (non-physical products that cannot be handled or stored before being sold to the customer — the customer may need to be present when the service is being delivered).

Award 1 mark for defining or demonstrating an understanding of both terms.

Award 1 mark for clearly identifying a difference between the two terms.

Question 4 (4 marks)

Describe the key elements of an operations system. Illustrate your answer using a service business.

Inputs are the resources used in the process of producing a good or service. One input is materials. A service business such as a hairdresser uses materials including electricity, computer software and hairsprays. Other inputs at a hairdresser include capital equipment (including hairdressing equipment, such as scissors and combs, and the premises), human labour (for example, management and hairdressers), information and time.

Processes involve the conversion of inputs into output. Potential or existing customers will contact the hairdresser to make an appointment. At the appointment, a hairdresser will cut, colour, shape, style, straighten, perm and/or care for the customer's hair. At the end of the appointment, the hairdresser may also suggest products that will suit the customer. Once the appointment is finished, the customer will pay for the service.

Output is the end result of the business's efforts — the finished good or service that is delivered or provided to the consumer. A hairdresser's output is the customer who is satisfied with their haircut or other service.

Award 1–3 marks for describing the key elements of an operations system.

Award 1 mark for providing an example of a service business.

Question 5 (6 marks)

T&A Windows and Doors Pty Ltd is a manufacturer of timber and aluminium windows and doors. Explain the key elements of T&A Windows and Doors' operations system. Provide an example for each element.

Inputs are the resources used in the process of producing a good or service. One input is materials. T&A Windows and Doors Pty Ltd uses raw materials which include, for example, timber, nails, glue, glass, aluminium and electricity. Other inputs at T&A include capital equipment (the manufacturing facility, machinery and equipment) and human labour (the management and staff who work at T&A).

The transformation process involves the conversion of inputs into output. T&A takes timber or aluminium, nails, glue and glass, and transforms them through manufacturing into windows and doors. All components need to be made and combined, and then the window or door will be inspected for quality.

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Output is the end result of the business's efforts — the finished good or service that is delivered or provided to the consumer. For T&A, this is its range of timber and aluminium windows and doors.

Global marking may be used:

1 mark for an identification of the key elements of T&A Windows and Doors' operations system.

2–5 marks for explaining the key elements of T&A's operations system.

6 marks for an answer which provides a relevant example related to one key element.

3.5 Operations management in manufacturing and service businesses

TEST your understanding

1 **Explain the main differences between goods and services.**

A good is tangible; it can be touched. It is a physical product. A service is intangible; it cannot be touched. A service provides an intangible benefit to the consumer such as the service of providing training. The benefit is that the customer learns knowledge or improves their skills.

2 **Outline the differences between the characteristics of operations management within a manufacturing business and a service business.**

A manufacturer transforms inputs into tangible products. Tangible products can be handled and stored before they are sold to the consumer. Examples of tangible products include bread, clothing and a car. The production process and consumption are not linked, so there is little customer involvement in production. Further, manufactured goods tend to be homogenous or standardised. By contrast, a service business transforms inputs into intangible products. They cannot be touched. Services cannot be stored and the customer may actually need to be present when the service is being delivered. Further, services tend to be differentiated or tailored to individual customers.

APPLY your understanding

3 **Compare the processes used by a manufacturing business such as Yakult and a service business such as the Commonwealth Bank.**

The processes at the Commonwealth Bank are labour-intensive and the customer has to be present for the service to be provided. On the other hand, in a manufacturing business such as Yakult, the processes are capital-intensive. This means the business uses predominantly capital equipment to transform the inputs into outputs. Also, the customer is not present during this process.

4 **Distinguish between tangible and intangible when referring to the outputs of a business.**

Tangible outputs are those that can be seen, touched and stored, such as the yoghurt drink made by Yakult. Services such as the opening of a bank account or taking out a loan are intangible — they cannot be seen, touched or stored.

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3.5 EXAM questions

Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1b; © VCAA

ChocYum Pty Ltd is a manufacturing business located in regional New South Wales. It prides itself on manufacturing chocolate products of the finest quality for major retailers in Australia, New Zealand and the United Kingdom.

Compare the characteristics of operations management within a manufacturing business (such as ChocYum Pty Ltd) with those of a service business.

The following is an example of a high-scoring response.
The first stage of operations relate to inputs, these are the resources used to create an end output. For a manufacturing business like ChocYum Pty Ltd inputs are vital including cocoa and sugar but most importantly staff to run and operate the machines. Similarly to a service such as a haircut human resources are an essential part of operations that are required to create the end output. However they differ in the processes stage which relates to transforming inputs to outputs as often a manufacturing business is able to automate production using machines though a service business like haircuts can't do this. Finally the other key difference is in outputs which relates to the end product, a manufacturing business like ChocYum Pty Ltd create a tangible output that can be stored. Unlike a service businesses like a haircut who can't store a haircut and it is intangible.

Award 1–3 marks for describing the key elements of an operations system.

Award 1 mark for providing an example of a service business.

Question 2 (4 marks)

Source: VCE 2016, Business Management Exam, Q.1b; © VCAA

Distinguish between two key elements of the operations system of a manufacturing organisation and a service organisation. In your response, use examples that you have studied this year.

The following is an example of a high-scoring response.
One element of operations is processes — which convert inputs into outputs. In a manufacturing business such as IKEA, processes are highly automated and capital intensive, such as cutting, packaging, painting the Billy Bookcase. Lots of capital equipment is required. In service organisations however, often processes are labour intensive and require people to perform, such as ANZ Bank employees, rather than machines must work to satisfy customer demand, talk to bank customers, arrange accounts, etc, often the process is also simultaneous to consumption.
A second element is outputs. Outputs are the finished product or service provided by an organisation to sell to customers. Manufacturers such as IKEA outputs are tangible and can be touched and stored, and are often standardised/homogenised such as IKEAs Billy Bookcase. Contrastingly service organisations such as ANZ Bank, outputs are intangible — cannot be touched, such as the delivery of financial services. These outputs are also tailored to the individual customer unlike at manufacturers.

Award 1 mark for the first element explained for a manufacturing business.

Award 1 mark for the first element explained for a service business.

Award 1 mark for the second element explained for a manufacturing business.

Award 1 mark for the second element explained for a service business.

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Question 3 (2 marks)

Source: VCE 2012, Business Management Exam, Q.1e; © VCAA

Describe one difference between the operations management of a manufacturing organisation, such as Websters, and a service organisation.

Manufacturing organisations provide outputs which are tangible and can be stored. For example, chocolate can be touched and stored to eat later (as in Webster's) **[1 mark]**. Conversely, service organisations produce outputs which are intangible and cannot be touched or stored. They are created at the same time of consumption, such as receiving a flight service whilst on board the plane **[1 mark]**.

Question 4 (4 marks)

Pharma Group Ltd is a manufacturer of pharmaceutical products. Describe two differences between the operations management of a manufacturing business, such as Pharma, and a service business.

Pharma Group Ltd is a manufacturing business that transforms inputs into physical goods, or tangibles, which can be handled and stored before they are sold to the consumer. The pharmaceutical products that Pharma Group manufactures are physical goods that can be handled by both employees and customers. By contrast, a service business transforms inputs into services, or intangibles, which means that they cannot be touched or stored. For example, a hairdressing business produces the service of a haircut, which cannot be touched or stored.

For a manufacturing business, there is also little to no consumer interaction because the consumption of its goods occurs after production. Pharma Group's pharmaceutical products, for example, are purchased and used after they are manufactured at the company's production facilities. On the other hand, a service business will have high levels of customer interaction because consumption usually occurs while the service is being produced. For example, the customers purchasing haircuts from a hairdressing business will need to be present in order to receive their haircuts.

Other accepted differences include production and consumption typically occur separately in manufacturing, whereas they usually occur simultaneously for a service business; manufactured goods can be stored, while services cannot be stored; manufactured goods tend to be homogenous or standardised and services tend to be differentiated or tailored to individual customers.

Award 1 mark for describing a difference between the operations management of a manufacturing business and a service business (repeat for a second mark).

Award 1 mark for providing further detail or examples describing a difference (repeat for a second mark).

Question 5 (4 marks)

Compare the main characteristics of a manufacturing business with those of a service business.

The characteristics of a manufacturer and a service business are similar in that both focus on maximising efficiency and effectiveness. In the case of a manufacturer, this is achieved through the conversion of inputs into a good and, in the case of a service business, this is achieved through the conversion of inputs into a service. There is also a similarity in the elements of a manufacturer's and a service business's operations systems, which both include inputs, processes and outputs.

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However, manufacturers and service businesses differ in that manufacturing businesses transform inputs into physical goods, or tangibles, which can be handled and stored before they are sold to the consumer, whereas a service business transforms inputs into services, or intangibles, which cannot be touched or stored. For a manufacturing business, there is also little to no consumer interaction because consumption of its goods tends to occur after production. On the other hand, a service business will typically have high levels of customer interaction because consumption usually occurs while the service is being produced.

Other similarities include both manufacturers and service businesses make use of strategies including management of materials, quality, waste and use of technology; both must meet the demands of customers; and both contribute to the attainment of business objectives.

Other differences include production and consumption occur separately in manufacturing, whereas they tend to occur simultaneously in service businesses; manufactured goods tend to be homogenous or standardised, and services tend to be differentiated or tailored to individual customers.

Award 1–2 marks for explaining a similarity between the characteristics of a manufacturer and a service business.

Award 1–2 marks for explaining a difference between the characteristics of a manufacturer and a service business.

3.6 Technological developments

TEST your understanding

1 **Explain the impact of technology on service businesses.**

Technology means that services can be produced using less labour, thus reducing costs. Business technologies have created the opportunity for people to do more work in less time. Technology can be used to manage customer relationships better.

2 **Outline the main features of an automated production line.**

An automated production line is comprised of machinery and equipment arranged in a sequence. Components are added to the good as it proceeds through each step, with the process controlled by computers. An automated production line will make use of robotics — highly specialised forms of technology capable of complex tasks — that will often be used to complete menial or dangerous tasks.

3 **Explain the impact of technology on manufacturing businesses.**

Technology has sped up manufacturing processes and has allowed manufacturers to better utilise inputs. This, and the need for less labour, has seen costs reduced and productivity improved. Technology is more precise and accurate than humans and does not demand a pay rise or better working conditions.

4 **Outline two benefits and two costs of technology in a business.**

Technology can bring many benefits to a business, including improvements to productivity, improvements in quality (production can be standardised, and made more consistent with fewer errors made), improvements in customer service, and reduced waste. However, the use

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of technology is often expensive (the implementation of the technology itself can be expensive, the training necessary to support the implementation of the technology can also create costs, technology needs to be maintained and this can be an ongoing cost) and can replace workers, meaning they lose their jobs. Technology can also result in a reduction in customer service, because contact with customers can become largely impersonal. Technology becomes obsolete over time (in some cases, this can occur very quickly), resulting in increased waste. It can be a time-consuming process to implement new technology and then train employees to use it.

APPLY your understanding

5 **Explain how technology can be used to improve the efficiency and effectiveness of operations in a business. Include the terms 'website development' 'computer-aided design', 'computer-aided manufacturing', and 'automated production lines' in your answer.**

In explaining how technology can be used to optimise operations, students should point out that technology reduces costs, improves accuracy and speeds up processes, improving productivity and profitability. Technologies that students should be aware of include computer-aided design (a computerised design tool that allows a business to create product possibilities from a series of input parameters), computer-aided manufacturing (software that designs and controls the manufacturing process), and automated production lines (machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step, with the process controlled by computers).

6 **Use the Telstra and Toyota weblinks in the Resources tab to list the types of technology these companies use and then make a comparison. Explain how the technologies used differ.**

Telstra uses technologies such as a computerised telephone exchange, optical fibre cable, mobile network, data services and innovation centres. Toyota uses technologies such as variable valve timing intelligent technology, robots and the Press Plant. The technologies used at Telstra all relate to information and communications, such as mobile phones and the internet. The technologies used at Toyota relate to manufacturing cars. The technologies that Telstra and Toyota use are different because Telstra is a service provider and Toyota is a manufacturer.

3.6 EXAM questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.4b; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.

Explain how WCTY Cleaning Services could improve the efficiency of its operations system through the adoption of technological developments.

The following is an example of a high-scoring response.
If WCTY Cleaning Services were to adopt technological developments such as adopting more advanced cleaning materials, they could improve the efficiency of their operations system. This is because the use of more advanced technology such as more advanced cleaning materials will allow them to save time when providing their services. With the example of adopting technological development through the use of using more advance cleaning tools, WCTY Cleaning Services will be

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able to save time, as these tools will likely be able to perform jobs quicker, while still maintaining a high quality in the service provided, hence improving efficiency in operations as time is being saved without sacrificing quality.

Award 2 marks for explaining how the technological developments will improve efficiency.

Award 1 mark for a link to WCTY Cleaning Services.

Question 2 (3 marks)

Source: VCE 2019, Business Management Exam, Section B, Q.2; © VCAA

Describe one way technological developments could help ATI-TUDE to improve the efficiency of its business operations.

Technological developments such as automation and computer-aided manufacture (CAM) in combination can reduce the time spent on the production of each piece of sportswear, as the manufacture process would eliminate manual labour through automation and CAM. Less time would be required to produce each item since automation and CAM allow the process to be streamlined with pre-programmed software. The items will not have to be manually transported to each machine, as they can be transported to different pieces of machinery through a conveyor belt. This significantly reduces labour and time.

Award 2 marks for explaining how the technological developments will improve efficiency.

Award 1 mark for a link to ATI-TUDE.

Question 3 (6 marks)

Source: Adapted from VCE 2013, Business Management Exam, Q.2d; © VCAA

Discuss the likely consequences of banks or other businesses introducing new technology to optimise operations.

Technology is a strategy to optimise operations, using computers and software which enhance production. The positive consequences of technology in operations are that it reduces human error throughout the large production process. It can also lead to an increase in the quality of outputs through refinement undertaken which cannot be achieved by humans. Finally, it speeds up the operations system because technology such as robotics, which is highly specialised computerised technology, has the ability to undertake several complex tasks at once, without the need for breaks or holidays.

However, the negative consequences of using technology in optimising operations are that there is generally a very high initial cost to the organisation to introduce it, and even then it is not guaranteed to achieve organisational objectives, even though it will optimise operations. Additionally, employees may be made redundant because their role has been overtaken by technological applications, thus creating unease among the entire workforce, as they fear losing their jobs too. Finally, it can be a very time-consuming process to implement the new technology and adequately train employees to use it with confidence.

Mark globally:

Award 3 marks for the benefits of technology, linked to a bank.

Award 3 marks for the negatives of technology, linked to a bank.

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Question 4 (3 marks)

Distinguish between automated production lines and computer-aided design.

Automated production lines comprise machinery and equipment arranged in sequence with components added to goods as they proceed through each step, whereas computer-aided design is a computerised design tool that allows a business to create product possibilities from a series of input parameters. The goods produced on automated production lines typically move along the line on conveyer belts with processes controlled by computers. On the other hand, computer-aided design software allows a designer to generate three-dimensional diagrams that can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced.

Award 1–2 marks for defining or demonstrating an understanding of the term(s)

Award 1 mark for demonstrating an understanding of the difference(s) between the two.

Question 5 (5 marks)

The Operations Manager at Geelong Foods, a manufacturer of wholegrain flour products, is planning to introduce an automated production line. Evaluate the suitability of this technological development strategy.

Automated production lines comprise machinery and equipment arranged in sequence, which enables components to be added to goods as they proceed through each step. Automated production lines involve the use of robotics and computer-automated systems and machines. They are a technological strategy that focuses on improving the efficiency and effectiveness of operations. The use of robotics on an automated production line allows for a degree of precision and accuracy, as well as speed, in production, which would generally be unmatched by human labour. This also means that production can run 24 hours a day without interruption. This can cut costs and improve quality. Flour is a commodity good which is produced in bulk, so this is important.

The downside of automated production lines is that they are very costly to set up, so many smaller businesses cannot afford this kind of operation. In addition, human labour needs are reduced, meaning that businesses will need to make redundancies. As a technological development strategy, this is suitable for businesses who need to produce large quantities of a product.

Award 1–2 marks for an understanding of automated production lines.

Award 1–2 marks for an analysis of automated production lines.

Award 1 mark for an evaluation of the suitability of automated production lines.

3.7 Materials management

TEST your understanding

1 **Explain what is meant by 'materials management'.**

Materials management is about managing the way that materials are received and stored and making sure that the right materials are available when required in the operations system.

2 **Outline three benefits of efficient materials handling.**

The benefits of efficient materials handling include a more efficient production process, cost savings, fewer accidents, fewer breakages and reduced spoilage.

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3 **Explain the purpose of forecasting as a materials planning tool.**

The purpose of forecasting is to determine what materials are needed, in what quantities, as well as what the costs of those materials and transportation will be, in order to meet the future needs of the business.

4 **Briefly outline the two key steps or strategies involved in materials planning.**

Two key steps involved in materials planning are the master production schedule and materials requirements planning. A master production schedule (MPS) describes what is to be produced and when.

Materials requirements planning (MRP) is completed after the business has a clear understanding of the quantities to be produced and the time frame involved. It is an itemised list of all materials involved in production to meet the specified orders.

Such planning must consider:

- lead times required by suppliers
- the exact number of inputs to complete the task
- the amount of stock (inventory) on hand
- purchasing procedures — for example, bulk purchasing discounts.

5

(a) **Identify the benefits of MPS and MRP.**

MPS and MRP ensure that the business is able to maintain an appropriate level of materials for the operations system without overproducing or underproducing, which might result in the business carrying too much inventory or not enough inventory in storage. Too much inventory can represent a financial cost to the business, whereas not enough inventory can prevent it from continuing production. By completing an MPS, an operations manager will be able to predict the future needs of the business and determine the materials required.

Both MPS and MRP can be used by a business to make adjustments to production in response to fluctuations in demand. Both strategies allow a business to schedule changes when new products are introduced. These benefits provide a business with flexibility. MRP improves efficiency in the location of production resources, providing accurate estimates of materials requirements and delivery dates, allowing the business to control costs.

(b) **Suggest any possible limitations for a business using MPS and MRP.**

Making use of MPS and MRP can be expensive and time-consuming. The cost of implementing both strategies can be inhibitive for many businesses. Software and other resources may need to be purchased to facilitate each strategy, and training may also be required. Using MPS and/or MRP may result in a business not being able to adapt quickly enough to any changes or problems because all materials needs are tied in to a production schedule. Once materials are ordered and employees are scheduled to work, it can be difficult to interrupt the process and make changes. Both strategies rely on accurate information — if incorrect information is used, it is likely that errors will occur in the materials planning process.

6 **What is meant by the term 'inventory'?**

Inventory is the materials held as stock by a business.

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7 **Explain how the Just in Time approach can improve productivity and reduce costs.**

The Just in Time approach makes sure that the right amounts of materials will arrive just as they are needed for production. This can reduce storage costs because the business no longer needs to maintain large stockpiles of materials in inventory. Production can continue to flow, with materials arriving just as they are needed.

Just in Time also reduces the risk of any waste occurring in storage. Because less stock is kept in inventory, there is less likelihood that resources will be lost due to theft, damage or spoilage. As fewer resources are used, productivity is likely to increase.

APPLY your understanding

8 **Chan is the Operations Manager of a small clothing manufacturer. Recently, the business has been experiencing financial troubles as retail customers begin to recognise it as being a very poor supplier. The clothes are rarely delivered on time, and are always delivered in the wrong quantities. The main problem is that materials for the popular clothing lines keep running out, while the storage areas are filled with materials for the unpopular clothing lines.**

(a) **What are the costs of having too many materials in storage?**

The costs of having too many materials in storage include the costs of paying for the storage space and associated costs, as well as the costs of materials spoiling or being broken.

(b) **What problems can occur when there are not enough materials on hand?**

If there are not enough materials on hand, production will be held up or forced to stop. The business may lose customers.

(c) **Explain how Chan could use MPS and MRP to improve materials management.**

Chan could use MPS and MRP to plan for the production and materials needs of the business. He would use MPS to develop an itemised list of all materials involved in production to meet the specified orders. He might do this based on previous data. Materials management would improve because MRP allows the business to develop an itemised list of all materials involved in production to meet demand.

(d) **Suggest any other materials strategies you think would help Chan to improve the efficiency and effectiveness of his operations. Explain your answer.**

Inventory control, such as the Just in Time approach, would help Chan to optimise the clothing operations. It would ensure that costs are minimised because he would have the materials in the quantities that he needs, when he needs them (this impacts on effectiveness). This way, the operations system has access to the right amounts of inputs when required (this can impact on efficiency) and there won't be unwanted or outdated stock going to waste.

9 **Explain how materials management can be used to optimise operations.**

Materials management allows the operations area or the operations manager to manage the use, storage and delivery of materials, to ensure the right amount of inputs are available when required in the operations system. It will optimise operations because it leads to a more efficient production process, cost savings, fewer accidents, fewer breakages and reduced spoilage.

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10 To find out how a business might deal with forecasting, use the Role of forecasting weblink in the Resources tab. Why do businesses need to forecast? How can a business create a forecast and what should be done with it?

Businesses need to forecast because supplies of materials can take a long time — days, weeks or even months — to be delivered. For this reason, businesses need to commit to obtaining materials in advance of needing them. To do this, they need to make an estimate about how many resources are needed. This is so they can meet the needs of their customers.

A business can create a forecast by firstly finding out what it has sold in the past. Obtaining the sales history for the business can do this. Trends in the business, and the changes predicted to occur in the coming year that will lead to sales being different, need to be identified. If no sales history is available, the business can make use of the expected size of its target market and anticipated market share. The number of customers can then be estimated as well as the timing of sales.

From the forecast, a business can determine the requirements for its operations, including its production rate and demand for materials from suppliers. By calculating the required production rate and the rate at which production can actually occur, the number of production hours necessary can be determined. Depending on the result, the business may need to reduce production hours, increase production hours using more labour or increase capacity using more assets to meet customer demand. Circumstances can change so the forecast must be updated frequently.

3.7 EXAM questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4c; © VCAA

Describe how one of the following strategies could be used at WCTY Cleaning Services to ensure that materials are managed efficiently:

- **forecasting**
- **Just in Time**

WCTY Cleaning Services could use forecasting. Forecasting is a materials strategy which involves analysing past data and market trends to make an educated prediction about customer demand for an upcoming period. WCTY Cleaning Services could analyse this data and make predictions about the amount of materials, e.g. sponges, staff (labour resources), required to meet customer demand for an upcoming period (e.g. if a holiday like Christmas is approaching and there is a demand for house cleaning). WCTY Cleaning Services will be prepared as they will predict this demand and order sufficient materials. This efficiently manages materials by reducing waste and optimising resources as it prevents the possibility of overordering and therefore, inventory stock expiring or being damaged. Furthermore, this will improve productivity by preventing halts to production caused by insufficient materials.

Award 1–2 marks for an understanding of selected materials strategy.

Award 1 mark for specific reference to case study.

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Question 2 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.5b; © VCAA

Analyse how forecasting might be used by Chef@Home to improve the efficiency and effectiveness of its operations.

Forecasting is a materials management strategy that uses data from the past and present and analysis of trends in attempts to determine future events. An advantage of forecasting is that it allows Chef@Home to identify what needs to be produced, in what quantities, how and when. This will result in "all inputs from local suppliers" actually being used and not wasted, thus assisting to improve efficiency of operations, as Chef@Home is able to better utilise their resources.

Moreover, Chef@Home using forecasting to order inputs from local suppliers in advance avoids the risk of having to outsource to other suppliers as they do not have enough inputs currently to supply boxes. As a result of this, Chef@Home will be improving the effectiveness of its operations as it is able to order inputs in advance to ensure all inputs are from local suppliers, this improving the business objectives of all locally sourced inputs.

However, a disadvantage of forecasting is that it will represent a cost to Chef@Home if the wrong quantities are calculated as it will lead to overproduction or underproduction. Overall, forecasting would be good to improve operations as it ensures that all local sourced inputs will be used.

Award 1–2 marks for an understanding of forecasting as it relates to efficiency, with specific reference to the case study.

Award 1–2 marks for an understanding of forecasting as it relates to effectiveness, with specific reference to the case study.

Question 3 (4 marks)

Discuss the benefit of a business employing Just in Time as a materials management strategy

Just in Time is a materials management strategy in which the business orders and receives inventory just as it is needed in the production process. As a result, the business holds no stock of the inventory. This strategy allows the business to reduce costs as there are no costs associated with managing the inventory — insurance, rent on warehouse space, wages, etc.

Award 2–4 marks for a discussion of the benefits of Just in Time.

Question 4 (2 marks)

Define the term 'master production schedule'.

A master production schedule is a plan that details what is to be produced and when.

Award 1 mark for a partial or limited definition of master production schedule.

Award 2 marks for a good definition of master production schedule.

Question 5 (4 marks)

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The Operations Manager at Global Resources Ltd is concerned about waste at the business and wants to review the company's materials management strategies. Propose and justify one materials strategy for improving efficiency and meeting the needs of stakeholders.

Efficiency refers to how well a business is using its resources to achieve objectives. The most efficient use of resources generally occurs when the benefits arising from the use of resources are greater than the costs of the resources utilised. Essentially, this is referring to productivity — how many inputs (resources) it takes to produce output (goods or services). If a business reduces the amount of waste produced while achieving its objectives, then this is also considered to be efficient.

The operations manager at Global Resources can use Just in Time as a materials strategy that will improve efficiency. Just in Time means that a business's resources or inputs are delivered just before the point of use; therefore, the business will hold less stock in storage. This, in turn, reduces storage costs, which improves efficiency. This reduces the risk of any waste or spoilage occurring and means that less of the business's finances are tied up in stock, as materials are only obtained as needed. This materials strategy means that the business is optimising the resources it has, while still being able to meet customer demand. The costs saved and increased productivity should improve profitability for shareholders.

Award 1 mark for suggesting a materials strategy.

Award 1 mark for briefly outlining the strategy.

Award 1 mark for justifying how the materials strategy will improve efficiency.

Award 1 mark for justifying how the materials strategy will meet the needs of stakeholders.

3.8 The management of quality

TEST your understanding

1 **Outline the main features of 'quality management'.**

Quality management is the strategy that a business uses to make sure that its product meets customer expectations. A quality product should have a high degree of excellence and should achieve its stated purpose. A quality product should be reliable, easy to use, durable, well designed and delivered on time, include after-sales services and have an agreeable appearance.

2 **Explain why quality control is important to businesses.**

Quality control reduces problems and defects in the product using inspections at various points in the production process. Specifications or benchmarks are set before the physical checks are completed. Actual performance is then compared to the established criteria.

3 **In what ways can businesses offer quality assurance to customers?**

Quality assurance can be offered to customers by putting a quality system in place to ensure that set standards are achieved. Many businesses use the ISO 9000 series of standards. The ISO provides guidelines on how businesses should establish quality assurance systems by adopting specific procedures and controls, and recording and documentation measures. A quality system gives assurance to customers that the business is able to provide safe and reliable products.

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4 **Explain what is meant by 'Total Quality Management'.**

Total Quality Management is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of Total Quality Management is to create a defect-free production process, and maintain a customer focus in operations.

5 **Suggest possible benefits and limitations for a business making use of Total Quality Management.**

Possible benefits for a business making use of Total Quality Management:

- improves the price competitiveness of a business
- improves product quality, allowing the business to attain competitive advantage
- efficiency improved as waste and faults are reduced
- effectiveness improved as costs are reduced, quality improves, and sales increase.

Possible limitations for a business making use of Total Quality Management:

- introducing this strategy can be expensive and time-consuming
- the strategy relies on the full participation of all employees, but it is possible that its introduction may be resisted because employees are required to change their way of thinking and attitude
- staff will need to be trained in customer service and problem-solving (time-consuming and a financial cost)
- improvements being seen across the business will take time.

APPLY your understanding

6 **Kevin is the Production Manager for IBX technology, a manufacturer of internet security software. Recently, the level of product defects has increased, although the production process has not changed.**

(a) **Advise Kevin on strategies that he should use to determine the cause(s) of the defects.**

Students could recommend any of the quality strategies. Total Quality Management (TQM) would be appropriate. TQM is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of TQM is to create a defect-free production process, and this would help to solve IBX's defect problem.

(b) **Explain to Kevin the value of introducing a TQM approach.**

The value in TQM is that it can reduce costs throughout the business. As it leads to a reduction in defects, it should result in improved efficiency, cost competitiveness and product quality, along with increased customer satisfaction. This should allow the business to attain a competitive advantage and become more effective.

7 **The name of the Reject Shop suggests that it could not possibly sell quality products. Is this true? Use internet sources to find the Reject Shop website. Search its website and see how many references to quality you can find. How does the Reject Shop ensure that it receives quality products from suppliers?**

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The Reject Shop website makes several references to quality products at competitive prices. The Reject Shop ensures that it receives quality products from suppliers by demanding that they comply with the Reject Shop's code of practice. All products supplied must meet certain quality standards.

3.8 EXAM questions

Question 1 (5 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4d; © VCAA

Explain and justify one quality strategy that WCTY Cleaning Services could implement to ensure that the quality of cleaning across its branches is of a high standard.

WCTY Cleaning Services could use total quality management (TQM). This is a holistic approach to quality management which involves employees being continuously committed to improving the quality of this product or service. This occurs through three steps of: customer focus, continuous improvement and employee empowerment.

This could be implemented to ensure high quality cleaning by first looking at customer focus, addressing the desires and needs of customers and the desires that WCTY Cleaning Services intends to fulfil. Next the business should look at continuous improvement which involves looking at the method used by the business (e.g. scrubbing with one hand) and identify methods to improve it (e.g. scrubbing with two hands). Lastly, the business should look at employee empowerment, which involves fostering an environment of employee participation and encouragement. This step could involve regularly conducting quality circles, where a group of employees meet and discuss solutions to quality-related problems. These steps will ensure that all employees are committed and motivated to improving the quality of their service so that the entire business, across all branches, is performing to a high standard that satisfies customers' needs.

Award 1–2 marks for an explanation of the strategy.

Award 1–2 marks for the justification of the selected strategy in improving quality across all branches.

Award 1 mark for specific reference to case study.

Question 2 (4 marks)

Source: Adapted from VCE 2012, Business Management Exam, Q.1c; © VCAA

Identify and explain two systems from the strategy of managing quality that Websters could use to ensure a high-quality chocolate product.

The management of quality can be done through the strategy of quality assurance or total quality management. Quality assurance involves gaining quality certification from an external body that has set predetermined quality standards which the organisation must meet. These are often known as ISO standards. If Websters uses quality assurance, it guarantees all products produced in the operations system are of a high quality or they are not allowed to be sold.

The other strategy Sam could employ is known as total quality management, where all employees in the operations system are encouraged to be continually striving for high quality in all they produce. Sam could organise groups known as quality circles where they discuss options on how to make their

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products even better. This approach is also viable to ensure that Websters produce high quality chocolate products, which is necessary to improve their competitiveness.

Award 1–2 marks for an explanation of the first strategy linked to the business.

Award 1–2 marks for an explanation of the second strategy linked to the business.

Question 3 (4 marks)

Source: VCE 2015, Business Management Exam, Q.3c; © VCAA

Explain a management of quality strategy that S&J Solar Panels could use to improve its operations.

One quality management strategy that could be used is Total Quality Management or TQM. This is an organisation-wide commitment to quality where every function or employee in operations is heavily focused on the quality of their output and ensuring that the product or service is in the condition required by the person next in line, referred to in TQM as the customer.

This strategy is focused on setting higher and higher standards and is considered reliable because the quality of the item is checked at every stage, from the receiving of inputs to the packaging or distributing of outputs. While it is time consuming, it ensures that no faults can slip through, thus assuring the final customer will have their expectations met. If a product is not fit for purpose at any stage, it will not continue through transformation until it is fixed and will be of a high standard for the next customer. TQM makes quality an organisational focus.

Award 1–2 marks for an explanation of the strategy.

Award 1–2 marks for an explanation of how the strategy will improve operations and this is linked to the business.

Question 4 (3 marks)

Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to quality.

One strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to quality is quality control. Quality control is a reactive strategy that detects defects in goods and services that have already been produced. It involves the use of inspections at various points in the production process to check for problems and defects — a business will typically set specifications or benchmarks and then compare actual performance to the established criteria.

Efficiency refers to how well a business uses resources to achieve objectives. Using quality control would improve efficiency because this strategy ensures that the costs associated with waste and faulty products are reduced. As the business finds defects and then seeks to rectify these mistakes, waste and faults are reduced; therefore, fewer resources are used.

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. Using quality control would also improve effectiveness because the strategy reduces costs associated with waste and faulty products, and improves the quality of a business's product. Improved quality should lead to increased sales. As sales increase and as costs are reduced, there should be an increase in profit.

Award 1 mark for describing a strategy related to quality.

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Award 1 mark for linking the strategy to the improvement of efficiency in operations.

Award 1 mark for linking the strategy to the improvement of effectiveness in operations.

Question 5 (4 marks)

MRC Accountants' objective is to provide quality, independent advice. However, it has recently been suffering quality issues and the director of the business has decided to implement Total Quality Management in response.

Explain and justify the use of Total Quality Management at MRC Accountants.

Total Quality Management (TQM) is an ongoing, whole-business commitment to excellence that can be applied to every stage of operations. In making use of this strategy, MRC Accountants might introduce continuous improvement (where it would focus on achieving perfection by setting higher and higher standards), a strong customer focus (where all employees would ask themselves 'what does the customer want?') and employee participation (where staff might work in quality circles to improve the quality of processes or products).

TQM would be an appropriate strategy for MRC Accountants to use to improve its quality issues. The aim of TQM is to create a defect- or mistake-free process and maintain a customer focus in operations. Adopting TQM would allow MRC Accountants to reduce costs throughout the business. Because this strategy leads to an improvement in quality, it should also result in improved efficiency. Improved cost competitiveness and improved product quality, along with increased customer satisfaction, should allow the business to attain a competitive advantage and become more effective.

Award 1 mark for explaining Total Quality Management at MRC Accountants.

Award 1 mark for further detail linking the use of Total Quality Management to MRC Accountants.

Award 1–2 marks for justifying the use of Total Quality Management at MRC Accountants.

3.9 Waste minimisation

TEST your understanding

1 **Define waste minimisation.**

Waste minimisation is a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations.

2 **State the three elements of a waste minimisation system.**

Reduce, reuse, recycle

APPLY your understanding

3 **Explain how a waste minimisation strategy may improve the efficiency of operations.**

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If waste can be reduced, the costs of the business will decrease. Further, if waste can be recycled then the business will be seen to be using their resources more efficiently and will not need to buy as many materials — improving the overall efficiency of operations.

4 **Explain a link between a quality management system and waste minimisation.**

If a business adopts a quality management system, such as Total Quality Management, then all aspects of the business are assessed for quality. This should avoid defective products being produced and then being scrapped because they are defective. This will reduce the amount of waste generated by the business.

5 **Analyse how a business implementing a waste minimisation strategy could be considered socially responsible.**

If a business is seen as minimising waste, then they are reducing the amount of discarded materials sent to landfill or into the air or waterways. Protecting the environment is part of being socially responsible for a business.

3.9 EXAM questions

Question 1 (4 marks)

Describe one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process.

One strategy that a business could use to improve the efficiency and effectiveness of operations through waste minimisation in the production process is lean management.

This strategy focuses on improving the efficiency and effectiveness of operations by eliminating waste and improving quality. A business using this approach would analyse each stage of the operations system to minimise or remove any one or more of the different types of waste. For example, a business might identify the different types of waste and then implement kaizen and Just in Time to reduce or eliminate these wastes.

The use of kaizen, or continuous improvement, would mean that the business would focus on making positive changes on a regular basis. The use of Just in Time would ensure that the right amounts of materials are delivered to the operations system just as they are needed for production, in the exact amount needed and where they are needed.

Efficiency refers to how well a business uses resources to achieve objectives. Using lean management would improve efficiency because this strategy reduces or eliminates the amount of waste produced while working towards achieving objectives. At the same time, it reduces energy and resource consumption and delays, and increases work productivity. As waste is reduced or eliminated, a business will therefore be using its resources more efficiently when making use of lean management.

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. Using lean management would also improve effectiveness because the strategy eliminates waste, thereby reducing costs. Reduced costs are likely to lead to an improvement in a business's profit. If a business's objective was to make profit, improving profit would be seen as effective. Furthermore, lean management can lead to increased customer satisfaction, which can result in increased sales and, subsequently, an improvement in profit.

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Award 1–2 marks for describing a strategy for improving operations through waste minimisation in the production process.

Award 1 mark for linking the strategy to the improvement of efficiency in operations.

Award 1 mark for linking the strategy to the improvement of effectiveness in operations.

Question 2 (4 marks)

ABakers, a chain of bread shops, has experienced increasing levels of wastage and recently decided to implement waste minimisation. Justify the use of the principles of waste minimisation in reducing the level of wastage at ABakers.

The principles of waste minimisation refer to the approach that eliminates waste and costs, and improves quality in the operations system through the principles of reduce, reuse and recycle. In using this approach, ABakers would carefully analyse their production schedule and determine if they are able to reduce production levels to match demand, reducing the problem of overproduction. This strategy would benefit ABakers as there would be fewer unsold products at the end of the day, meaning fewer products would be discarded. Similarly, they may wish to ensure that they avoid excess stock (as it can easily spoil) and only have the items that they need, when they need them.

Award 1–2 marks for identifying how the principles of waste minimisation could reduce the level of wastage at ABakers.

Award 1–2 marks for justifying how the principles of waste minimisation could reduce the level of wastage at ABakers (repeat for a second mark).

Question 3 (4 marks)

Discuss the use of waste minimisation for managing operations in a business.

Waste minimisation reduces costs, because it aims to make the production of products more cost-efficient by avoiding overproduction. If production can be better linked to demand, then waste is reduced as fewer products are unsold. Waste minimisation also aims to increase the recycling of materials. Any defective products may be able to be recycled rather than disposed of, reducing waste.
However, not all components in the production process can be recycled or reused and so some waste may occur. It may also be more expensive to recycle materials, so the economic benefit to the business may have a negative effect on the business's willingness to minimise waste.

1–2 marks can be awarded for a one-sided or limited discussion of the consequences of introducing waste minimisation.

3–4 marks can be awarded for a two-sided discussion of the consequences of introducing waste minimisation.

3.10 Lean management

TEST your understanding

1 Define the term 'lean management'.

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The term 'lean management' refers to the operations management approach that attempts to improve efficiency and effectiveness by eliminating waste and improving quality.

2 Briefly outline where the idea of lean management originated.

The idea of lean management originated in the automobile industry with the development of mass production. Lean manufacturing was later developed in Japan because of the needs of its economy: demand was low and there was little point in focusing on economies of scale (mass production at the lowest cost per item). Companies such as Toyota realised that production should be driven by actual sales of vehicles and that over-production should be avoided. Toyota could not afford to have resources locked up in excess equipment or materials in production. Toyota's production system was developed with the aim of minimising waste and fully utilising the capabilities of employees so that only minimal inventory was needed.

3 What are the benefits or strengths of lean manufacturing and what are its limitations or weaknesses?

The benefits or strengths of lean manufacturing:

- reduced energy and resource consumption
- reduced delays
- increased worker productivity
- reduced uncertainty
- increased customer satisfaction.

The limitations or weaknesses of lean manufacturing:

- requires committed and experienced employees
- employees may resent the change to lean or may prefer not to provide any input
- the constant focus on improvement and elimination of waste can result in workplace stress
- requires good relationships with suppliers
- can involve high implementation costs.

APPLY your understanding

4 Read the 'Hallmark goes lean' case study.

(a) Explain how Hallmark was able to reduce the time it took to make a greeting card just by changing the design and layout of its facilities.

Hallmark reduced the time it took to make a greeting card by introducing a new cellular manufacturing approach. Artists and writers were grouped on one floor into work cells, with production directly below them. This reduced production time of a new card from two years to approximately three months.

(b) How did Hallmark develop this solution?

Hallmark developed its lean management solution after managers came together from all sections of the business to develop the solution. The company's 'shoe box' card line was chosen for the new cellular manufacturing approach.

5 The work cell approach relies on workers being able to do a variety of tasks, not just one task. Outline one advantage and one disadvantage associated with workers becoming multiskilled.

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An advantage associated with workers becoming multiskilled is that workers become more productive as they complete a variety of more interesting tasks. A disadvantage associated with workers becoming multiskilled is that it can be a difficult change for managers to put in place.

6 Why do you think work cells would rely more heavily on teamwork than individual achievement?

Work cells rely heavily on teamwork because the participation and collaboration of team members can more successfully solve problems.

7 Imagine that you are the president of Hallmark in the early 1980s, and you have just been asked to make redundant almost one-quarter of your staff. Evaluate the issues involved in making this decision. What would be your solution?

Making one-quarter of the staff redundant will reduce costs and existing workers may become more productive. However, a huge amount of experience and skills would be lost. In the short term there would be a number of transitions issues associated with these redundancies — especially resentment of the changes from remaining staff who may blame the process of lean management. Further, it would be difficult and expensive to replace these staff later on if the company's performance improved. The final solution is up to the student's personal judgement.

8 Use the Lean manufacturing weblink in the Resources tab to describe how creating brilliant processes for producing goods or delivering services is just as important as finding brilliant workers.

Students should describe how lean manufacturing is all about analysing each stage of the production process, detecting where inefficiencies are and correcting them. Processes that eliminate waste will become brilliant processes and will deliver what customers want. Reducing wasted time and effort is just as important as having brilliant workers. Brilliant workers who are involved in a process that is not efficient may be wasting their time and effort.

3.10 EXAM questions

Question 1 (6 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1c; © VCAA

Explain how ChocYum Pty Ltd could implement the principles of lean management to improve the efficiency or effectiveness of its operations system.

Lean management is the process of maximising customer value whilst reducing the amount of waste created by the business operations system. It includes four key principles such as pull, takt, one piece flow and zero defects.

ChocYum Pty Ltd can use pull to increase their efficiency as this is where customer demand pulls goods/services through the operations system. This means that the production of chocolate at ChocYum will be directly linked to production, which can help reduce overproduction of chocolate thus reducing the amount of ingredients wasted, leading to the more efficient use of resources, improving ChocYum's operation system's efficiency.

Takt is the speed a product needs to be produced at to meet customer demand. This can help ChocYum ensure that there is always enough chocolate being produced to meet customer demand as this helps create a continuous flow of chocolate production, which can lead to more customers

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being satisfied by ChocYum as there is enough chocolate being produced to meet the demand, that's improving the effectiveness of ChocYum's operation system.

Zero defects will also help reduce the amount of wasted chocolate and resources as ChocYum will aim to produce chocolate with no errors/defects, thus improving the use of ingredients at ChocYum's operations system, improving effectiveness.

Mark globally:

Award 1–2 marks for explaining the principles of lean management (not all needed).

Award 3–4 marks for linking lean management to efficiency or effectiveness at ChocYum.

Marks awarded for depth of response or breadth of principles referred to.

Question 2 (6 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4a&b; © VCAA

a. Describe the principles of lean management. (2 marks)

Lean management is a systematic process for the elimination of waste that involves taking out all aspects that do not add value to the end product, and only consisting of what is appealing to the customer. The principles of this include the system of Just in Time (where goods arrive just as they are required in the production process), kaizen which refers to continuous improvement in the organisation and its production processes, and the use of automation (which refers to replacing processes that could be conducted by humans with technology). This aims to increase productivity while decreasing the amount of unnecessary wastage.

Award 1–2 marks for describing the principles of lean management.

b. Heidi has investigated the introduction of lean management principles. Explain how lean management principles might assist in the reduction of the level of wastage at Small Goods Pty Ltd. (4 marks)

Heidi may implement lean through considering the 'pull' principle. By letting customer demand pull the business, they're more likely to generate less waste as they're only manufacturing the outputs they will sell. This decreases the amount of idle stock from perishing, decreasing the amount of waste at Small Goods.

Heidi may also decide to implement the principle 'zero defects' in which the business must strive for perfection. Doing so will mean that levels of waste will decrease as there are less defects going to waste rather than being sold. This efficient use of resources will also act to increase profits as they're maximising outputs while minimising waste.

Award 1–2 marks for explaining lean management.

Award 1–2 marks for linking lean management to reducing the level of wastage.

Question 3

Explain the principles of lean management. (2 marks)

The principles of lean management refer to the approach that focuses on improving the efficiency and effectiveness of operations by eliminating waste and improving quality. A business using this

approach would systematically analyse each stage of the operations system to minimise or remove any one or more of the different types of waste. For example, a business might identify the different types of waste and then implement a strategy such as the Four Principles' application of lean management.

Award 1–2 marks for explaining the principles of lean management.

Question 4 (4 marks)

ABakers, a chain of bread shops, has experienced increasing levels of wastage and recently decided to implement lean management. Justify the use of the principles of lean management in reducing the level of wastage at ABakers.

ABakers may implement lean through considering the 'pull' principle. By letting customer demand pull the business, they're more likely to generate less waste as they're only manufacturing the outputs they will sell. This decreases the amount of idle stock from perishing, decreasing the amount of waste.

ABakers may also decide to implement the principle 'One Piece Flow' in which the business will continuously produce one item or one batch of goods at a time so there is no time wasted in production This efficient use of time will also act to increase profits as they're maximising outputs whilst minimising waste.

Award 1–2 marks for explaining lean management.

Award 1–2 marks for linking lean management to reducing the level of wastage.

3.11 APPLY YOUR SKILLS Managing technological advancements, materials, quality and waste minimisation

TEST your skills

1 **Explain the operations system at Yakult.**

The inputs of Yakult are water, skim milk powder, flavouring and the bacteria strain. The processes involve mixing the inputs together, heating them in a vat and then fermenting the mixture for 45 days. The mixture is then bottled, capped and wrapped, and stored for distribution. The output is a fermented milk drink.

2 **Describe the technology strategies utilised by Yakult.**

Yakult employ an automated production line, as bottles travel along a conveyor belt where they are filled, labelled, capped and then wrapped.
They also employ computer-aided manufacturing as the bottles are programmed to be filled to a certain quantity.

3 **Explain the waste minimisation approach used by Yakult.**

Yakult recycle and clean their water before they return it to the water system for reuse. They also use recyclable plastics for their bottles and these bottles in turn are recyclable.

4 **Outline how Yakult uses Just in Time to support its waste minimisation strategy.**

All materials and bottles are ordered and produced to ensure they arrive when needed and bottles are produced when ready to be filled. This avoids excess production and hence waste generated by the production process.

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APPLY your skills

5 **Describe one quality control as used by Yakult.**

Yakult have adopted Quality Assurance as they have been certified by ISO [ISO9001:2015], which covers the manufacturing, sale and distribution of fermented milk drinks. The organisation has certified that all processes and procedures are documented and meet the set standards of ISO.

6 **The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare the two other quality management systems used by Yakult.**

Yakult also uses Quality Control, where individual samples of the product are taken at various points in the production process. This aims to find issues with the production process.

In a similar manner, Total Quality Management aims to ensure the production process produces the highest quality output. However, TQM is about more than production as it relates to all aspects of the business.

7 **All businesses should aim to conduct their operations in a socially responsible manner. Analyse Yakult's approach to social responsibility**

Yakult aims to be socially responsible through its attempts to minimise waste, and reduce its impact on the environment by sourcing power through renewable sources and recycling waste and other materials. The business also sources local supplies and contributes to the community through education and sponsorship.

3.11 EXAM questions

Question 1 (2 marks)

Define the term 'quality'.

Quality is the degree of excellence of goods or services and their fitness for a stated purpose.

Award 1 mark for 'degree of excellence'

Award 1 mark for 'fitness for a stated purpose'.

Question 2 (3 marks)

Distinguish between efficiency and effectiveness in operations.

Efficiency is how well resources are used by the business to achieve objectives, whereas effectiveness is the degree of success the business has in achieving its objectives.

Award 1 mark for description of efficiency.

Award 1 mark for description of effectiveness.

Award 1 mark for difference.

Question 3 (6 marks)

Describe the principles of waste minimisation through reduce, reuse and recycle.

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Reducing is achieved by creating less waste. The process of reducing waste is to stop the problem of waste generation at its source — this means there is less waste generated and so less waste to be cleaned up or disposed of.
In simple terms, reusing is taking old or unwanted items you might otherwise throw away and finding a new use for them. When an item has been used, it may be possible to repurpose the old item and reuse it in another way, rather than throwing it away.
Recycling is changing discarded materials into new products in order to avoid using more virgin resources.

Award 2 marks for each description of each principle.

Question 4 (5 marks)

Analyse how a Master Production Schedule can be used in conjunction with Just in Time as strategies to manage materials.

Master Production Scheduling (MPS) describes what is to be produced and when. It is a schedule linked to specific delivery dates or contracts for delivery in the future. This is a means of determining materials needed for production, both now and in the future.
If completed accurately, a MPS can be combined with Just in Time to reduce costs and efficiently manage resources and operations.
JIT allows the materials needed, as determined by the MPS, to arrive as needed, reducing the necessity to store materials and incur the associated costs.

Award 2 marks for description of MPS.

Award 2 marks for description of JIT.

Award 2 marks for linking MPS and JIT.

Question 5 (6 marks)

Evaluate the use of an automated production line and robotics to improve the efficiency of operations at Yakult.

The use of an automated production line and robotics will provide for more efficient production as human involvement is minimised, which is often when errors can occur. Automated production lines and robotics allow the production to occur faster and in a more precise manner, reducing waste and improving efficiency.
However, automated production lines and robotics are expensive and a cost-benefit analysis should be conducted to determine if their introduction is economically viable. In addition, if they break down, the whole production process will shut down until repaired, possibly leading to spoilage, lost time and money.
Overall, automated production lines and robotics will improve efficiency.

Award 1–2 marks for benefits of automated production line and robotics.

Award 1–2 marks for disadvantages of automated production line and robotics.

Award 1–2 marks for conclusion.

Question 6 (6 marks)

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Compare the operations system used at Yakult with the operations system of a contemporary service business you have studied this year.

Yakult's operations system comprises three elements: inputs, processes and outputs. This type of system is also utilised by the Commonwealth Bank, a service business.
The processes for Yakult involve the use of technology, such as automated production line and robotics. The Commonwealth Bank also requires the use of technology, through computers and automated teller machines.
Key differences are that Yakult's production does not involve any customer interaction and the output is a tangible product (bottle of drink). However, the Commonwealth Bank's processes require customer interaction and the output is intangible (a loan or a new account).

Award 1–3 marks for similarities.

Award 1–3 marks for differences.

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3.12 Corporate social responsibility considerations in an operations system

TEST your understanding

1 Outline the main reasons why operations managers must take socially responsible decisions very seriously.

Operations managers must take socially responsible decisions very seriously because the reputation of the business depends on it. A business that damages the environment will lose its reputation. A business that uses suppliers with poor reputations may lose its own reputation. A business that mistreats staff will lose its reputation. Customers will not purchase products that are unsafe and will certainly change their buying habits if they believe a business has a poor reputation.

2 Using examples, explain the considerations a business might need to make in the area of:

(a) environmental sustainability of inputs

The considerations a business might need to make in the area of environmental sustainability of inputs involve ensuring that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). For example, Mars recently announced that it would invest approximately $1 billion to combat climate change — introducing renewable energy initiatives, sourcing sustainable ingredients and supporting farmers who use sustainable methods of production. Businesses should ensure that suppliers provide materials that come from socially responsible sources. Businesses can also purchase materials from local suppliers, rather than from overseas, to reduce emissions as a result of transportation.

(b) the amount of waste generated from its processes and production of outputs.

One consideration that a business might need to make in the area of the amount of waste generated from its processes and production of outputs is not making use of cheaper, illegal waste disposal methods. For example, by the end of 2015, Mars achieved its goal of sending zero waste to landfill from all its factories worldwide. Part of the transformation process should involve recycling and remanufacturing of materials or waste.

Another consideration that a business might need to make in the area of the amount of waste generated from its processes and production of outputs is how outputs are produced, packaged and marketed. For example, Mars has Packaging Sustainability Guidelines to reduce the amount of material and energy used in its packaging process, as well as to ensure it uses recycled materials and reduces waste.

3 Outline how NAB covers the considerations of corporate social responsibility as it applies to operations management.

NAB covers the considerations of corporate social responsibility in operations management in the following ways:

- *Managing the environmental sustainability of inputs* — NAB focused on a reduction in greenhouse emissions, by improving the design and operation of its buildings, and replacing six-cylinder cars with four-cylinder cars and adding hybrid cars to its fleet. NAB has also installed solar panels on many of its branches, its Business Banking Centres, and on its Knox data centre. In 2017, net energy use decreased by 13 per cent and greenhouse

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gas emissions decreased by 15 per cent. NAB also introduced Supplier Sustainability Principles to new contracts with key suppliers, stating corporate responsibility requirements (including environmental management, human rights, workforce policies and workplace health and safety) — 90 per cent of material suppliers are compliant with NAB's Supplier Sustainability Principles.

- *Managing the amount of waste generated from processes and production of outputs* — NAB improved recycling rates, from the recycling of e-waste, to the recycling of organic waste by employees. In 2017, waste generation (combined waste to landfill and recycled materials) decreased by 18 per cent.

APPLY your understanding

4 **If you were the manager of a waste management company, what factors would you consider in selecting a new facility site?**

The manager of a waste management company would need to consider factors such as the impact on the environment of the new facilities, proximity to residents (people don't always want a waste dump near their house) and ease of access to the facilities.

5 **Discuss whether or not it is socially responsible to do business with suppliers who employ child labour in overseas countries.**

Students will probably conclude that it is not socially responsible to do business with suppliers who employ child labour in overseas countries. However, they should consider the following in relation to operations: that using socially responsible suppliers who pay a fair wage to adult workers can add to the quality of the product.

6 **Business for Social Responsibility (BSR) provides information about the social responsibilities of businesses. Use the BSR weblink in the Resources tab to select a report that interests you. Read the article and outline the social responsibility issues involved.**

Responses will vary according to the report chosen; however, many socially responsible issues are covered by the articles on the website. Many of the reports refer to the fashion industry — students may wish to summarise the social responsibility issues that exist in this industry such as circular fashion.

3.12 EXAM questions

Question 1 (6 marks)

Source: VCE 2013, Business Management Exam, Q.3c; © VCAA

Alice wants The Traveller's Helpmate to be seen as ethical and socially responsible. To meet this goal, she is reviewing the key elements of her operations system. Describe one ethical and social responsibility issue that Alice may consider from each of the three elements of the operations system.

Ethical management refers to abiding by morals and standards and doing the right thing in the interests of the stakeholders. Social responsibility refers to the obligations of the LSO over and above its legal requirements to benefit the community and environment. The elements of the operations system are inputs, processes and outputs.

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Alice could be ethically and socially responsible in terms of inputs by sourcing her materials from an ethical and socially responsible supplier. This would mean that the supplier would not exploit labour and would be environmentally friendly.

Processes refer to the activities undertaken in turning inputs into outputs. An ethical and socially responsible issue which Alice may consider from the processes element would be to conduct all production of the books at the organisation's own factory. This is being ethical and socially responsible as it means that Alice may be able to offer more employment opportunities to the community, or to provide variation in employees' tasks due to the organisation not outsourcing production.

Outputs refer to the final product/service at the end of the transformation process. In order to be socially responsible and ethical here, Alice may ensure that the final output is fit for purpose, and contains only truthful information regarding travelling, ensuring that she is applying moral standards and is not misleading customers.

Award 1–2 marks (up to a total of 6) for each element of the operations system which is described with a relevant corporate social responsibility consideration.

Question 2 (2 marks)

Explain how a business can ensure environmental sustainability of inputs in its operations system.

A business can ensure environmental sustainability of inputs in its operations system by ensuring that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). To ensure that its inputs are environmentally sustainable, a business could work with its suppliers to guarantee that they follow guidelines on sustainable behaviour, such as environmentally sustainable supplies.

Award 1–2 marks for explaining how a business can ensure environmental sustainability of inputs in its operations system.

Question 3 (4 marks)

Describe one operations management strategy. Outline the benefits to a business of adopting corporate social responsibility considerations in this area.

One operations management strategy is Just in Time (JIT). This strategy makes sure that the right amounts of materials will arrive just as they are needed for production. JIT can reduce storage costs because a business will no longer need to maintain large stockpiles of materials in inventory, and can also reduce the risk of any waste occurring in storage (there is less likelihood that resources will be lost due to theft, damage or spoilage). As fewer resources are used, productivity is likely to increase.

There are a number of benefits to a business that adopts corporate social responsibility considerations in this area. If, for example, a business sources materials from suppliers that provide materials from socially responsible sources (such as environmentally sustainable supplies and workplaces that are free of exploitation), customers are more likely to purchase from the business as they are becoming more aware of socially responsible businesses. As more customers purchase the business's products, sales will increase, leading to greater profit. Adopting corporate social responsibility considerations in this area will improve the reputation of the business, improve efficiency and reduce costs in the long term.

Award 1 mark for identifying an operations management strategy.

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Award 1 mark for describing the operations management strategy.

Award 1–2 marks for outlining benefit(s) to a business of adopting corporate social responsibility considerations related to the selected operations management strategy.

Question 4 (4 marks)

Explain how corporate social responsibility considerations can influence the decisions made by management in relation to an operations system.

One corporate social responsibility consideration in an operations system is the environmental sustainability of inputs. The considerations that management might need to make in the area of environmental sustainability of inputs involve ensuring that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). Management might, for example, decide to invest in energy-efficient equipment or source ingredients from suppliers who make use of sustainable methods of production.

Another corporate social responsibility consideration in an operations system is the amount of waste generated from processes and production of outputs. A consideration that management might need to make in the area of the amount of waste generated from its processes and production of outputs is not making use of cheaper, illegal waste disposal methods. For example, management could decide to reduce the amount of waste sent to landfill from the production process. Management might decide that part of the transformation process should involve recycling and remanufacturing of materials or waste.

Award 1–2 marks for identifying corporate social responsibility considerations in an operations system.

Award 1–2 marks for explaining how the corporate social responsibility consideration can influence the decisions made by management in relation to an operations system.

Question 5 (6 marks)

The key elements of an operations system are inputs, processes and outputs. Describe one corporate social responsibility consideration that an operations manager may consider from each of the three elements of the operations system.

The three elements of an operations system are inputs, processes and outputs. Inputs are the resources used in the process of producing a good or service, and include materials such as raw materials, components and parts, capital equipment such as factories and robotics, labour such as staff and management, information and time. An operations manager may consider the use of raw materials which are sourced using socially responsible practices. For example, a café making coffee may choose to source beans from a Fairtrade supplier.

Processes refer to the transformation or conversion of inputs into outputs, such as combining the materials, manufacturing, assembly and quality control. An operations manager could choose to be socially responsible by using lean management, which eliminates waste in the production process. This might include using Just in Time to ensure that the business is not overstocked which can cut down on wastage and spoilage.

Output is the end result of a business's efforts — the good or service that is delivered or provided to the consumer, such as a car. Being socially responsible in this area might include considering the quality of the end product. Many producers are moving towards creating high-quality products that

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can be re-used or repaired. Patagonia, an outdoor clothing manufacturer, offers lifetime repairs on some of its product lines to encourage consumers to re-use. This cuts down on waste and extends the life of a product.

Award 1–2 marks (up to a total of 6) for each element of the operations system which is described with a relevant corporate social responsibility consideration.

3.13 EXTEND YOUR KNOWLEDGE Socially responsible operations management

TEST your understanding

1 **Read the 'Sustainable operations at Cadbury' case study. Explain how Cadbury's operations produces greenhouse gas emissions.**

Cadbury's operations creates greenhouse gas emissions through the burning of fossil fuels for energy, including for electricity and transport. Its factory is powered by energy; however, the level of greenhouse gas emissions generated by the factory is relatively low because Tasmania sources most of its electricity from wind power and hydroelectric power stations. Most of Cadbury's emissions come from transport because many of its inputs travel long distances.

2 **List the ways in which Cadbury has made an effort to reduce its greenhouse gas emissions.**

Cadbury has made an effort to reduce its greenhouse gas emissions by making continuous improvements to the efficiency and sustainability of the factory. Some of these efforts include:

- A team arranged for steam from an early stage in production to be captured and reused.
- A project collected gas from the factory's waste-water treatment plan and used it as an energy source for a steam boiler.
- Cadbury uses biodegradable plastic material in its product packaging.

3 **Read the article 'Cadbury and fair trade chocolate'. Explain what fair trade is and why Cadbury opted to use the Fairtrade logo.**

Fairtrade is a movement that seeks to support producers in developing countries by ensuring they receive fairer trading conditions such as a fair and reasonable price for the product that is grown. Fair trading is governed by the standards set by the international certification body Fairtrade International. Cadbury has opted to use the Fairtrade logo on one of its products because it supports fair trade and has received certification.

4 **Explain the responsibilities that may impact on operations management when a business gains Fairtrade certification.**

If a business gains Fairtrade certification, it must ensure it lives up to the standards that must be met in order to receive this accreditation. If it was found that the business did not comply with the standards but had used the label, the business would appear to be acting unethically and sales may be affected. In terms of operations management, businesses that source raw materials that are considered fair trade may need to ensure that other raw materials that are not sourced from fair trade suppliers do not end up in the supply chain.

5 **Why did Mondelēz International decide to switch from the Fairtrade logo on Cadbury chocolate products to the Cocoa Life logo?**

Mondelēz International decided to switch from the Fairtrade logo on Cadbury chocolate products to the Cocoa Life logo because, according to the company, the move would allow Cadbury to become an accountable partner with cocoa farmers (not just a buyer) and would

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therefore be able to increasingly work with the farmers and communities around the world. Fairtrade said that the partnership between Fairtrade and Cocoa Life would provide many opportunities to increase positive impacts for cocoa farmers. Fairtrade Australia & New Zealand CEO Molly Harriss Olson said that the move would allow cocoa farmers, their organisations and communities to invest in their own future, and move from 'surviving, to thriving'.

6 **Outline the criticism of the change to Cocoa Life and Mondelēz's response.**

There was concern that the move to the Cocoa Life logo could undermine the Fairtrade movement by confusing consumers with multiple standards and logos. Mondelēz said that Fairtrade would continue to verify its cocoa supply chain.

EXTEND your understanding

7 **Use the Chocolate: the bitter truth weblink in the Resources tab to read about the 2010 British Broadcasting Corporation (BBC) broadcast that investigates the chocolate supply chain. Follow the links to various media reports and a response to the program from Fairtrade. After reading all of the information, how socially responsible do you think Cadbury's operations are?**

Answers will vary according to each student's perception of the issue. Students may take note of the following points: that it is hard to trace suppliers of cocoa and ensure that they are using fair practices, that some of Cadbury's suppliers had been suspended for using child labour. Students may also comment that Cadbury are acting in the best way that they can by using Fairtrade co-operatives and that they cannot have full control if they do not 'own' the sourcing of the cocoa.

8 **Using internet sources, research more arguments for and against the decision for Cadbury wrappers to carry the Cocoa Life logo instead of the Fairtrade logo. List each argument.**

Arguments for and against the decision for Cadbury wrappers to carry the Cocoa Life logo instead of the Fairtrade logo will vary according to the research conducted by students.

Other arguments for include:

- the standards work well with Cadbury's business
- they will safeguard cocoa farming for future generations
- Cadbury can use its scale to drive positive change for cocoa communities.

Other arguments against the decision include:

- the switch is a cost-cutting exercise
- what is deemed ethical and sustainable could become ambiguous
- standards measuring environmental and social issues could become less transparent.

9 **Explain how optimising the operations of a business can contribute to the objectives of that business, in terms of bottom line and social responsibility.**

Students should be able to explain that optimising the operations of a business, in terms of reducing waste and energy costs, can contribute to the business making profit and being socially responsible. Reducing costs is likely to have a positive impact on profit (because profit is revenue less expenses). Reducing waste is likely to have a positive impact on the environment.

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10 **Use the EY Climate Change and Sustainability Services weblink in the Resources tab to find any articles related to operations management. What do they tell you about issues that relate to operations, such as efficiency, supply chain and workplace safety?**

Responses will vary depending on articles read. Many of the articles discuss or mention occupational health and safety, product health and safety, climate change, waste and resource management, and supply chain. Some of the articles have links to other articles. Students can provide a brief summary of an article, highlighting the issues presented.

3.13 EXAM questions

Question 1 (6 marks)

Analyse two ways in which corporate social responsibility considerations influence decisions made by operations managers.

Corporate social responsibility refers to management's awareness of the social and environmental consequences of its actions. The aspects of corporate social responsibility that would concern an operations manager include: managing inputs appropriately, managing suppliers appropriately, managing staff appropriately and managing the customer relationship appropriately.

An operations manager might consider ensuring that suppliers are using materials that come from socially responsible sources, such as ones that do not exploit staff and workplaces that use environmentally sustainable supplies. This could be used to enhance the reputation of the business, which may increase awareness and sales. However, it would almost certainly increase the cost of supplies. This may damage profitability, or the increased costs might be attempted to be passed on to the consumer. Furthermore, it might mean that shareholders are not satisfied.

An operations manager might consider ensuring that its end product makes use of environmentally friendly packaging to reduce the amount of waste. Recyclable or biodegradable packaging might be used. This might be welcomed by the consumer and it too can lead to an increase in purchases. However, some consumers may be concerned about the durability or functionality of the packaging. Furthermore, the business's switch to these methods may well be costly and time-consuming in the short term, meaning that any gains will not be seen until the longer term.

Global marking may be used:

1–2 marks for an understanding of corporate social responsibility.

3–4 marks for an analysis of one way in which corporate social responsibility considerations influence decisions made by operations managers.

5–6 marks for an analysis of a second way in which corporate social responsibility considerations influence decisions made by operations managers.

Question 2 (4 marks)

Distinguish between the terms 'environmental sustainability of inputs' and the 'amount of waste generated from processes' as corporate social responsibility considerations in an operations system.

Environmental sustainability refers to a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future. Environmental sustainability

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of inputs means that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). This is the first stage in the operations system. While this stage can include the reduction of waste (for example, by using recycled inputs), it is distinct from the amount of waste generated from processes. The 'amount of waste generated from processes' refers to the second stage of operations and the process of manufacture. Unlike the input stage, processes do not refer to ingredients or raw materials and therefore concerns shift away from wastage and towards other issues such as where the business locates production.

Award 1–2 marks for defining or demonstrating an understanding of the term(s).

Award 1–2 marks for demonstrating an understanding of the difference(s) between the two.

3.14 Global considerations in operations management

TEST your understanding

1 **After reading the 'Overseas manufacture at Toyota' case study, explain why Toyota manufactures in overseas countries.**

In manufacturing in overseas countries, Toyota builds factories in those countries, employing locals who produce cars using parts produced locally. This enables Toyota to manufacture vehicles that better suit the market, or the people, of a given country, as well as deliver the product faster. Toyota also makes use of overseas manufacture to reduce labour and production costs, particularly taxes and trade tariffs that can be lower due to free trade agreements.

2 **Outline the benefits and costs of global outsourcing.**

The benefits of outsourcing include:

- improved quality because of access to expert knowledge and high-quality service
- the business can focus on its core activities
- costs can be reduced (for example, instead of employing a full-time driver, a business can use contracted drivers as required)
- production may be quicker because the outsourced provider should be able to focus on the task they specialise in.

The costs of outsourcing include:

- management has less control over the production process
- the difficulty in maintaining quality
- loss of local jobs and career prospects (sometimes resulting in low morale in the local workforce)
- potential security and confidentiality issues
- communication issues that lead to customer service problems.

3 **Read the 'Global outsourcing at Optus' case study.**

(a) **Explain why Optus makes use of global outsourcing.**

Optus outsources some of its customer service functions to call centres located in India and the Philippines. It does so to reduce costs of labour and to ensure that the business remains competitive, as well as to ensure that its customers are provided with quality service as its call centre operations continues to grow

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(b) Suggest some issues that a business must consider when making use of global outsourcing.

Management may have less control over the production process. It may be difficult to maintain quality. Loss of local jobs and career prospects (sometimes resulting in low morale in the local workforce). There may be communication issues that lead to customer service problems.

APPLY your understanding

4 Bridie is planning a new business that will sell swimwear online. She believes that manufacturing in Australia is too expensive and therefore will need to organise the manufacture of her products with an overseas business. Evaluate the use of overseas manufacture and global outsourcing as strategies that Bridie could use for the manufacturing of her swimwear. Suggest which strategy would be most useful in her situation.

Overseas manufacture will enable Bridie to get her product to the market more quickly, reduce the cost of production and reduce delivery costs. This practice will reduce costs such as labour, overhead and component costs. On the other hand, it will be expensive for Bridie to begin manufacturing in another country and there may be hidden costs associated with different cultures and time zones. Bridie may have to wait for some time for delivery to Australia. There is always the risk of ports shutting down and interrupting the supply of her product. It could be difficult for Bridie to monitor the quality of her product.

The use of global outsourcing may allow Bridie to improve the quality of her product because of access to expert knowledge and high-quality service. Furthermore, her business will be able to focus on its core activities as well as reduce costs. Bridie's production of her swimwear may be quicker because the outsourced provider should be able to focus on the task they specialise in. However, global outsourcing may result in Bridie having less control over the production process, and it may be difficult to maintain quality. Her decision does not create local jobs and career prospects (and local jobs may even be lost). There may be security and confidentiality issues or even communication issues that lead to customer service problems.

It may be best for Bridie to make use of global outsourcing initially, as she is starting a new business. As the business grows, she might consider making use of overseas manufacture.

3.14 EXAM questions

Question 1 (3 marks)

Distinguish between overseas manufacture and global outsourcing.

Overseas manufacture is the production of a good in a country that is different from the location of the business's headquarters. A business may choose to manufacture overseas to reduce labour, overhead and component costs, while keeping research and development, design and short-run manufacturing in its country of origin. This allows the business to focus on what they do best.

Global outsourcing refers to a specific business operation being contracted out to an external person or business in another country across the world. For example, tasks that are not part of a business's core activities, such as accounting or customer service, are often contracted to another business. Some businesses also outsource the production and delivery of goods and services that are considered to be their core business. Businesses do this because of the positive benefits it carries, such as cost savings, improvements to quality and access to operational expertise.

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The main difference between the two terms is that overseas manufacture involves a business maintaining control over its production in another country, whereas global outsourcing is about contracting part of the business's operations (usually non-core) to an external person or business in another country.

Award 1–2 marks for defining or demonstrating an understanding of both terms.

Award 1 mark for demonstrating an understanding of the difference(s) between the two.

Question 2 (6 marks)

Discuss two consequences of a business making use of global sourcing of inputs in its operations.

The use of global sourcing of inputs is a strategy where the operations manager seeks the most cost-efficient materials and other inputs, including from countries overseas. One positive consequence of the use of global sourcing of inputs is that it reduces costs for a business. Many businesses source inputs from around the world to exploit efficiencies, including low-cost skilled labour, low-cost raw materials and other economic factors such as lower taxes and low trade tariffs due to free trade agreements. The global sourcing of inputs can also allow a business to access skills or resources that are unavailable domestically. Without these skills or resources, a business may not be able to produce its product. Finally, the use of global sourcing of inputs can support a business in increasing its capacity of total supply. A business may, for example, add to its locally produced inventory by purchasing stock from global sources in order to meet demand.

However, one negative consequence of the use of global sourcing of inputs is the hidden costs associated with different cultures and time zones. For example, if human resources need to hold a meeting, scheduling will be difficult if employees are located in various time zones. The global sourcing of inputs can also expose the business to potential high risk, both financial and political. This is because of its involvement in the markets of other countries. A supplier overseas may go out of business, for example, or a new government in another country may introduce legislation that has an unfavourable effect on the business's supplier. Further, a business using global sourcing of inputs may experience delays — there is always a risk of ports shutting down and interrupting supply. Without materials, a business is unlikely to be able to produce its product.

Other positive consequences of the use of global sourcing of inputs include the opportunity to learn how to do business in a potential market, and developing alternative suppliers/sources of inputs.

Other negative consequences of the use of global sourcing of inputs include long lead times (for manufactured goods), and difficulty in monitoring the quality of inputs.

Award 1–3 marks for explaining a positive consequence of a business making use of global sourcing of inputs in its operations.

Award 1–3 marks for explaining a negative consequence of a business making use of global sourcing of inputs in its operations.

Question 3 (4 marks)

Describe and justify one global consideration in operations management that could be used by a business to develop overseas markets.

A business may choose to manufacture overseas. This is where the good is produced in a different location to the location of the business' headquarters. This will lead to a reduction in labour, overhead and component costs, while keeping research and development, design and short-run

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manufacturing in Australia. This allows the business to focus on what they do best. Some businesses will gradually increase their commitment to overseas manufacturing and may initially move into this strategy by outsourcing their manufacturing. As a business expands, it may move from outsourcing its manufacturing through to ownership of overseas factories. This will allow the business to develop overseas markets as it has access to the local knowledge, market conditions and can manufacture products that better suit the people of that given country.

Award 1–2 marks for describing one global consideration in operations management that could be used by a business to develop overseas markets.

Award 1–2 marks for justifying the global consideration in operations management that could be used by a business to develop overseas markets.

Question 4 (4 marks)

Compare global outsourcing and global sourcing of inputs.

Global sourcing of inputs refers to the practice of businesses seeking the most cost-efficient materials and other inputs, including from countries overseas. Global outsourcing refers to a situation where a business in Australia will source a business overseas to undertake a non-core activity for the business. This may be a customer call centre or an accounting firm providing financial services.

The similarity between the terms occurs as they both involve overseas businesses performing some activity on behalf of the business. However, the sourcing of inputs is a core activity of the business and is key to the operations system, whereas global outsourcing involves a non-core activity which may not be related to the operations system of the business.

Award 1–2 marks for explaining a similarity between the characteristics of global outsourcing and global sourcing of inputs.

Award 1–2 marks for explaining a difference between the characteristics of global outsourcing and global sourcing of inputs.

Question 5 (6 marks)

Evaluate the use of overseas manufacturing for a business.

Overseas manufacturing allows businesses to:

- produce products cheaper
- reduce travel times and costs of shipping inputs from overseas
- take advantage of latest production and quality strategies
- Distribute finished goods to anywhere in the world.

However, some negatives are associated with this, including:

- loss of CSR reputation in Australia
- loss of jobs in Australia
- potential lack of control over production.

Award 1–2 marks for advantages.

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Award 1–2 marks for disadvantages.

Award 1–2 marks for conclusion.

3.15 APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies

TEST your skills

1 **Define the term 'quality'.**

Quality is the degree of excellence of goods or services and their fitness for a stated purpose. Quality basically means that the customer gets what they wanted.

2 **Describe the purpose of international standards.**

The purpose of international standards is to ensure that products are safe, reliable and of good quality for consumers across the world. They are also influential in enabling international trade. For businesses, international standards assist with the reduction of costs by minimising waste and errors, and increasing productivity. They also help businesses to access new markets.

3 **Distinguish between quality control and quality assurance.**

Quality control is the part of quality management focused on fulfilling quality requirements (in other words, it involves inspections at various points in the production process) whereas quality assurance is the part of quality management that is focused on providing confidence that quality requirements will be fulfilled (it is the use of a system so that a business achieves set standards in production).

4 **Define the term 'website development'.**

Website development involves the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products.

5 **Read the 'How lean is securing the future of this digital advertiser' case study. Explain how REA Group attempts to understand how its customers think and behave.**

REA Group attempts to understand how its customers think and behave through the use of a Consumer Research Lab. REA interviews selected individuals from a specific demographic or geographical area, and then observes them as they use the business's technology. For example, individuals might be asked to wear a pair of Tobii glasses (a mobile eye tracking system) that records how they interact with REA's website or app, or REA might decide to track individuals' movements and behaviours as they go on a virtual reality walk through an apartment.

6 **Outline how the author of the article sees artificial intelligence transforming the real estate industry.**

The author of the article sees artificial intelligence making it possible to complete the transition to matching properties to people: prospective buyers or renters will find the right property in their inbox or home screen notifications when they wake up in the morning, perhaps together with an article on renovating kitchens — perhaps their most pressing need — and the name and number of a person they can talk to about a mortgage extension for the renovation.

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7 Describe the process by which lean management was introduced to REA Group.

Apart from its software development teams, lean management was first introduced to REA Group through the lawyers in its legal team. The legal team analysed each stage of their operations and identified wastes, such as wait time. They came up with a system of prioritisation of jobs; duplication was reduced and the bottlenecks started to disappear — in this way, waste was minimised or removed.

A system by which teams have a flag that signals the one 'interruptable' person in the group was introduced to minimise detrimental interruptions. Legal processes were automated and self-service tools introduced. The lawyers then became internal consultants supporting other areas in the business.

The People and Culture team picked up lean, followed by Finance. As other areas became curious, lean was taken up by different parts of the business.

APPLY your skills

8

(a) Working in a small group, copy the table below. Use the first column to outline similarities between quality control and quality assurance. In the second column, outline the differences between the two strategies. One row has already been completed for you.

Students should outline at least two similarities and two differences.

Quality control and quality assurance	
Similarities	**Differences**
Both quality control and quality assurance involve the use of a set of quality management standards.	**Quality control involves the business inspecting its goods or services at various points in the production process to check that they adhere to a set of standards, whereas quality assurance involves the use of a system that will assure customers that the products of a business are fit for purpose — it does this by achieving set standards throughout the production process.**
Quality control and quality assurance are both quality strategies that focus on improving the efficiency and effectiveness of operations.	Quality control is a reactive strategy that detects defects in goods and services that have already been produced, whereas quality assurance is a proactive strategy that prevents quality issues before they occur.
Both quality control and quality assurance focus on making sure that the product of the business meets customer expectations.	Quality control compares samples to standards that are determined internally, whereas quality assurance makes use of standards that are set by external organisations.
	Quality control is product-orientated, whereas quality assurance is process-orientated.

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(b) Using the information you have recorded in the table above, compare quality control and quality assurance.

Quality control and quality assurance are similar in that both are strategies that focus on improving the efficiency and effectiveness of operations related to quality. Quality control and quality assurance both involve the use of a set of quality management standards. However, quality control and quality assurance differ in that quality control involves the business inspecting its goods or services at various points in the production process to check that they adhere to a set of standards, whereas quality assurance involves the use of a system that will assure customers that the products of a business are fit for purpose — it does this by achieving set standards throughout the production process. Quality control is a reactive strategy that detects defects in goods and services that have already been produced, whereas quality assurance is a proactive strategy that prevents quality issues before they occur.

9

(a) Using tables similar to the one used in question 8, outline the similarities and differences of the following strategies:

i. automated production lines and computer-aided design

Students should outline at least two similarities and two differences.

Automated production lines and computer-aided design	
Similarities	**Differences**
Both automated production lines and computer-aided design involve the use of computers and computer software.	Automated production lines comprise machinery and equipment arranged in sequence with components added to goods as they proceed through each step, whereas computer-aided design is a computerised design tool that allows a business to create product possibilities from a series of input parameters.
Automated production lines and computer-aided design are both technology strategies that focus on improving the efficiency and effectiveness of operations.	The goods produced on automated production lines typically move along the line on conveyer belts with processes controlled by computers, whereas computer-aided design software allows a designer to generate three-dimensional diagrams that can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced.

ii. forecasting and master production schedule

Students should outline at least two similarities and two differences.

Forecasting and master production schedule	
Similarities	**Differences**

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Both forecasting and master production schedules are materials planning strategies that focus on improving the efficiency and effectiveness of operations.	Forecasting is a planning tool that relies on data from the past and present, and analysis of trends to attempt to determine future events, whereas a master production schedule is a plan that details what the business intends to produce, the quantity, and how and when production will occur.
Both forecasting and master production schedules allow a business to determine what materials are needed, and in what quantities, as well as what the costs of those materials and transportation will be, in order to meet the future needs of the business	Forecasting is a tool for predicting the future, whereas a master production schedule is a document (usually created using software) that describes the details of what will be produced, in what quantities, how and when.
Both forecasting and master production schedules allow a business to avoid overproducing (which is likely to result in an excess of inventory) or underproducing (which is likely to result in shortages).	

iii. Total Quality Management and lean management

Students should outline at least two similarities and two differences.

Total Quality Management and lean management	
Similarities	**Differences**
Both Total Quality Management and lean management focus on improving the efficiency and effectiveness of operations.	Total Quality Management focuses on improving the efficiency and effectiveness of operations in relation to quality, whereas lean management focuses on improving the efficiency and effectiveness of operations through waste minimisation in the production process.
Both Total Quality Management and lean management involve continuous improvement (or *kaizen*) — a practice focused on making positive changes on a regular basis.	Total Quality Management is an ongoing, business-wide commitment to excellence, whereas lean management is an approach that improves operations by eliminating waste.
Both Total Quality Management and lean management are business-wide commitments that rely on the full participation of all employees.	Total Quality Management has a greater focus on improving the degree of excellence of goods or services and their fitness for a stated purpose (quality), whereas lean management has a strong focus on removing inefficiencies (wastes) that do not add value to the product.
Both Total Quality Management and lean management aim to create a defect-free production process, and maintain a customer focus in operations.	Total Quality Management makes use of teamwork and employee participation to solve quality problems. Lean management focuses on identifying and eliminating the seven wastes.

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iv. global sourcing of inputs and overseas manufacture.

Students should outline at least two similarities and two differences.

Global sourcing of inputs and overseas manufacture	
Similarities	**Differences**
Global sourcing of inputs and overseas manufacture are both global considerations in operations management.	Global sourcing of inputs refers to the practice of seeking the most cost-efficient materials (and other inputs), including from countries overseas, whereas overseas manufacture is the production of a good in a country that is different from the location of the business's headquarters.
Both global sourcing of inputs and overseas manufacture are focused on reducing costs in operations.	The use of global sourcing of inputs means that the business relies on suppliers to ensure that the inputs are of high quality and environmentally sustainable (although a business is still obligated to ensure the inputs meet certain standards), whereas the use of overseas manufacture means that a business assumes all risks associated with operating in another country (such as financial and political risks).

(b) Using the information, you have recorded in your tables for part (a), compare the following strategies:

i. automated production lines and computer-aided design

Automated production lines and computer-aided design both involve the use of computers and computer software. Automated production lines and computer-aided design are both technology strategies that focus on improving the efficiency and effectiveness of operations. However, automated production lines comprise machinery and equipment arranged in sequence with components added to goods as they proceed through each step, whereas computer-aided design is a computerised design tool that allows a business to create product possibilities from a series of input parameters. The goods produced on automated production lines typically move along the line on conveyer belts with processes controlled by computers, whereas computer-aided design software allows a designer to

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generate three-dimensional diagrams that can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced.

ii. forecasting and master production schedule

Forecasting and master production schedules are similar in that both are materials planning strategies that focus on improving the efficiency and effectiveness of operations. Forecasting and master production schedules both allow a business to determine what materials are needed, and in what quantities, as well as what the costs of those materials and transportation will be, in order to meet the future needs of the business. Both allow a business to avoid overproducing (which is likely to result in an excess of inventory) or underproducing (which is likely to result in shortages).

However, forecasting and master production schedules differ in that forecasting is a planning tool that relies on data from the past and present, and analysis of trends to attempt to determine future events, whereas a master production schedule is a plan that details what the business intends to produce, the quantity, and how and when production will occur. Forecasting is a tool for predicting the future, whereas a master production schedule is a document (usually created using software) that describes the details of what will be produced, in what quantities, how and when.

iii. Total Quality Management and lean management

Total Quality Management (TQM) and lean management are similar in that both focus on improving the efficiency and effectiveness of operations. In the case of TQM, this is related to quality and in the case of lean management, this is through waste minimisation in the production process.

TQM and lean management both involve continuous improvement (or *kaizen*) — a practice focused on making positive changes on a regular basis. Both TQM and lean management are business-wide commitments that rely on the full participation of all employees. TQM aims to create a defect-free production process, and maintain a customer focus in operations, as does lean management.

However, TQM and lean management differ in that TQM is an ongoing, business-wide commitment to excellence, whereas lean management is an approach that improves operations by eliminating waste. TQM has a greater focus on improving the degree of excellence of goods or services and their fitness for a stated purpose (quality), whereas lean management has a strong focus on removing inefficiencies (wastes) that do not add value to the product. TQM makes use of teamwork and employee participation to solve quality problems. Lean management focuses on identifying and eliminating the seven wastes.

iv. global sourcing of inputs and overseas manufacture.

Global sourcing of inputs and overseas manufacture are both global considerations in operations management. Both global sourcing of inputs and overseas manufacture are focused on reducing costs in operations. However, global sourcing of inputs refers to the practice of seeking the most cost-efficient materials (and other inputs), including from countries overseas, whereas overseas manufacture is the production of a good in a country that is different from the location of the business's headquarters.

The use of global sourcing of inputs means that the business is heavily reliant on the supplier to ensure that the inputs are of high quality and environmentally sustainable

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(although a business is still obligated to ensure the inputs meet certain standards) whereas the use of overseas manufacture means that a business assumes all risks associated with operating in another country (such as financial and political risks).

10 **(a) Propose one quality strategy that could be used to improve the efficiency and effectiveness of operations at REA Group and justify the use of this strategy.**

One quality strategy that could be used to improve the efficiency and effectiveness of operations at REA Group is Total Quality Management (TQM). TQM is an ongoing, whole-business commitment to excellence that can be applied to every stage of REA Group's operations. In making use of this strategy, REA Group might introduce continuous improvement (where it would focus on achieving perfection by setting higher and higher standards), a strong customer focus (where all employees would ask themselves 'what does the customer want?') and employee participation (where staff might work in quality circles to improve the quality of processes or products).

TQM would be an appropriate strategy for REA Group to use to improve the efficiency and effectiveness of its operations. The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. Adopting TQM would allow REA Group to reduce costs throughout the business. Because this strategy leads to a reduction in defects, it should also result in improved efficiency. Improved cost competitiveness and improved product quality, along with increased customer satisfaction, should allow the business to attain a competitive advantage and become more effective.

(b) Propose and justify a strategy that REA Group could use to improve the efficiency and effectiveness of its operations in relation to materials.

A strategy that REA Group could use to improve the efficiency and effectiveness of its operations in relation to materials is forecasting. Forecasting is a materials planning tool that relies on data from the past and present, and analysis of trends to attempt to determine future events. By forecasting the quantity and timing of demand for its service, REA Group can estimate or predict what materials are needed, and in what quantities. REA Group may also forecast the costs of materials and transportation.

Forecasting will enable REA Group to ensure that it maintains an appropriate level of materials for its operations system without overproducing (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 and may become unusable after a period. Forecasting will help ensure that REA Group does not misuse resources in this way, meaning that it should become efficient (efficiency refers to how well a business uses resources to achieve objectives).

Forecasting will allow REA Group 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 service. Using the forecasting strategy should, therefore, result in lower costs for the business, increasing the possibility that REA Group will maximise profit. This should make the business more effective (effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve).

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11

(a) Working in a small group, copy the table below. Use the first column to outline the strengths of lean management. In the second column, outline the weaknesses of lean management. One row has already been completed for you.

Students should outline at least two strengths and two weaknesses.

Lean management	
Strengths	**Weaknesses**
Lean management reduces costs and this may lead to an improvement in profit. If a business's objective was to make profit, then improving profit would improve a business's effectiveness.	**The use of lean management can involve high implementation costs, which may have a negative effect on profit.**
Lean management reduces energy and resource consumption, which is good for the environment and also improves efficiency (the business is using resources better).	Requires committed and experienced employees.
Lean management reduces delays.	Employees may resent the change to lean or may prefer not to provide any input.
Lean management can increase worker productivity.	The constant focus on improvement and elimination of waste can result in workplace stress.
Lean management can reduce uncertainty.	Requires good relationships with suppliers.
Lean management can increase customer satisfaction.	

(b) Using the information you have recorded in your table in part (a), evaluate the use of lean management as a strategy for improving the efficiency and effectiveness of REA Group's operations.

Lean management is an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

One benefit of using the lean management strategy is that it reduces a business's costs and this may lead to an improvement in profit. If a business's objective was to make profit, improving profit would improve a business's effectiveness. Lean management reduces energy and resource consumption, which is good for the environment and also improves efficiency (because this means that the business is using resources better). Further, the use of lean management reduces delays, can increase worker productivity, can reduce uncertainty and can increase customer satisfaction.

However, the use of lean management can involve high implementation costs, which may have a negative effect on profit. The implementation and use of lean management also requires committed and experienced employees. Employees may resent the change to lean or may prefer not to provide any input. Moreover, the constant focus on improvement and elimination of waste can result in workplace stress. The use of lean management also requires good relationships with suppliers.

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Overall, despite a number of limitations, the effective use of lean management should benefit a business as it reduces or eliminates waste, improves productivity and minimises costs.

12

(a) Using tables similar to the one used in question 11, outline the strengths and weaknesses of the following strategies.

i. Computer-aided manufacturing

Students should outline at least two strengths and two weaknesses.

Computer-aided manufacturing	
Strengths	**Weaknesses**
CAM allows a business to produce at faster rates at reduced cost.	Computer software can crash, resulting in the possible loss of work or production ceasing.
CAM allows a business's manufacturing process to become computer-directed by controlling the process — computers work without complaint or demands for wage rises, in conditions that at times might be considered monotonous.	Costs of software and systems can be expensive. The costs and time involved in training staff can also deter a business from using this strategy. CAM may also be expensive to maintain or replace.
CAM allows for the exact number of units to be produced with no or few defects, so no excess materials are required and there is no wastage in the process.	The use of this strategy can lead to the loss of jobs, as fewer employees are likely to be required — CAM may replace workers.
CAM can improve standardisation.	

ii. Materials requirement planning

Students should outline at least two strengths and two weaknesses.

Materials requirement planning	
Strengths	**Weaknesses**
Because MRP allows a business to be aware of the materials required in production, it enables the business to avoid overproducing (which is likely to result in an excess of inventory) or under producing (which is likely to result in shortages) — too much inventory can represent a cost to a business, whereas not enough inventory can prevent a business from continuing production.	MRP relies on accurate information — if incorrect information is used, it is likely that errors will occur in the materials planning process.

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MRP can be used by a business to make adjustments to production in response to fluctuations in demand.	The cost of implementing MRP can be inhibitive for many businesses — software and other resources may need to be purchased to facilitate the strategy, and training may also be required.
MRP allows a business to schedule changes when new products are introduced, providing flexibility.	MRP can provide flexibility, but its use may potentially have the opposite effect — using this strategy may result in a business not being able to adapt quickly enough to any changes or problems because all materials needs are tied in to a schedule.
MRP improves efficiency in the location of production resources, providing accurate estimates of materials requirements and delivery dates, allowing the business to control costs.	Once materials are ordered and employees are scheduled to work, it can be difficult to interrupt the process and make changes.

(b) Using the information you have recorded in your tables for part (a), evaluate the use of the following strategies in improving the efficiency and effectiveness of a business's operations.

i. Computer-aided manufacturing

Computer-aided manufacturing (CAM) is the use of software to direct and control the manufacturing process.

One benefit of using the CAM strategy is that allows a business's manufacturing process to become computer-directed by controlling the process — computers work without complaint or demands for wage rises, in conditions that at times might be considered monotonous. CAM allows a business to produce at faster rates and at reduced cost. CAM allows for the exact number of units to be produced with no or few defects, so no excess materials are required and there is no wastage in the process. CAM can also improve the standardisation of a business's product.

However, making use of a computer-directed manufacturing process does not necessarily guarantee the success of a business. Computer software can crash, resulting in the possible loss of work or production ceasing. Another limitation of the use of CAM is that the costs of software and systems can be expensive. The costs and time involved in training staff can also deter a business from using this strategy. CAM may also be expensive to maintain or replace. Further, CAM may replace workers, so the use of this strategy can lead to the loss of jobs, as fewer employees are likely to be required by a business.

Overall, despite a number of limitations, the effective use of CAM should benefit a business, as it improves productivity, reduces defects and minimises costs.

ii. Materials requirement planning

Materials requirement planning (MRP) involves developing an itemised list of all materials involved in production to meet the specified orders.

One benefit of using the MRP strategy is that, because it allows a business to be aware of the materials required in production, the business can avoid overproducing (which is likely to result in an excess of inventory) or underproducing (which is likely to result in

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shortages). Too much inventory can represent a cost to a business, whereas not enough inventory can prevent a business from continuing production. MRP can be used by a business to make adjustments to production in response to fluctuations in demand and it allows a business to schedule changes when new products are introduced — this provides the business with flexibility. Further, MRP improves efficiency in the location of production resources, providing accurate estimates of materials requirements and delivery dates, allowing the business to control costs.

However, making use of MRP relies on accurate information — if incorrect information is used, it is likely that errors will occur in the materials planning process. Another limitation of using MRP is that the cost of implementing MRP can be inhibitive for many businesses — software and other resources may need to be purchased to facilitate the strategy, and training may also be required. MRP can provide flexibility, but its use may potentially have the opposite effect — using this strategy may result in a business not being able to adapt quickly enough to any changes or problems because all materials needs are tied in to a schedule. Moreover, once materials are ordered and employees are scheduled to work it can be difficult to interrupt the process and make changes.

Overall, despite a number of limitations, the effective use of MRP should improve efficiency in a business because the strategy reduces waste and costs. MRP also improves effectiveness because the business can avoid overproducing, which could lead to waste, and underproducing, which would lead to shortages.

3.15 EXAM questions

Question 1 (4 marks)

Compare website development to the use of automated production lines as strategies related to technological developments.

Website development refers to the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products. This is a technological development in the same way as an automated production line.

An automated production line consists of machinery and equipment arranged in a sequence. Components are added to the product as it proceeds through each step, with the process controlled by computers.

Both involve the use of computer programs, computer software and expertise, which leads to improvements in efficiency in the delivery of the product. A difference between the two is that the customer interacts with the website. However, the automated production line is an internal process that directly affects the production process.

Award 1–2 marks for explaining a similarity between the characteristics of website development and automated production lines.

Award 1–2 marks for explaining a difference between the characteristics of website development and automated production lines.

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Question 2 (4 marks)

Compare forecasting with one other materials strategy that a business might implement to maximise the efficiency and effectiveness of the production process.

Forecasting is a materials strategy that involves a business predicting the quantity and timing of demand for its good or service by using past data and future trends. Just in Time (JIT) is a strategy that ensures inventory of materials arrive at the business just as they are needed in the production process.

JIT and forecasting are similar in that both are strategies to improve the efficiency and effectiveness of operations related to materials by reducing the costs associated with materials management and reducing wastage of materials.

Forecasting and JIT both focus on ensuring that costs are minimised by not maintaining large amounts of stock in inventory. Both ensure that the operations system will receive the right amounts of materials that are needed for production.

However, forecasting and JIT differ in that forecasting is a strategy for planning the materials needs of a business, whereas JIT is a strategy that considers when to have materials delivered to the business — so forecasting is concerned with quantity of materials needed while JIT is concerned with when those materials are needed.

Award 1–2 marks for explaining a similarity between forecasting and a second materials strategy.

Award 1–2 marks for explaining a difference between forecasting and a second materials strategy.

Question 3 (4 marks)

Describe one advantage and one disadvantage of website development.

Website development is the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products. One advantage of website development is that the website can be used to generate customer traffic and increases in sales to both local and overseas markets. It can also be used to gather information on customers and analyse this information.

However, designing, registering and publishing a website may initially be expensive and time-consuming for the owner of a business. Websites do crash, so the loss of access to the business when there is a malfunction may prevent customers or other stakeholders dealing with the business. Operating a website may require employees to be trained in website design and maintenance, and a lack of this skill set may lead to employees losing their jobs.

Award 1–2 marks for describing an advantage of website development.

Award 1–2 marks for describing a disadvantage of website development.

Question 4 (5 marks)

Evaluate the use of an automated production line as a strategy for improving the efficiency and effectiveness of a manufacturer's operations system.

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The term 'automated production line' refers to the strategy in which machinery and equipment are arranged in a sequence. Components are added to the good as it proceeds through each step, with the process controlled by computers.

Automated production lines can improve the efficiency of a business, as production is quicker and less subject to human error because the stages are automated and controlled by machines. This should lead to less wastage and may allow the business to meet some of its objectives, especially if they are concerned with quality or profit.

However, automated production is likely to erode a business's profitability in the short term, as it is an expensive and time-consuming operation. It may require an overhaul of the whole production process and may also cause redundancies in the business.

Overall, in the longer-term, it should lead to increased productivity and effectiveness for the business.

Award 1–2 marks for an understanding of an automated production line.

Award 3–4 marks for an analysis of an automated production line for improving the efficiency and effectiveness of a business.

Award 5 marks for an evaluation of an automated production line for improving the efficiency and effectiveness of a business.

Question 5 (4 marks)

Warrnambool Dairy Pty Ltd manufactures milk, butter and yoghurt products. The company makes use of high-quality materials and follows strict standards to guarantee excellence in its products. Propose and justify one strategy that Warrnambool Dairy could use to improve the efficiency and effectiveness of its operations related to technological developments.

The use of technological developments is a strategy that operations managers use to improve the efficiency and effectiveness of operations. One strategy related to technological developments is the use of automated production lines.

If Warrnambool Dairy were to invest in automated production lines for its manufacturing, this would mean that production would be comprised of machinery and equipment arranged in a sequence, with components added to the good as it proceeded through each step.

An automated production line does not need employees directly involved in its operation, as all or part of the process is controlled by automation; that is, it is self-operating or controlling. The butter, yoghurt and milk products could be manufactured quickly and to a consistently high quality, therefore preserving effectiveness.

An automated production line may avoid wastage from human error and may mean that the dairy can increase its production. This increase in efficiency is likely to improve profits.

Award 1 mark for suggesting a strategy.

Award 1 mark for outlining the strategy.

Award 1 mark for justifying how the strategy will improve efficiency.

Award 1 mark for justifying how the strategy will improve effectiveness.

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3.16 Review questions

TEST your understanding

1 **Explain how the operations management area supports the business in achieving its objectives.**

The operations management area ensures that the business produces goods and services. Without a product, the business would not achieve its objectives. Operations strategies including management of materials, quality, waste and use of technology to support the business in achieving its objectives.

2 **Distinguish between efficiency and effectiveness.**

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is 'doing the right things'. For example, if a business's objective was to make profit, and it did so, then we would say it has been effective in achieving its objectives.

In contrast, efficiency refers to how well a business uses resources to achieve objectives. In other words, the business is 'doing things right'. For example, if a business improves productivity or reduces the amount of waste produced while achieving its objectives, then this is considered to be efficient.

3 **Compare the operations of a manufacturer and a service business.**

The operations within a manufacturer and a service business are similar in that they both focus on maximising efficiency and effectiveness. There is also a similarity in the elements of their operations systems, which both include inputs, processes and outputs. Both manufacturers and service businesses make use of strategies including technological developments, management of materials, quality and waste minimisation.

However, manufacturers and service businesses differ in that a manufacturer transforms inputs into tangible products (goods), while a service business does not. Tangible products can be handled and stored before they are sold to the consumer. Examples of tangible products include bread, clothing and a car. The production process and consumption are not linked, so there is little customer involvement in production.

In contrast, a service business transforms inputs into intangible products. They cannot be touched. Services cannot be stored and the customer may actually need to be present when the service is being delivered. Furthermore, manufactured goods tend to be homogenous or standardised, whereas services tend to be differentiated or tailored to individual customers.

4 **Explain the three elements of an operations system, using examples.**

The three elements of an operations system are inputs, processes and outputs. Inputs are the resources used in the process of producing a good or service, and include materials such as raw materials, components and parts, capital equipment such as factories and robotics, labour such as staff and management, information and time. Processes refer to the transformation or conversion of inputs into outputs, such as combining the materials, manufacturing, assembly and quality control. Output is the end result of a business's efforts — the good or service that is delivered or provided to the consumer, such as a car.

5 **Outline how technology can be used to improve operations.**

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Technology can be used to speed up manufacturing processes and enable fuller utilisation of raw materials. Both goods and services can be produced using less labour. These factors make the operations process more cost-effective. Technology can improve quality, leading to increased profitability. Office and communications technology has enabled whole markets to open up, as businesses can reach more customers around the world.

6 Suggest the benefits for operations of a business developing a website.

Developing a website allows a business to make it easier for customers to purchase goods or services online or to share information. The business's website can also be developed to increase the amount of information the business receives from its customers. It can then analyse this information.

The website of a business may also be developed to provide information to employees, customers and suppliers. In this way, a website can be beneficial in delivering consistent messages to customers and suppliers.

The development of a website can also be beneficial in gaining feedback from customers. A website means that a business is accessible 24 hours a day, 7 days a week.

A website also reduces the costs of labour and of leasing or purchasing physical space.

7 Explain what is meant by the term 'automated production line'.

The term 'automated production line' refers to the strategy where machinery and equipment are arranged in a sequence with components added to the good as it proceeds through each step, with the process controlled by computers.

8 Differentiate between computer-aided design (CAD) and computer-aided manufacturing (CAM).

Computer-aided design (CAD) is a computerised design tool that allows businesses to create product possibilities from a series of input parameters and modify them. Computer-aided manufacturing (CAM) is software that controls the process of producing a product.

9 Explain why materials management is such an important strategy for optimising operations.

Materials management is important because it deals with the use, storage and delivery of materials, so that the right amounts of inputs are available when required in the operations system.

10 Why do businesses use forecasting in the area of materials management?

Businesses use forecasting in the area of materials management to develop a production plan and reduce the uncertainty of future events. A business needs to forecast the quantity and timing of demand for its good or service and then match supply with demand. This will allow the business to decide what goods or services to produce, how to produce them and in what quantity. In this way, it can estimate or predict what materials are needed, and in what quantities. A business may also forecast the costs of materials and transportation.

11 Differentiate between the master production schedule (MPS) and materials requirements planning (MRP).

A master production schedule (MPS) describes what is to be produced and when. It is a schedule linked to specific delivery dates or contracts for delivery in the future. It is important that the productive capacity of the organisation has been correctly assessed because inability to meet this schedule may have serious business implications.

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Materials requirements planning (MRP) is completed after the business has a clear understanding of the quantities to be produced and the time frame involved. It is an itemised list of all materials involved in production to meet the specified orders. Such planning must consider:

- lead times required by suppliers
- the exact number of inputs to complete the task
- the amount of stock (inventory) on hand
- purchasing procedures — for example, bulk purchasing discounts.

12 Identify the benefits and costs of using Just in Time as an inventory system.

The Just in Time (JIT) strategy makes sure that the right amount of materials arrive just as they are needed for production. This ensures that production will continue to flow smoothly. JIT also ensures that the business is not oversupplied with materials, so that resources are not expended on maintaining large stockpiles. In this way, it can improve efficiency. It can reduce storage costs and can reduce the risk of any waste occurring in storage, thus increasing efficiency and effectiveness.

However, quantities of materials and supplier deliveries must be reliable. If materials are not delivered on time, production will be held up, because there is not a large inventory from which to draw on.

13 Analyse how quality management can contribute to a business's competitiveness.

Quality management is the strategy a business uses to make sure that its product meets customer expectations. It should result in a better-quality product and, in the longer term, a business may benefit from cost savings in waste reduction, as the strategy will help to eliminate defective products.

As a business meets or exceeds customer expectations with this product, it should become more competitive. This is because customers will be more likely to buy the business's product if they perceive it as being higher quality than the products of competitors. This will increase sales and profits for the business.

14 Describe the main differences between quality control and quality assurance.

The main difference between quality control and quality assurance is that quality control involves the use of inspections at various points in the production process to check for problems and defects, whereas quality assurance involves the use of a system where a business achieves set standards in production. Businesses use the system or standards to assure customers that their product is a quality one.

15 Explain what is meant by Total Quality Management (TQM).

Total Quality Management (TQM) is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business.

The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. A number of approaches may be used, such as employee empowerment, continuous improvement (a constant evaluation of, and improvement in, the way things are done) and an improved customer focus.

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16 **Define 'waste minimisation'.**

Waste minimisation is a process that involves reducing the amount of unwanted or unusable resources created by the business's production process in an attempt to improve the efficiency and effectiveness of operations.

17 **Explain the concept of recycling in the production process.**

Recycling is changing discarded materials into new products in order to avoid using more virgin resources.

18 **Outline the main principles of lean management.**

Lean management aims to improve the efficiency and effectiveness of operations by eliminating waste and improving quality. Waste is anything that reduces the speed of production or stops production occurring at the lowest possible cost. As waste is reduced, production times and costs are cut.

Lean management suggests that a business can eliminate waste by reducing transportation, reducing defects (or errors), avoiding excess motion, avoiding overproduction, avoiding excess inventory, eliminating waiting time and avoiding overprocessing.

19 **What are the benefits and costs of operations managers acting in a socially responsible manner?**

Behaving in a socially responsible manner can improve the reputation of a business, leading to more sales. Being socially responsible and avoiding excessive waste can lead to improved efficiency and can reduce costs in the longer term. However, it can be expensive and time-consuming to manage an operations system in a socially responsible way.

20 **Provide three examples of issues related to corporate social responsibility that may arise in operations management.**

Some corporate social responsibility issues that may arise in operations management are the impact of inputs on the environment (for example, using suppliers who make use of sustainable ingredients), the amount of waste generated from processes (for example, aiming to recycle or reuse waste – perhaps in another part of the production process), and the amount of waste generated from the production of outputs (for example, reducing the amount of material used in packaging).

21 **Explain what the term 'global sourcing of inputs' means.**

The term 'global sourcing of inputs' refers to the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas.

22 **Distinguish between overseas manufacture and global outsourcing.**

Overseas manufacture is the production of a good in a country that is different from the location of the business's headquarters, whereas global outsourcing is the contracting of a specific business operation to an external person or business in another country.

The main difference between the two terms is that overseas manufacture involves a business maintaining control over its production in another country, whereas global outsourcing is about contracting part of the business's operations (usually non-core) to an external person or business in another country.

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APPLY your understanding

23 **Choose a real-life example of a manufacturer and a service business. For each example, outline the inputs, processes and outputs of their operations.**

Students could choose from many real-life examples of manufacturing and service businesses, either using examples from the text, their own knowledge or the internet. For example, the text has explored much of Toyota's operations. In regard to inputs, Toyota uses raw materials which would include steel, water and electricity. Toyota also uses components and parts. Other inputs at Toyota include capital equipment (its manufacturing facilities, machinery and equipment), human labour (process workers, machinery operators and managers), information (advances in technology and research) and time. Toyota's processes include taking materials and transforming them through manufacturing into vehicles. The automobiles and commercial vehicles will firstly need to be designed, then manufactured and checked for quality, and then transported. For Toyota, its output is its range of automobiles and commercial vehicles.

A physiotherapy practice is an example of a service business. This business has inputs of labour and equipment such as specialist walking aids, or neck braces for patients who have been injured. A physiotherapist may also use inputs such as oils and gels to relieve pain in patients. The process is inseparable from the customer, mainly the labour is applied to the patient to manipulate muscles or help a patient to move. The output is intangible and cannot be seen as a physical product. The output may be an improvement in mobility for example.

24 **One strategy used to improve operations is the use of technology. For example, if a business used labour-intensive operations (making extensive use of people to do the work) to manufacture cars, it may not be as efficient as another business using automated equipment. Complete the following table by listing (and explaining where necessary) strategies that an operations manager could use to achieve the stated business objectives. The first answer has been completed for you.**

Business objective	Operations strategy
Increase the quality of customer service	**Technology — introduce customer relationship management system**
Increase the quality of the product	Quality control — inspect products to check for problems and defects
Reduce production costs	Materials management — use Just in Time to ensure that costs are minimised
Improve domestic and international competitiveness	Total Quality Management — apply quality to all aspects of the business so that the product becomes more competitive
Reduce waste	Waste minimisation — reducing the amount of unwanted or unusable resources produced by a business will improve efficiency and effectiveness at the same time as ensuring there is no wastage

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Business objective	Operations strategy
Improve productivity	Forecasting — will ensure that the business maintains an appropriate level of materials for the operations system without overproducing or underproducing. Making use of the right amount of inputs should assist the business to improve productivity.
Reduce the number of accidents	Technology — use robotics, which does not make mistakes
Improve work flow	An automated production line — machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step, with the process controlled by computers, will allow production to flow smoothly

25 **Select a large-scale business such as Australia Post or Coca-Cola Amatil Limited and list three of its business objectives. You could find this information on its website, in its annual report or in speeches made by one of its executive managers. For each objective, outline what strategy the operations manager could use to help achieve the goal.**

Typical objectives of many businesses focus on creating long-term value, valuing staff, behaving responsibly and satisfying customers. Regardless of the examples that students choose, the operations manager would use strategies related to technological developments, materials, quality and waste minimisation in the production process.

As an example, Australia Post's strategic objectives for the period 2017–21 include running the business efficiently and well, creating a customer-centric culture, accelerating its business in eCommerce Delivery, and designing and scaling business in eCommerce Services. These objectives point to a focus on customers and, in particular, delivery of parcels, due to increases in eCommerce. The business may wish to focus on technological developments to achieve these, particularly around website development for track and trace of parcels.

3.16 EXAM questions

Question 1 (4 marks)

Source: VCE 2017, Business Management Exam, Section B, Q.2; © VCAA

Explain a strategy that Shandra's Dairy Ltd could use to improve the efficiency and effectiveness of its operations in relation to materials.

Shandra's Dairy Ltd could make use of the Just in Time approach. This is where the right amount of materials arrive in operations just as they are needed. Using the JIT approach would improve efficiency as it would ensure that the business is not oversupplied with materials so that resources are not expended on maintaining large stockpiles and production can continue to flow with the right amount of materials arriving when needed. It can also improve effectiveness as by ensuring that materials arrive to order at Shandra's Dairy Ltd, they will consistently have the right quantities that are required to meet dairy production.

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Award 1–2 marks for the outline of the strategy.

Award 1 mark for the link between the strategy and efficiency linked to the case study.

Award 1 mark for the link between the strategy and effectiveness linked to the case study.

Question 2 (4 marks)

Source: VCE 2017, Business Management Exam, Section B, Q.3; © VCAA

Shandra's Dairy Ltd currently uses quality control as a strategy to improve the effectiveness of its operations. Compare quality control with one other quality strategy that Shandra's Dairy Ltd could implement to maintain the overall excellence of its products.

Quality control is where the business ensures its goods or services adhere to a set of quality criteria by performing checks at regular intervals during production. Whereas total quality management is a system based on the principle that every member of staff is committed to maintaining high standards of work in all aspects of operations. Both of these strategies can be implemented by a business to see a significant improvement in the standard of quality of outputs. Both of these strategies also incorporate the use of corrective action by staff to ensure that defects are minimised and outputs meet expected value. However, quality control is reliant upon developing an initial set of standards to which the quality of items are compared to, whereas total quality management is focused on ongoing improvements and developments that are mediated by employees. In QC, employees are only involved in performing the checks and are less empowered, whereas in TQM they are empowered to find solutions and innovations.

Award 1–2 marks for similarities between the two quality systems.

Award 1–2 marks for differences between the two quality systems.

Question 3 (4 marks)

Analyse the relationship between business objectives and operations management.

Operations management is responsible for producing the business's good or service. This area of management is concerned with the strategies that are used to create, operate and control the transformation of inputs from a variety of resources into output, or goods and services, to satisfy the demands of customers.

Through the use of strategies such as quality management, technological development, management of materials and waste minimisation, the operations management area supports the attainment of objectives. Business objectives are the desired outcomes or specific results that a business sets out to achieve. The core objective of all businesses is to maximise profit. This aim therefore requires businesses to efficiently use resources to produce goods or services at the lowest possible cost.

Operations management is responsible for achieving this objective — without an operations area of management, a business would have no product and, therefore, would not be able to achieve its objectives. Ultimately, a business's operations influences the cost, quality and availability of the company's product, which supports the attainment of objectives such as increasing profit, along with increasing market share and providing customers with quality goods and services at low prices.

Award 1 mark for demonstrating an understanding of operations management.

Award 1 mark for demonstrating an understanding of business objectives.

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Award 1 mark for explaining the relationship or link between operations management and business objectives.

Award 1 mark for further detail explaining the link between operations management and business objectives.

Question 4 (6 marks)

Outline three differences between the operations of a service business and the operations of a manufacturing business. Illustrate your answer with examples from a business you have studied this year.

One difference between the operations of a service business and the operations of a manufacturing business is that service businesses transform inputs into services, or intangibles, which means that they cannot be touched or stored, whereas manufacturing businesses, such as Tatura Milk Industries, transform inputs into physical goods, or tangibles, which can be handled and stored before they are sold to consumers. For example, Tatura Milk manufactures dairy products — physical goods which can be handled and stored for later use.

Another difference is that service businesses will have high levels of customer interaction because consumption usually occurs while a service is being produced. In contrast, for manufacturing businesses, such as Tatura Milk, there is little to no consumer interaction because the consumption of goods occurs after production. For example, the customer is not present during the processes that Tatura Milk uses to produce its dairy products.

A third difference is that service businesses produce services that tend to be differentiated; that is, they are provided to individual customers and are modified to suit each customer. Conversely, the goods provided by manufacturing businesses such as Tatura Milk tend to be homogenous, which means that they are basically all the same or similar. For example, Tatura Milk's dairy products are essentially identical or similar.

Other differences include:

- production and consumption usually occur simultaneously for a service business**,** whereas they typically occur separately in manufacturing
- services cannot be stored while manufactured goods can be stored
- the processes of service businesses are typically labour intensive and rely heavily on interaction with the customer whereas the processes of manufacturing businesses tend to be highly automated and capital intensive (with little to no consumer interaction).

Award 1–2 marks for outlining a difference between the operations of a service business and the operations of a manufacturing business, using a relevant example of a business (repeat for fourth and sixth marks).

Question 5 (6 marks)

Explain the elements of an operations management system. In your response, refer to a contemporary business that you have studied this year.

The elements of an operations management system are inputs, processes and output.

Inputs are the resources used in the process of producing a good or service. One input is materials. Mars is a manufacturer that uses materials including raw materials such as cocoa, milk powder, sugar, as well as water and electricity. Mars also uses cardboard and plastic for packaging. Other

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inputs at Mars include capital equipment (its manufacturing facilities, machinery and equipment) and human labour (its associates — management and staff who work for the company). Mars also makes use of information (advances in technology and research) and time.

Processes involve the conversion of inputs into output. Mars takes cocoa, milk powder and sugar and transforms them through manufacturing into chocolate. The chocolate undergoes a process of milling, conching (mixing the milled ingredients with liquid ingredients), and finally tempering. Appropriate centre fillings are added on the production line and the products are packaged, and then transported to wholesalers and/or retailers.

Output is the end result of the business's efforts — the finished good or service that is delivered or provided to the consumer. For Mars Chocolate, this is its range of chocolate, including Mars bars, Snickers bars, M&Ms and Maltesers.

Award 1–3 marks for explaining the element(s) of an operations management system.

Award 1–3 marks for providing examples relevant to a key element.

Question 6 (4 marks)

Compare the use of automated production lines to computer-aided design.

Automated production lines and computer-aided design both involve the use of computers and computer software. Automated production lines and computer-aided design are similar strategies in that both are technological developments that focus on improving the efficiency and effectiveness of operations. However, automated production lines comprise machinery and equipment arranged in sequence with components added to goods as they proceed through each step, whereas computer-aided design is a computerised design tool that allows a business to create product possibilities from a series of input parameters. The goods produced on automated production lines typically move along the line on conveyer belts with processes controlled by computers, whereas computer-aided design software allows a designer to generate three-dimensional diagrams that can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced.

Award 1–2 marks for explaining a similarity between automated production lines and computer-aided design.

Award 1–2 marks for explaining a difference between automated production lines and computer-aided design.

Question 7 (6 marks)

Evaluate the use of Just in Time in relation to improving the efficiency and effectiveness of operations.

The Just in Time strategy makes sure that the right amounts of materials will arrive just as they are needed for production. This can reduce storage costs because the business no longer needs to maintain large stockpiles of materials in inventory. Production can continue to flow, with materials arriving just as they are needed.

Just in Time also reduces the risk of any waste occurring in storage. Because less stock is kept in inventory, there is less likelihood that resources will be lost due to theft, damage or spoilage. As fewer resources are used, productivity is likely to increase. As the costs associated with waste and faults are reduced, efficiency (how well a business uses resources to achieve objectives) should increase. Further, reduced costs — from both a reduction in waste and from the reduced storage

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costs — should also have a positive impact on effectiveness (the degree to which a business accomplishes the objectives it set out to achieve).

However, a limitation of using the Just in Time strategy can be delays. Any delay is a waste that could reduce efficiency. Just in Time relies on materials being delivered just as they are needed in production. If materials are not received at the appropriate time, there is a possibility that the whole production process could be shut down. If the production process shuts down, and the business cannot meet demand, sales will reduce; this will have the effect of reducing effectiveness. Supplier deliveries must be reliable — the right materials need to be received, in the right quantities and in the right places, just before they are required in the production process. If this does not occur, this can also reduce efficiency and effectiveness.

Overall, despite some limitations, the effective use of Just in Time should improve efficiency in a business because the strategy reduces waste and costs. Just in Time also improves effectiveness because the business can avoid costs, through reducing waste and reducing the costs involved in storage.

Award 1 mark for explaining an advantage/benefit of Just in Time in relation to efficiency.

Award 1 mark for explaining an advantage/benefit of Just in Time in relation to effectiveness.

Award 1 mark for explaining a disadvantage/limitation of Just in Time in relation to efficiency.

Award 1 mark for explaining a disadvantage/limitation of Just in Time in relation to effectiveness.

Award 1 mark for an overall conclusion or judgement regarding Just in Time in relation to efficiency.

Award 1 mark for an overall conclusion or judgement regarding Just in Time in relation to effectiveness.

Question 8 (4 marks)

Sandra's marketing consultancy business has received complaints from customers that the quality of its service is poor. Propose and justify a strategy related to quality that Sandra's business could use to improve the efficiency and effectiveness of its operations.

A strategy related to quality that Sandra's business could use to improve the efficiency and effectiveness of its operations is quality assurance. This strategy makes use of a system so that a business achieves certified standards in production. For example, many businesses use the ISO 9000 series of standards. Quality assurance is a proactive strategy that prevents quality issues before they occur. If Sandra's marketing consultancy business implemented quality assurance, all employees would be responsible for quality, not just those directly involved in production.

Quality assurance would be an appropriate strategy for Sandra's business to use to improve the efficiency and effectiveness of its operations. Quality assurance should reduce any problems in Sandra's marketing consultancy business's product. As the costs associated with waste and faults are reduced, efficiency (how well a business uses resources to achieve objectives) 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 the marketing consultancy business'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 (the degree to which a business accomplishes the objectives it set out to achieve). Further, as costs are reduced, the likelihood of the business making a profit increases; in this way quality should also impact positively on the marketing consultancy business's effectiveness.

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Award 1 mark for suggesting a strategy related to quality.

Award 1 mark for outlining the strategy related to quality.

Award 1 mark for justifying how the strategy could be used to improve the efficiency of Sandra's business operations.

Award 1 mark for justifying how the strategy could be used to improve the effectiveness of Sandra's business operations.

Question 9 (8 marks)

Propose and evaluate one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process.

One strategy for improving the efficiency and effectiveness of a business's operations in relation to waste minimisation is the adoption of the 3R strategy — reduce, reuse and recycle. This is a structured approach that allows all employees to be aware of the processes implemented and this can form part of the training of new employees and be built into the culture of the business.

Reducing is achieved by creating less waste. In doing so, a business is able to decrease its costs, which improves efficiency. Lower costs of production can often lead to an increase in profits and so operations become more effective. The process of reducing waste stops the problem of waste generation at its source — this means there is less waste generated and so less waste to be cleaned up or disposed of. Again, this is an example of decreasing the costs of a business and so improving the efficiency and effectiveness of operations.

Reducing waste can be achieved through the use of Just in Time (JIT) whereby resources are delivered to the business just as they are needed for production. This reduces the chance of resources being lost through damage, theft or spoilage and reduces the costs of storing of these resources. A quality management system can also be implemented so defective products are reduced, meaning fewer products are disposed of.

Reusing is taking old or unwanted items you might otherwise throw away and finding a new use for them. Once an item has been used for its intended purpose, it may be possible to repurpose it and reuse it in another way. One such example gaining popularity is the reuse of CDs and DVDs. Owing to the growth of streaming services such as Netflix, Stan, YouTube and a host of others, the appeal of purchasing CDs or DVDs has decreased. CDs and DVDs are comprised of useful materials that can be reused — mainly polycarbonate and aluminium. These recovered materials can be reused to make other products such as water bottles, food trays and safety goggles.

Carlton & United Breweries, who make beer, reuse the barley used in production to make a high protein food for pigs. This reuse saves money on disposal and also generates profit through the sale of the barley. This improves efficiency as waste and costs are minimised, as well as helping to generate a profit which improves effectiveness.

Recycling is the most common and well-known waste minimisation strategy. Recycling is changing discarded materials into new products in order to avoid using more virgin resources. If a business is able to use recycled materials in its production process, it can reduce costs. Alternatively, if the business produces goods that are packaged in recyclable material, this will benefit the community and the environment and create a positive image for the business.

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Global marking may be used:

1–2 marks for demonstrating an understanding of a waste minimisation strategy that will improve the efficiency and effectiveness of operations.

3–4 marks for an analysis of how the waste minimisation strategy will improve the efficiency of the operations.

5–6 marks for an analysis of how the waste minimisation strategy will improve the effectiveness of the operations.

7–8 marks for an evaluative response on how the waste minimisation strategy will improve the effectiveness and efficiency of operations.

Question 10 (4 marks)

Describe two corporate social responsibility considerations in an operations system.

One corporate social responsibility consideration in an operations system is the environmental sustainability of inputs. This consideration involves management ensuring that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). Management might, for example, invest in energy-efficient equipment or source ingredients from suppliers who make use of sustainable methods of production. Alternatively, a business might purchase inputs from local suppliers (rather than from overseas) to reduce emissions as a result of transportation.

Another corporate social responsibility consideration in an operations system is the amount of waste generated from processes and production of outputs. This consideration might involve, for example, the business choosing not to make use of cheaper, illegal waste disposal methods. Alternatively, management could decide to reduce the amount of waste sent to landfill from the production process. A business might decide that part of the transformation process should involve recycling and remanufacturing of materials or waste. Management might also examine how the business's outputs are produced, packaged and marketed. For example, the amount of material and energy used in the business's packaging process could be reduced, as well as ensuring that recycled materials are used in packaging.

Award 1–2 marks describing one corporate social responsibility consideration in an operations system.

Award 1–2 marks for describing a second corporate social responsibility consideration.

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Solutions

Unit 4: Transforming a business

Area of Study 1: Reviewing performance — the need for change

Topic 4: Reviewing performance — the need for change

4.2 The concept of business change and approaches to change

TEST your understanding

1 **Outline the meaning of the term 'business change'.**

Business change is a term that describes the process by which a business adopts a new idea or behaviour, such as a policy, procedure or method of operation that differs from its current *modus operandi*. It comes about because of any alteration to the processes, practices, operations or structure of the business.

2 **Explain the difference between proactive and reactive approaches to change.**

Proactive change is the transformation that occurs by choice *prior to* a pivotal or significant development that makes some change or adjustment necessary or inevitable. Reactive change is the adjustment that occurs in a business *in response to* the impact of certain influences such as changes to government regulation, to the legal system, or to the position or demands of shareholders/owners, employees or the community.

A proactive change would be if a manufacturer *chooses* to make alterations to its design and manufacturing processes before legislative changes are made.

A reactive change would be if a manufacturer is *forced* to make the necessary changes to design and manufacturing processes after legislative changes are made. Public perception would be of a car maker slow to respond to regulated safety changes and even ill-equipped to manage changes. Its competitors would have a clear advantage. Reactive changes are often more hurried, less well administered, less flexible and less effective than proactive changes.

3 **Explain why a business should adopt a proactive approach when dealing with change.**

Adopting a proactive stance allows a business to always be prepared for a change. Managers and employees will be less resistant to change, as they have a clearly defined process that will allow the business to change smoothly.

Being proactive will also allow a business to be a market leader and possibly gain an advantage over competitors.

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4 **'It doesn't matter about the size of the change or the size of the business. What's important is the effect of the change.' Analyse this statement.**

The statement is correct. Change is important for any business as, while it can cause disruption and fear, it can also bring improved performance. Businesses need to focus on the effect the change will have on the business performance and the achievement of objectives, and not focus on the size of the change.

However, the size and the effects of the change will need to be managed properly. Businesses need to focus on how the change will affect employees, customers and other stakeholders and ensure the change occurs and is managed smoothly.

APPLY your understanding

5 **Read the case study 'Commonwealth Serum Laboratories (CSL)' in section 4.1.1.** Discuss whether CSL is likely to approach change in a proactive or reactive way.

A discussion requires consideration of two sides of an argument or statement. Students may discuss the following:

- CSL has a proactive approach to change because they carry out continual research and development
- CSL has a proactive approach to change because they constantly carry out innovation across many areas
- CSL has a proactive approach with the planned acquisition of Swiss pharmaceuticals firm Vifor, which will allow CSL to diversify further
- CSL may be acting in a reactive way in response to what their competitors are doing.

6 **Access recent news articles about a contemporary business with which you are familiar.** Outline **the following:**

- **the business and its product or service**
- **a change that the business has faced**
- **the approach that the business took towards the change.**

Students may choose to access articles about CSL, Telstra or another contemporary business of their choice.

4.2 EXAM questions

Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.2; © VCAA

Managers can take either a proactive or a reactive approach to change. Describe how each of these approaches can be used to manage change.

A proactive approach to change refers to the situation where a change is planned and occurs before a business is affected by pressures in their environment. Being proactive means that the change is well planned before the business has had the chance to encounter any pressures.

A reactive approach to change, however, occurs when a change is unplanned, and takes place after the business has been affected by the pressures from its environment. It is less effective in managing

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change for the business, as the business has already been affected by the change, potentially causing a loss in productivity or sales due to failure to recognise that the change was imminent. The failure to respond immediately to the change can also reduce the time available to the business to recover.

Award 1–2 marks for a description of a proactive approach to change.

Award 1–2 marks for a description of a reactive approach to change.

Question 2 (2 marks)

Describe the concept of business change.

Change is any alteration in internal or external environments; for example, change in consumer tastes or change in employee expectations. It could also be a change to the way things are perceived, or a new way of dealing with problems. Change can be relative — what a small business considers a major change may be minor to a large company, such as the purchase of new equipment.

Award 1–2 marks for a description of the concept of change.

Question 3 (3 marks)

Explain why it is important for a business to manage change effectively.

Change is any alteration in internal or external environments; for example, change in consumer tastes or change in employee expectations.

It is important to manage business change effectively because all businesses face change. Some of these changes are forced on a business, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business's competitive advantage and long-term survival.

Award 1 mark for an understanding of the concept of business change.

Award 2–3 marks for an explanation of why it is important for a business to manage change effectively.

4.3 Key performance indicators — analysis of business performance

TEST your understanding

1 **Outline what is meant by the term 'key performance indicator'.**

Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance.

2 **Explain why net profit is an important performance indicator.**

Net profit determines the profit made by the business in performing its day-to-day activities. Investors will look at net profit figures very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a significant profit is considered to have performed successfully.

3 **Outline why productivity is an important key performance indicator.**

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Productivity allows the business to assess efficiency by looking at the outputs produced for a certain level of input. Efficiency refers to how well a business uses the resources needed to achieve a goal. The most efficient use of resources occurs when benefits are greater than the costs of resources employed.

4 **Define 'staff turnover'.**

Staff turnover measures the number of staff who are leaving the business, for whatever reason, and need to be replaced. This is an important indicator for the human resources area of management. Some staff turnover is always to be expected as employees move on to new businesses for a variety of reasons including promotion, or relocation.

5 **Outline how reducing waste can cut costs.**

When a business creates waste, it means that additional resources are needed or additional products must be produced. This involves additional costs because staff and equipment are required. Some waste also leads to costs incurred in cleaning up the waste. Reducing waste would cut these costs.

APPLY your understanding

6 **In groups of three or four, discuss what is likely to happen when a business's performance:**
a) does not meet customer expectations
b) meets customer expectations
c) exceeds customer expectations.
Choose a spokesperson to share your group's comments with the rest of the class.

Answers will vary according to each group but points to consider include:

- customers will leave the business and change will need to occur to better meet customer expectations
- the business can keep doing what it is doing, but identify areas for improvement
- the business can celebrate its success and build upon what it is currently doing.

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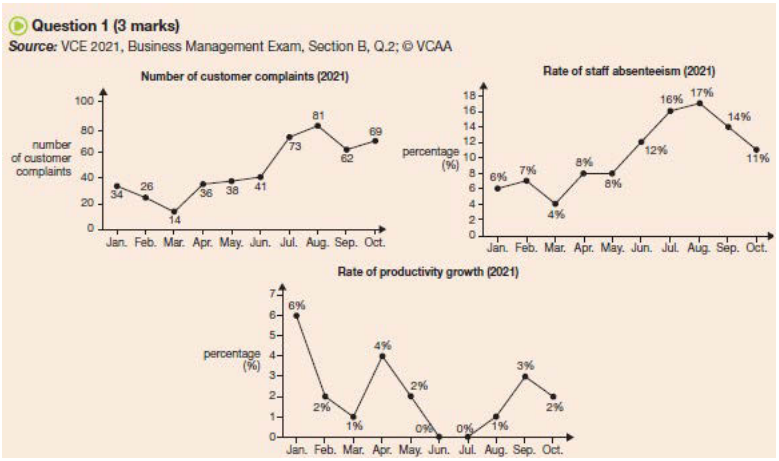
7 **Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below, outline how the key performance indicators in section 4.3.3 can be used to evaluate performance. The first entry has been completed for you.**

Business objective	Key performance indicator	How the KPI can be used to evaluate performance
1. Maximise profit	**Net profit figures**	**An improvement in net profit means a business has improved its productivity, either by earning more revenue or by reducing expenses and costs.**
2. Increase sales	Number of sales	Determine if enough is being spent on marketing, or if the type of marketing is appropriate
3. Improve productivity	Rate of productivity growth	If the number of outputs has risen, the business is using resources more efficiently
4. Increase market share	Percentage of market share	Determine whether products are priced competitively and marketing is working
5. Meet safety standards	Number of workplace accidents	Can provide data about training and induction processes
6. Improve retention of employees	Level of staff turnover	Determine whether business cares for employees, or if an opportunity for promotion and advancement exists
7. Reduce workplace waste	Level of wastage	Indicates the efficiency of business processes

4.3 EXAM questions

Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.2; © VCAA



Using the data provided in the graphs, explain the relationship between the rate of staff absenteeism and the number of customer complaints.

The number of customer complaints refers to the number of customers who contact the business to express their disappointment with the business, or the goods or service purchased. The level of staff absenteeism measures the number of staff who do not turn up for work when they are scheduled to do so.

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The graphs show that there is a positive relationship between rate of staff absenteeism and the number of customer complaints. As staff absenteeism increases to 17% in August, customer complaints also reach a peak of 81 at the same time. This shows that one may cause the other; i.e., when the staff absenteeism rate is high, customer complaints increase.

Award 1 mark for an understanding of the key terms 'staff absenteeism' and 'customer complaints', or a limited explanation of the relationship between the rate of staff absenteeism and the number of customer complaints.

Award 2–3 marks for an explanation of the relationship between the rate of staff absenteeism and the number of customer complaints in application to the graphs.

Question 2 (8 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.3a&b; © VCAA

The manager of Wilkinson's Window Tinting was disappointed with the performance of the business after one year of trading. As a result, she decided to purchase new machinery and automate the tinting process. At the end of the second year of trading, the manager examined a range of key performance indicators in order to assess the extent to which this change had been successful.

Key performance indicator	Year 1	Year 2
net profit figure	$47 000	$23 000
rate of productivity growth	2%	8%
number of customer complaints	112	28
rate of staff absenteeism	average of four days per year per staff member	average of 12 days per year per staff member

a. **Define the term 'key performance indicator'.** **(2 marks)**

Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance in terms of achieving its objectives. Businesses use key performance indicators (KPIs) to evaluate performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business's performance. They can also provide data that can act as a driving force for change for a business. Typical key performance indicators include percentage of market share and net profit.

Award 1 mark for a limited definition of the term 'key performance indicator'.

Award 2 marks for a comprehensive definition of the term 'key performance indicator'.

b. **With reference to the data above, analyse the extent to which the purchase of the new machinery has assisted Wilkinson's Window Tinting in improving the performance of the business. (6 marks)**

The following is an example of a high-scoring response.

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The new machinery has helped in improving productivity as it has increased by 6% over one year. This means that the resources (such as time to make the tinting) have been used well (less time needed now with the automated process). This has improved the business' performance because they are saving time and being more efficient.

Another advantage that the introduction of the machinery has brought is the reduction in number of customer complaints. Perhaps the new technology has allowed for the quality of the windows to improve which has satisfied Wilkinson's Window Tinting, as the number of customer complaints is now only 28, in contrast to Year 1 where it was 112.

Despite these advantages, the key performance indicators for net profit figures shows that the introduction of this technology has been expensive and therefore their profit has drastically decreased by 24,000 dollars. Since net profit refers to the amount left over once expenses (including the introduction of technology) is subtracted from revenue earned, then it means that the technology was expensive and therefore they have less profit; meaning that currently they will have to examine their expenses as profit is essential to the business' performance. In addition, the rate of staff absenteeism has increased by an average of 8 days per year per staff member meaning that perhaps the introduction of technology has caused the employees to feel no longer valued as they have been previously the ones doing the tinting. Thus, as employees are a valuable asset to a business' performance, then a lack of them throughout the year suggests that they are not performing as well as in Year 1.

This response can be marked globally.

Award 1–2 marks for a limited response that provides some link between the purchase of new machinery and the performance of the business.

Award 3–4 marks for a response that provides an analysis of the link between the purchase of new machinery and the performance of the business. There is some reference to the data.

Award 5–6 marks for a response that provides a thorough analysis of the link between the purchase of new machinery and the performance of the business, referencing the data consistently.

Question 3 (3 marks)

Describe the key performance indicator 'number of customer complaints'. Outline how an increase in this indicator may impact the achievement of one business objective.

The number of customer complaints is the number of customers who express their dissatisfaction with the business, or its products and services, in some formal way. An increase in this key performance indicator means the business may be losing repeat customers due to poor service or quality and this can reduce profit, which is an objective of the business.

Award 1–2 marks for a description of the key performance indicator 'number of customer complaints'.

Award 1 mark for an outline of how an increase in this indicator may impact the achievement of one business objective.

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Total of 3 marks

Question 4 (3 marks)

Describe the key performance indicator 'number of website hits'. Outline how a decrease in this indicator may impact the achievement of one business objective.

A 'hit' on website is registered whenever a web page receives a visitor (or a 'hit'). In technical terms, there may be many 'hits' once a potential customer visits a web page, since a web page can contain multiple files, such as images and texts, which are 'downloaded'. If the number of customers visiting a business's site begins to fall, this may affect the business's level of sales. In turn, this might affect the objective of achieving a certain level of profits.

Award 1–2 marks for a description of the key performance indicator 'number of website hits'.

Award 1 mark for an outline of how a decrease in this indicator may impact the achievement of one business objective.

Question 5 (3 marks)

Explain the link between a rising rate of staff absenteeism and the level of staff turnover.

If staff are unhappy in their workplace, they may often avoid turning up to work when they are scheduled to do so. This is known as staff absenteeism. When staff absenteeism is high, it indicates that staff are demotivated. In this case, they may seek work elsewhere. If this happens, the level of staff turnover will also be high. So, there is a positive link between the two.

Award 1 mark for a limited understanding of the key terms or limited link between the terms.

Award 2–3 marks for an explanation of the link between the key terms.

4.4 Key principles of the Force Field Analysis theory (Lewin)

TEST your understanding

1 **Explain what is meant by Force Field Analysis.**

A Force Field Analysis is a means of determining the forces that promote change and those that resist change. When a Force Field Analysis is carried out, a business can identify driving forces. These are the forces that initiate, encourage and support a change. The business may also identify restraining forces. These work against the change, creating resistance — in other words, they hinder the achievement of a business's goal.

2 **Define 'driving forces' and 'restraining forces', providing an example of each.**

Driving forces are those elements that initiate, encourage and support change and see the value of change (such as new technology, legal changes and new management structures).

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Restraining forces are those forces that work against the change, such as time, cost and employees.

3 Outline the steps involved in developing a Force Field Analysis.

Following is a simple process for completing a Force Field Analysis:

- Form a guiding group of people driving or enabling the change.
- Using the Force Field Analysis diagram in section 4.4.4, identify the change proposal.
- As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. Low scores (1) suggest the force is weak, while a high score (5) suggests a strong force.
- Prioritise the top 3 to 5 most restraining and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.

APPLY your understanding

4 Using the action plan template, complete a Force Field Analysis on a contemporary business with which you are familiar.

Students may choose to complete a Force Field Analysis on CSL, Telstra, or another contemporary business of their choice. Below are some examples.

Driving forces:
In the case of Telstra, shareholders might be a force for change. In the case of CSL, external factors such as disease may drive change. In the case of Australia Post, the pandemic and demand for parcel delivery forced change.

Restraining forces:
Restraining forces include the cost of research and development, innovation costs and employee shortages.

5 Evaluate the importance of adopting a theory to assist a business undertake change.

Students should explore the positives and negatives of a theory such as Force Field Analysis. Theories provide a structure for undergoing change; however, they cannot predict every scenario and there may still be changes that are not planned for. Evaluations will vary once a point of view is selected.

6 Discuss how a Force Field Analysis could be used by the owner of a small shop, who is considering opening a second store.

A discussion requires consideration of the positives and limitations of how the Force Field Analysis can be used.

A Force Field Analysis allows a business owner to consider all the factors that may lead to the success or failure of the venture.

It allows the business owner to consider forces that may not be obvious at first glance.

It is a time-consuming activity and requires judgements so it may not be completely accurate or unbiased and may only have limited use.

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4.4 EXAM questions

Question 1 (6 marks)

The growth of audio books has led to a decline in hard copy books at bookstores. Describe how Lewin's Force Field Analysis could be used by a bookstore business in this situation.

A Force Field Analysis is a tool that businesses can use to assist them in determining if a change should be undertaken. It starts by the business identifying the driving and restraining forces that are operating in relation to this change. The bookstore could identify competitors, profit and technology as forces that are driving the business to change, and then identify the costs, employees and organisational inertia that may be restraining the business from changing.

Once the forces are identified, they are weighted in terms of their importance to the change process — which driving forces are strongest and which forces are leading to the most resistance. In weighting these forces, the business can keep a 'score' and if the driving forces outweigh the restraining forces, this would suggest that the change can be successful. A bookstore business in this situation is likely to conclude that technology is its biggest force for change.

The next stage is to develop an action plan. This can involve creating a guiding group to lead the business through change, the development of a timeline for steps to be taken, and assigning responsibility to people to complete various tasks. The bookstore can investigate the cost of introducing technology to its operations through the creation of an online store or other diversification strategies to maintain its sales.

These steps are taken so that the key driving forces can be built upon and relevant restraining forces can be overcome.

Marks can be awarded globally.

Award 1–3 marks for describing the theory of Lewin's Force Field Analysis.

Award 1–3 marks for linking/application of the theory to a business in this situation.

Question 2 (5 marks)

Describe how Lewin's Force Field Analysis could be used during the change process and outline one benefit of performing a Force Field Analysis.

Lewin's Force Field Analysis theory can be used when a business is considering change. If a business is unsure if change is needed or will be successful, they can conduct this analysis, which starts with the identification of the driving and restraining forces acting upon the business.

Each force is weighted and, once all forces are allocated a weighting, they are totalled. If the weighting of the driving forces exceeds the restraining forces, it suggests that the change will be successful. At this point, the business can move forward with the change, create a group to lead the change, and begin strategising to overcome the restraining forces and build upon the driving forces.

One benefit of using a Force Field Analysis is that it provides a structure for undertaking change. The steps involved clearly lay out a process for determining if change will be successful and assign responsibility for the change going forward.

Award 1–3 marks for description of theory during change.

Award 1–2 marks for explanation of benefit of using the theory.

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Question 3 (5 marks)

'If restraining forces outweigh the driving forces then a business shouldn't change.' Discuss this statement.

The Force Field Analysis will help to identify the key restraining forces and key driving forces. If the business finds that restraining forces outweigh driving forces, it can allow the business to identify which of the restraining forces to try to overcome first and which ones will have little impact. This is useful for a business as it can assess how much a change may cost financially and may conclude that this cost is too great. In this sense, the business is making an informed decision and may cancel plans for change that could overstretch it.

While having restraining forces outweigh driving forces is not ideal, it is not a signal to cease changing. If the business does not change, it may face a significant challenge in the future, as it may not be set up to cope with or address certain changes.

Marks can be awarded globally.

Award 1–3 marks for a discussion of what restraining forces outweighing driving forces may mean in terms of positive effects.

Award 1–2 marks for a discussion of the negative impact of not changing.

Question 4 (4 marks)

Describe two benefits of conducting a Force Field Analysis.

A Force Field Analysis allows a business to identify the forces acting upon it. By identifying the forces, it is able to devise a process for moving forward — which driving forces to strengthen and which restraining forces to overcome first. A timeline can then be developed and a clear path through the change can be shared with all stakeholders — which should help.

Secondly a Force Field Analysis can allow a business the opportunity to consider the weighting or significance of forces and from this they may uncover matters that they had not even considered. The benefit of doing this means that the business may be more prepared for any changes in the market.

Award 2 marks for a description of one benefit of conducting a Force Field Analysis.

Award 2 marks for a description of a second benefit associated with conducting a Force Field Analysis.

4.5 Driving forces for change in business

TEST your understanding

1 **Explain what is meant by a driving force.**

Driving forces are those elements that initiate, encourage and support change and see the value of change (such as new technology, legal changes and new management structures).

2 **Outline three driving forces for change.**

Three driving forces for change are managers, legislation and the pursuit of profit.

3 **Outline how technology is a driving force for change.**

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Technology is a driving force for change because a business can either stay up to date, and introduce new technology, or risk falling behind.

4 **Explain how innovation is a driving force for change.**

Innovation in new products means that a business is displaying the drive and desire to be a market leader, as it shows a desire to stay ahead of competitors. Being an innovator means a constant desire/drive to change and improve.

APPLY **your understanding**

5 Copy and complete the following table.

Example of driving force	How it may impact a business
a. New laws passed to protect young workers	Increases costs of training
b. Computerisation of sales data	Can identify sales trends more easily, leading to a better stock mix and reduced wastage
c. Employees	Increases costs as employees push for wage increases
d. New export market identified	Can increase sales
e. Protection of the natural environment	Increases costs, as different production methods are needed
f. Globalisation	Increases the competition for the business while opening up new markets

6 **Discuss the advantages and disadvantages of accelerating technology on a business's operations.**

Accelerating technology improves operations by increasing the speed of operations, and can result in fewer defects. This should lower the cost per unit of production, resulting in greater profits.

However, if technology continues to develop, the business may not be able to continually upgrade its technology because the cost may be prohibitive. Changing technology should be done periodically, when the benefit of the current technology is outweighed by the costs.

7 **'A business must always be aware of the changing nature of competitors.' Discuss the meaning of this statement.**

Competitors will always seek to gain an advantage over other businesses. A business needs to monitor what their competitors are doing so they can keep pace or maintain their competitive advantage.

However, some businesses take the lead and develop products and services that far outperform those of their competitors anyway. These market-leading businesses may not be overly concerned with competitors; rather they operate in their own niche or market while others follow.

8 **With reference to a contemporary business with which you are familiar, make a list of advantages and disadvantages that the driving force of globalisation presents.**

Globalisation is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers. Combined with the development of hi-tech communications, lower transport costs and unrestricted trade and financial flows, the

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world can now operate as a single market, producing a more integrated global economic system.

Tesla produce high-performance electric vehicles that are exported across the world. For Tesla, this means that they can take advantage of world-wide consumers. This is because, due to emissions legislation/charges that are operating within many European cities, owning a Tesla can become more financially attractive.

- Tesla can increase their market share beyond the United States.
- Tesla can enter emerging markets in Australia.
- Some of the disadvantages include Tesla having to set up global/regional distribution centres and long customer waitlists for vehicles.

4.5 EXAM questions

Question 1 (6 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.6; © VCAA

Analyse how societal attitudes have been a driving force for change in a contemporary business that you have studied this year.

A sample response should include the following:

- explanation of a change that has occurred in a business within the past four years
- analysis of what the societal attitude was that drove the specific change
- analysis of how that societal attitude drove the business to make the change.

Businesses are constantly confronted by changes in society's attitudes and values. Society's attitudes about what is socially acceptable are constantly changing and this affects the ways in which businesses operate.

The pressure from society has forced businesses to implement procedures to preserve and protect the natural environment.

For example, this can be seen in supermarket businesses such as Coles. In 2021, Coles listened to customers who were concerned about the impact of single-use plastics on the environment and responded to what society believed was appropriate, by phasing out single-use plastic bags in their stores. The legislation came into effect in 2022.

This driving force, of consumers being more environmentally conscious, is not a new thing but it did lead Coles to take action before they were forced to, which was perhaps able to give them a good reputation. However, Coles still came under criticism for not doing enough and was compared to competitor ALDI who never offered free single-use plastic bags to customers, Instead, charging 15c for a bag. Coles' action could be seen as the necessary thing to do in a society where customers are expecting more from the businesses they use.

Award 1–2 marks for an explanation of a change that has occurred in a business within the past four years.

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Award 3–6 marks for an analysis of what the societal attitude was and how that drove the specific change.

Question 2 (3 marks)

One of the objectives of Telstra is to create sustained growth and value for shareholders. Describe one driving force that could have an impact on the success of this objective.

Driving forces are those forces that initiate, encourage and support a business to change. One of Telstra's objectives is to create sustained growth and value for shareholders. A driving force that may have an impact on this objective is the management at Telstra.
In a large-scale business, shareholders are seeking a return on their investment. Managers must ensure that dividends are paid to shareholders and so a healthy profit is needed. Managers will be under pressure to push for changes, especially given Telstra's falling financial results, that will lead to a better outcome and more efficient achievement of business objectives.

Award 1 mark for a limited description of a driving force.

Award 2–3 marks for a description of one driving force that could have an impact on the success of Telstra's objective.

Question 3 (3 marks)

Describe how employees may drive change.

Employees may drive change if they feel they work in an environment that is supportive, welcomes ideas and innovation. In these circumstances, the employees will promote change that gives them the opportunity to grow in their job, reach their potential and satisfy their drives or needs.

They will propose ideas for the development of the business and support managers during a period of change.

Award 1 mark for a limited description.

Award 2–3 marks for a satisfactory description of how employees drive change.

Question 4 (6 marks)

'Competitors are perhaps the most important driving force for change.' Analyse this statement.

As most businesses have profit and market share as key business objectives, it is important to recognise that competitors are a key driving force for change, and pay attention to what competitors are doing.

Competitors will always seek to increase their own profits and market share — at the expense of your business. Hence, a business should be aware of what competitors may be doing that may give them a competitive advantage. From this point of view, competitors are a key driving force.

At the same time, they may not be the most important driving force. The business itself can be a driving force for competitors. If the business recognises innovation as a key driver, then competitors will follow them.

In addition, technology, globalisation and legislation are also important drivers of change.

Award 1–3 marks for an analysis of why competitors are a substantial driving force.

Award 4–6 marks for the analysis of why a business may not need to be driven by competitors.

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A one-sided analysis will be limited to 3 marks.

4.6 Restraining forces in business

TEST your understanding

1 **Outline how time can be a restraining force.**

Lack of time can be a large restraining force because insufficient time can lead to stress and concern about changes. This means that employees face the change with a negative attitude and, ultimately, this has an impact on the success of the change.

2 **Define what is meant by 'organisational inertia' and provide an example.**

Organisational inertia is the tendency for institutions to maintain the same practices and continue with current and familiar structures. It results in an unenthusiastic response from management and/or employees to proposed changes.

An example of this can be seen in the teacher and student response to a proposed change in the school day to move from six lessons a day to three long lessons a day. The response to this by most staff and students would be one of negativity, due to the time frame the change encompasses, as well as the amount of work and energy required to change the timetable.

3 **Explain why management might resist a proposed change to a business.**

Managers might resist the changes for any of the following reasons:

- *time* — the amount of time it would take to implement the changes
- *cost* — the cost to the business if the changes are to be made. (These costs could be staff training costs, new office setup costs or new technological costs.)
- *training and development* — it takes both time and money to train staff and this hampers what a business can achieve in any time period
- *low productivity* — the changes do not allow staff to maintain current production rates if the processes for doing their jobs change
- *organisational restructure* — this would mean that managers are not as certain of their job security and/or their role in the changes.

APPLY your understanding

4 **Analyse the restraining forces that may impact a proposal at your school to change the start of your school day from 9 am to 7 am.**

Student responses will vary but some key points to raise include:

- student lateness and attitudes
- parent attitudes
- access to transport
- local community issues with noise around the school at an earlier time.

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5 **Propose and justify which restraining force for change you think is:**

a. the most common for a business
b. the most difficult for managers to deal with.

Answers will vary but must be justified. Below are some suggested areas of restraining forces for change:

- fear of job losses
- culture change
- cost of the changes
- training.

6 **Based on the theory of restraining forces, explain the possible sources of resistance for an organisation wishing to implement new technology.**

A business looking to implement new technology might consider the restraining force of cost of the changes — the introduction of robotics or automated systems may mean that the business goes into debt or has to finance large loans. This may concern managers and employees.

Training — a possible source of resistance for an organisation wishing to implement new technology is that it may need to re-train its staff to use the technology. This may come at a large cost. The staff themselves may also resist the training.

4.6 EXAM questions

Question 1 (6 marks)

Source: VCE 2021, Business Management Exam, Q.2b; © VCAA

Using a contemporary business case study, analyse the driving and restraining forces that have had an impact on business change.

Students are reminded that 'contemporary' in the context of the current study design is within the last four years. If the response included a change that occurred more than four years ago, it could not be awarded full marks.

Satisfactory responses should provide a thorough analysis of both driving and restraining forces, demonstrating good knowledge of these concepts. At the same time, responses should show consistent and relevant reference to a contemporary business case study.

An example of a business that has faced driving and restraining forces is Telstra. Telstra has been driven by its shareholders and by increasing numbers of customer complaints to improve its performance. Telstra faces a tricky situation as its profits have been declining and this in itself acts as a restraining force on this business. The business has verbally committed to improvement but, with failing profits, it may find this a challenge. Also, Telstra's competitors act as a restraining force as they move in on Telstra's customers and further challenge what Telstra is offering in the marketplace.

Award 1–3 marks for the analysis of driving forces that have had an impact on business change.

Award 1–3 marks for the analysis of restraining forces that have had an impact on business change.

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Question 2 (4 marks)

Source: VCE 2020, Business Management Exam, Q.6; © VCAA

Outline how two of the restraining forces in business listed below might influence Manitta Mining's ability to successfully introduce change to business operations in the future:

- **organisational inertia**
- **legislation**
- **financial considerations**
- **employees.**

The following is an example of a high-scoring response.

Restraining force 1: legislation are the laws set by the government which all businesses must follow, otherwise there will be fines of possible imprisonment. This is a restraining force as the Australian Government may place a limit on the amount of brown coal to be mined each year. This could limit Manitta Mining from growing their business. Preventing change from occurring, hindering Manitta Mining's business activity. Preventing successful change of expansion.

Restraining force 2: Financial considerations will be restraining cost as the business may have to pay large amounts to update mining machinery and technology, such as trucks. Although this may be too expensive for Manitta Mining, as it could lead to negative Net Profit figures, which would lead to a reduction in the market share price, which could unsettle the shareholders. This will limit and inhibit the benefits of updating technology to have a successful change.

Award 1–2 marks for an outline of one restraining force that might influence Manitta Mining's ability to successfully introduce change to business operations in the future.

Award 1–2 marks for an outline of a second restraining force that might influence Manitta Mining's ability to successfully introduce change to business operations in the future.

Question 3 (4 marks)

Source: VCE 2017, Business Management Exam, Q.6; © VCAA

One of the objectives of Shandra's Dairy Ltd is to become a truly global brand.

Explain one driving force and one restraining force that could have an impact on the success of this objective.

One driving force could be globalisation. This is where economic boundaries are removed and businesses begin operating on a global scale. Increased globalisation could drive Shandra's Dairy Ltd to become a truly global brand, as it encourages the business to enter new overseas markets in order to take advantage of new customer bases and remain competitive in an international market.

One restraining force would be financial considerations. The short- and long-term costs of expanding the brand across multiple countries may dissuade and make it more difficult for Shandra's Dairy Ltd to establish a global brand. There would likely be many expenses associated with operating and selling on an international level such as transportation which will work against the change.

Award 1–2 marks for an explanation of one driving force that could have an impact on the success of Shandra's objective.

Award 1–2 marks for an explanation of one restraining force that could have an impact on the success of Shandra's objective.

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Question 4 (3 marks)

Source: VCE 2016, Business Management Exam, Q.4a; © VCAA

Distinguish between driving forces and restraining forces for change.

The following is an example of a high-scoring response.

A driving force includes the people, activities and structures that both support a change and actively work to make it possible. An example of a driving force is management. If they see lots of benefits with the introduction of change, perhaps it increases productivity, then they are likely to support it and push it through so that their subordinates are more likely to achieve objectives.

A restraining force differs in that it includes the people, activities and structures within an organisation that resist the change and actively try to stop it. A restraining force could be employees. If a change is brought in that an employee is unfamiliar with, such as new technology, they may be fearful of the unknown. They may also be scared that a change may result in loss of jobs, thus actively resist it.

Award 1 mark for an understanding of driving forces.

Award 1 mark for an understanding of restraining forces.

Award 1 mark for a distinction between the two.

Question 5 (4 marks)

Explain how employees can be both a driving and a restraining force for change.

Employees who work in a supportive, innovative environment may serve as driving forces as they are encouraged to develop their own skills and contribute to decision making. They see a future for themselves in the business and work to try to improve the performance of the business.

At the same time, employees may often restrain change because they may fear what the change will mean for them. Often change results in redundancies, changes to work practices that require training or may mean the breaking up of teams and divisions.

Award 1–2 marks for explaining how employees can be a driving force for change.

Award 1–2 marks for explaining how employees can be a restraining force for change.

4.7 APPLY YOUR SKILLS Forces affecting change

TEST your skills

1 **Define the term 'driving forces'.**

A driving force includes the people, activities and structures that both support a change and actively work to make it possible. An example of a driving force is management. If they see a lot of benefits with the introduction of change (perhaps it increases productivity), then they are likely to support it and push it through so that their subordinates are more likely to achieve objectives.

2 **With reference to the CSL case study, identify and outline the driving force for change.**

A driving force includes the people, activities and structures that both support a change and actively work to make it possible. At CSL a driving force for change was the global pandemic, which has had a profound effect on most businesses in one way or another, changing the way

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or speed at which they operate. As an organisation that develops vaccines as part of its product portfolio, CSL has been at the forefront of responding to this situation. Developing a vaccine led to the need for action urgent.

3 **Describe what the key restraining forces would have been for CSL in adapting to the change.**

A restraining force is something that prevents change or slows it down. CSL would need to ready its facilities to cope with producing this new product, including ensuring there were sufficient employees with the necessary capabilities for the research, testing, manufacture, and storage of the vaccine. If difficulties were faced with this, then this would act as a restraining force.

APPLY your skills

4 **a. Select three driving forces for change.**

b. For each of the driving forces you have selected, find an example of a business that has been affected by that driving force. You should have three separate business examples.

c. For each of the businesses, complete the following.

i. Describe the driving force affecting the business.

ii. Discuss the impact of the driving force on the business.

iii. Outline the business response to the driving force.

iv. Outline any resistance to the driving force.

You may wish to collate your information in a table like the one below.

Answers depend on business and driving force chosen.

Business name	Change	Driving force	Response	Restraining force
Qantas	Redundancies	Cost-cutting needs during the pandemic	Qantas made hundreds of employees redundant during COVID-19 pandemic	Unions, employees' groups, bad publicity
		Customers		
		Competitors		

4.7 EXAM questions

Question 1 (2 marks)

Referring to a contemporary business, explain what is meant by 'business change'.

Student responses will vary according to the contemporary business selected.

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Business change refers to a set of processes implemented by a business to respond to changes in the business environment in a controlled and systematic manner, shifting the business from its current state to a desired future state.

A business which has changed its focus recently is CSL. This business was required to produce a vaccine in response to COVID-19, which meant rapid change in numbers of employees, equipment and capabilities.

Award 1 mark for explanation of business change.

Award 1 mark for reference to a contemporary business case study.

Question 2 (5 marks)

Referring to a contemporary business case study with which you are familiar, identify a change issue and describe two restraining forces that this business would face.

A change issue is something which triggers a business to respond to changes in the business environment in a controlled and systematic manner, shifting the business from its current state to a desired future state.

The social and economic impact of the COVID-19 pandemic brought a high level of urgency to the task of developing a vaccine, and to manufacture a successful vaccine at high quality and in sufficient quantities. CSL was the only company in Australia with manufacturing facilities capable of producing this vaccine, so it needed to ready itself for this change quickly.

Two restraining forces that this business would face, however, would be the modification of the facilities and the recruitment of new employees. The modification of facilities would cost a significant amount of money and also would need to be done quickly. Furthermore, rollout of the vaccine would be dependent on recruiting suitable employees, i.e. skilled personnel.

Award 1–2 marks for an understanding of business change and an identification of a change issue.

Award 1–3 marks for a description of two restraining forces in relation to a contemporary business case study.

Question 3 (4 marks)

Referring to a contemporary business case study, explain how a Force Field Analysis could be used during a period of change.

A Force Field Analysis involves considering the opposing forces that exist in a business environment. These consist of driving forces and restraining forces pulling in different directions. Effective change will only occur when the weight of driving forces outweighs the restraining forces.

To begin a Force Field Analysis, a business should identify the forces that are currently driving or restraining the change and decide if the forces are weak or strong. Strong driving forces, for example, will be a priority.

Toyota will have identified the social changes and competitor pressure from Tesla, that indicate that producing an electric vehicle in Australia will help it to maintain its market share. The business then needs to implement a response, such as new vehicle designs and altered production techniques, and plan for strategies that will deal with resistance to the implementation. As with all models and changes, there must be a process of review and evaluation.

Award 1–2 marks for a limited explanation of a Force Field Analysis.

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Award 3–4 marks for a satisfactory explanation of a Force Field Analysis in reference to a contemporary business case study.

Question 4 (4 marks)

Explain how employees can act as both a driving and a restraining force.

Employees may be seen as driving forces especially if they are highly skilled or encouraged to develop their own skills and contribute to decision-making. If employees see a future for themselves in the business, they will work to try and improve the performance of the business.

Employees may often be described as a restraining force because they can show resistance to change. This is when employees are fearful of new processes, training or the demands of their jobs, or if they fear redundancy.

Award 1–2 marks for an explanation of employees as a driving force.

Award 1–2 marks for an explanation of employees as a restraining force.

Question 5 (4 marks)

'If restraining forces outweigh driving forces, then a change shouldn't be undertaken.' Discuss this statement.

The situation as described is not ideal. However, legislation, pursuit of profit, competitors, etc. are key driving forces that, even if outweighed by costs and employee resistance, mean the business must change or risk severe consequences.

It is at this point that an action plan must be prepared so the most important driving forces can be strengthened first, making it easier to overcome the restraining forces.

The business must also identify the key people and strategies needed to address the main restraining forces in order to overcome these first, making the rest of the change go more smoothly.

Award 1–2 marks for discussing why change should still go ahead.

Award 1–2 marks for discussing restraining forces and how they might be overcome.

4.8 APPLY YOUR SKILLS Driving and restraining forces

TEST your skills

1 **Describe the key driving forces that have led to NAB's decision to cut jobs and branches.**

The two key driving forces are pursuit of profit and technology.

Poor financial performance in the previous year acted as a driving force and forced NAB to look for ways to cut costs. Cutting costs will lead to a greater profit.

A second driving force is technology. The growth of online transactions, mobile apps and PayWave facilities meant fewer customers in store and so many of those services were no longer required.

2 **Identify the key performance indicator referred to in the case study. Using this key performance indicator, analyse NAB's performance.**

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The key performance indicator referred to is net profit figures, which outline the amount left from revenue once the costs (expenses) of the business have been deducted.

NAB's net profit results show that the business has, over a four-year period, made net profit of between 2.5 and 6.5 billion dollars. NAB reported its lowest net profit in 2020 but its highest in 2021.

3 **Businesses have a number of objectives. Explain two key objectives that NAB is attempting to meet by its decision to cut jobs and branches.**

Two objectives are to make a profit and to meet shareholder expectations.

Profit is the result of revenue exceeding expenses, and it can be re-invested into the business to fund development, something NAB is committed to doing. Reducing the number of employees can allow it to cut costs and increase profits in this way.

A second objective is to meet shareholder expectations. By increasing the amount of profit, a dividend can be given to shareholders, which is a return on their investment — their reason for investing.

APPLY your skills

4 **Change is often resisted by employees. With reference to NAB, explain why employees can act as a restraining force to change.**

In NAB's case, there have been 6000 redundancies across certain sectors and a recruitment of 2000 staff with sought-after digital skills. Staff will be concerned about redundancy and their immediate wage or salary status; they may also be concerned about how to gain further employment, and so may act to delay or slow the change from occurring.

5 **Change always brings uncertainty to employees. Referring to a contemporary business case study, analyse how employees may react to the proposed changes.**

Student answers will vary, dependent upon the contemporary case study selected.

Sample response:

At Australia Post, the business is still recovering from the effects of the global pandemic, which include increased online ordering and demand for postal delivery, postal delays and warehousing and logistics businesses that face employee shortages. Throughout this, changes such as COVID-19 tests, longer hours and delivery protocols have challenged, and continue to affect, employees at Australia Post.

Employees may have reacted to these changes by showing resistance, especially as it meant more pressure in the job and, in many cases, longer working hours. However, some employees may have been thankful for employment at such a difficult time, when many people were being made redundant. Therefore, they may have cooperated fully with the changes.

4.8 EXAM questions

Question 1 (2 marks)

Explain how the performance revealed by net profit figures may impact on one other key performance indicator.

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The value of net profit may impact the level of staff turnover. Falling or below expected levels of profit may mean the business is unlikely to provide wage increases to employees. It may also make employees fearful that the business may make redundancies. Employees may be unhappy with that outcome and seek employment elsewhere.

Award 1–2 marks for an explanation of how net profit might affect another key performance indicator.

Question 2 (8 marks)

In 2018, NAB announced a restructure of the bank that would result in 6000 jobs being lost, with 2000 new roles created.

(a) Describe how the principles of the Force Field Analysis theory may assist NAB in managing the change at the business. (4 marks)

The first step in this analysis is to identify the change issue and form a guiding group to manage the business through the change. This guiding group will have the responsibility for identifying the driving and restraining forces, which in this case include the pursuit of profit (driving) and employees (restraining).

These forces are then weighted and scored. The totals of each category of forces are then compared to determine how difficult the change might be.

Once weighted, the guiding group should determine strategies that could be implemented to overcome the restraining forces and strengthen the driving forces.

Award 1–3 marks for the description of the Force Field Analysis.

Award 1 mark for the link to NAB.

(b) Referring to the change at NAB, explain how managers can be considered a driving force. (4 marks)

Managers often act as a driving force as the change proposed can create opportunities for managers to demonstrate the skills they have developed, show leadership and seek promotional opportunities within the business. Managers are drivers also because, by their very nature and role descriptions, they will be required to make decisions, such as recruiting, training and developing staff, which affect the businesses direction and ultimately its profits.

The change at NAB can provide opportunities for managers to oversee a new area of the business (one which deals in new technology), which can promote the manager to senior management.

Award 1–3 marks for an explanation of managers as a driving force.

Award 1 mark for the link to NAB.

4.9 Strategic management by Porter's Generic Strategies (1985)

TEST your understanding

1 Identify strategies that a business could use to achieve lower cost.

Businesses can reduce wages by introducing technology.

They can also introduce lean management to reduce defects, waste and other costs associated with managing operations.

2 **Explain what is meant by product differentiation.**

Product differentiation refers to the process of making a product distinct from other products made by the same producer or those produced by competitors.

3 **Distinguish between a cost strategy and a differentiation strategy.**

A lower cost strategy involves a business attempting to become the lowest cost producer in the industry, whereas a differentiation strategy involves a business attempting to make its product unique in some way to gain a competitive edge.

APPLY your understanding

4 **a. Identify five businesses or products that you believe have attempted to gain a competitive advantage by adopting:**

- **a cost leadership strategy or**
- **a differentiation strategy.**

b. Explain your reasons for the selections you made.

A table may be used to collate the information – see below.

Product/business	Cost leadership or differentiation strategy	Evidence
Shampoo – Head & Shoulders	Differentiation strategy	The business has made its product different from other shampoos as it is an affordable dandruff treatment

5 **Porter developed two key approaches to strategic management that a business could adopt. Describe each approach and propose a suitable approach for a business wishing to enter a highly competitive market.**

Porter's first strategy is the lower cost strategy. This requires a business that wishes to develop or maintain a competitive advantage to seek to become the lowest cost producer in the particular market they operate in. If a business can lower costs, it can increase its profit margin by keeping prices the same, or pass price cuts on to customers and increase profits through a higher volume of sales. There are a number of ways of achieving low costs, including minimising holdings of stock, finding cheaper suppliers of stock, using lighter packaging or outsourcing some areas of operations.

Porter's second approach is the differentiation strategy. In a differentiation strategy, a business will make their product unique in some way to gain a competitive edge and allow the business to market itself as a leader or innovator in that industry. Some strategies include making the product more durable, providing better support for customers, offering extended warranties or producing different brands within the same market.

The differentiation strategy will allow a business to enter a highly competitive market as it will give the product a differentiating feature. This will make it stand out from competitors and they may even be able to take market share from competitors if customers prefer the new/different features.

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6 'A business must choose *one* of Porter's strategies, not both.' Analyse this statement.

The statement is accurate. In applying Porter's approach to change, a business is not able to implement both strategies. Lower cost requires the business to cut costs so the business is able to pass on savings to customers and build a customer base in that way.

The differentiation strategy often requires additional spending on advertising, marketing, higher quality inputs or other such costs, meaning the product is more expensive. The business will deliberately then target higher-income earners who are willing to pay a higher price if there is value for the money they spend.

4.9 EXAM questions

Question 1 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.2; © VCAA

Compare the two key approaches to strategic management identified by Porter's Generic Strategies (1985).

The task word 'compare' requires students to provide both similarities and differences to be awarded full marks. At least one similarity and one difference is required.

A similarity between Porter's cost leadership strategy and his product differentiation strategy is that they both help companies achieve their business objectives, such as profit and increased market share. In both the cost leader and the differentiated product approach, more sales will occur, leading to the satisfaction of business objectives. Another similarity between the two strategies is that they both create a competitive advantage for businesses. This allows businesses in the area to outperform rivals.

A difference between lower cost strategy and product differentiation is that large companies are more likely to implement differentiation. This is a result of cost leadership requiring economies of scale to be achieved to reduce the cost of production. On the other hand, product differentiation is available to firms of all sizes, not just large companies with great amounts of capital to invest.

Another difference is that product differentiation aims to create brand loyalty, whereas cost leadership does not. Through the development of a brand/identity, differentiated products seek a target or regular customer base of loyal supporters.

Award 1–2 marks for demonstrating an understanding of the key terms.

Award 1–2 marks for identifying at least one similarity and one difference.

Question 2 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5b; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Analyse how Dennis has used Porter's Generic Strategies to respond to the issues of declining sales and changing customer tastes.

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Dennis used the strategy of differentiation to respond to the issues of declining sales and changing customer tastes. Differentiation involves creating a point of uniqueness or distinctiveness in business operation from other competitors in the market. Dennis' burger chain has decided to become more environmentally and economically sustainable than rivals in the burger industry by sourcing ethical and high-quality local ingredients. This creates demand for Dennis' burgers as they are different from others on the market, giving Dennis freedom to charge a premium price for his burgers as customers become loyal to his business.

Attitudes in society are shifting towards a sustainability focus and, by taking advantage of this, Dennis is addressing the shift in the business environment. This may lead to an increase in the number of sales at his restaurant due to his unique ingredients and sustainable approach.

Award 1 mark for an understanding of Porter's Generic Strategies.

Award 1–3 marks for an analysis of how Dennis has used generic strategies to respond to the issues of declining sales and changing customer tastes.

Question 3 (5 marks)

Source: Adapted from VCE 2017, Business Management Exam, Section A, Q.5; © VCAA

Identify one of the key approaches to strategic management from Porter's Generic Strategies. Discuss how this approach could be applied in relation to Shandra's Dairy Ltd.

The differentiation approach is where the business can create a competitive advantage by becoming unique in a way that is valued by customers. Shandra's Dairy Ltd could differentiate their dairy products by giving them a unique feature (for example, using organic or special flavours and recipes) which is different to other competitors in the industry. By having a unique range which customers value, Shandra's Dairy Ltd will be able to develop a loyal customer base and demand for their products. This approach, if done correctly, will allow Shandra's Dairy Ltd to charge a premium price for their products, as customers are willing to pay more as they perceive their dairy products to be of special value. This will allow for Shandra's Dairy Ltd to increase their profits on each sale made.

However, Shandra's Dairy Ltd may find that they run into cost issues in their attempts to add value to their products. If costs rise uncontrollably, the benefit of premium pricing will be negated. Also, if a competitor decides to copy the products produced by Shandra's Dairy Ltd, they may lose their unique attributes and therefore run the risk of no longer being unique.

Award 1 mark for an identification of one key approach to strategic management that Shandra's could use.

Award 1–2 marks for a discussion of how this approach can be applied.

Award 1–2 marks for a discussion of the limitations of this approach

Question 4 (4 marks)

With reference to a contemporary business case study with which you are familiar, describe what is meant by Porter's Generic Strategy of lower cost.

Porters' Generic Strategy of lower cost requires the business to cut costs, so that it is able to pass on savings to customers and build a customer base in that way. These lower-cost products are more desirable to some consumers and, in some instances, can increase market share.

Aldi is rapidly gaining market share in Australia due to competitive pricing and quality, and what can be described as a lower-cost strategy. Aldi's mission is to provide customers with high-quality

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products at very low prices. Its cost-leadership strategy focuses on selling no-frills goods and services. Aldi keeps its costs lower than competitors while selling products with features that are acceptable to customers in terms of quality and branding.

Award 1–2 marks for a description of Porter's Generic Strategy of lower cost.

Award 1–2 marks for reference to a contemporary business case study.

4.10 APPLY YOUR SKILLS Lower cost and differentiation

TEST your skills

1 **Using examples, explain the competitive advantage that Jetstar has created.**

Jetstar has gained an advantage by lowering ticket prices by removing all 'extras' from tickets. Customers must now pay for services provided free on other airlines.

2 **Using examples, explain how Apple has developed its competitive advantage.**

Apple has developed a unique product range. It has signature branding (such as iPhone and iPad) and these develop brand recognition and hence loyalty.

All devices can be connected and so there is the possibility for consumers to purchase and grow an integrated system.

3 **Outline the similarities between a lower cost approach and a differentiation approach.**

- Both approaches change the price of the product for sale.
- Both approaches have a specific target market in mind.

4 **Outline the differences between a lower cost approach and a differentiation approach.**

- The lower cost approach will look to lower the selling price to attract a broader, price-conscious market.
- The differentiation approach charges a higher price, targeting a loyal, niche market.

APPLY your skills

5 **Use the Jetstar weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Jetstar uses a lower cost approach.**

Jetstar has gained an advantage by lowering ticket prices by removing all 'extras' from tickets. Customers must now pay for services provided free on other airlines. These extras include beverages, meals and checked baggage.

6 **Use the Apple weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Apple uses a differentiation approach.**

Apple has developed a unique product range. It has signature branding (such as iPhone and iPad) and these develop brand recognition and hence loyalty. The business regularly updates its products developing brand loyalty — the latest version of the iPhone is an example.

7 **Discuss how well a lower cost approach would work for Apple.**

Apple would not fare well with a lower cost approach because it attempts to provide value for money by providing the best quality product, knowing that the quality can covered by a high price tag.

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If it attempted to use the lower cost approach, it would need to remove some of its features and not provide new models as regularly as it does because it would need to recognise its customers couldn't afford to purchase new versions.

8 **Discuss how well a differentiation approach would work for Jetstar.**

To adopt the differentiation approach, Jetstar would need to provide additional services that customers would be prepared to pay for. This can be expensive and in the short term may not benefit the business because it still has a reputation as a low-cost provider.

4.10 EXAM questions

Question 1 (2 marks)

Define the term 'differentiation'.

Differentiation is where a business creates a product that is unique or different from all other products in the market. The difference may be due to quality, branding or additional features of the product.

Award 1 mark for a unique or different product.

Award 1 mark for reason why it is different.

Question 2 (5 marks)

Evaluate how adopting a lower cost approach can improve performance in terms of net profit figures.

Porter's lower cost strategy suggests businesses need to lower their costs of production and pass this lower cost on to consumers, who will turn to the product because of its lower price.

This strategy should allow the business to increase the number of sales it makes. While the profit margin per unit (selling price less cost price) is small, the business will generate a larger profit due to the increase in sales volume.

The negative for such a strategy is that some customers may equate low cost with low quality and the business may not attract the number of customers it needs to generate this increased profit.

It is, however, overall a good strategy to adopt as even if a small proportion of the market may view the product as inferior, hopefully the size of the market will allow sufficient sales to increase profit.

Award 1–2 marks for the positives of the lower cost approach.

Award 1–2 marks for the limitations of the lower cost approach.

Award 1 mark for an evaluation of the lower cost approach.

Question 3 (5 marks)

Evaluate how adopting a differentiation approach can improve performance in terms of percentage of market share.

The differentiation approach allows a business to develop a niche market, as the product has some unique feature associated with it and therefore it is often a more expensive item for consumers to purchase. As a result, the business may have a large share of this niche market but, in terms of the overall market, its share may be small.

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Unfortunately, businesses that differentiate often find that competitors will copy the unique feature of the product and therefore create additional competition in that niche market, making it more difficult for the business to establish a large market share.

Overall, a business that differentiates itself from others has the opportunity to create some customer loyalty and additional market share.

Award 1–2 marks for the positives of the differentiation approach.

Award 1–2 marks for the limitations of the differentiation approach.

Award 1 mark for an evaluation of the differentiation approach

Question 4 (5 marks)

Identify one of the key approaches to strategic management from Porter's Generic Strategies. Discuss how this approach is applied in relation to a contemporary business with which you are familiar.

The differentiation approach is one in which the business creates a competitive advantage by becoming unique in a way that is valued by customers.

The differentiation approach allows a business to develop a niche market as the product has some unique feature associated with it and therefore it is often a more expensive item for consumers to purchase.

Apple is a business which is famous for its differentiated and unique products, which always have innovative technology. This differentiation approach allows Apple to charge a premium price and make billions in profit. Apple boasted in 2021 that it was the year of the 'most powerful products ever'.

This product line-up would include the M1-powered Macs and the iPhone 13. Apple products continually evolve, with the latest iPhone line having tougher screens and the 'most advanced dual camera systems'.

However, Apple's differentiation approach is heavily imitated by competitors, including its close rival Samsung. During the lifespan of the business, it has faced competition from rivals such as Microsoft and there have been problems for the business in the past, related to applications and attempts to dominate the smartphone industry. Technology is continually being developed by rivals like Google and so Apple's differentiation strategy may always be under threat, particularly given the high prices they charge.

Award 1 mark for identifying of one of the key approaches to strategic management from Porter's Generic Strategies.

Award 1–2 marks for a discussion of the benefits of this approach in relation to a contemporary business.

Award 1–2 marks for a discussion of the limitations of this approach in relation to a contemporary business.

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4.11 EXTEND YOUR KNOWLEDGE Data-driven change

TEST your understanding

1 Write a report for the Managing Director to be reviewed at the upcoming board meeting. The report is to comprise four sections, one for each of the areas identified in the case study that require decisions or action by the board.

Each section of the report should provide:

- **an identification and explanation of the driving forces for the change in that area**
- **an identification and description of the relevant key performance indicators (KPIs) that have led to the issue in each area**
- **a description of possible strategies the business could implement to overcome the issue(s) identified in each area.**

The report should be a minimum of 200 words for each section.

Student responses will vary. Some key points to include are:

- *driving forces* — employees, competitors, customers
- *KPIs* — profit figures, staff turnover rates, number of customer complaints.

Strategies include staff training, changing management style to allow for more staff input and cost-cutting to improve profit margins.

4.11 EXAM questions

Question 1 (2 marks)

Define the term net profit.

Net profit describes the profit made by the business in performing its day-to-day activities. Investors will look at net profit figures very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a significant profit is considered to have performed well.

Award 1 mark for a partial definition of net profit.

Award 2 marks for a full/satisfactory definition of net profit.

Question 2 (3 marks)

Define the term 'number of customer complaints', providing an example from the case study.

The number of customer complaints is a record of the number of customers who contact the business in a written or verbal form and express their dissatisfaction with the business and/or its service.

Telstra's number of customer complaints has risen by 11.3 per cent to 74 135 for the year 2020–21.

Award 1–2 marks for a definition of customer complaints.

Award 2 marks for a definition of customer complaints with an example from the case study.

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Question 3 (5 marks)

Telstra has announced that the T25 strategy will not include redundancies. Analyse how employees may react to the introduction of the new strategy, indicating if they would be a driving or a restraining force.

There are a number of issues relating to employees due to the information provided on the new strategy. The planning for growth and enhanced customer experience including implementing more 'digital experiences' can cause excitement and hope among employees as they might look forward to a promotion or change in role. In this regard, employees may act as a driving force, supporting the business.

On the other hand, Telstra employees may know that, in the past, and with the roll-out of the National Broadband Network, Telstra has cut up to a third of its workforce. In this situation the employees would likely react as a restraining force, as the fear of losing their jobs is a very powerful influence.

Award 1–3 marks for analysing how employees at Telstra may drive change.

Award 1–2 marks for analysing how employees at Telstra may restrain change.

Question 4 (4 marks)

Discuss how time may be an important factor for Telstra when considering change.

Time is often considered a restraining force for change. This is because some changes can be complex and so, to effectively manage change, the business may need a considerable amount of time to implement the change.

In Telstra's case, the company has a three-year plan for the T25 strategy. This commences in 2022 and Telstra hopes to improve technology, customer feedback, growth for shareholders and be a place that employees want to work. In business terms, three years is not a long time and, in this case, the 'deadline' may be too soon to deliver growth for shareholders, for example.

On the other hand, Telstra does not need to worry as much as other businesses regarding time as a restraining force. Telstra is partially government owned, and it has limited competition in the mobile network, mostly from Optus and Vodaphone. This reduces the need to act as urgently.

Award 1–2 marks for a discussion of time as an important restraining force.

Award 1–2 marks for a discussion of time as not the most important restraining force.

Question 5 (4 marks)

Analyse how Telstra uses Porter's Generic Strategies approach to management.

Porter believed that a business could gain an advantage over competitors in a market by making itself and its product different from those of its competitors. This difference could be on quality, service or additional features of the product and is referred to as Porter's Strategy of Differentiation.

In 2021, Telstra announced T25, a plan for growth and enhanced customer experience. This includes commitment to simplifying product offerings and implementing more 'digital experiences'. In light of Telstra being in the technology market, with a growing number of competitors in provision of mobile phones, data, service, broadband etc, the business is trying to differentiate through its T25 plan. Specific areas for differentiation include providing exceptional customer feedback (hopefully above

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that of competitors) and providing leading network and technology solutions — again implying that they can do it better than their competitors.

Award 1 mark for an understanding of Porter's Generic Strategies approach to management.

Award 1–3 marks for an analysis of Porter's Generic Strategies approach to management in relation to Telstra.

4.12 Review

TEST your understanding

1 **Distinguish between a proactive and a reactive manager when dealing with change.**

To be proactive is to initiate change rather than simply react to events, whereas to be reactive is to wait for a change to occur and then respond to it.

2 **Define the term 'key performance indicators'.**

Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance.

3 **Distinguish, using an example, the difference between driving and restraining forces.**

Driving forces for change are those forces that encourage and support the change, whereas restraining forces are those forces that work against the change. The pursuit of profit is a driving force, as businesses seek to increase profits to return investments to stakeholders.

4 **Outline why resistance to change in management and employees is common.**

Resistance to change in management and within the employee body is common for many reasons. These will vary depending on the type of change proposed within, and for, an organisation.

The reasons are generally:

Resistance due to fear

- *Employees* — employees are unsure of the consequences of the change. Their fears are mainly about their financial security, job longevity and role within the business.
- *Management* — managers may be uncertain about employees' reaction to the change, as well as being unsure of how to implement the changes within the organisation while promoting security and employee happiness.

Resistance due to rapid change

Both employees and management will dislike rapid change because it often means uncertainty about what is required to complete tasks, and longer working hours to implement the change.

Resistance due to stress

Change for both management and employees will create stress, although often the anticipated stress is worse than the reality.

Resistance due to cost

Management will often find the cost of the change a hard concept to 'sell' to employees and will struggle with the implications of the change and the possible cash flow disruption.

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5 **Explain why setting achievable goals can help managers implement change more successfully.**

If managers wish to implement change more successfully, setting achievable objectives can be advantageous. When objectives are set, employees are clear as to what the change will involve and how it will evolve. Managers also benefit from setting objectives because the direction for the organisation is clear and attainable. The change process can be managed and implemented in a fashion that allows employees and managers to feel they are achieving their objectives with the successful completion of each achievable goal. Setting achievable goals also creates a timeline that both management and employees are aware of and can work towards.

6 **Describe what is meant by a Force Field Analysis.**

A Force Field Analysis is a means of outlining which forces drive change and which forces resist change. It will include ranking the forces is order of significance or strength and considering which can be changed.

7 **Outline the benefits of preparing an action plan as part of a Force Field Analysis.**

An action plan allows the business to set a schedule or timeline for undergoing and implementing change. It provides a list of the driving and restraining forces and allows strategies to be developed.

8 **Identify the five steps in a Force Field Analysis.**

Following is a simple process for completing a Force Field Analysis:

- Form a guiding group of people driving or enabling the change.
- Using the Force Field Analysis diagram in section 4.4.4, identify the change proposal.
- As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. Low scores (1) suggest the force is weak while a high score (5) suggests a strong force.
- Prioritise the top 3 to 5 most restraining and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
- Using the action plan template, list the actions that are required to be completed to meet the proposed change and assign responsibility for each action.

9 **Using examples, explain the difference between low-cost strategies and differentiation strategies.**

A low-cost strategy involves a business attempting to become the lowest cost producer in the industry, lowering its selling price to attract a broader, price-conscious market. Examples include Virgin Airlines, Jetstar and Tiger Air.

The differentiation strategy involves a business attempting to make its product unique in some way to gain a competitive edge, allowing it to charge a higher price, targeting a loyal, niche market. Examples include Tesla, Apple and Dyson.

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APPLY your understanding

10 'Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.'

(a) Identify the main reasons for employee resistance to change.

The main reason for employee resistance to change is fear of the unknown, with resulting insecurity, anxiety and loss of motivation.

(b) Analyse why it is important for managers to communicate effectively when introducing changes in the workplace.

It is important for managers to communicate effectively with their staff when introducing change within a workplace so that employees feel their contributions are valued and that they will not be left behind and forced to change immediately. Employees who feel valued are able to positively react to the change, and feel empowered to complete and contribute to the change.

11 'In response to data collected through key performance indicators, businesses are constantly changing.'

(a) Compare two sources of data that can be used to analyse the performance of businesses.

The KPIs that can measure the performance of a business include:

- *Percentage of market share* — refers to the business's share of the total industry sales for a particular good or service, expressed as a percentage.
- *Net profit* — what remains when expenses are deducted from the revenue earned.
- *Productivity* — a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services).
- Rate of productivity growth — measures the change in productivity in one year compared to the previous year.
- Number of sales of a product — a measure of the number of goods or services (products) sold.
- *Rate of staff absenteeism* — measures the number of workers who neglect to turn up for work when they are scheduled to do so.
- *Level of staff turnover* — measures the number of staff leaving the business and who need to be replaced.
- *Level of wastage* — measures the amount of waste created by the production process.
- *Number of customer complaints* — refers to the number of customers who contact the business and express their displeasure with the business.
- *Number of workplace accidents* — indicates how safe the workplace is for employees.

(b) With reference to a contemporary business case study, describe the response of the business to one key performance indicator.

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Student responses will vary according to the businesses selected. Some examples may include:

- *Net profit figures decline* — NAB
- *Level of wastage* — Coles banning the provision of single-use plastic bags at their stores.
- *Percentage of market share falls* — Woolworths (and Coles) who have seen increased competition from ALDI.

4.12 EXAM practice

Question 1 (4 marks)

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

Porter's Generic Strategies are a means by which a business seeks to gain a competitive advantage over other businesses. Porter suggests a business can try to be the lowest cost producer in the market or develop some point of differentiation to become known as an innovator or market leader.

These strategies are implemented in response to KPIs that suggest the business is not achieving its objectives. The lower cost strategy will appeal to price-conscious consumers who seek value for money. The differentiation strategy appeals to customers who don't mind paying premium prices for products that are better or provide a different experience.

However, the lower cost strategy may deter some customers who may associate lower cost with lower quality.

The differentiation strategy may price the product out of the reach of many customers and so the business is reliant upon a small, loyal group of customers to maintain their competitive advantage.

Award 1–2 marks for the description of one approach.

Award 1–2 marks for the description of the second approach.

Question 2 (6 marks)

Evaluate Lewin's Force Field Analysis theory.

Kurt Lewin's Force Field Analysis is a process that Lewin suggests businesses undertake as a means of determining which forces drive and which resist a proposed change. Lewin identified that there were two types of forces — driving forces, which were those forces that support the change, and restraining forces, which were those forces that work against the change.

Any business considering undertaking a new project or implementing change can consider the forces that are exerting pressure at this time and it is a benefit if the business clearly understands the environment in which it is operating.

The first area to consider is the internal aspects of the business: the people of influence or the decision-makers and the systems and processes that are driving the project. Once considered, the next step is to consider who and what are restraining the project. From here, an action plan can be developed that provides a structure for the change, allocates responsibility for the change and creates a timeline for decisions to be made and actions taken. This plan allows the change to occur

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in an ordered fashion, with communication occurring at all stages so resistance is continually overcome.

However, using this theory is not an appropriate path during times of crisis or when change is required quickly. The ordered nature and planned approach suggested by Lewin does not allow for change to occur quickly in response to urgent issues.

Overall Lewin's Force Field Analysis theory provides a checklist-type approach for managers who wish to instigate change when the business environment is suitable. If a business needs to manage urgent issues, there are appropriate strategies for this including crisis management.

Award 1–2 marks for an explanation of the benefits of adopting Lewin's theory.

Award 1–2 marks for an explanation of the negative aspects of Lewin's theory.

Award 1–2 marks for an evaluation of Lewin's theory

Question 3 (6 marks)

With reference to a contemporary business case study, identify and explain two restraining forces for change.

The social and economic impact of the COVID-19 pandemic brought a high level of urgency to the task of developing a vaccine, and to manufacture a successful vaccine at high quality and in sufficient quantities. CSL was the only company in Australia with manufacturing facilities capable of producing this vaccine, so it needed to ready itself for this change quickly.

Two restraining forces that this business would face, however, would be the need to modify the facilities and the need to recruit new employees. Both were needed before the vaccine could be produced. The modification of such high-tech facilities would cost a significant amount of money and also would need to be done in a short amount of time. Furthermore, rollout of the vaccine would be dependent on recruiting suitable employees, i.e. skilled personnel.

Award 1–2 marks for the identification of the restraining forces.

Award 1–4 marks for a description of two restraining forces in relation to a contemporary business case study.

Question 4 (6 marks)

The information in the graph was provided for a business in the healthcare industry.

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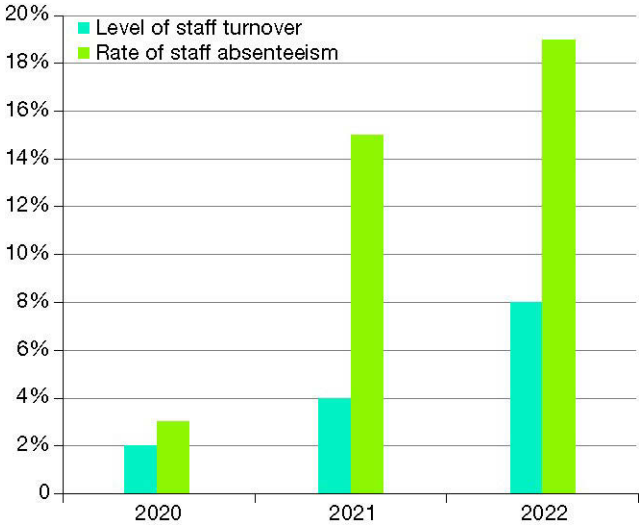

(a) Define 'level of staff turnover'. (2 marks)

Level of staff turnover measures the number of staff who leave the business and need to be replaced.

Award up to 2 marks for precise definition — must refer to replacing staff.

(b) Using the key performance indicators provided, evaluate the ability of the business to meet shareholder expectations. (4 marks)

Rising rates of staff turnover and staff absenteeism suggest there is a morale and/or culture issue among staff at the business. More staff are leaving the business and being replaced, and staff are regularly not attending work when scheduled to do so. This means the business is continually hiring and training new staff and so productivity levels are likely to be falling. It takes time for new employees to 'get up to speed' at the business so, in the short term, productivity may fall, which means costs rise and sales could be falling.

In this scenario it is likely that shareholders are not receiving the dividends they expect and so their expectations are not being met.

Award 1–3 marks for an analysis of the key performance indicators.

Award 1 mark for an evaluation of the business's ability to meet shareholder expectations.

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Solutions

Unit 4: Transforming a business

Area of Study 2: Implementing change

Topic 5: Implementing change

5.2 The importance of leadership in change management

TEST your understanding

1 **Define the term 'leadership'.**

Leadership refers to the ability to influence or motivate people to work towards the achievement of business objectives.

2 **Identify three things that a successful leader should do during a period of change.**

Students could identify three things from:

- preparation and planning
- communication
- support
- collaboration
- accountability.

3 **Outline what could happen in a business if there was no leadership during a change.**

During change many stakeholders, particularly employees, will fear change. If there is no leadership during a change, employees are unlikely to know what the change is about, the reasons for change, or how the process will work. Accordingly, they would be less likely to support the change and more likely to actively resist it.

APPLY your understanding

4 **Read the 'Leadership in change management at Telstra' case study and explain how Andy Penn demonstrated leadership during the transformation at Telstra.**

Responses will vary but may include strategies such as:

- introducing morning or weekly briefings to outline progress

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- appointing a staff welfare officer for staff to talk to if needed
- changing management style to be more inclusive
- initiating a suggestion box
- creating visual displays such as a timeline to show progress
- introducing a 'buddy' system for workers or teams.

5 **Read the 'Mind of a manager, soul of a leader' case study and answer the following questions.**

(a) **Identify the main features of (i) a manager and (ii) a leader.**

The main features of a manager include a desire for stability, trying to duplicate the successful efforts of others, fastening, fixing and putting things in place for the long term, hammering out compromises, and reacting to change rather than initiating. A leader is more likely to recognise that a crisis can stimulate improvement, break new ground, continually unfasten and unfix to prevent stagnation, polarise people to clarify differences between them, anticipate and create change, and rethink the fundamentals and promote revolution.

(b) **Do you agree or disagree with Craig Hickman's belief that businesses need both managers and leaders? Justify your answer.**

Most students would be expected to agree with this statement. In justifying their answers, they would be expected to highlight the balance between the practical, orderly mind of a manager and the experimental, visionary attributes of a leader. It is possible to argue that these characteristics are not mutually exclusive, and that all these traits can be found in a given individual.

6 **Think of someone you regard as a leader. Outline the characteristics that they display to give them this leader status.**

Leaders suggested will vary. The leader selected may have the following characteristics:

- empowering skills
- strength of character
- ability to plan
- ability to take direction and suggestions from employees
- ability to relate to staff
- ability to cultivate a sense of stability
- ability to be a problem solver.

7 **'Motivating, inspiring and empowering employees to embrace change is the mark of a good leader.' Do you agree with this statement? Explain the reasons for your response.**

Answers may vary but ideally students will support the statement. Students should refer to a leader as a person with the ability to positively influence and encourage individuals to set and achieve objectives. This will involve them being able to motivate and empower staff during a

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period of change, so they feel as though they are involved and have played a part in the change process.

5.2 Exam questions

Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.2a; © VCAA

Explain the importance of leadership in successful business change management.

Change management is the process of monitoring and implementing strategies within a business to assist in change. Leadership within change management involves encouraging and motivating employees to work towards business objectives within a transformation. This is crucial because, by leading employees to embrace transformation, it can ensure the transformation is implemented more successfully overall.

Leadership in change management can include providing employees with a shared vision and communicating this clearly. In doing this, all members of a business are more likely to understand the benefits and reasons for a change, as well as better understand their role in implementing the transformation. Having clear goals and visions for how and why a transformation is occurring can mean employees will get involved, allowing objectives to be met more effectively throughout the transformation.

Award 1 mark for defining change management.

Award 1 mark for defining leadership.

Award 1 mark for explaining how good leadership drives successful change management.

Award 1 mark for providing valid examples of good leadership that drive successful change management.

Question 2 (3 marks)

Describe one management skill an effective leader should utilise during a period of change.

An effective leader should communicate during a period of change. Stakeholders will need to be informed of the change, the reasons behind the change and the timeline for implementation. This should engender more support and reduce fear related to the change.

Other skills that may be used: delegating, planning, leading, decision-making, interpersonal

Award 1 mark for identifying a skill.

Award 2 marks for describing how and why that skill would be used.

Question 3 (3 marks)

Propose and justify an appropriate management style an effective leader should adopt during a period of change.

During periods of change, an effective leader might adopt the consultative style of management.

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This style will allow the leader to gain input from employees and perhaps strategies to assist in managing the change. Employees will feel involved in the change and therefore may be more supportive. While the manager will still make the decisions, the change will be considered a team effort.

Award 1 mark for identifying the style.

Award 2 marks for justification — why it would be effective.

Question 4 (3 marks)

During the implementation of any change strategies, it would be important for management to demonstrate leadership. Explain why this is important.

During periods of change, management will implement various strategies to assist in the change — either to overcome resistance or to build upon driving forces.

This requires leadership because someone must direct the change, determine which strategies to implement, determine the timeline for implementing these strategies and generally manage the change process.

This provides security for employees and other stakeholders who may be unsure of the need for change and may fear what it might mean for them. Leadership can alleviate those fears through direction and communication.

Award 1–2 marks for explaining the role of leadership in relation to change management.

Award 1 mark for an additional point related to why it is important.

Question 5 (5 marks)

'Ineffective leadership leads to ineffective change.' Analyse this statement.

If a leader is ineffective then it is likely that the change will be ineffectively implemented as well. Change requires strong leadership as many stakeholders will be fearful of what the change may mean for them. If a leader is an ineffective communicator, a poor decision maker and is unable to recognise the impact of change on others, then it is likely that resistance to the change will grow.

It is likely then that the leader will not deal with this resistance effectively and the change will be poorly managed. The likely result is that the change is not finished, or is implemented poorly, leading to confusion among staff and other stakeholders, leaving the business in a worse position than it was in when the change issue was originally identified.

Award 1–3 marks for an attempted analysis of how ineffective leadership may lead to ineffective change. Answer may lack clarity or contain contradictions.

Award 4–5 marks for an in-depth analysis how ineffective leadership may lead to ineffective change.

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5.3 Management strategies to respond to key performance indicators and seek new business opportunities

TEST your understanding

1 Identify three strategies for responding to falling net profit figures.

Students could suggest three strategies from:

- staff training
- staff motivation
- change in management styles or management skills
- increased investment in technology
- improving quality in production
- cost cutting
- initiating lean production techniques
- redeployment of resources (natural, labour and capital)
- innovation
- global sourcing of inputs
- overseas manufacture
- global outsourcing.

2 Outline two strategies for responding to an increasing number of customer complaints.

One strategy for responding to an increasing number of customer complaints is to increase staff training. Training refers to the process of teaching staff how to do their job efficiently, boosting their knowledge and skills. It can be completed on the job or off the job. Staff training could be used to improve the service that customers receive — perhaps by ensuring that staff don't make errors or improving their skills in customer service.

Another strategy is to improve quality in production. Quality refers to the degree of excellence of goods or services and their fitness for a stated purpose. To respond to increasing customer complaints, a business might implement quality control, quality assurance or Total Quality Management to improve the quality of its good or service. Any of these strategies should result in improvements in the standard of a business's product, which should alleviate complaints.

3 Define the term 'redeployment'.

Redeployment refers to the assignment of resources, including natural, labour and capital resources, to another area of the business.

4 Explain how introducing a quality management system is a strategy that can address a range of key performance indicators.

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A quality management system allows a business to monitor the quality of the product reaching the customer. If the quality management system operates effectively, overall quality will improve, which will be evident through a rise in the number of sales and a decrease in the number of customer complaints.

5 **Identify a strategy for responding to percentage of market share and a strategy for responding to the level of waste.**

Strategies for responding to percentage of market share include:

- staff training
- staff motivation
- change in management styles or management skills
- increased investment in technology
- improving quality in production
- cost cutting
- initiating lean production techniques
- redeployment of resources (natural, labour and capital)
- innovation
- global sourcing of inputs
- overseas manufacture
- global outsourcing.

Strategies for responding to the level of waste include:

- increased investment in technology
- improving quality in production
- cost cutting
- initiating lean production techniques
- redeployment of resources (natural, labour and capital)
- innovation
- global sourcing of inputs
- overseas manufacture
- global outsourcing.

APPLY your understanding

6 **'Training is a key strategy in improving key performance indicators relating to staff morale.' Analyse this statement, stating whether you agree or disagree.**

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Students are very likely to agree with this statement. By providing employees with training, a manager is displaying confidence in employees — helping them to develop while also improving outcomes for the business. Staff who are trained are more valuable, may earn more income and feel more valued, leading to a rise in staff morale.

7 **Explain what is meant by a 'strategy' and, working in pairs, outline two strategies a manager could implement to reduce the levels of waste created by a business and two strategies to respond to increasing rates of staff absenteeism.**

A strategy is any action taken by a person to achieve an objective.

One strategy a manager could implement to reduce the levels of waste created by a business could be to implement a lean management/materials management strategy such as Just in Time. This means inputs are ordered only when needed so excess resources aren't ordered and, therefore, not used and wasted.

A second strategy would be to use materials that can be recycled. This would reduce waste because the packaging of the materials and/or the materials themselves could be re-used and so fewer items are needed to be purchased, reducing waste in general.

One strategy a manager could implement to respond to increasing rates of staff absenteeism is redeployment of resources. For example, a business could move employees (labour) to another area of the business to make better use of this resource. Working in a new area could result in staff feeling more positive and more useful to the business. Accordingly, employees would be less likely to fail to arrive at work when they are scheduled to do so, reducing rates of staff absenteeism.

A second strategy would be to change the prevailing management style. The managers at a business may move to a consultative style, whereby they would seek employee input before making decisions. Employees would feel more motivated from the sense of responsibility and a feeling that managers value their opinion. As staff are more satisfied at work, they are less likely to take time off, resulting in a reduction in staff absenteeism.

5.3 Exam questions

Question 1 (14 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.3 b & c; © VCAA

The manager of Wilkinson's Window Tinting was disappointed with the performance of the business after one year of trading. As a result, she decided to purchase new machinery and automate the tinting process. At the end of the second year of trading, the manager examined a range of key performance indicators in order to assess the extent to which this change had been successful.

Key performance indicator	Year 1	Year 2
net profit figure	$47 000	$23 000
rate of productivity growth	2%	8%
number of customer complaints	112	28

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rate of staff absenteeism	average of four days per year per staff member	average of 12 days per year per staff member

(a) With reference to the data above, analyse the extent to which the purchase of the new machinery has assisted Wilkinson's Window Tinting in improving the performance of the business. (6 marks)

The new machinery has helped in improving productivity as it has increased by 6% over one year. This means that the resources (such as time to make the tinting) have been used well (less time needed now with the automated process). Thus, it has improved the business' performance in the sense that they are saving time and being more efficient.

Another advantage that the introduction of the machinery has brought is the reduction in number of customer complaints. Perhaps the technology (since it's new) has allowed the quality of the windows to improve which has satisfied Wilkinson's Window Tinting, as the number of customer complaints is now only 28, in contrast to Year 1 where it was 112.

Despite these advantages, the key performance indicators for net profit figures show that the introduction of this technology has been expensive and therefore their profit has drastically decreased by 24,000 dollars. Since net profit refers to the amount left over once expenses (including the introduction of technology) is subtracted from revenue earned, then it means that the technology was highly priced and therefore they have less profit; meaning that currently they will have to examine their expenses as profit is essential to the business' performance. In addition, the rate of staff absenteeism has increased by an average of 8 days per year per staff member meaning that perhaps the introduction of technology has caused the employees to feel no longer valued as they have been previously the ones doing the tinting. Thus, as employees are a valuable asset to a business' performance, then a lack of them throughout the year suggests that they are not performing as well as in Year 1.

Global marking may be used:

Award 5–6 marks for consideration of how the new machinery has affected the key performance indicators, including an assessment of relevant data from the table and the level of analysis is sophisticated.

Award 3–4 marks for consideration of the relevant data from the table and identification of a change that has occurred, with no linking of the change in the key performance indicators to the new machinery (the level of analysis is not suitably sophisticated).

Award 1–2 marks for making no effort to explain what might have caused the change in the data and the overall level of analysis is weak.

(b) Explain how each of the following management strategies could be used to respond to the key performance indicators in the table and position the business for the future. (8 marks)

- **Redeployment of resources**
- **A change in management style**

Redeployment of resources refers to moving the business's resources/inputs including raw materials, labour and equipment to make better use of them. In relation to Wilkinson's Window

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Tinting, they may choose to move their employees (labour) to other areas of the business in order to reduce the rates of staff absenteeism. This is because perhaps the introduction of technology has caused the current roles of the employees to be less hands-on or valued and not as needed anymore, such as those who worked in the tinting of the windows, as these processes have now been assisted by technology instead. By moving them to a different department of the business, they could make better use of their employees and make the employees happier as they will have more work to do and feel more useful in the business in this new location. This should reduce the rates of staff absenteeism.

This could consequently also increase the level of productivity even further as by using their inputs of labour better then Wilkinson's Window Tinting can improve their efficiency and productivity. If staff are happier then they're more likely to treat customers better; therefore, this would also continue to decrease levels of customer complaints into the future. This can positively improve future profits if sales increase.

A change in management styles refers to changing the approach taken by management in making decisions and directing and motivating staff. The managers may switch to a consultative style, and ask for employee input before making decisions. Motivation in this style comes from staff feeling a sense of responsibility and a feeling that managers are concerned about their opinions. Changing to this style may lead to improved motivation: staff who value the ability to contribute to decisions should be more interested, and by considering possible concerns about technology, staff should be more satisfied. This should reduce absenteeism.

Additionally, a change to this style would leave final decision-making with managers. This can ensure they still have full control of resources and operations. Wilkinson's may benefit from this as managers can ensure costs do not increase too much to allow the business to make a profit. Thus, the business should see better work from better motivated staff, and control their costs, to position them effectively in terms of generating profit in the future.

Award 1 mark for the demonstration of an understanding of redeployment of resources.

Award 1 mark for linking the strategy to one or more key performance indicator.

Award 1 mark for providing a link to the stimulus material.

Award 1 mark for reference to a future focus.

Repeat for a change in management style.

Question 2 (4 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.5; © VCAA

Read the information in the table below relating to Dazzle Painting and Decorating, a Victorian business specialising in both interior and exterior house painting.

Key performance indicator	**2015**	**2016**
level of wastage	↑ 2%	↑ 3%
net profit	$520 000	$145000

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Explain how the principles of lean management could assist Dazzle Painting and Decorating with improving its performance. In your response, refer to the data provided.

Lean management is a business-wide approach for the elimination of waste that involves removing all aspects of production that do not add value to the end product, and only consisting of what is appealing to the customer. The principles of lean management include 'pull', 'one piece flow', 'takt' and 'zero defects'. These principles should address Dazzle Painting and Decorating's KPIs, which show level of wastage increasing between 2015 and 2016, and net profit falling from $520 000 in 2015 to $145 000 in 2016.

Dazzle may implement lean through considering the 'Pull' principle. This relates to avoiding overproduction and stockpiling. By enabling customer demand to dictate the rate at which the business paints and decorates houses, Dazzle is more likely to generate less waste as it will only be making use of the inputs that will be used to sell its product. This reduces the amount of idle stock from perishing, decreasing the amount of waste at Dazzle. Accordingly, the use of this principle should improve level of wastage.

Dazzle may also make use of the principle 'Zero Defects' which is all about the business striving for perfection. Dazzle would identify errors or defects as closely as possible to where they occur. By doing so, and by not accepting or passing on defects, levels of waste will decrease as there are less defects going to waste rather than being sold. This efficient use of resources will also act to increase profits as the business is maximising outputs whilst minimising waste. Accordingly, the use of this principle should improve level of wastage as well as addressing Dazzle's falling net profit.

Award 1 mark for an explanation of the principles of lean management.

Award 1–2 marks for explaining how the principles of lean management could assist Dazzle Painting and Decorating with improving its performance.

Award 1 mark for reference to Dazzle's KPIs.

Question 3 (4 marks)

A business has reported a second consecutive period of declining profits. Propose and justify an appropriate management strategy to respond to this key performance indicator.

An appropriate strategy may be to cut costs. Profit is gained from deducting costs from revenue. If profit is falling, then raising prices or cutting costs are two options. Cost cutting is likely to be more effective as there will be a range of areas where costs can be reduced — changing suppliers, reducing advertising, changing employment arrangements so less can be spent on wages etc.

If costs can be reduced while maintaining the same level of sales, then profits should increase and no other KPIs will be adversely affected. If it can be done without compromising the quality of the product or the standard of service, then revenue will be unaffected and all cost savings will directly flow into an increase in profits.

Award 2 marks for explaining the strategy.

Award 2 marks for justifying why it should be implemented.

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Question 4 (6 marks)

Analyse a management strategy that could be used to seek new business opportunities, referring to a contemporary business that you have studied this year.

Biotechnology company CSL announced in 2021 that it was launching an incubator program designed to commercialise promising Australian medical research. Business incubators are specially designed programs to help young business start-ups innovate and grow.

CSL said that it would be Australia's first and only incubator that is co-located with a leading biopharmaceutical company. The project is an example of a business seeking new opportunities through innovation. Innovation involves a business either creating a new good, service or process, or significantly improving an existing one. innovation will allow a business to adapt to the way the market is changing, find new opportunities for growing revenue, and boost productivity and growth, giving the business an advantage over competitors. The incubator program will allow CSL to seek new business opportunities as it will be able to accommodate up to 40 early-stage companies as well as support CSL's own R&D program. This strategy will allow researchers to develop new products that CSL will bring to market, giving the business an advantage over competitors and potentially broadening the company's customer base, increasing sales and market share, as well as increasing profit.

Global marking may be used:

Award 5–6 marks for comprehensive consideration of how a management strategy might be used to seek new business opportunities, including reference to a contemporary business case study.

Award 3–4 marks for consideration of how a management strategy might be used to seek new business opportunities, which may or may not include reference to a contemporary business case study.

Award 1–2 marks for limited consideration of how a management strategy might be used to seek new business opportunities, and limited reference to a contemporary business case study or no reference to a contemporary business case study.

Question 5 (4 marks)

Elana Hickling has become concerned with the rise in the level of staff turnover. Feedback from exit interviews has indicated that staff feel unsupported and not heard by management. Propose and justify an appropriate management style Elana should adopt to respond to this key performance indicator.

An appropriate management style would be the consultative management style. In this style, the manager maintains control of the decision-making but seeks input and advice from employees prior to making any decision.

Employees are given the opportunity to communicate their ideas and discuss options with management. This can make employees feel valued as it can demonstrate that management are interested in the thoughts and opinions of staff. This can reduce staff turnover as staff may be leaving because they feel under-valued.

Award 2 marks for explaining the features of that style.

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Award 2 marks for justifying the style — link to the KPI.

5.4 APPLY YOUR SKILLS Seeking new business opportunities

TEST your skills

1 Identify two strategies that Ego Pharmaceuticals has implemented to seek new business opportunities.

Students could suggest two strategies from:

- exporting
- increased investment in technology
- initiating lean production techniques
- innovation.

2 Identify two key performance indicators that Ego Pharmaceuticals may respond to when implementing strategies for seeking new business opportunities.

Students could suggest two key performance indicators from:

- percentage of market share
- net profit figures
- rate of productivity growth
- number of sales
- rates of staff absenteeism
- level of staff turnover
- level of wastage
- number of customer complaints
- number of website hits
- number of workplace accidents.

APPLY your skills

3 Ego Pharmaceuticals is always looking for new business opportunities. Explain why it is important for a business to do this.

It is important to seek new business opportunities because other businesses (competitors) will. This can lead to competitors increasing their market share at the expense of the business. It is also important to seek new opportunities because it helps the business grow and earn more profit.

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5.4 EXAM questions

Question 1 (2 marks)

Explain what is meant by a 'new business opportunity'.

A new business opportunity refers to a new activity a business could become involved with as a means of responding to the data from key performance indicators. This activity may be located within the country where the business currently operates (a domestic opportunity) or outside the country a business operates within (a global opportunity).

Award 1–2 marks for explaining what is meant by a new business opportunity.

Question 2 (2 marks)

Describe a strategy for seeking new business opportunities that Ego Pharmaceuticals took advantage of.

Ego Pharmaceuticals took advantage of innovation. Innovation involves a business either creating a new good, service or process, or significantly improving an existing one. Innovation will allow a business to adapt to the way the market is changing, find new opportunities for growing revenue, and boost productivity and growth, giving the business an advantage over competitors.

Ego recently developed a new range of natural, ethical and sustainable skincare products called 'etch&ethos'. The company partnered with Pact Group, an Australian packaging manufacturer, to produce packaging made with 50 per cent recycled milk bottle plastic. This strategy will potentially broaden the company's customer base, and increase sales and market share, as well as increasing profit.

Award 1–2 marks for the description of the opportunity, linked to Ego Pharmaceuticals.

Question 3 (3 marks)

Describe a key performance indicator that Ego Pharmaceuticals may have responded to when it implemented strategies for seeking new business opportunities.

A declining percentage of market share may have driven the business to seek new business opportunities, namely expanding into global markets. Percentage of market share refers to the business's share of the total industry sales for a particular good or service, expressed as a percentage. It is calculated by dividing a business's sales (from that market) by the total sales of all businesses in that market and expressing this as a percentage. If Ego did suffer a decline in market share in Australia, then that would suggest that the business was not performing successfully. To maintain sales, or to increase sales, the business may have sought new markets in response and determined that other countries in the Asia–Pacific region, Europe and the Middle East were viable options. If the business was able to expand successfully, they may gain a high market share in these new markets.

Award 1 mark for identifying a relevant KPI.

Award up to 2 marks for the description of the selected KPI, linked to Ego Pharmaceuticals.

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Question 4 (4 marks)

Propose and justify one new business opportunity Ego Pharmaceuticals could consider.

Given the size of Ego Pharmaceuticals' business, a possible business opportunity is overseas manufacture. This refers to a good being produced in a country that is different from the location of the business's headquarters. Ego Pharmaceuticals could establish a manufacturing plant overseas and enter overseas markets this way.

Manufacturing in an overseas country should enable the business to take advantage of local conditions in producing products that will appeal to local customer bases. The business should also be able to reach new markets where demand for its products is growing and competition is at a minimum. Overseas manufacture should enable Ego Pharmaceuticals to get its product to overseas markets more quickly, reduce the cost of production and reduce delivery costs. Manufacturing overseas should reduce the costs of labour, overheads and components, while keeping research and development, design and short-run manufacturing in Ego Pharmaceuticals' country of origin. In this way, the business can maintain control over its operations to ensure quality is maintained.

Award 2 marks for proposing a new business opportunity Ego Pharmaceuticals could consider.

Award 2 marks for justifying the business opportunity, with links to Ego Pharmaceuticals.

Question 5 (5 marks)

'Small businesses need to continually seek new business opportunities or risk going out of business.' Discuss this statement.

The idea that a business should continually seek new opportunities is a complex one. New business opportunities can lead to an increase in sales, profits and market share, especially if the business enters a new market. However, the cost of these new opportunities can be high, and it may take some time for the benefits to outweigh the cost.

By continually adopting new opportunities, the business may move away from its core business, often the reason the owner established the business in the first place, and so the original customer base may be lost. It is also possible that, at some point, the business owner may not have the skills required to expand into a new area.

While businesses should seek new opportunities, they shouldn't be continually on the lookout for these opportunities. They should only seek them out when forced to or if their performance data suggests it would be a good move.

Mark globally:

Award 1–3 marks for arguments in support of the proposal.

Award 1–2 marks for arguments against the proposal.

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5.5 Corporate culture and strategies for its development

TEST your understanding

1 **Identify two reasons why a business might change or develop its corporate culture.**

- Transformation will generally require a change or development in corporate culture.
- A business might be focused on developing its corporate culture — perhaps to position itself as more adaptable or innovative.

2 **Outline one benefit of a positive corporate culture.**

Students could outline one benefit from:

- the business is more likely to be successful, because its workplace is perceived by employees to be more positive and personalised
- employees experience high morale and a positive attitude toward the business — improved morale should increase employee productivity
- employees become more loyal to the business — this should reduce the level of staff turnover
- a business gains a positive reputation, allowing it to attract talented and skilled employees.

3 **Define the term 'culture fit'.**

Culture fit refers to the likelihood of job applicants conforming or adapting to the business's shared values and beliefs.

4 **Describe two strategies that management can use to develop a business's corporate culture.**

Students could describe two strategies from:

- establishing appropriate rituals, rites and celebrations
- changing the prevailing management style
- ensuring that staff members are given sufficient training to reflect the values of the business
- senior managers, and the 'heroes' of the business, acting as role models
- communicating desired values to staff
- hiring staff who fit in with the values of the business
- rewarding employees who exemplify appropriate values
- establish a new management structure
- implementing policies reflecting values
- changing the work layout
- changing the style of dress and language used in the workplace
- creating a values statement.

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Sample response:

One strategy that management can use to develop a business's corporate culture is ensuring that staff members are given training to reflect the values of the business. Investment in training could involve teaching the values that the business expects to see in the workplace — this would also influence the development of a more positive corporate culture. For example, if treating customers respectfully is important in a business, it should be part of its customer service training program. Training in the values of the business will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis.

Another strategy is hiring staff who fit in with the corporate culture of the business. This could be done by screening potential candidates to ensure that they will easily conform or adapt to the business's shared values and beliefs. Managers should clearly express the desired culture in all communication and recruitment methods used, including the website, job postings and job descriptions, as well as in selection interviews. It is much easier to develop corporate culture when employees who uphold the desired values and beliefs already work at the business.

APPLY your understanding

5 **Explain why, when hiring new staff, a business should clearly express its desired corporate culture in the recruitment and selection process.**

A business should clearly express its desired corporate culture in the recruitment and selection process to ensure that it employs staff who will easily conform or adapt to the values or beliefs that the business expects. Such employees are more likely to support the development of corporate culture. Research also suggests that staff who fit well into the prevailing corporate culture tend to enjoy greater job satisfaction, engagement and productivity, and will be more likely to remain with the business for a longer period.

6 **Outline the impact that each of the following is likely to have on the corporate culture of a business.**

- Changing the prevailing management style from autocratic to participative

A management style involving the contribution of employees to decision-making and two-way communication is likely to result in a positive corporate culture as it emphasises the extent to which management values its employees and the confidence it has in their abilities.

- Introducing a rewards program for employees who demonstrate creativity

Recognising the contribution of employees to the business is likely to develop relationships between staff and management, help employees feel connected to the business and create positive moments for staff. By rewarding the expected values and behaviours, and showing the rest of the staff that these are the expected values and behaviours, a positive corporate culture should be developed.

- Providing employees with new uniforms displaying the name and logo of the business

  Providing employees with new uniforms suggests that the business values professionalism and formality — this can be seen as contributing to a positive corporate culture as staff are seen to be proudly wearing the name and the logo of the business on their uniforms.

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- Requiring that staff are constantly supervised

A requirement for good supervision is likely to have a positive impact on a business's corporate culture, particularly if it includes support for staff and encouragement for them to work at their best. The requirement for constant supervision suggests that the business values great performance and that employees are expected to support the attainment of the business's objectives.

- Providing employees with training on the values of the business

Training in the values of the business will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis. This would result in a positive corporate culture as employees observe the desired values and beliefs of the business.

- Encouraging staff to take calculated risks

  Encouraging staff to take calculated risks is likely to result in a positive corporate culture that is seen as more adaptable and innovative. A business with a culture of taking calculated risks is more likely to encourage open communication, sharing of knowledge and best practices, and continuous improvement.

7 **Read the 'Corporate culture at CSL and Telstra' case study. Outline two strategies used by CSL or Telstra for developing corporate culture.**

Strategies used by CSL for developing corporate culture include:

- Creating a purpose statement — CSL's purpose states that 'the people and science of CSL save lives. We develop and deliver innovative medicines that help people with serious and life-threatening conditions live full lives and protect the health of communities around the world'.
- Creating a values statement — CSL's values include 'patient focus', 'innovation', 'integrity', 'collaboration', and 'superior performance'.
- Implementing policies reflecting values — CSL has policies and processes in place to ensure that their values underlie how things are done and to deal with any behaviour not consistent with the values.
- Establishing strategies to allow employees to stay connected despite restrictions on travel and office closures, such as a week-long 'Development Days' event in 2021.
- Offering flexible working conditions, including working from home.
- Attracting, developing and retaining skilled and talented staff who fit in with the values of the business.
- Ensuring that staff members are given sufficient training to reflect the values of the business — CSL invests heavily in reskilling and upskilling their staff.

Strategies used by Telstra for developing corporate culture include:

- Creating a purpose statement — Telstra's purpose is to 'build a connected future so everyone can thrive'.

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- Creating a values statement — Telstra has four values which are 'we are changemakers', 'we are better together', 'we care' and 'we make it simple'.
- Implementing policies reflecting values — Telstra has policies and processes in place to ensure that their values underlie how things are done and to deal with any behaviour not consistent with the values.
- Establishing strategies to allow employees to stay connected despite restrictions on travel and office closures.
- Offering flexible working conditions, including working from home.
- Attracting, developing and retaining skilled and talented staff who fit in with the values of the business.
- Ensuring that staff members are given sufficient training to reflect the values of the business — Telstra invests heavily in reskilling and upskilling their staff.

5.5 EXAM questions

Question 1 (4 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.4; © VCAA

The best-performing businesses are those that have a positive corporate culture.

Explain two strategies that a business can implement to develop a positive corporate culture.

A strategy that a business could implement to develop a positive corporate culture is ensuring that staff members are given sufficient training to reflect the values of the business. Management might provide training to employees, for example, that focuses on respect for all employees and managers or what it means to work with integrity. If treating customers respectfully is important in the business, then this should be part of its customer service training program. Training in appropriate ways in which to reflect the values of the business will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis.

Another strategy is communicating desired values to staff. In the case of employees not having a full understanding of the desired corporate culture that the business is trying to achieve, management should explain what the culture is and why it is important. The communication used should reflect the corporate culture of the business, i.e. if the business has a more formal culture, the communications used might be memos and meetings, whereas if the corporate culture is more casual and relaxed, the tone of the communication should be more informal too (for example, making use of networking). When employees are aware of the desired values and beliefs of a business, they are much more likely to observe or adapt them, resulting in a positive corporate culture.

Other accepted strategies for developing corporate culture include establishing appropriate rituals, rites and celebrations, changing the prevailing management style, senior managers and the 'heroes' of the business acting as role models, hiring staff who fit in with the values of the business, rewarding employees who exemplify appropriate values, establish a new management structure, implementing policies reflecting values, changing the work layout, changing the style of dress and language used in the workplace, creating a values statement.

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Award 1 mark for explaining a strategy that management could use to develop corporate culture.

Award 1 mark for explaining how the strategy could be used to develop corporate culture.

Repeat for a second strategy.

Question 2 (2 marks)

Source: VCE 2011, Business Management Exam, Q.1b; © VCAA

Describe one way management can develop a business's corporate culture.

One way that management can develop corporate culture is through rituals. This involves management establishing social gatherings and developing habits which are unique to the organisation. If management develops rituals, employees will feel valued as they are part of the organisation's customs and behaviours. This can lead to a much more positive corporate culture.

Award 1–2 marks for describing a strategy that management could use to develop corporate culture.

Question 3 (4 marks)

Outline two strategies a manager could use to improve and develop corporate culture within a business.

One suitable strategy that a manager could use to improve and develop the corporate culture within a business is establishing appropriate rituals, rites and celebrations. This might involve management at the business introducing routine patterns of behaviour to the business's everyday life such as observing safety and working in teams, as well as social events and gatherings. This is likely to result in employees feeling valued — they will have a sense of belonging to the business and be able to connect with its expected behaviours. As employees feel more valued and connected to the business, they are likely to be more motivated and more productive.

Another strategy that a manager could use is ensuring that staff members are given sufficient training to reflect the values of the business. Management might provide training to employees, for example, that focuses on respect for all employees and managers or what it means to work with integrity. If treating customers respectfully is important in the business, then this should be part of its customer service training program. Training in appropriate ways in which to reflect the values of the business will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis.

Other accepted strategies include making use of symbols, rewarding employees who exemplify appropriate values, external recruitment, promotion or support of heroes, changing the prevailing management style, altering objectives, implementing policies reflecting values, establishing a new management structure, changing the style of dress and language, changing the work layout, acting as a role model for staff.

Award 1 mark for outlining a strategy that a manager could use to improve and develop corporate culture.

Award 1 mark for outlining how the strategy could be used to improve and develop corporate culture.

Repeat for a second strategy.

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Question 4 (4 marks)

Then Data Ltd is a business with a poor corporate culture. Propose and justify two management strategies for developing corporate culture at the business.

One strategy that management at Then Data Ltd could use to develop a positive corporate culture is acting as role models for staff. Management could act as an example for employees by constantly reflecting the values, ideas, expectations and beliefs of the business. By influencing employees, positively encouraging them and motivating staff to share these values and beliefs, management will be able to develop a desired culture at the business. Employees will be motivated and will have a clear sense of direction about what the expected values and beliefs are. It is therefore likely that they will tend to work towards implementing that culture at Then Data Ltd.

Another method for developing a positive corporate culture is through establishing appropriate rituals, rites and celebrations. This might involve management at Then Data Ltd introducing routine patterns of behaviour to the business's everyday life such as observing safety and working in teams, as well as social events and gatherings. This is an appropriate method for positively developing the business's corporate culture because it is likely that it will lead to employees feeling valued — they will have a sense of belonging to the business and be able to connect with its expected behaviours.

Other accepted strategies for developing corporate culture include making use of symbols, training, rewarding employees who exemplify appropriate values, external recruitment, promotion or support of heroes, changing the prevailing management style, altering objectives, implementing policies reflecting values, establishing a new management structure, changing the work layout, changing the style of dress and language.

Award 1 mark for proposing a strategy for developing corporate culture at Then Data Ltd.

Award 1 mark for justifying the strategy.

Repeat for a second strategy.

Question 5 (6 marks)

Referring to a contemporary business case study, describe two strategies for the development of corporate culture.

One strategy for the development of corporate culture is establishing appropriate rituals, rites and celebrations. For example, management might establish social gatherings that will allow employees to feel valued, because they are part of the rituals, rites and celebrations of the business. During the COVID-19 pandemic, CSL implemented strategies to allow employees to stay connected despite restrictions on travel and office closures. CSL held a week-long 'Development Days' event in 2021 where employees were invited to join 'Speed Networking' sessions, randomly pairing participants for five-minute conversations with colleagues across 15 countries. A few employees were lucky enough to be paired with CSL's CEO and managing director.

Management can also ensure that staff members are given sufficient training to reflect the values of the business — for example, if treating customers respectfully is important in the business, it should be part of its customer service training program. This will ensure that respect for customers will be embedded in the business. Training in appropriate ways in which to reflect the values of the business

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will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis. CSL invests heavily in reskilling and upskilling their staff.

Global marking may be used:

Award 1–2 marks for a limited description of one or two strategies for the development of corporate culture, perhaps with brief or no reference to a contemporary business case study.

Award 3–4 marks for a good description of one or two strategies for the development of corporate culture, with some or no reference to a contemporary business case study.

Award 5–6 marks for a sound description of two strategies for the development of corporate culture, with good reference to a contemporary business case study.

5.6 The principles of the Learning Organisation (Senge)

TEST your understanding

1 **Define the term 'learning organisation'.**

A learning organisation is a business that is flexible and adaptive during periods of change, where managers and staff continually seek to develop themselves so they can achieve the results they desire. These types of businesses encourage new patterns of thinking and operating, resulting in the aspiration of the business becoming more open-ended.

2 **Identify the five disciplines of Senge's Learning Organisation.**

The five disciplines are:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.

3 **Outline the importance of building a shared vision for a business.**

Building a shared vision is important because it means all employees are 'on the same page'. It motivates employees because they see the direction the business is heading and how everyone is on board and working together, taking risks to improve performance.

4 **Explain what is meant by 'team learning'.**

Team learning is the process of aligning and developing the capacities of a team to create results that the members and the business desire.

APPLY your understanding

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5 **Explain the link between the five disciplines as explained by Senge. In your response, describe why systems thinking is considered the cornerstone of the five disciplines.**

Systems thinking involves seeing 'the big picture' — to look beyond what is happening now and see what changes are coming and how they may affect a business. Senge believes that systems thinking needs the other disciplines to enable the learning organisation to function — to see the big picture requires mental models, a shared vision, personal mastery and team learning.

6 **Outline how managers may use the principles of Senge's Learning Organisation in order to create a positive corporate culture for change.**

A business where all managers and employees are learning and working as a team should result in a positive corporate culture that is welcoming of change. Corporate culture refers to the shared values and beliefs of a business. Accordingly, if a business values openness and honesty (mental models), a positive corporate culture should be developed that encourages and promotes inquiry and trust. Team learning, where teams learn together, also facilitates open communication, shared meaning and shared understanding which is very likely to contribute to a positive and supportive culture.

7 **Describe the role of a leader in a learning organisation.**

A leader is someone with the ability to influence or motivate others to achieve the objectives of both the business and their own personal objectives. In a learning organisation, a leader is expected to act as designer, steward and teacher. The first task of the designer is to design the governing ideas of the business — the purpose, vision and core values by which the business should operate. Stewardship involves a commitment to and responsibility for the vision — not owning the vision but overseeing it. Leader as teacher is about fostering learning for everyone. Such leaders help people throughout the business develop systemic understandings.

5.6 EXAM questions

Question 1 (2 marks)

Senge's Learning Organisation theory has systems thinking as the overarching principle. Explain this concept.

Systems thinking is where all members of the business think as one and above all they consider the impact of all decisions on the business. This principle occurs after the other four principles have been put in place in the business.

Award 1 mark for definition of systems thinking.

Award 1 mark for linking systems thinking to the other four principles.

Question 2 (8 marks)

To assist businesses to better manage change, Senge developed the concept that all businesses should become 'learning organisations'. Explain what Senge meant by the term 'learning organisation' and describe three principles of this theory.

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Senge believed that all businesses are dynamic entities, constantly having to adapt and improve in an effort to develop into the type of business they aspire to be, often as outlined in their mission and vision statements. To do that, he believed businesses could become learning organisations, which are businesses where managers and staff continually seek to expand their capacity to achieve the results they desire. These types of businesses encourage new patterns of thinking and operating, resulting in the aspiration of the business becoming more open-ended. Because change is continuous, being a learning organisation means a business is proactive and ready to meet changes as they arise.

Senge identified that five principles need to be adopted for a business to become a learning organisation. Following is a description of three:

One principle is building a shared vision. This is where the business and its members agree on what they want the business to be, their role in it and how they will go about achieving this vision. This means all members will be heading in the same direction, having the same desire to achieve objectives.

A second principle is mental models. Mental models are the old assumptions and ways of thinking and doing things that have always guided a business. Senge believes these need to be broken down so a new way of thinking (systems thinking) can be developed. The aim is to move the business in the right direction, which will entail working to go beyond the sorts of internal politics and game playing that dominate traditional businesses, through openness and honesty and the sharing of responsibility.

A third principle is team learning. To be a learning organisation, the business will encourage teams to learn together, then the business will achieve improved results but, importantly, members will grow more rapidly than could have occurred otherwise. If teams or groups within a business are able to have a dialogue together, free from bias and pre-conceptions, then greater learning will occur and the business will achieve better results. It will further enhance learning and assist the business in becoming a learning organisation.

Award 1–2 marks for an explanation of a learning organisation.

Award 1–2 marks for each principle described (× 3).

Question 3 (3 marks)

Explain what is meant by 'mental models' as part of Senge's Learning Organisation approach.

Mental models are the deeply ingrained assumptions and generalisations that business owners and other stakeholders have about themselves and the business. Managers and businesses need to recognise that they have these assumptions and it is these assumptions have often held back change. Managers and businesses need to challenge these assumptions, look critically at what they do and be able to learn from what they find out about themselves and the business.

This can require training and open communication so the issues can be discussed and addressed so the business can be in the right place to make the necessary changes.

Award 1–2 marks for the definition of the principle.

Award 1 mark for how it will be used.

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Question 4 (4 marks)

Analyse how becoming a 'learning organisation' can assist a business to create a positive culture for change.

Becoming a Learning Organisation is similar to adopting a proactive approach to change. It is about developing a mindset among management and employees that ensures the business is always prepared to change and there is little resistance to any change.

Developing mental models and the concept of team learning should result in a business that views change as an opportunity and not as a threat, while also recognising that some change may have some negative outcomes. A support mechanism is generally in play so the employees know they will have the backing of the business during the change period.

Award 1–2 marks for an analysis of 'learning organisation'.

Award 1–2 marks for specific reference to creating a positive culture.

Question 5 (6 marks)

'Becoming a learning organisation sets up a business to effectively manage change both now and in the future.' Discuss this statement.

The concept of a learning organisation is about developing habits and processes that allow a business to easily transition into a change 'mode'. It is similar to developing a proactive approach to change so employees and management are able to respond quickly to change. The culture of the business is such that resistance to change is minimal, which can allow change to occur more effectively at all times. Motivation in learning cultures is likely to be strong, so productivity will remain high into the future.

However, it can be difficult to keep employees on this 'change footing' as it can distract from the daily tasks they should be conducting. It can also be unsettling and tiring if it is not managed correctly. It is also possible that if change doesn't occur for some time and staff turnover occurs, then complacency may set in and when change does occur or is required, the business has forgotten how to deal with it effectively.

Mark globally.

Award 1–3 marks for arguments in support of the learning organisations.

Award 1–3 marks for the counter-argument provided.

5.7 Low-risk strategies to overcome employee resistance

TEST your understanding

1 Define the term 'low-risk strategy'.

Low-risk strategies are actions taken that are likely to generate positive outcomes in the short term and longer term. They tend to seek small and incremental changes, and involve employees more in the process of change.

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2 **Identify three low-risk strategies.**

Low-risk strategies include communication, empowerment, support and incentives. Students could also identify other strategies including building trust, clearly articulating the purpose of change, following sensible timeframes, and supporting change with new learning.

3 **Distinguish between 'communication' and 'empowerment' as low-risk strategies.**

Communication involves the sharing of information during the change process whereas empowerment refers to involving employees in the change process, providing them with greater responsibility and decision-making power.

APPLY your understanding

4 **Read the 'What is a team?' case study.**

(a) **Outline what causes teams to form, according to the author.**

A common objective or goal causes teams to form in order to meet a challenge.

(b) **Explain why the author believes it is important to clearly communicate to employees the goals of a change.**

It is important to clearly communicate the goals of the change so that the employees are more likely to successfully implement change. The goals need to be relevant to staff so that they are motivated to achieve them.

(c) **'The whole becomes clearly more than the sum of the parts.' Explain what this statement means.**

This statement means that every small accomplishment by an individual allows the collective change process to proceed with greater effectiveness and clarity. The collective goal can be achieved only if the individual elements all work and fit together. It is the central goal that is the focus of the change and, ultimately, the one that all the employees are working together to achieve.

5 **Southern Airlines provides flights to a number of regional cities across Australia. The CEO of the company has recently called a meeting of senior executives to review Southern Airlines' current policies in order to develop a new policy that will result in better customer relations in the future.**

Describe one low-risk strategy that Southern Airlines could consider using to overcome employee resistance when introducing the new policy.

Responses will vary depending on the strategy selected.

One strategy that Southern Airlines might consider is incentives. Incentives refers to any financial or non-financial rewards provided to employees to encourage them to embrace a change. This might involves providing employees with bonuses, offering promotions or greater responsibility, or offering training or greater autonomy. This strategy would overcome employee resistance as employees at the airline will feel that the business has faith in their abilities and is willing to move forward with these employees 'on board'. In addition, the

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incentives could be linked to achieving goals, such as improving customer service. For example, employees might be provided with bonusses as they meet certain standards in customer service.

5.7 EXAM questions

Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.5a; © VCAA

Alex is the manager of a large gaming store. The business sells games for gaming consoles. Alex has recently been informed that the store has been sold to a multinational chain. As changes are implemented, approximately 20% of all staff will need to be retrenched. Alex is concerned that some stakeholder groups will resist the changes. He has noticed that employees seem to be lacking motivation since the announcement of the sale of the business.

Identify one stakeholder group that might resist these changes at the gaming store. Describe one low-risk strategy that could be used to overcome resistance to the changes from this stakeholder group.

One stakeholder group that may resist the change is employees who work at the store. Employees want job security and because 20% of all staff will be retrenched, this could cause resistance to change in the business's employees.

To overcome this, the business needs to give employees support to help them manage the change. Alex could offer training in résumé writing or interview skills to the employees who will be retrenched. This would help those employees leaving to feel supported, while also demonstrating to employees who are staying in the business that management cares for its staff. This could cause less resistance, which would then help the success of the change longer term.

Award 1 mark for identifying a relevant stakeholder group such as employees, managers, customers or suppliers.

Award 1 mark for identifying a low-risk strategy that could be used to overcome resistance to the changes from this stakeholder group such as communication, empowerment, support and incentives.

Award 1–2 marks for describing how the strategy would overcome resistance to change.

Question 2 (3 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5c; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

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Explain how Dennis could use the low-risk strategy of support to overcome possible employee resistance to the changes.

The low risk strategy of support relates to offering to try and aid the employees and nurture them with services to reduce the possible resistance. Dennis could implement this strategy that is likely to have very minimal negative consequences or backlash due to its rather positive nature. By offering support to his executive chef in the form of further training it allows the chef to feel as though despite the changes Dennis values him and wants him to be able to perform with the new ingredients and processes. By offering this training it builds the Chef's commitment to the job and in turn this reduces any potential resistance.

Award 1–2 marks for an explanation of the low-risk strategy of support. This can be stand-alone or incorporated into the full response.

Award 1 mark where students relate the strategy to the situation to Dennis' business.

Question 3 (4 marks)

Analyse how empowerment can be used to overcome employee resistance.

Empowering employees means giving employees involvement or some sense of control in their work. Giving them the opportunity to take part in negotiations, for example, can help them to 'buy in' to the change process. Giving all employees, whatever their role, the opportunity to participate in teams, working together on clearly specified tasks, allows everyone to buy in to the process.

As part of this process, a business can also identify individuals who can act as supportive change agents. Such people fulfil a crucial role in helping to establish a positive and supportive culture. This further empowers these employees and they can become drivers of change — if these people have sufficient influence, they can lower the resistance of other employees.

Award 1–2 marks for explaining empowerment.

Award 1–2 marks for the analysis of how it overcomes resistance.

Question 4 (4 marks)

Explain how communication can be used to overcome employee resistance and why it is considered a low-risk strategy.

Communication involves the sharing of information during the change process. If there is appropriate communication, there will be a greater level of trust between management and employees. If employees feel they are aware of what is occurring and that management is being honest, then there will be a level of trust between management and employees that should assist the change process.

Communication is considered low risk because its use is likely to generate positive outcomes, both in the short term and also in the longer term. There should be no negative outcomes from open and honest communication.

Award 2 marks for explaining communication.

Award 2 marks for explaining why communication is a low-risk strategy.

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Question 5 (6 marks)

The decision of a company to acquire the shares in another company as part of a takeover may create concern among staff, leading to resistance to the change.

Evaluate two low-risk strategies the managers of this business could use to overcome employee resistance in the circumstances described.

One low-risk strategy a manager can use is communication. Communication involves the sharing of information with employees, and the greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication and ensuring that managers provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change assists in overcoming resistance. However, communication can be a time-consuming process as it can take time to communicate with every employee in a business. A takeover of another company is likely to involve a large number of employees, and sharing information about reasons for the change and its impact, timelines and listening to employees' concerns would take much time.

A second strategy is the provision of support by management. This can be important for some employees because business change may result in some positions being terminated, so those likely to have their employment terminated need to be given appropriate support. This could involve the provision of assistance to find new employment. This sort of support is not only essential for the employee leaving the business, but also important for maintaining the morale of other staff. If employees see their workmates being treated poorly, they will be less supportive of the change process. However, this support could be expensive for the company. If assistance in finding new employment is provided through external outplacement services, this could represent an expensive financial cost for the business.

Despite limitations, the use of both strategies is important during times of change. If employees feel they are aware of what is occurring through open communication, and that management is being honest, then there will be a level of trust between management and employees that should assist the change process. Employees who remain at the business following any job losses will also feel valued if they feel the business has confidence in them going forward and is willing to support them.

Award up to 3 marks for each strategy:

- *1 mark for addressing strengths/benefits of the selected strategy*
- *1 mark for addressing weaknesses/limitations of the selected strategy*
- *1 mark for a statement of the overall suitability of the strategy, supported by a reason.*

5.8 High-risk strategies to overcome employee resistance

TEST your understanding

1 Define the term 'high-risk strategy'.

A high-risk strategy is an action taken that may succeed in the short term, but runs the risk of generating negative outcomes in the longer term. High-risk strategies may set out to accelerate

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change processes in order to reach business objectives, and may even minimise staff involvement to the point where changes have already been largely determined or implemented.

2 **Identify two high-risk strategies.**

High-risk strategies include manipulation and threat.

3 **Distinguish between 'manipulation' and 'threat' as high-risk strategies.**

Manipulation involves exerting influence over someone by providing incomplete or selective information, whereas threat refers to suggesting that some sort of negative consequence will occur if employees fail to follow a requested change.

APPLY your understanding

4 **Read the 'Manipulate at your own peril!' case study. In small groups, outline the ethical dilemmas encountered when using manipulation as a tactic to reduce resistance to change. Select a spokesperson, then share your answer with the rest of the class.**

Each student will interpret the material differently. Some of the dilemmas may include:

- Employees feel tricked and so less valued by the business.
- The self-worth of the employees may be lowered because they feel less valued and respected by management.

5 **Do you regard (i) manipulation and (ii) threats as unethical business practices? Explain your response and share it with the rest of the class.**

Student responses may vary according to their personal views. Some things to consider include:

- Manipulation is from a personal perspective — some information is not always needed so only giving some information may be a convenience not an unethical practice.
- Threats are unethical but again perception of the communication may affect how it is perceived by employees.

6 **Southern Airlines provides flights to a number of regional cities across Australia. The CEO of the company has recently called a meeting of senior executives to review Southern Airlines' current policies in order to develop a new policy that will result in better customer relations in the future.**

Describe one high-risk strategy that Southern Airlines could consider using to overcome employee resistance when introducing the new policy.

One high-risk strategy to overcome employee resistance is the use of threats. This refers to management at Southern Airlines suggesting that some sort of negative consequence will occur if employees fail to follow the new policy.

For example, management could tell staff that if they do not comply with the new policy, they will be dismissed. This would reduce employee resistance in the short term as staff would not

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want to lose their jobs and they will therefore comply with the change. However, in the future this strategy is likely to cause disharmony and resentment among employees, and it may become less effective in the longer term.

7 Would an autocratic manager tend to use low- or high-risk strategies to reduce resistance to change? Outline reasons for your answer.

Autocratic managers do not seek or encourage input or feedback from staff and so they are less likely to use low-risk strategies. Given they 'tell' staff the decision, they are unlikely to use empowerment or support as a strategy.

The high-risk tactic of manipulation would more likely be the strategy used because it involves sharing only certain pieces of information with employees.

5.8 EXAM questions

Question 1 (4 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.5b; © VCAA

Phu wants to announce his plans to expand globally, but he is concerned about the possibility of employee resistance.

Describe one high-risk strategy and one low-risk strategy that Phu could use to overcome employee resistance during a period of change.

One high risk strategy to overcome employee resistance is the use of threats. These are statements made with the intention of causing harm if something is not complied with. Phu could use this to overcome employee resistance to his plans to expand globally by threatening employees that if they do not comply with necessary changes, such as their possible redeployment overseas, that they will lose their job. This would reduce employee resistance as they would not want to lose their jobs and thus they will comply with the change.

One low risk strategy that Phu could use is communication. This is where information flows from manager to employee. Phu should use two-way communication and thus receive information and suggestions back from employees as well as inform them of what the change will affect. By communicating and informing employees of the effects of the change as well as receiving suggestions and input from employees, Phu's employees will feel more comfortable with the change and thus not resist it.

Award 1 mark for a description of the strategy (high-risk or low-risk).

Award 1 mark for describing how the strategy can overcome employee resistance to the change at this business.

Repeat for a second strategy (high-risk or low-risk).

Question 2 (4 marks)

Source: VCE 2015, Business Management Exam, Q.1d; © VCAA

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Swanston Airlines is a large business providing flights to all capital cities in Australia. Swanston Airlines recently suffered a technology breakdown in its computerised ticketing system that led to customers not being able to book tickets, get seat allocations or board flights for 24 hours. This resulted in very unhappy customers who missed flights, were angry and argued with staff, and demanded refunds. The CEO of Swanston Airlines has called a meeting of senior management to review current policies and procedures in order to develop a new policy to better deal with customer relations in the future.

Describe one low-risk strategy and one high-risk strategy that Swanston Airlines could consider using when introducing the new policy.

One low-risk strategy Swanston Airlines could use is training; that is, developing the skills of employees so that they can perform their jobs as efficiently and effectively as possible. Showing the employees how to implement the policy and providing them with the skills they will need to do so will overcome any fears they have about the changes while preventing confusion from spreading. While more long term, low-risk strategies are considered more ethical.

A high-risk strategy that could be used is threats; that is, telling employees that there will be some form of punishment if they do not go along with the change, for example that they will be dismissed if they do not implement the policy. While it is effective in the short term, high-risk strategies can cause disharmony and resentment among employees, and it may become less effective in the future.

Award 1 mark for a description of the strategy (high-risk or low-risk).

Award 1 mark for stating how the strategy links to the implementation of the new policy.

Repeat for a second strategy (high-risk or low-risk).

Question 3 (5 marks)

Source: VCE 2014, Business Management Exam, Q.2d; © VCAA

In response to an increased customer demand for air conditioners, AusClean Air's CEO, Hilary Lopez, has announced that 'environmentally friendly and noiseless units' will be produced in the company's manufacturing plant to gain a substantial competitive advantage and increase AusClean Air's market share. Employees have heard rumours that AusClean Air will be introducing new technologies and many of them do not welcome the change. The Human Resource Manager has been called in to help the employees cope with the transition. The Operations Manager welcomes the change.

The Human Resource Manager is expecting some employee resistance to the change, which involves the implementation of new technologies.

Identify one low-risk strategy and one high-risk strategy for dealing with resistance to change. Discuss both strategies and suggest which one would be more effective when AusClean Air introduces the planned new technologies.

A low-risk strategy that can be used can involve employee involvement or teamwork through the process, and enables employee input and two-way communication. This practice could enable the Human Resource Manager to discuss and ask employees their ideas for the process of implementing the new technologies. This strategy can also reduce anxieties as the situation is clearly explained so

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there are no misunderstandings and rumours will be avoided. One disadvantage is that it is very time consuming to get employee involvement.

A high-risk strategy enables for the immediate implementation of change, and is appropriate for critical situations, though may increase resisting forces rather than eliminate them.

The Human Resource Manager of AusClean Air may choose to coerce or use threats to convince employees who are against the change. They may do this through threatening mass redundancies or wage-cuts. The disadvantage of high-risk strategies is that they foster a negative corporate culture which breeds mistrust and a bad employee–employer relationship — there is some evidence that this may exist already. It is beneficial for quick change implementation though.

Low-risk strategies would be more effective as they supportively manage the implementation of change.

Award 2 marks for discussing the identified/selected low-risk strategy (benefits).

Award 2 marks for discussing the identified/selected high-risk strategy (limitations).

Award 1 mark for suggesting which strategy would be more effective when AusClean Air introduces the planned new technologies.

Question 4 (3 marks)

Employee resistance can be overcome by the use of high-risk and low-risk strategies. Distinguish between these two types of strategies.

High-risk strategies are those that can create negative outcomes for a business if not used correctly. They force employees to give approval for change and are used often in crisis situations where change must occur quickly.

On the other hand, low-risk strategies are those that are more considered and cautious and won't cause negative outcomes if used inappropriately. They encourage support and involve communication, so employees feel considered during the change process. A notable difference is that high-risk strategies are often implemented quickly, whereas low-risk strategies take time.

Award 1 mark for explaining high-risk strategies.

Award 1 mark for explaining low-risk strategies.

Award 1 mark for identifying the distinction between them.

Question 5 (4 marks)

A business is acquiring the shares of another company and the employees are displaying some resistance.

Analyse the use of the high-risk strategy of threat in this situation.

Threats are used when the manager is unable or unwilling to take time to overcome resistance. They often involve intimating or directly stating that resistance may lead to the loss of promotion, possible transfer to a different location or department, a lack of overtime or, ultimately, termination. A business that is acquiring another business may advise its staff of the need to change because removing a competitor may increase sales and save some jobs. The duplication of roles may be a real

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concern for employees and threatening staff that their role may be one that disappears may mean staff become supportive of the change so they are seen as supporters rather than detractors and so they retain their job. Threats can overcome resistance quickly because the possible loss of benefits or a job can quickly change the attitude of employees.

The danger with this tactic is that people may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in industrial sabotage, grievance complaints, compensation claims for stress and harassment, and industrial disputes. While the threat tactic may be used in some situations that require a speedy response, constantly relying on it as a 'quick fix' may obstruct future changes.

Award 1 mark for explaining threats.

Award 1–3 marks for an analysis of the use of threats; this may include benefits and weaknesses.

Question 6 (4 marks)

Explain how manipulation can be used to overcome employee resistance and why it is considered a high-risk strategy.

Manipulation is about the information that is presented to employees regarding a change. It can involve not presenting all the information or providing information in small instalments so employees don't see the whole picture and so they may resist less.

High-risk strategies are those that can create negative outcomes for a business if not used correctly. They force employees to give approval for change and are often used in crisis situations where change must occur quickly.

Manipulation is considered high risk as essentially employees are being coerced into agreeing with something that they do not have the full information on. If employees find out that they have been manipulated, the consequences of mistrust and even staff leaving the business can occur.

Award 1–2 marks for explaining manipulation in the context of employee resistance.

Award 1–2 marks for explaining why it is high risk.

Question 7 (6 marks)

A business has been operating for a number of years and in recent times several key performance indicators (including the number of customer complaints) have shown a marked deterioration. Management has decided to implement training programs to better equip employees in their role. Employees are resistant to many of the suggested changes.

Evaluate two high-risk strategies that could be used to overcome this resistance.

Two key high-risk strategies are threats and manipulation.

Threat involves suggesting that some sort of negative consequence will occur if employees fail to follow a requested change. A manager will use this strategy when unable or unwilling to take time to overcome resistance. It often involves intimating or directly stating that resistance may lead to the loss of promotion, possible transfer to a different location or department, a lack of overtime or, ultimately, termination. Because customer complaints can lead to a reduction in sales as customers don't return to the business, the training is required immediately to address this issue. If employees

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don't undertake the training, managers may threaten that they will be the ones who lose their job with the business. This should enable the immediate implementation of the change, ensuring that the training programs are implemented rapidly and successfully.

A limitation of this strategy is that staff may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in no actual change in behaviour because the training is not taken seriously. While the threat tactic may be used in some situations that require a speedy response, constantly relying on it as a 'quick fix' may obstruct future changes.

A second strategy is manipulation. Manipulation involves exerting undue influence over an employee that may be deceptive in order to get them to behave a certain way. While some people regard manipulation as skilful or artful, others argue that it is deceptive and devious and, therefore, an unethical practice. For example, managers at the business might use the customer complaints data to inform staff that jobs are at risk due to specific complaints. This strategy can therefore be used (relatively) successfully in the short-term. However, this strategy can backfire if employees discover the truth behind the data and, therefore, do not attend the training. The use of manipulation may leave employees feeling nervous, not valued and resentful, which ultimately has a negative impact on workplace productivity or performance.

Overall, both threat and manipulation are likely to work in the short term but are likely to cause resistance in the long term, and therefore be less effective at managing change.

Award 1–2 marks for pointing out advantages/strengths and disadvantages/weaknesses of one high-risk strategy that could be used to overcome resistance.

Award 1–2 marks for pointing out advantages/strengths and disadvantages/weaknesses of a second high-risk strategy that could be used to overcome resistance.

Award 1–2 marks for an overall judgement of each strategy.

5.9 The principles of the Three-step Change Model (Lewin)

TEST your understanding

1 Identify the three levels of change according to Kurt Lewin's Three-step Change Model.

The three levels are:

- individual level
- structural level
- internal level.

2 Describe Lewin's theory of change management.

Lewin's theory revolves around three steps.

First, he argued a business needed to 'unfreeze'. To unfreeze means to identify what needs to change, with all relevant aspects of the business 'put on the table' and the need for change

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created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process. Unfreezing the business changes the status quo — the conditions in which the business is currently operating.

With the business in this unfrozen state, with all processes, policies and practices able to be changed and the necessary support in place, management is now able to move the business to the new position; that is, to change what is occurring.

The third step is to 're-freeze' — lock the changes into the culture of the business so the business doesn't slip back into old habits.

3 **Explain why it is important for a business to 'refreeze' once change has been implemented.**

It is important to refreeze the business after the change has been made to ensure the business doesn't slip back into old ways. The change needs to be reinforced through rewriting policies and procedures.

APPLY your understanding

4 **Explain why adopting a change model can make the implementation more effective.**

Adopting a model for change provides a structure that can be followed, providing a process that can be logically followed, ensuring nothing is overlooked and therefore allowing resistance to be more easily broken down. Everything is conducted logically and all stakeholders can see the change developing, allowing the pace of change to be controlled.

5 **Using your school as an example, describe a recent change in policy. In your response, explain why the change was introduced and how stakeholders were informed. Outline why the change was successful or unsuccessful.**

Responses will vary due to specific circumstances within schools. Some possible changes include:

- new uniform
- new principal
- re-structuring of the school
- mobile phone use
- attendance at school sporting events.

Possible means of communication include:

- school newsletter
- school website
- compass post (or a similar message sent out by the school using their LMS system).

6 **Read 'The Three-step Change Model at Telstra'. Outline how Telstra might make use of Lewin's Three-step Change Model.**

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The first step in Lewin's Three-step Change Model is to unfreeze the status quo — where a business needs to recognise there is an opportunity to change and that the old ways of doing things need to be examined and changed. Telstra's management clearly understood that there was a necessity for ongoing change. CEO Andy Penn prepared the business for change by explaining the reasons for continuing Telstra's transformation.

The next step is to move from the current situation to the new situation — to actually make the change. Telstra would be expected to continue providing support and maintaining open lines of communication so that all employees are able to seek guidance and feedback on what is taking place. In this way, resistance to the change will be minimised.

The final step in Lewin's change model is to refreeze. This involves putting strategies in place to make sure that the change is institutionalised. Telstra will need to ensure that change is implemented correctly so that the impetus for change does not fade and so that things do not revert to the way they were before. Policies and procedures will need to be rewritten, achievements celebrated, and support and encouragement maintained.

5.9 EXAM questions

Question 1 (6 marks)

Source: Adapted from VCE 2020, Business Management Exam, Section B, Q.3; © VCAA

Explain how Manitta Mining could apply each of the steps of the Three-step Change Model (Lewin) to reduce the number of workplace accidents.

The first step in the Three-step Change Model is to unfreeze. This is where all existing policies and practices are put on the table to be reviewed. Practices such as the use of technology and the type and frequency of training can be examined to determine if improvements could be made or gaps filled so as to reduce the number of workplace accidents. Communicating the need for review is also important as this can encourage employees and other stakeholders to contribute their thoughts.

The second step is to actually make the change. In this phase, the new training programs and any new technology would be introduced. Staff would undergo the training relevant to their job with a view to ensuring safety standards are met and reduce the frequency of workplace accidents.

The final step is to refreeze which is where the changes made are embedded into the culture of the business. Training programs can be formalised and included in documents such as employee code of conduct. They can also be part of the induction program at the business. The change is communicated to all stakeholders so the objective can be seen by employees and others.

Award 2 marks for each step in the model, consisting of:

- *Award 1 mark for explanation of the step.*
- *Award 1 mark for the link to workplace accidents at Manitta Mining.*

Question 2 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5d; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Apply the principles of two steps from the Three-step Change Model (Lewin) to Dennis's decision to implement a new pricing strategy to address the decline in sales.

Lewin's three-step model can be implemented to help facilitate effective change. The first step is to unfreeze the business. Dennis can do this to prepare his business for change and includes identifying what must change, the pricing strategy, then Dennis can create an urgency for change by demonstrating a need for the new prices to his employees, before finally challenging the status quo at Dennis' Burgers that may resist the new pricing strategy. With the business unfrozen and prepared for change, Dennis can now go about moving towards the new desired state by implementing the new pricing strategy.

It is important that Dennis uses support and clear communication to his employees during this stage to enable its successful implementation. Supporting employees throughout this process, especially those that are struggling with the new pricing strategy, is important so that the transition at Dennis's business is as smooth as possible.

Award 1 mark for the explanation of each of two steps of Lewin's Three-step Change Model (total of 2).

Award 1 mark for the application of what each stage might involve in Dennis' business (total of 2).

Question 3 (3 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.2; © VCAA

Explain how following a change model can assist a business with implementing a change successfully.

Following a change model, for example, Lewin's Three-step Change Model, provides a structure that can be easily followed by any business, and it increases the chances of the change being successful.

Lewin's theory revolves around three steps: firstly 'unfreeze' which involves identifying what needs to change, secondly, making the change, and finally 'refreeze' which involves putting strategies in place to ensure that the change is stabilised and institutionalised.

A change model also ensures that nothing is overlooked and that all areas of resistance are identified, along with strategies designed to reduce or eliminate resistance. For example, in Lewin's first step 'unfreeze', management should communicate the need for change, along with what will change, the steps that will be taken and the benefits of implementing change. Employees also need to know that support is available from management to assist in the change process. Doing so is very likely to minimise resistance from employees. Making use of a change model ensures that everything is conducted logically and that all stakeholders can see the change developing, allowing the pace of change to be managed effectively.

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Award 2 marks for pointing out benefits of following a change model when implementing change, including providing structure, minimising resistance or similar (which may or may not include the use of an example, such as Lewin's Three-step Change Model).

Award 1 mark for clearly linking the use of a change model to assisting a business with implementing a change successfully.

Question 4 (6 marks)

Source: Adapted from VCE 2017, Business Management Exam, Section B, Q.4; © VCAA

Shandra's Dairy Ltd wants to diversify into the snack food market within the next three years.

Apply Lewin's Three-step Change Model to assist Shandra's Dairy Ltd with this future goal.

Shandra's move to diversify into the snack food market will require the use of a change model to ensure success. Lewin's Three-step Change Model could be used by Shandra's Dairy in the following manner.

Step one is to unfreeze the current situation, which requires businesses to identify what needs to change in order to create an environment that is prepared for a change. This might involve identifying current policies that might need changing, addressing staff on the need for change and allaying their concerns about its impact on them. It might also identify a need for new technology, staff training and changing the business structure. **[1 mark]**

At Shandra's, they would use this step to identify the reason/need for change (growth into new markets/expansion to snack foods), the current operating conditions and discuss how they need to change (move from only dairy products to now include snack foods), and employees will need support for this change process (management will communicate that there will be assistance during the change process) in order for the change to be successful. **[1 mark]**

Step two is to move from the current situation to the new situation. This is where the change occurs and the business implements changes to its processes, structure, policies and procedures in order to achieve the change. **[1 mark]**

Once Shandra's has done this unfreezing of its current state, they will start to move towards expansion into the snack market. This will require management and key staff to work together to make changes to the structure of the business and operations processes to ensure that the snack foods operations will be successful without impacting on its dairy product production. Shandra's will need to ensure that continuous support, training and communication are provided so employees and other stakeholders are aware of changes and the change isn't impacted by unnecessary resistance. This might involve changing the physical layout of the plant/buildings, training staff and introducing new technology. **[1 mark]**

Step three is to refreeze the new situation. This is where the change has been successfully embedded into the business and the new situation has become the status quo of the business. This is the stage where all policies are in place and the organisation has successfully completed the change process. **[1 mark]**

Shandra's will need to ensure that all changes that were required to diversify into the snack market are embedded into the policy, procedures and culture of their business. Management at Shandra's can ensure continued commitment to the change's success through ensuring that achievements are

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celebrated, and ensuring that support and encouragement for all staff are maintained to avoid staff reverting to the old business focus and neglecting the new snack food operations. **[1 mark]**

Note: Award 1 mark each for explaining what the three steps entail.

Award 1 mark each for explaining how the three steps could be used at Shandra's.

Question 5 (2 marks)

Describe one of the key principles in Lewin's Three-step Change Model.

Unfreeze is the first principle of Lewin's model. This means to identify what needs to change. All relevant aspects of the business need to be 'put on the table' and the need for change needs to be created. Current conditions need to be identified and changed. The 'status quo' needs to be changed so the business can actually make the necessary changes.

Award 1 mark for identifying what needs to be changed.

Award 1 mark for identifying changing current conditions to allow change to occur.

Question 6 (6 marks)

When implementing change, it is often useful for management to adopt a change management theory.

Explain Lewin's Three-step Change model. Illustrate your answer with an example from a business that you have studied this year.

Lewin suggested that change needed to be undertaken using some form of structure or plan. He developed a three-step model that allows businesses to go through a change in a planned, coordinated manner that should increase the chance of the change being managed effectively and successfully.

Lewin's first step is to 'unfreeze' the business. To unfreeze means to identify what needs to change, with all relevant aspects of the business 'put on the table' and the need for change created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process. Telstra's management clearly understood that there was a necessity for ongoing change. CEO Andy Penn prepared the business for change by explaining the reasons for continuing Telstra's transformation to all stakeholders, especially employees.

With the business in this unfrozen state, with all processes, policies and practices able to be changed and the necessary support in place, management is now able to move the business to the new position; that is, to change what is occurring. Support is still provided and, in relation to Telstra, the CEO would be expected to continue providing support and maintaining open lines of communication so that all employees are able to seek guidance and feedback on what is taking place. In this way, resistance to the change will be minimised.

Once the change has been made, it is important that the business 're-freeze' or consolidate the changes into the culture of the business. This can be done by rewriting policies, celebrating achievements, and maintaining support and encouragement for all staff, some of whom may still be uncertain or resistant to the changes.

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Award 2 marks for each step explained:

- *1 mark for explaining the step in general terms*
- *1 mark for applying this to a contemporary business case study.*

5.10 The effect of change on stakeholder groups

TEST your understanding

1 **Identify one negative and one positive effect of change on managers.**

Negative effects of change on managers include:

- a business restructure or downsizing leading to redundancy or demotion for managers
- a business restructure or downsizing resulting in managers having reduced roles or less responsibility
- a manager finding a change stressful as they are uncomfortable using a different management style or new skills.

Positive effects of change on managers include:

- managers may benefit from opportunities for career advancement, with increased responsibility, as a result of successfully implementing a change
- managers may receive performance-related rewards based on the success of change
- a more employee-centric management style, or the use of employee-centric skills, may improve morale and motivation.

2 **Outline one negative effect of change on employees.**

Negative effects of change on employees include:

- employees losing their jobs in a restructure or a business downsizing or if new technology is introduced
- employees becoming fearful of the impact the change may have on them; for example, becoming stressed or concerned about being redeployed into other areas of the business to retain their job
- employees needing to undergo training due to a change, such as learning skills in using a new technology
- a change may result in employees working longer hours or taking on greater responsibility
- employees may feel dissatisfied if work teams are changed, ended or introduced.

3 **Identify two benefits of change to customers.**

Some benefits of change to customers include:

- being pleased that a business has discontinued or changed a good or service

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- increased satisfaction through cheaper products
- increased satisfaction through improved quality
- improved customer service
- faster delivery.

4 **Explain how a business deciding to outsource to other countries may affect suppliers.**

Outsourcing may cause the business to change suppliers because production occurs overseas. This would result in the business's current suppliers losing income.

APPLY your understanding

5 **Read the 'Will change always be accepted by customers?' case study. Identify one positive effect of change on customers and one negative effect.**

One positive effect of change on customers is that customers may be so pleased that a business has introduced new goods or services that they promote the change to others.

One negative effect of change on customers is that they may not be pleased with the change and publicly criticise the business or stop dealing with the business.

6 **Read the case study 'The effect of change on stakeholders at Telstra'. Outline one positive effect of change and one negative effect of change on stakeholders at Telstra.**

Some positive effects of change on stakeholders at Telstra include:

- customers should be more satisfied as they experience better service
- employees may see the need to undergo retraining or redeployment into other areas of the business as an opportunity.

Some negative effects of change on stakeholders at Telstra include:

- managers at the company working towards the implementation of the change, at the same time as supporting employees, which could be stressful
- employees experiencing stress through concern that jobs may be lost
- employees may worry over the need to undergo retraining or redeployment into other areas of the business.

7 **Change can improve the skills of the workforce. Discuss how this may occur.**

As change occurs some employees may be asked to undergo additional training. This improves the skills of employees. Some employees may see this as an opportunity. On the other hand, the cost of training these employees to develop these skills may outweigh the benefits to the business. Some employees may worry over the need to undergo training.

8 **Use the internet to investigate an example of a rural area that has suffered a decline in business numbers and/or population due to the closure of a significant business. Describe the impact on the local community and suppliers.**

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Responses will vary according to information gathered.

Possible issues/impacts include:

- closure of complementary businesses
- decrease in services available in the area involved
- loss of income for suppliers because they may lose customers
- loss of potential investments in the area because businesses see little future in the area.

9 Discuss how a change in a business may have a different effect on the managers and employees of that business.

Managers may be affected negatively by change. Downsizing or a business restructure may lead to redundancy or demotion for managers, or in managers having reduced roles or less responsibility. Managers may also find a change stressful if they are uncomfortable using a different management style or new skills. However, there can be some positive effects of change on managers. For example, managers may benefit from opportunities for career advancement, with increased responsibility, as a result of successfully implementing a change. Managers may also receive performance-related rewards based on the success of change. Managers making use of more employee-centric management styles, or the use of employee-centric skills, as a result of a change may result in improving morale and motivation among employees as well as managers.

Employees may also be affected negatively by change. Downsizing or a business restructure may result in employees losing their jobs. The same may occur if new technology is introduced. Even if they don't lose their jobs, employees may become fearful of the impact the change may have on them; for example, becoming stressed or concerned about being redeployed into other areas of the business to retain their job. Alternatively, employees may need to undergo training due to a change, such as learning skills in using a new technology, which may concern some employees. A change may result in employees working longer hours or taking on greater responsibility. Employees may also feel dissatisfied if work teams are changed, ended or introduced. However, employees may be happy about a change and consider that a redeployment or change in work practices presents opportunities. Employees may also feel positive about having an opportunity to learn new skills that could create longer-term opportunities and job satisfaction. Some employees may actually find that a change results in better employment conditions.

5.10 EXAM questions

Question 1 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4c; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

Analyse the impact that the reduction of the level of wastage may have on Small Goods Pty Ltd's suppliers and one other stakeholder.

Suppliers are the businesses that provide a business with its raw materials and resources. By reducing wastage, this could have a negative impact on suppliers as there may be less demand for resources as the business is making better use of the resources they have. Suppliers may see decreases in their quantities they deliver, and receive less pay.

Reducing level of wastage will likely positively impact shareholders. Shareholders are those who own part of the business.

With wastage levels decreasing, this will significantly reduce costs for the business in the long term. As a result, shareholders may receive increased dividends through improved profit margins, and they will receive a better return on investment as the business increases in value and so do their shares.

Award 2–3 marks for an analysis of a reduction of a level of wastage on suppliers and one other stakeholder.

Award 1 mark for the identification of one other stakeholder and/or a limited analysis of the effect of a reduction in wastage.

Question 2 (2 marks)

Explain how change may impact owners.

Change to any aspect of a business will impact owners. As an owner, a shareholder will be looking for increased or steady returns on their investment.

A change will often be implemented to improve performance in this area. It is always possible though, that an owner, particularly a shareholder, may not be comfortable with a change, and will sell their share of the business. In addition, an owner involved directly in day-to-day operations will have the opportunity to learn new skills during a time of change. However, the owner would be required to move out and away from their comfort zone. Unfortunately, a change may result in an owner losing their business, or shareholders losing the value of their shares.

Award 1 mark for explaining how change may impact owners.

Award 1 mark for further detail explaining how change may impact owners.

Question 3 (5 marks)

All change has consequences. Analyse how a change may both negatively and positively impact employees.

A change can negatively impact employees as some employees may lose their jobs. A change can result in downsizing, the introduction of technology to replace labour or a merger. In these situations, some employees may lose their job and so are negatively impacted. The remaining workforce may feel insecure and demotivated as a result.

On the other hand, if a change such as a merger occurs then there may be a positive opportunity for greater responsibility for some employees as they become redeployed or promoted. It could involve training which will improve the skills of the employees who may seek promotion. Some employees even use these new skills to seek a promotion outside the business.

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Award 3 marks for analysing the negative impact.

Award 2 marks for analysing the opposite impact (positive).

Question 4 (4 marks)

Crisp Chips has seen a rise in the number of customer complaints recently and management has determined that strategies such as improving quality, redeployment of staff and the use of staff motivation may be needed to turn around this key performance indicator.

Analyse the possible effect of these strategies on customers and employees.

Customer complaints arise from customers being dissatisfied with the price of a product, the quality of a product and/or the level of service received. To reduce complaints, a business can address these issues through the use of strategies.

Improving quality is usually achieved by introducing a quality management system, such as quality control or Total Quality Management. A quality system can reduce the number of faulty products, which will reduce the number of complaints.

Improved customer service could result from redeploying resources, such as labour, placing more staff in the service area so customers are dealt with more quickly, and by more experienced employees. This can also be improved through changing the management style.

Staff motivation could include performance-related pay. Staff could be offered bonuses for the reduction in the number of complaints, leading to improved service for customers.

Each of the strategies provided will cost the business money and so management needs to determine if the costs of these changes will outweigh the benefits to be gained from the changes. If the level of complaints is not that high, it may not be worth implementing the strategies.

Award 1 mark for a brief analysis of each of the strategies (× 3).

Award 1 mark for relation to customers and employees.

Question 5 (4 marks)

Online food ordering and delivering businesses such as Uber Eats and Menulog have changed the fast-food and delivery markets in a way not envisaged by traditional food outlets.

Discuss the effect of this change on two stakeholders.

Competitors such as fast-food restaurants will be affected by the development of Uber Eats and Menulog because consumers can now buy 'traditional' food and have it delivered rather than having to purchase 'fast food'. This will potentially cause a drop in sales for these fast-food outlets who don't offer these services. On the other hand, it may cause them to begin such a service and, therefore, create a new, different market for themselves.

Employees will also be affected by this move because, if competitors don't introduce a similar service, their business may lose sales and so employees may lose their jobs. On the other hand, if some businesses get an increase in sales, there may be more work, and increased chance of career advancement and responsibility, which can lead to an increased income.

Award 2 marks for effects on a stakeholder (× 2):

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- *1 mark for positive effect*
- *1 mark for negative effect.*

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5.11 Corporate social responsibility considerations when implementing change

TEST your understanding

1 Define the term 'corporate social responsibility'.

Corporate social responsibility refers to the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment. It involves managing business processes in order to produce an overall positive impact on the community.

2 Outline one reason why it is important for a business to consider corporate social responsibility when undergoing change.

There are a number of reasons why it is important for a business to consider corporate social responsibility when undergoing change, including:

- Customers are likely to reward socially responsible businesses by purchasing more of their products.
- Customers are likely to recommend socially responsible businesses to other customers, resulting in a positive reputation for the business.
- A socially responsible business is able to more easily attract high-performing employees and potential investors.

3 Identify one corporate social responsibility consideration that needs to be taken into account in each of the following change circumstances:

(a) a merger of two businesses

A corporate social responsibility consideration that needs to be taken into account in this situation is the impact on the wellbeing of employees. A merger of two businesses may have a negative impact on employees and culture. A socially responsible approach is to inform staff of the situation and provide a timeline for the coming period, identifying if and when redundancies might occur and the process that would take place in this situation, as well as what the outcome would be.

(b) the introduction of new technology

A corporate social responsibility consideration that needs to be taken into account in this situation is the impact on the wellbeing of employees. The introduction of new technology would have an impact on training, OH&S and redundancies. A socially responsible approach is to inform staff of the situation and provide a timeline for the coming period, identifying if and when redundancies might occur and the process that would take place in this situation, as well as what the outcome would be.

(c) a change in suppliers.

A corporate social responsibility consideration that needs to be taken into account in this situation is the impact on job losses, product quality and costs. For example, sourcing

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resources and materials from local suppliers would ensure that job opportunities are created in the local community and that the local economy is supported.

APPLY your understanding

4 Describe strategies that a business could adopt to meet its social responsibility obligations during

(a) negotiations with employees over wage rises

Strategies may include:

- communication as to management's position
- support for employees who may not receive what they expected or asked for
- communication as to the reasons the business is making the offer it is (which may differ from first point)
- including provisions such as flexitime and remote working that aren't included in an Award but will suit staff and management.

(b) the introduction of self-serve checkouts at its stores.

Strategies may include:

- retraining for all staff regardless of role and whether or not redundancies are required
- transparency around redundancies
- communication as to timeline for changes.

5 Read the 'Corporate social responsibility considerations at CSL' case study. Identify two corporate social responsibility considerations that CSL has addressed.

Corporate social responsibility considerations that CSL has addressed include:

- fostering a positive work culture
- conserving natural resources, reducing emissions and preventing pollution
- ensuring that suppliers have a shared commitment to environmental management, product safety and quality; a safe, fair and rewarding workplace; and community involvement.

5.11 EXAM questions

Question 1 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4d; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

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Justify one corporate social responsibility consideration that a business, such as Small Goods Pty Ltd, needs to address when implementing change.

When implementing change at a business such as Small Goods, corporate social responsibility considerations that need to be addressed include environmental impacts. **[1 mark]**

Changes to production methods or the implementation of new technologies can sometimes have negative consequences for the environment. **[1 mark]**

Managers would need to ensure that they are acting in a socially responsible way by ensuring that there is no negative impact on the environment from making changes such as these. **[1 mark]**

Award 1 mark for the identification of a social responsibility consideration.

Award 1–2 marks for the justification of a social responsibility consideration.

Question 2 (3 marks)

Explain the importance for a business in considering corporate social responsibility when making changes.

Corporate social responsibility refers to a business's initiatives in assessing and taking responsibility for its effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups. If a business makes changes and doesn't take into consideration the concept of social responsibility, then it is possible that the business will develop a negative image and the change will not be effective.

Award 2–3 marks for a thorough explanation of the importance of corporate social responsibility in change-related decision making.

Award 1 mark for a limited explanation of the importance of corporate social responsibility in change-related decision making.

Question 3 (3 marks)

Describe a social responsibility consideration that managers must take into account when a proposed change will result in employee redundancies.

There are a range of social responsibility considerations that could be implemented including:

- providing transition services for departing staff
- providing outplacement services for departing staff
- sourcing supplies locally
- if sourcing supplies overseas, use fair trade practices
- sourcing supplies from businesses that support CSR principles like the business.

Downsizing involves removing an unproductive part of the business operations in an effort to reduce costs and increase profits. This results in making some staff redundant. This process can be difficult for all parties, but management can be socially responsible through this process by providing services to employees. Offering assistance to staff in preparing resumes and practising for interviews

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can be useful for staff who have not had to participate in these activities for some time. Providing a reference for those staff who are leaving can also help staff find further employment.

Award 1 mark for identifying the consideration.

Award 2 marks for description of the consideration.

Question 4 (4 marks)

Oz Foods Direct has suffered falling sales in recent years and registered a loss in 2022 forcing it to suspend operations. Describe two corporate socially responsible considerations a business in this situation must address.

Such a business would need to address how it deals with employees. If operations are suspended, it is likely that some jobs may be lost once some form of review has occurred. A socially responsible approach is to inform employees of the situation and provide a timeline for the coming period, identifying if redundancies might occur and the process that would take place in this situation and what the outcome for employees would be. This would allow employees to consider their options as well.

A second consideration would be to inform suppliers of the situation. If the business is experiencing a loss and suspending operations, suppliers will need to be informed that they may not be required to supply as much goods as before and they should adjust their staffing and supply chain accordingly. This will save suppliers money in the long run and allow them to better plan for their future.

Award 2 marks for each consideration explained:

- *1 mark for explaining the consideration*
- *1 mark for explaining why it is socially responsible.*

Question 5 (2 marks)

One strategy businesses may implement to improve sales and profits is to source materials from overseas. Explain one corporate social responsibility issue this may create.

Sourcing materials from offshore can mean a business is no longer buying locally. This can create job losses in Australia, increasing our unemployment rate. Depending on the size of the business, this can contribute to local economy issues such as reduced consumer spending and confidence.

It would be more socially responsible to source supplies locally so jobs and the money stay in our economy.

Award 1 mark for identifying a corporate social responsibility issue this may create.

Award 1 mark for the explanation of this issue.

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5.12 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility

TEST your understanding

1 Read the 'Poor performance leads to store closures and job losses' case study.

(a) Identify and describe the key performance indicator linked to the situation faced by Retail Food Group (RFG).

The case study refers to net profit figures. Net profit figures measures what remains after expenses have been deducted from revenue. Revenue stems from the number of sales a business makes. In 2018, RFG reported a half-yearly loss of $87.8 million, meaning that expenses were greater than revenue.

(b) One key stakeholder of RFG is the franchisees. Outline how the financial performance of RFG will impact them.

The poor financial performance of the business led to the closure of some 200 stores. This may have resulted in the closure of some stores for each group of franchisees (for example, Donut King, Gloria Jean's and/or Michel's Patisserie) or the total closure of one franchise chain. RFG's improved financial performance from 2021 onwards may provide franchisees with greater confidence.

(c) A reason given for the fall in profit of RFG has been poor performance in shopping centres. Explain what this means.

The implication of this statement is that fewer people are visiting shopping centres. The growth of online shopping and boutique cafés has meant fewer people visit these locations and so customer numbers and sales across the board may be down.

EXTEND your understanding

2 Explain what is meant by the term 'corporate social responsibility' and how RFG can deal with their departing employees in a socially responsible manner.

Corporate social responsibility refers to the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment. The closure of stores would have resulted in the loss of jobs for employees. These employees would have lost income and therefore would have been financially worse off. A socially responsible approach would have been to inform employees of the situation and provide a timeline for the coming period, identifying if and when redundancies might occur and the process that would take place in this situation and what the outcome for employees would be.

Additionally, RFG could have provided outplacement services to employees during this time. Offering assistance to staff in preparing resumés and practising for interviews would have been useful for staff who had not participated in these activities for some time. Providing a reference for those staff losing their jobs could also have assisted them to find further employment.

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3 Describe the effect of RFG's store closures on suppliers and the community in general.

As well as the loss of jobs for employees, the closure of 200 stores would have resulted in suppliers losing business, and therefore experiencing reduced sales. If these suppliers had been unable to find other customers, they may have suffered a fall in profits and been forced to create further job losses. A loss of jobs in particular areas may have spun off into reduced sales and customers for local businesses and so the general community would have suffered from a lack of investment in the area.

5.12 EXAM questions

Question 1 (5 marks)

'The closing of a number of stores may negatively impact some stakeholders and positively impact others.' With the use of specific examples, explain this statement.

Employees of the closed stores will be negatively affected. They may lose their jobs and their income, and may be unemployed for some time. The remaining employees may be left feeling fearful of job losses or demotivated. They may also be subject to redeployment to other stores, which may affect their work–life balance, if the location is not ideal.

On the other hand, shareholders of the company may benefit as unprofitable stores will close, leaving profitable stores operating and so the business may be able to consolidate its operations. This may create efficiencies in the remaining stores and eventually the business may increase profitability.

Award 2 marks for each of two impacts explained.

Award 1 mark for examples of stakeholders identified.

Question 2 (4 marks)

Some employees have lost their jobs as a result of the store closures. Explain how managers should deal with this situation in a socially responsible manner.

Managers should ensure they are open and honest with their employees — informing them of the reason for the job losses and providing a timeline for the closures. This will allow the employees to ask questions and adjust to the changes. It will also allow them time to seek and engage support.

Once announced, the management should ensure they provide the appropriate entitlements to employees who lose their jobs. This means ensuring that all long service and holiday pay is settled and paid to employees. They should also consider providing transition support through references, exit interviews, counselling and assistance preparing résumés and practising interviews.

Award 1–2 marks for an explanation of one way the job losses can be dealt with.

Award 1–2 marks for a second explanation of how the job losses can be dealt with.

Question 3 (6 marks)

Analyse the effect of change at Retail Food Group on employees, suppliers and the general community.

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Employees of RFG's closed stores would have been negatively affected. Many employees would have lost their jobs as the company closed 200 stores, so these employees would have lost income and may have been unemployed for some time. Employees who remained working at stores continuing to operate may have become fearful of the impact the change may have on them; for example, becoming stressed or concerned about being redeployed into other areas of the business to retain their job.

Alternatively, employees may have needed to undergo training in improving customer service, which may concern some employees. However, employees looking for a promotion or valuing these new skills for seeking a promotion outside the business might see benefits in such training. The change at RFG may have resulted in employees working longer hours or being required to take on greater responsibility. However, there may have been some employees who felt positive about this. Some employees may have found that the change resulted in better employment conditions.

As well as the loss of jobs for employees, the closure of 200 stores would have resulted in key suppliers losing business (these might be suppliers of raw ingredients for baked goods), and therefore these businesses would experience reduced sales. If these suppliers had been unable to find other customers, they may have suffered a fall in profits and been forced to create further job losses.

A loss of jobs in particular areas may have spun off into reduced sales and customers for other local businesses, now that the unemployed have lower incomes or uncertainty. This lack of spending and the resulting supplier businesses facing difficulties may affect the general community as it may suffer from a lack of investment in the area.

Mark globally:

Award 1–2 marks for a limited analysis of the effect of change at Retail Food Group on employees, suppliers and the general community.

Award 3–4 marks for a sound analysis of the effect of change at Retail Food Group on employees, suppliers and the general community.

Award 5–6 marks for a thorough analysis of the effect of change at Retail Food Group on employees, suppliers and the general community.

Question 4 (5 marks)

'All change will have an effect on someone. The job of a manager is to minimise any negative impacts and manage them in a socially responsible manner.' Analyse this statement.

If a business ignores its corporate social responsibility behaviour during change, it may make a change that damages its reputation, leading it to alienate customers, costing it sales and profit.

Employees are often negatively affected by change as there are often job losses and job changes associated with change. It is important to manage employees during this time so there is less chance of the employees being negatively affected.

Minimising negative effects and managing things in a responsible manner can be done through communication. If management are open and honest with their employees by informing them of the reason for the job losses and providing a timeline for the closures, then employees may have more time to seek another job, reducing the chance they will be unemployed. Management can also

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ensure they provide the appropriate transition services to the employees to support them as they leave the business and seek a new job elsewhere.

Mark globally

Award 2 marks for explaining a potential negative impact.

Award 3 marks for an analysis of how it may be managed in a socially responsible manner, linked to benefits.

Question 5 (4 marks)

The move to become more socially responsible can positively impact one stakeholder, while negatively impacting one other. Explain how this can occur.

In becoming more socially responsible, a business may positively impact the local community. This may be through changing supplier to ensure that supplies are sourced locally and so money and jobs are kept within the local community. The business may also attempt to reduce waste, to make sure that the local environment and shared space looks better.

On the other hand, if the change involves changing to a new supplier, then the existing supplier may lose profits, due to a cancelled contract. This can have its own negative effects on another community, such as causing job losses in another area, followed by the negatives that go with this, such as a downturn in spending.

Award 2 marks for stakeholder positively impacted.

Award 2 marks for stakeholder negatively impacted.

5.13 Reviewing key performance indicators to evaluate transformation

TEST your understanding

1 **Explain why it is important for a business to review or evaluate the effectiveness of a transformation.**

A business should review the effectiveness of its transformation because transformation generally occurs in response to data from KPIs. If a business transforms, it is important to note if the transformation has resulted in the change in performance required. If the change hasn't been as successful as required, the business needs to know this so further changes can be made in order for the business to achieve its desired objectives.

2 **Using an example, outline how a business could use key performance indicators to evaluate the effectiveness of a transformation.**

Key performance indicators allow a business to compare their performance over a number of time periods to determine if the business is achieving their objectives. The KPIs provide objective data on performance and allow easy comparison. For example, the dollar value of profit from one period to another allows a business to determine if advertising, pricing, staffing

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levels and so on are appropriate and achieving what was planned. Other KPIs provide similar information and so provide evidence of the success or otherwise of a business transformation.

APPLY your understanding

3 **Two years ago, Yevette Brown decided to invest in new technology at her small business, Non Sense Designs. Now that Yevette's business has been using the technology for some time, explain to her the importance of reviewing key performance indicators to evaluate the effectiveness of the transformation of her business.**

If a business makes a change as a result of the data from various KPIs, whatever the change is, it is expected to reverse the trend in the relevant KPIs and put the business back on track to achieving objectives. If a business doesn't review these KPIs after a period of time, it will not know if the change was successful or if the business has drifted further away from its objectives or not.

4 **Read the 'Reviewing key performance indicators at Myer' case study.**

(a) Outline the changes that Myer introduced in 2015.

Myer implemented a turnaround plan (called 'New Myer') which focused on investing in 'experiential' retailing. Myer introduced new technology (online ordering and 'click-and-collect' hubs in its stores), improvements in quality (improved customer service) and staff training. The company cut many of its own brands to make way for new labels and invested in popular concession brands. There were also job cuts through a voluntary redundancy program and a reduction in the hours of casual and part-time staff.

(b) Identify the key performance indicators that Myer was using to evaluate the effectiveness of its changes.

Myer looked at KPIs including net profit figures and number of sales.

(c) Describe the changes that Myer introduced to position itself for the future in 2018.

To position itself for the future in 2018, Myer implemented a new turnaround strategy (called the 'Customer First Plan'). Myer invested in technology and improve customer service (investing in online sales and store refurbishments as part of improving its online offering and transforming the customer experience in-store). The company also expanded its 'Only at Myer' brands and categories. Business processes were simplified, delivery times maximised and costs were reduced.

5.13 EXAM questions

Question 1 (2 marks)

Key performance indicators should be reviewed to evaluate the effectiveness of business transformation. Define the term 'business transformation'.

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Business transformation refers to the new form or structure of a business after a change has been made. This may include new employees, new ways of doing things or new products and customers.

Award 1–2 marks for a definition.

Question 2 (4 marks)

'Change often occurs as a result of the data provided by key performance indicators. Once change has been undertaken it is important to review and monitor those same key performance indicators.' To what extent do you agree with this statement? Justify your response.

It is important for a business to review its KPI data regularly, and especially after the business has undergone some change. KPIs can identify that an issue exists with some feature of the operations, human resources or some other area of management responsibility.

Once the data has been examined, it often means the business will need to implement a change. The purpose of the change is to correct the issue identified by the KPI data. Once the strategy has been implemented, it is important to review the relevant KPI to determine if the issue has been corrected and performance is back to the desired level. If the further data reveals no change, the business will need to implement different strategies.

Award 1 mark for statement regarding the importance of reviewing KPIs.

Award 2 marks for explanation as to why it is important.

Award 1 mark for justification.

Question 3 (2 marks)

A business is concerned with the level of sales and profit and has implemented a strategy of increased advertising to improve these two areas. Explain why it is important to review performance in these areas at a later date.

Advertising is a cost to the business and will increase expenses and reduce profit. However, the purpose of advertising is to promote the business and its products and increase sales. At some point, the KPIs need to be reviewed to determine if the advertising undertaken has had the desired effect on sales and profit. This would be done after the advertisement.

Award 1–2 marks for an explanation of why it is important to review performance.

Question 4 (4 marks)

To deal with data showing that a business had a high level of staff turnover, the manager of the business decided to change her management style from autocratic to persuasive. Explain why the business should review this key performance indicator data and suggest a strategy if there is no substantial change.

A high level of staff turnover means the business is acting in a manner that doesn't encourage staff to stay. In the short term, this is a cost to the business as new staff need to be hired, inducted and trained, all of which costs time and money.

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In addition, there is a decline in productivity as the staff leave and new staff learn to use the equipment or understand the processes involved in the business. This results in the decline of other key performance indicators. In the long run, the business may develop a poor reputation as an employer.

Hence a strategy should be implemented to restore this key performance indicator to an appropriate level to reduce the impacts described. It could be a strategy to review training or motivation strategies at this stage.

The KPI should then be reviewed after a period to determine if the strategy has been successful. If this strategy isn't effective, then a new strategy should be implemented as the problems will still exist.

Award 2 marks for explaining why the KPI should be reviewed.

Award 2 marks for explaining strategy if no change experienced.

Question 5 (5 marks)

'If a change is not successful and key performance indicator data shows no improvement, the business should go back to its original position. Another change would not be appropriate as it may worsen the situation.' Analyse this statement.

Businesses change because of data from key performance indicators. Once implemented, there should be a period of consolidation for the strategy and then the performance should be reviewed to determine if the strategy has been successful.

If the data suggests no improvement, it is not wise to return to the previous position, as this was the position which led to the change initially. Doing nothing would not be an option for a business showing negative trends in KPIs — this could lead to the business losing more customers, staff or profits. The best approach is to either allow more time for the change to be effective or to introduce an alternative strategy, which should be developed and implemented.

Mark globally

Award 1–2 marks for why a strategy is implemented.

Award 1–3 marks for an analysis of what should occur if data doesn't show an improvement.

5.14 EXTEND YOUR KNOWLEDGE Dealing with multiple changes

TEST your understanding

1 Read the 'Woolworths is constantly changing' case study.

(a) Describe the changes at Woolworths.

One change at Woolworths was the removal of single-use plastic bags offered to customers at checkouts in 2017, with bags completely banned in 2018. Woolworths was encouraging customers to bring their own bags or purchase cloth bags or re-usable plastic bags at checkouts. Since then, Woolworths has also removed other single-use plastics, including the removal of

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plastic straws from sale and the removal of plastic from its 'own brand' product packaging; for example, meat trays and milk bottles.

In early 2020, Woolworths needed to deal with the COVID-19 pandemic and its impact on shopping. Over the first six months of 2020, Woolworths introduced a range of measures, including clear screens between checkouts and hand sanitiser stations.

(b) Identify the stakeholders at Woolworths.

In relation to the changes at Woolworths, stakeholders were customers, employees, managers, suppliers (for example, suppliers of single-use bags, suppliers of hand sanitiser) and the general community.

(c) Outline the key performance indicators that have impacted Woolworths.

Because single-use plastic bags were a cost, net profit figures would have played a role in the decision to change. Because Woolworths' competitors had made the change, it is likely there was concern over the percentage of market share and the number of complaints from customers who sought the ban due to the level of wastage in the community.

Key performance indicators relating to dealing with the COVID-19 pandemic include net profit figures (Woolworths' profit fell initially in 2020, but improved in 2021) and number of sales (which increased over 2020 and 2021). Woolworths' decrease in net profit in 2020 can be attributed to the increased costs of operating in a COVID-safe manner and venue closures.

(d) Explain why the phasing out of single-use plastic bags in Woolworths stores might result in each of the following:

- lower costs

  The business no longer needs to pay for these bags, which they used to provide for free.

- increased sales

  Customers who didn't use Woolworths because they didn't like the concept of these bags now have no reason to not shop at Woolworths.

- increased profit.

  The reduction in expenses should increase profits. This, combined with increased sales and the additional revenue from selling fabric or re-useable plastic bags, should lead to a further increase in profit.

(e) Outline the corporate social responsibility considerations related to the changes at Woolworths.

Single-use plastic bags often end up as waste in oceans or landfill and take a significant period of time to decompose. CSR suggests that businesses that care for the environment would ban their use because it is better for society in general. Woolworths' continued efforts to remove single-use plastics is good for the environment.

Businesses were expected by society to act in a COVID-safe manner during the COVID-19 pandemic. Ensuring that customers were kept safe, while the business continued to provide essential products to customers is an example of CSR. Woolworths also clearly communicated

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its COVID measures to customers, as well as how they would be impacted, which might also be considered CSR.

EXTEND your understanding

2 **Explain how Woolworths could have applied Lewin's Three-step Change Model to its change process.**

The first step would be to unfreeze — make the decision to change, inform staff of the change and the process, and communicate to stakeholders. Management has seen the need to remove a range of single-use plastics including banning single-use plastic bags, removing plastic straws from sale, and removing plastic from 'own brand' product packaging. These changes would have been communicated to employees and customers.

The next step is to move from the current situation to the new situation — to actually make the change. Woolworths would be expected to provide support and maintain open lines of communication so that all employees, and customers, are able to seek guidance on what is taking place. Necessary key staff would be empowered to implement the change and all relevant people would be involved in the process. This reduces resistance and makes it easier for the change to be implemented effectively.

Once the change has been made, it is important that the business 're-freeze' or consolidate the changes into the culture of the business. For example, the single-use bags and plastic straws were withdrawn, with alternatives the only available options, and company policies and procedures rewritten to reflect the change.

3 **Analyse the effect of the changes on Woolworths' stakeholders, including managers, employees, suppliers, customers and the general community.**

Points to make in an analysis include:

- Managers — dealing with complaints, support for staff
- Employees — increased contact with customers
- Suppliers — need to change because no longer supplying the bags
- Customers — confused about options, need to bring own, alternatives for sale
- The general community — people in the general community would be pleased that Woolworths is making positive efforts to reduce damage to the environment.

4 **Explain how Woolworths should use data from its key performance indicators to evaluate its changes. In your response refer to at least three specific key performance indicators.**

Woolworths should review the number of sales, net profit and percentage of market share after a period of time to determine if the removal of single-use plastics has resulted in successful change. Often businesses undergo change as a result of the data provided by key performance indicators. In this situation it is important to review those same key performance indicators to determine if the change has had the desired result.

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Woolworths should ask whether the cost savings associated with the banning of single-use plastic bags and the selling of reusable bags have resulted in an increase in profit. Has the removal of other single-use plastics resulted in increased sales and percentage of market share? If change has been successful, Woolworths would expect that sales and percentage of market share would increase, as customers support the business in its endeavours to look after the environment; as costs are reduced, and as sales increase, net profit should increase.

5 **Identify whether high-risk or low-risk strategies for overcoming resistance would be more appropriate at Woolworths. Explain how you would apply low-risk strategies to introduce transformation at Woolworths if you were a manager.**

Low-risk strategies would be preferable for removing single-use plastics because there is no urgency to the change. Such a strategy would mean communication as to why the change is being made and support in terms of dealing with customers who are upset would be provided, and so employees should feel more comfortable with the change.

A manager at Woolworths could send an email (or hold branch staff meetings) to announce changes. They could provide a timeline to staff for the change process and detail options for staff to deal with situations where customers become irate or upset with the change. Management could also provide training to staff who may need it and inform staff of the role of management during the change.

5.14 EXAM questions

Question 1 (4 marks)

Identify and define two key performance indicators that contributed to Woolworths undertaking change.

Net profit figures — the difference between revenue and expenses and a decrease in profit in 2015–16 — was a contributor to the need for change. Unfortunately, the response to COVID-19 resulted in Woolworths reporting a profit of only $1.6 billion for the full 2020 financial year. This was a decline of 1.2 per cent from its 2019 profit. This will have led the business to change and promote contactless shopping.

Number of customer complaints — this is the number of customers who contact the business and express dissatisfaction with an aspect of the business. Customer feedback was especially important in Woolworths' decision to undertake the banning of plastic bags before the introduction of legislation.

Award 2 marks for the identification of the KPIs.

Award 2 marks for the definitions in relation to Woolworths.

Question 2 (4 marks)

With reference to a contemporary business case study, explain why it would be important to review key performance indicators once a transformation has been implemented.

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When a strategy is implemented in response to data from a key performance indicator, it is expected that performance in that indicator will improve. Therefore, a business should review data from the KPI at some stage in the future (perhaps six or 12 monthly) to determine if the strategy was successful.

In Woolworths' case, the business should monitor if profit figures have improved and if customer feedback has changed from negative to positive due to the change related to the phasing out of plastic bags and plastics in its own-brand label packaged goods. If no improvement is shown, the business will need to determine if any further change is required. If there has been an improvement, then the business can determine what other changes might follow.

Award 2 marks for explanation of the importance of reviewing KPIs.

Award 2 marks for the link to Woolworths.

Question 3 (5 marks)

'If a review of key performance indicators after a business has undergone change shows no improvement, the business should abandon the change.' Analyse this statement.

Businesses implement strategies to improve performance in KPIs after data may suggest that the business's performance is poor. At some stage after implementation, the business should review those same KPIs to determine if the strategy has been successful.

If the review shows no improvement, it doesn't necessarily mean the change should be abandoned. It may mean that the review was done too soon, and the strategy hasn't had enough time to take effect. Businesses can't rush change and managers need to recognise that some strategies take time to have an impact.

Alternatively, the strategy implemented may not have been the best option. The business may need to consider an alternative strategy as the data may suggest that, even with more time, the strategy implemented was not effective. It is not effective to do nothing, so a business should not just abandon the change.

Mark globally

Award 3 marks for outlining need for change and need to review KPIs.

Award 2 marks for reason why change should not be abandoned.

Question 4 (4 marks)

Business transformation can worsen performance in a number of key performance indicators despite correcting performance in other key performance indicators. Explain how this might occur, using examples.

If a business is experiencing a decline in profit figures, a strategy to improve performance in this area might be to invest in technology. The technology will reduce the cost of production and may even improve the quality of the product in the longer term. This should increase sales and profits and may even reduce the number of customer complaints.

However, the use of technology may result in job losses, and it will be an expense in the short term, which can affect profit. This may create a negative atmosphere among employees and encourage

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some employees to look elsewhere for work. This can worsen the rates of staff absenteeism and staff turnover.

Award 2 marks for explanation of how some KPIs may improve.

Award 2 marks for explanation of how some KPIs may worsen.

Question 5 (5 marks)

'Change is constant and so evolution of change should also be constant.' Analyse this statement.

Businesses generally concede that change is a constant force in the life of the business. There are sufficient driving forces impacting businesses that these businesses should be constantly reviewing performance. In addition, the desire to achieve business objectives will also place constant pressure on a business. Business objectives change with changes in the operating and external environments.

In this environment, a business will always be looking to change so as to stay in line with business objectives and correct performance, which has been identified by the analysis of KPIs, in any area that is needed. As a result, if the implementation of strategies is continually occurring, then the business must continually review performance to determine if those strategies have been successful.

Mark globally

Award 3 marks for outlining need for change and need to review KPIs.

Award 2 marks for reason why change should be reviewed.

5.15 APPLY YOUR SKILLS Sources of change

TEST your skills

1

(a) Write a report of approximately 500 words outlining the key performance indicators identified in the data collected. In your report, define the key performance indicators and describe any trends you have been able to identify.

Use a business report style with subheadings, graphs and diagrams to support your text.

Responses may vary according to the business selected by the student.

Students should be encouraged to select companies that may not be as well-known as some of the other businesses they may know.

It is also important to focus on key performance indicators that are provided in the Study Design.

When identifying a trend, KPI data for at least two years should be used.

(b) Write a review for the business selected in part a. In this review, outline possible causes of the trend(s) identified in the key performance indicators used in part a. Conclude your review by evaluating at least two strategies the business could implement to improve its performance in the key performance indicators identified.

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Responses will vary according to the business selected and the data provided by the KPIs selected.

Possible causes could be:

- lower consumer confidence
- increased competition
- changes in legislation
- expansion costs
- changing value of the Australian dollar.

Strategies referred to should ideally be drawn from the Study Design, including:

- staff training
- staff motivation
- change in management styles or management skills
- increased investment in technology
- improving quality in production
- cost cutting
- initiating lean production techniques
- redeployment of resources (natural, labour and capital).

APPLY your skills

2 **Your study of Units 3&4 Business Management is almost over. Could you have done better in assessment tasks? Will you get the results you want or deserve? If you had the time again, is there anything you would do differently?**

Prepare a report for Units 3&4 Business Management students for next year. Provide hypothetical data on SAC results and explain what possible study score those hypothetical SAC results may result in. Propose and justify a list of strategies you believe students could implement to improve those hypothetical results. To assist you in preparing data on hypothetical SAC results, use the data provided by the Victorian Curriculum and Assessment Authority (VCAA) each year on SAC and examination performance. This data is available on the VCAA website (via the Victorian Curriculum and Assessment Authority weblink in the Resources tab). Follow the instructions in the Accessing VCAA data digital document in the Resources tab.

- Click on the menu → go to Administration → Research and statistics → Performance in senior secondary.
- Scroll down to the most recent year listed → click on the link.
- Scroll down to Section 3: Grade Distributions for Graded Assessments VCE and click on view.

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- Go to 'B' and click on Business Management (this can also be done for any other subject). The file can be saved as a PDF.
- By selecting earlier years, a trend analysis may be prepared as a guide to performance for students.

Responses may vary depending upon the year you are undertaking VCE. VCAA update this information every year.

As Study Designs change, it is important to select reports that relate to the current Study Design.

5.15 EXAM questions

Question 1 (2 marks)

Referring to a contemporary business case study, describe a management strategy that the business has used to respond to its key performance indicators.

Student responses will vary according to the business selected and the key performance indicator.

An example may be:

Woolworths has responded to the KPI of profitability. In responding to falling profit, it has expanded its investment in technology by increasing the number and type of self-serve checkouts. This should increase sales and reduce costs longer term.

Award 1 mark for explaining the strategy.

Award 1 mark for linking to the business and the KPI.

Question 2 (2 marks)

Referring to a contemporary business case study, explain how staff training can improve performance in one key performance indicator.

Student responses will vary according to the business selected and the key performance indicator.

An example may be:

Woolworths: changes to shopping arrangements due to COVID-19 may have led to an increase in customer complaints and so more training for staff may have been needed to reduce this KPI.

Award 1 mark for explaining the strategy.

Award 1 mark for linking to the business and the KPI.

Question 3 (6 marks)

Analyse how the management of a business could use staff motivation, redeployment of resources (staff) and quality strategies to effectively respond to a rise in customer complaints.

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A strategy that management could implement to respond to a rise in customer complaints is staff motivation. Complaints may arise because the price of the product has risen relative to the price of the competitor's product, the quality of the product has fallen or service has deteriorated. Staff can be motivated to improve these aspects of business performance through the use of motivation strategies such as performance-related pay or investment in training. By rewarding employees for achieving standards related to serving customers, customer service may improve. Investing in training in skills related to serving customers better could also improve customer service, thereby reducing customer complaints.

Another strategy could be to redeploy staff. Redeployment refers to moving resources from one area of a business to another. In the event of rising customer complaints, staff could be redeployed to customer service areas. Identifying those staff who may be best suited to dealing with customers, and then moving them into that area should ensure that those customers with complaints are being dealt with by experts. This may also mean that the staff involved in production are more skilled and so fewer issues in production arise and the quality of the product improves. This should ensure that customer complaints are reduced.

A third strategy that management could introduce is to improve the quality of the product being sold. A business might, for example, implement quality control, quality assurance or Total Quality Management to respond to customer complaints. If the quality of the business's product is good, then there should be fewer complaints as customers will see they are getting value for money. Management might consider introducing a quality management system such as quality control where products are tested against a sample product to ensure a minimum level of quality is being met.

Mark globally:

Award 1–2 marks for a limited analysis of how management could use staff motivation, redeployment of resources (staff) and quality strategies to respond to a rise in customer complaints.

Award 3–4 marks for a satisfactory analysis of how management could use staff motivation, redeployment of resources (staff) and quality strategies to respond to a rise in customer complaints.

Award 5–6 marks for a thorough analysis of how management could use staff motivation, redeployment of resources (staff) and quality strategies to respond to a rise in customer complaints.

Question 4 (2 marks)

Staff training may not always improve a business's key performance indicators. Explain why this may be the case.

Training is designed to improve the skills of the employees, make them more efficient, more motivated and therefore more productive. It may not have this desired outcome if the training is poor or ill-suited to the employees and/or the business itself. The employee may also leave the business once trained.

Award 1 mark for the aim of training.

Award 1 mark for why training may not be successful.

Question 5 (6 marks)

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Discuss the use of cost cutting and initiating lean production techniques for responding to declining net profit figures.

Cost cutting and lean production both aim to reduce the expenses of a business — through direct cost cutting or through the reduction in waste through lean production.

These strategies can be beneficial as they allow a business to improve performance in net profit and they directly increase the profit margin of the business, as expenses which are deducted from revenue will be lower. Assuming the business can maintain sales, the net profit figures should improve.

However, to reduce costs or operate in a less wasteful manner, some of the measures taken may reduce the quality of the product, especially if this means choosing a cheaper supplier. This may lead to a decline in customer service or customer satisfaction. If this occurs, then sales may decline and any gains made by reducing costs may be lost to the reduction in sales and therefore revenue.

Award 3 marks for the advantages of the strategies.

Award 3 marks for the disadvantages of the strategies.

5.16 Review

TEST your understanding

1 **Explain why leadership is important during a period of change.**

Leadership relates to influencing or motivating others to achieve objectives. When change is occurring there is often fear, and a reluctance to move away from what is known. Leaders are able to influence others and so break down resistance, increasing the likelihood of success. Leadership in change management can include providing employees with a shared vision and communicating this clearly. In doing this, all members of a business are more likely to understand the benefits and reasons for a change as well as better understand their role in implementing the transformation. Successful leaders will also market and promote a change in a manner that will achieve cooperation and acceptance, resolve conflicts, provide support and be held responsible for a change.

2 **Referring to specific key performance indicators, explain how:**

(a) **changing management styles may improve performance**

Staff may not respond well to an autocratic management style and so the relationship between management and staff may deteriorate. This can lead to raised levels of absenteeism and staff turnover. Moving to a more consultative style will build trust with employees and they may feel more valued and remain at the business.

(b) **increased investment in technology may improve performance**

Technology allows production to occur at a greater speed and with more precision, meaning fewer defective products are generated. This can reduce waste because there are fewer defective products to discard.

(c) **improving quality in production may improve performance**

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If the quality of a product is improved, the number of complaints from customers relating to quality should decline and it can also lead to an increase in sales and profit.

3 Identify three strategies that management can use to develop a business's corporate culture and describe one in more detail.

Students identify three strategies from:

- Establishing appropriate rituals, rites and celebrations
- Changing the prevailing management style
- Ensuring that staff members are given sufficient training to reflect the values of the business
- Senior managers, and the 'heroes' of the business, acting as role models
- Communicating desired values to staff
- Hiring staff who fit in with the values of the business
- Rewarding employees who exemplify appropriate values
- Establish new management structure
- Implementing policies reflecting values
- Changing the work layout
- Changing the style of dress and language used in the workplace
- Creating a values statement

One strategy that management can use to develop a business's corporate culture is ensuring that staff members are given training to reflect the values of the business. Investment in training could involve teaching the values that the business expects to see in the workplace — this would also influence the development of a more positive corporate culture. For example, if treating customers respectfully is important in a business, it should be part of its customer service training program. Training in the values of the business will ensure that the employees of the business do actually practise the values of the business on a day-to-day basis.

4 Identify and briefly outline the five disciplines of a learning organisation.

The five disciplines/principles are:

- Systems thinking — the ability to see the big picture, and to look beyond what is occurring just within a business.
- Personal mastery — involves the people within a business developing the ability to undertake continual learning or development to continually show improvement and movement towards achieving the goal or vision the person has set for themselves.
- Mental models — these allow the business and individuals to change. The discipline of mental models requires businesses (and individuals) to look inside themselves, to scrutinise what they do, their systems and processes, and then act upon what they learn.
- Shared vision — refers to all members within the business having the same goal and aspirations for the business.

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- Team learning — the process of aligning and developing the capacities of a team to create the results its members truly desire.

5 **Distinguish between a low-risk and a high-risk strategy for overcoming change.**

A low-risk strategy is an action taken that is likely to generate positive outcomes in the short term and longer term. It tends to seek small and incremental changes, and involve employees more in the process of change. By contrast, a high-risk strategy is an action taken that may succeed in the short term, but run the risk of generating negative outcomes in the longer term. High-risk strategies may set out to accelerate change processes in order to reach business objectives, and may even minimise staff involvement to the point where changes have already been largely determined or implemented.

6 **Explain why communication is considered a low-risk strategy, while threats are considered a high-risk strategy.**

Communication is considered low-risk because the sharing of the information can only build trust and garner support as fears are allayed or confirmed. Even confirming fears is better because they can then be tackled. This strategy is much more likely to be successful in the short term as well as the longer-term.

By contrast, threats intimidate employees and if they don't succeed, the person who makes the threats loses credibility and the change can fail. While this strategy may work in the short-term, it is very unlikely to be successful in the longer-term as relationships between management and staff become strained.

7 **Identify and outline Lewin's Three-step Change Model of change management.**

Lewin's theory revolves around three steps. First, he argued a business needed to 'unfreeze'. To unfreeze means to identify what needs to change, with all relevant aspects of the business 'put on the table' and the need for change created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process. Unfreezing the business changes the status quo — the conditions in which the business is currently operating.

With the business in this unfrozen state, and with all processes, policies and practices able to be changed and the necessary support in place, management is now able to move the business to the new position; that is, to change what is occurring. Management would offer support and training to staff.

The third step is to 're-freeze' — institutionalise the changes into the culture of the business so the business doesn't slip back into old habits. The change would be written into the policies and procedures of the business.

8 **Explain how change can both positively and negatively affect:**

(a) the general community

Change can result in job losses in an area. This leads to less spending in that area, leading to a decline in living standards and growth in that area. Alternatively, if the change results in

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business expansion, more jobs are created, leading to more income and spending in that community.

(b) employees

Change can result in job losses. This leads to those persons becoming unemployed, losing income and having to rely on savings, possibly resulting in mortgage defaults. Alternatively, if the change results in business expansion, more opportunities for advancement and higher incomes are created.

(c) customers

Change can result in an improvement in the quality of a product so that customers become more satisfied with the business. However, there may be an increased cost associated with the change that is passed on to customers, increasing prices. This may result in customers becoming dissatisfied with the business.

9 Outline why businesses should consider their corporate social responsibility obligations when implementing change.

If a business ignores its corporate social responsibility behaviour during change, it may make a change that damages its reputation, leading it to alienate customers, costing it sales and profit.

10 Describe the importance of reviewing key performance indicators to evaluate business transformation.

If a business makes a change as a result of the data from various KPIs, whatever the change is it is expected to reverse the trend in the relevant KPIs and put the business back on track to achieving objectives. If a business doesn't review these KPIs after a period of time, it will not know if the change was successful or if the business has drifted further away from its objectives or not.

APPLY your understanding

11 'In order to accelerate change, a leader is needed.' Analyse this statement using a current example from a business to support your response.

Answers will vary according to the business selected. A sample response is provided:

During periods of change, leadership is important because someone must direct the change, or accelerate it, determining which strategies to implement, determining the timeline for implementing these strategies and generally managing the change process. An effective leader is able to understand the situation now and what it could be like in the future. By leading change, managers act as a bridge to support employees as they move from existing work practices into new and unfamiliar territory. A manager demonstrating leadership provides security for employees and other stakeholders who may be unsure of the need for change and may fear what it might mean for them. Leadership can alleviate those fears through direction and communication. CEO of Telstra, Andy Penn, announced a new strategy for Telstra in 2021 named T25. As a leader, Mr Penn clearly communicated the necessity for change at the company. He spoke to investors and to the media, explaining that tough choices had been made

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throughout T22, but now was a time for implementing a strategy for growth. Mr Penn clearly communicated his vision for Telstra.

12 **'Inevitable resistance to change must be overcome if a business is to succeed.' Analyse the use of low-risk strategies and high-risk strategies to overcome resistance to change.**

One low-risk strategy a manager can use is communication; this involves the sharing of information with employees. The greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication and ensuring that managers provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change assists in overcoming resistance. Another low-risk strategy is incentives, which refers to any financial or non-financial rewards provided to employees to encourage them to embrace a change. This might involve providing employees with bonuses, offering promotions or greater responsibility, or offering training or greater autonomy. This strategy would overcome employee resistance as employees at the business will feel that management has faith in their abilities and is willing to move forward with these employees 'on board'. However, communication can be time consuming, as it takes time to involve all employees, and the use of incentives can be expensive.

A high-risk strategy is manipulation. This involves exerting influence over someone by providing incomplete or selective information. For example, management may only present some of the information about a change or provide information in small instalments, so employees don't see the whole picture and therefore possibly resist the change less. A manager may selectively leave out relevant information about a change so that it appears to be more favourable or necessary, or makes a change seem more beneficial than it actually is.

While the use of this strategy may succeed in the short term, acquired awareness of manipulation can cause sudden and pronounced resistance to the process, a loss of confidence in the change management process, and some suspicion regarding the proposed changes themselves.

Another high-risk strategy is threat, which refers to suggesting that some sort of negative consequence will occur if employees fail to follow a requested change. This strategy will often be used when the manager is unable or unwilling to take time to overcome resistance. Threat may involve intimating or directly stating that resistance may lead to the loss of promotion, possible transfer to a different location or department, a lack of overtime or, ultimately, termination. Threats can overcome resistance quickly because the possible loss of benefits or a job can quickly change the attitude of employees. However, the danger with the use of this strategy is that people may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in industrial sabotage, grievance complaints, compensation claims for stress and harassment, and industrial disputes.

13 **Discuss how a change in a business that leads to new production methods may impact suppliers and employees.**

Change that introduces new production methods can affect employees in that some employees may lose their jobs. Even if they don't lose their jobs, some employees may be stressed or

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concerned about being redeployed into other areas of the business to retain their job. However, some employees may be happy about the change and consider that a redeployment or change in work practices presents opportunities. For example, the new production methods may require employees to be retrained. While some staff may see this negatively, others may see it as an opportunity to improve their skills and increase their employability. Employees may actually find that the use of new production methods results in better employment conditions. The technology may improve productivity and reduce workplace accidents because the technology may allow tasks to be completed faster or allow precision and repetitive tasks to be completed in a more efficient manner.

As the businesses that provide a business with its raw materials and resources, suppliers may be impacted negatively as a business makes use of new production methods. The new production methods may make use of different materials, resulting in less demand for the resources of the business's current suppliers. These suppliers may therefore see decreases in the quantities of materials they deliver, and receive less revenue. However, other suppliers may find that there is an increase in demand for their resources. The change to new production methods may result in a supplier adjusting their own production processes, seeing an opportunity to produce any new materials required by the business. However, some suppliers might find the need to adjust production processes unaffordable or difficult to implement.

5.16 EXAM questions

Question 1 (6 marks)

Source: Adapted from VCE 2021, Business Management Exam, Section B, Q.5; © VCAA

Explain how two of the following management strategies might be used to respond to the data that is shown in the case study:

- **increased investment in technology**
- **cost cutting**
- **change in management skills**
- **redeployment of capital resources.**

A change in management skills may include the use of delegating or communicating. Changing the management skills may also lead to a change in the management style. If Rabwood Mutual (RM) uses delegation, which is the sharing/redeploying of responsibilities and tasks to staff other than managers, the business may experience a decrease in the rate of staff absenteeism, which has increased overall from 6 to 11%. This would occur because staff feel more trusted, valued and appreciated by the business. If managers increase employee participation through communicating tasks and objectives openly, and allowing feedback and employee suggestions, this may also result in increased staff motivation. Employees may begin to enjoy their work environment again and have a good relationship with work, and staff absenteeism should decrease.

Increased investment in technology refers to the scientific application to business processes, often used to increase productivity and reduce waste. The rate of productivity growth, which refers to the increase of outputs created from a set level of inputs, decreased from 6% in Jan 2021 to 2% in

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October 2021. RM could implement technology, such as automated financial services, which do not require employees to operate the service, such as banking and budgeting. This would enable employees to work on other business activities at Rabwood, such as serving more customers and sorting through a greater amount of customers' financial data, while the automated technology is used for the more basic but time-consuming business activities. This would assist in increasing the rate of productivity growth because employees would be attending to more business tasks within a set period.

Award 1 mark for explaining a management strategy.

Award 1–2 marks for explaining how that strategy would be able to improve the KPI data provided.

Award 1 mark for explaining a second management strategy.

Award 1–2 marks for explaining how that strategy would be able to improve the KPI data provided.

Question 2 (10 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.4; © VCAA

Leaders can inspire change within a business.

Analyse how managers can apply the principles of Senge's Learning Organisation, during a period of change, in order to:

- **effectively manage employees**
- **positively influence corporate culture**
- **ensure the change is implemented successfully.**

Peter Senge stated that learning organisations are those businesses where managers and employees continually seek to improve and achieve their desired results. There are five principles that must be present in order to have a learning organisation: systems thinking, mental models, shared vision, personal mastery and team learning.

In order to effectively manage employees during a period of change, managers could apply the principle of personal mastery. Individuals show continual development towards achieving the vision they set for themselves. This could be done through providing employees with training in order to develop their proficiency and allow managers to successfully apply this principle. This will work towards successful change as managers are working with employees to ensure they can perform their work to the highest possible standard. However, applying personal mastery for every employee may become time-consuming and counter-productive towards managing employees.

To positively influence corporate culture, a business going through change could apply a shared vision (developing a vision every person in the business believes in) and team learning (developing capacity and ability of a team to create results members truly desire). This could involve providing regular communication to ensure employees understand the vision. Having a vision that everyone believes in will develop genuine commitment, as employees believe in the purpose of the business, leading to a positive influence on corporate culture.

Systems thinking, as the cornerstone of the learning organisation, could help to implement change successfully as managers can see how the change may impact different areas of the business. To do

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this, however, may be time-consuming to audit different areas of a business to see how the change could impact the business as a whole, in order to ensure successful change.

*Responses awarded **9–10 marks** showed a comprehensive and accurate knowledge and understanding of the principles of Senge's Learning Organisation. Sophisticated and detailed analysis of how principles of Senge's Learning Organisation can be used by management during a period of change in order to effectively manage employees, successfully implement change and positively influence corporate culture. It also includes accurate and appropriate use of terminology which includes defining, describing and applying appropriate and relevant business management concepts and terms.*

*Responses awarded **7–8 marks** showed a detailed and accurate knowledge and understanding of the principles of Senge's Learning Organisation. Analysis of how principles of Senge's Learning Organisation can be used by management during a period of change in order to effectively manage employees, successfully implement change and positively influence corporate culture included appropriate detail to support. It also includes appropriate use of terminology, which includes defining, describing and applying appropriate and relevant business management concepts and terms.*

*Responses awarded **5–6 marks** demonstrated adequate knowledge and understanding of the principles of Senge's Learning Organisation. Included some analysis of how principles of Senge's Learning Organisation can be used by management during a period of change in order to effectively manage employees, successfully implement change and/or positively influence corporate culture, which attempted to include detail to support. Generally appropriate use of terminology with some inaccuracies which included some attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.*

*Responses awarded **3–4 marks** demonstrated basic knowledge and understanding of the principles of Senge's Learning Organisation. Included limited analysis of how principles of Senge's Learning Organisation can be used by management during a period of change in order to effectively manage employees, successfully implement change and/or positively influence corporate culture. Some attempt to include detail to support. Some appropriate use of terminology with inaccuracies that included limited attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.*

*Responses awarded **1–2 marks** demonstrated a limited knowledge and understanding of the principles of Senge's Learning Organisation. Included weak analysis of how principles of Senge's Learning Organisation can be used by management during a period of change in order to effectively manage employees, successfully implement change and/or positively influence corporate culture. Limited/no attempt to include detail to support. Limited/no use of terminology with inaccuracies demonstrating some/little understanding that included limited/no attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.*

Question 3 (6 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.2; © VCAA

Explain the importance of leadership in change management. In your response, refer to a contemporary business case study.

Leadership refers to positively influencing and encouraging one to set goals and work towards achieving them. This will allow others to meet their full potential.

At Telstra, CEO Andrew Penn must be a leader to successfully implement the change of 'Telstra 2022' into the company. Leadership is essential in change, as leaders have the ability to build a shared vision in a business for the change, to then drive members of a business to work towards successfully initiating the transformation. Andrew Penn needed to clearly communicate the vision of 'Telstra 2022' to all employees and managers, in order to sell this idea. He would then empower employees to make decisions in regards to Telstra's four pillars of change, so they can see their contribution made to the vision. Leaders also have the ability to empathise with the situation of others, through interpersonal skills, which will help build and maintain positive relationships during this stressful time, in turn reducing resistance to change.

Andrew Penn as a leader would have had to understand the negative consequences of Telstra's restructure on employees and then to clearly communicate the need Telstra had to change for its survival. He also initiated strategies such as careers counselling to assist redundant employees in finding employment at other telecommunication companies, hence reducing staff resentment and allowing change to be maintained.

*Responses scoring **5–6 marks** show a clear understanding of what leadership involves and how it impacts positively (its importance) on change in a business. The response focuses on leadership in change management rather than the change itself. This explanation of good leadership is then linked to the concept of business change and is highlighted through the use of a contemporary business case study that is drawn from the last four years.*

*Responses scoring **3–4 mark**s include a brief explanation of leadership without providing sufficient detail. Alternatively, they might provide a reasonable explanation of leadership but don't reference a contemporary case study. Alternatively, these responses focus primarily on the case study without much explanation of the theoretical element.*

*The responses scoring **1–2 marks** write in general terms about leadership without the link to change. If a case study is mentioned, there is no link between the theoretical material that has been introduced and the information that has been provided about a business.*

Responses scoring 0 either do not relate to any elements of the question or do not attempt a response.

Question 4 (5 marks)

A management strategy to improve performance may be to change management style. Evaluate an appropriate management style to adopt during a time of change.

If a business was to change its prevailing management style to become more consultative, managers would be considering the opinions of employees before making decisions. The consultative management style is appropriate during a period of change at a business as there is typically a period of time in which to work on the changes and the use of the style supports the opportunity to seek input from all staff. A range of opinions and ideas can be generated, leading to an improvement in the quality of decisions being made. The consultative style is also very likely to result in employees beginning to have some ownership in the way that the business is run, so that they feel more

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involved. This can result in improvements to their levels of motivation and commitment. Subsequently, they are less likely to be resistant during a time of change.

However, the use of the consultative management style can result in the entire decision-making process slowing down. Collecting input from all employees at a business, with a manager making the final decision after considering each and every differing view, can take a long time. This may have a negative impact on productivity at the business.

Furthermore, the quality of decisions can deteriorate using the consultative style, as compromises may need to be made when management makes the final decision. It is possible that even with all the views and opinions collected, that some employees will still disagree with any final decisions made. This can result in conflict or resentment.

Overall, the consultative style is very effective during a period of change as individual employees are able to take some responsibility for, and can contribute to, the implementation of any necessary changes. The range of opinions and ideas that this style of management fosters is likely to lead to better decisions being made. Because employees will have some involvement in the change, they are less likely to be resistant towards it.

Award 2 marks for the strengths of the chosen management style.

Award 2 marks for the weaknesses of the chosen management style.

Award 1 mark for stating the overall suitability of the chosen style for a time of change, supported by a reason.

Question 5 (6 marks)

Describe two management strategies a business could implement to deal with an increase in the level of wastage.

One management strategy that a business could use to deal with an increase in the level of wastage would be to improve the quality in production. Implementing a quality management system such as quality control should work to eliminate defects in the production of goods and services. Using this strategy, items are inspected randomly throughout the production process to see if they meet the set standard. Any defective products are discarded and the fault in production is fixed so that further defects should not occur. Accordingly, waste is reduced as the number of discarded products is reduced.

A second strategy is to invest in technology. Technology refers to applications of knowledge that change people's lives and change the way in which a business operates. Using technology can allow repetitive, precise and/or dangerous tasks to be completed more quickly without mistakes being made. This should result in a more productive use of resources as time is not wasted — unlike employees, technology will operate at a consistent pace and will not require breaks. As each task is performed in an identical manner, it reduces the likelihood of errors and so there is a reduction in the level of waste.

Award 2 marks for describing an appropriate strategy for dealing with an increase in the level of wastage.

Award 1 mark for linking the selected strategy to reducing the level of wastage.

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Repeat for a second strategy.

Question 6 (6 marks)

A local gardening business is struggling due to the increase in competitors in the local area. Rising costs and lower profits have seen the owner consider a range of options and the future of the three employees of the business. Describe the following strategies the business could adopt to improve performance:

- **staff training**
- **investment in technology**
- **cost cutting.**

Staff training is a strategy that will improve the skills of staff. If successful, the training will allow employees to work more efficiently, causing fewer defective products or waste, lowering costs and improving productivity.

Investment in technology is where the business buys new equipment to replace old equipment and/or replace labour. The technology allows for more accuracy and speed in production, raising productivity and lowering costs in the longer term, improving financial performance.

Cost cutting is where the business will identify areas where savings can be made — this could mean reducing labour costs, changing to a cheaper supplier, offshoring labour, changing utility suppliers etc. Lowering costs allows a business to lower prices, which should increase sales, leading to increased profit.

Award 1–2 marks for each strategy that results in improved performance.

Question 7 (6 marks)

Evaluate how management at a business could use staff motivation, redeployment of resources (staff) or quality strategies to effectively respond to a rise in customer complaints.

A strategy that management could introduce is to improve the quality of the product being sold. If the quality is good, there should be fewer complaints as customers will see they are getting value for money. Management should consider introducing a quality management system such as quality control where products are tested against a sample product to ensure a minimum level of quality is being met.

Motivating staff is another strategy that could be implemented. Complaints may arise because the price of the product has risen relative to the price of the competitor's product, the quality of the product has fallen or service has deteriorated. Staff can be motivated to improve these aspects of business performance by rewarding them for increasing productivity so costs are lowered and waste minimised, or offering them training to improve customer service.

A third strategy could be to redeploy staff to customer service areas. Identifying those staff who may be best suited to dealing with customers means that they can be moved into that area, so customers with complaints will be dealt with by experts. This may also mean that the staff involved in production are more skilled and so fewer issues in production arise and the quality of the product improves.

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Award 1–2 marks for each strategy described.

Question 8 (10 marks)

Using a contemporary business you have studied this year, analyse how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and discuss the possible effects of these decisions on one stakeholder of the business.

An approach is to:

- define corporate social responsibility
- link CSR to at least two elements of an operations system using a contemporary business example
- link to a specific stakeholder of the business.

Sample response:

Corporate social responsibility (CSR) refers to the obligations a business has above and beyond its legal responsibilities, to consider the impact of its operations on the wellbeing of employees and customers, the community and the environment.

Operations is the area of management responsibility that is concerned with the production of a business's good or service. CSR can influence decisions made in operations in several ways. For example, an operations manager might consider how the production of a business's good or service will impact on employees, the community and the environment.

In relation to the 'inputs' element of operations, a manager may make the decision to source raw materials from local suppliers. This would support the local community and the local economy. During the 'processes' element of operations, the business may choose to use green energy sources, such as solar panels, to power the machinery and factory utilities during production to contribute less to pollution in the environment. These decisions may reduce financial performance by increasing costs; however, the business is very likely to benefit from a good reputation. The business and its products are much more likely to appeal to CSR-conscious buyers, and sales might be expected to increase. These decisions would also have a positive impact on the community and environment. Consequently, the business will create sustainable products, and sustainable practices for the long term.

An example of a business making such decisions is CSL. The biotechnology manufacturer has developed a Global Environment, Health, Safety and Sustainability policy demonstrating its commitment to fostering a positive, safe and healthy work culture. The policy states that CSL will do its best to conserve natural resources, reduce emissions and prevent pollution. CSL has the goal of reducing, reusing and recycling waste, as well as identifying substitute materials or alternative materials that are environmentally safer for all of its operations.

As the business makes use of energy obtained from sustainable sources such as solar panels, there will be less demand for the resources of the business's current suppliers. For example, as CSL seeks to conserve natural resources, reduce emissions and prevent pollution, it is very likely that it will use less energy from its traditional energy providers and more from energy providers making sustainable

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energy available. Therefore, other suppliers are likely to find that there is an increase in demand for their resources. Alternatively, current energy suppliers may adjust their own production processes, seeing an opportunity to produce the sustainable energy required by the business. However, some suppliers might find the need to adjust production processes unaffordable or difficult to implement. Choosing energy sources from sustainable sources will affect the local environment positively as it will reduce pollution.

Mark globally:

Award 9–10 marks for demonstrating a comprehensive and accurate knowledge/understanding and analysis of how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and the possible effects of these decisions on one stakeholder; with accurate reference to a contemporary business case study; including accurate and appropriate use of terminology which includes defining, describing and applying appropriate and relevant business management concepts and terms.

Award 7–8 marks for demonstrating a detailed and accurate knowledge/understanding and analysis of how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and the possible effects of these decisions on one stakeholder, with reference to a contemporary business case study; including appropriate use of terminology which includes defining, describing and applying appropriate and relevant business management concepts and terms.

Award 5–6 marks for demonstrating adequate knowledge/understanding and analysis of how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and the possible effects of these decisions on one stakeholder; with reference to a contemporary business case study which attempted to include detail to support; including generally appropriate use of terminology with some inaccuracies which included some attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.

Award 3–4 marks for demonstrating basic knowledge/understanding and analysis of how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and the possible effects of these decisions on one stakeholder; with some reference to a contemporary business case study and some attempt to include detail to support; including some appropriate use of terminology with inaccuracies which included limited attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.

Award 1–2 marks for demonstrating a limited knowledge/understanding and analysis of how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and the possible effects of these decisions on one stakeholder; including limited/no use of terminology with inaccuracies demonstrating some/little understanding which included limited/no attempts for use of defining, describing and applying appropriate and relevant business management concepts and terms.

Question 9 (2 marks)

Explain why businesses should review performance in key performance indicators.

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If a business implements a strategy to respond to a key performance indicator (KPI), it is important to review the KPI after implementation to determine if the strategy was successful and achieved the desired change in the KPI.

Award 1 mark for identifying implementing a strategy.

Award 1 mark for identifying review of KPI to see if strategy was successful.

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