



Business Management Assessment Guide 2017

Section A

VCAA Key
Knowledge

Question

Answer guide

When evaluating business performance, it is important to use key performance indicators that are appropriate for the area of business performance under review.

Key performance indicators as sources of data to analyse the performance of businesses, including 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 and number of workplace accidents.

Define, describe and apply relevant business management concepts and terms.

Question 1a (1 mark)

Define 'key performance indicators'.

Answer:

- *Key performance indicators are specific criteria used to measure or assess how effectively and efficiently an organisation is operating to achieve financial and non-financial objectives.*

Marking protocol:

One mark for a clear reference to performance indicators being a tool used for 'measuring' or 'assessing' how well an organisation is achieving its objectives. Students must not repeat the term itself (i.e. indicator) when explaining its meaning.

Key performance indicators as sources of data to analyse the performance of businesses, including 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 and number of workplace accidents.

Apply business management knowledge to practical and/or simulated business situations.

Question 1b (3 marks)

Propose and justify **one** key performance indicator a business would use to assess its performance in regard to the management of employees.

Answer:

Key performance indicators that are relevant to the management of employees include:

- *Level of staff turnover (example below).*
- *Rate of staff absenteeism.*
- *Rate of productivity growth.*

- *The level of staff turnover measures the number or percentage of employees who leave a business and are replaced by new employees, usually calculated annually.*
- *This is a useful indicator to use when assessing performance in relation to management of employees as it can help identify whether employees are motivated and satisfied in the workplace.*
- *If the level of staff turnover is high (or increasing), this can indicate an issue with strategies related to management of employees, for example a lack of investment in training.*

Marking protocol:

One mark for providing an accurate explanation for the key performance indicator proposed.

Two marks for justifying (i.e. giving reasons why) this key performance indicator in assessing business performance *specifically* in relation to management of employees.

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

Propose and justify strategies for improving the efficiency and effectiveness of operations.

Apply operations management knowledge to practical and/or simulated business situations.

Question 2 (6 marks)

Distinguish between quality control and quality assurance. Discuss the use of **one** of these quality management strategies in optimising the effectiveness and efficiency of operations.

Answer:

- *Quality Control (QC) is a quality management strategy which involves establishing an internal benchmark standard of quality and testing/inspecting goods throughout the stages of production or services throughout delivery. The actual achieved level of quality is compared to the established benchmark, and if this is not achieved, corrective action is taken to enhance quality.*
- *This is different to Quality Assurance (QA) which involves an external third party (i.e. the International Standards Organisation – ISO) auditing every stage of the business’ operations process. The purpose of QA is to gain certification that the business is meeting externally set quality benchmark standards.*
- *Investing in QC and testing/inspecting goods throughout production can minimise the risk that a defective unit will be sold to an end consumer. By identifying quality concerns prior to the finished output being produced, the business can correct its operational processes and enhance the effectiveness of operations and the quality of the finished product.*
- *Effective QC can help improve efficiency by reducing material waste in production, lowering business costs and ensuring profits can be maximised.*
- *Investing in QC however can be quite costly and time consuming. Additional quality tests can slow down the production process and limit the business’ productive output achievable. There is also no guarantee that the business will take the corrective action necessary to fix the quality problems identified, meaning the effectiveness of operations may not be optimised.*
- *QC is quite a reactive strategy, as changes to operations are only possible when quality issues arise. This can lead to downtime in the operations system while processes causing defects or poor quality are fixed.*

Marking protocol:

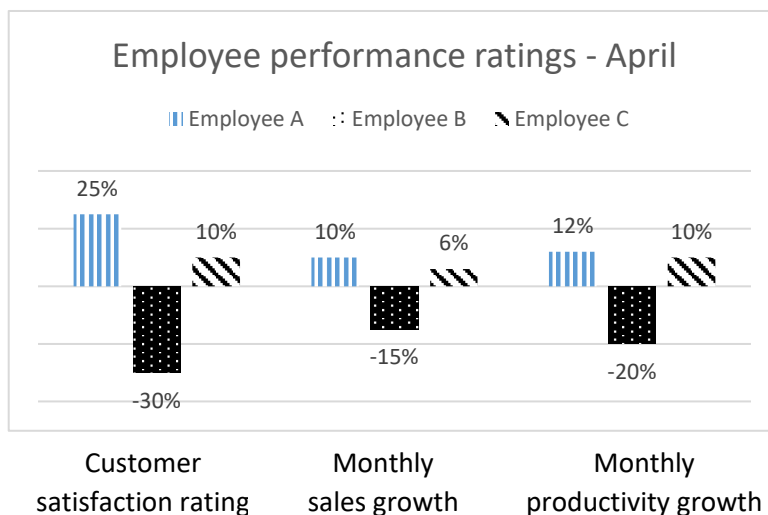
This question is marked globally (i.e. on the whole). The following criteria could be used to assess your response:

<p>5-6 High</p>	<ul style="list-style-type: none"> • All elements of the question addressed. • Very high level distinction between the two quality strategies which shows in-depth understanding of key terms and concepts. • Very high level discussion of benefits and limitations, which draws links to optimising efficiency and effectiveness of operations.
<p>3-4 Medium</p>	<ul style="list-style-type: none"> • Some elements of the question addressed. • Good distinction between the two quality strategies which shows a good understanding of key terms and concepts. • Discussion of benefits and limitations is good, but may lack clear links to optimising efficiency and/or effectiveness of operations.

1-2 Low	<ul style="list-style-type: none"> Limited distinction between the two quality strategies, which shows only basic understanding of key terms and concepts. Little to no discussion of benefits and limitations, or lists basic ideas in relation to this, without linking to optimising efficiency or effectiveness of operations.
0 No score	<ul style="list-style-type: none"> Response does not demonstrate any understanding of either quality strategy.

Note:

- In questions where the task word is 'distinguish', you must draw a clear distinction between the two ideas. A simple explanation of each idea will not be sufficient for the marks available.
- In questions where the task word is 'discuss', you must highlight the benefits and limitations of the central idea/s (in this case, quality control and quality assurance).



Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation.

Interpret, discuss and evaluate business information and ideas.

Propose and justify strategies to manage employees effectively.

Question 3 (4 marks)

Describe **two** performance management strategies that the owner/manager of this hypothetical business could use to address the issues with Employee B's performance.

Answer:

Performance management strategies that could be used to address this question include:

- *Performance appraisals.*
- *Management by objectives (example below).*
- *Employee observation (example below).*
- *Self-evaluation.*
- *Management by objectives (MBO) involves a process by which management and employees agree on a set of goals, with each individual employee goal contributing to the objectives of the business as a whole. Management monitor employee performance and provide ongoing feedback and appraisal around achievement.*
- *Employee observation (e.g. 360° feedback method) involves collecting a variety of views and opinions (i.e. from peers, management, subordinates, etc.) to give employees a holistic view of their performance of employees to gain a comprehensive view of their performance.*
- *MBO and self-evaluation would be suitable performance management strategies to support the poor performance of Employee B. This is because the employee's performance would not be meeting an acceptable standard for the business and its*

financial objectives. In using 360° feedback, Employee B might gain useful insights on why their customer satisfaction rating is so low. Feedback on their strengths and weaknesses can guide the performance appraisal process. Management could then establish clear goals; for example, improving the employee's customer service skills, which could assist in improving their satisfaction rating, confidence, and sales.

Marking protocol:

Two marks for describing any two performance management strategies.

Two marks for referring to the data provided to detail how each strategy could address the performance issues evident in Employee B.

A-Z Advertising Pty. Ltd. is a medium-sized business operating out of Melbourne and Sydney. The company provides advertising support and design services to businesses seeking an "innovative edge" in their product promotions. The business has experienced significant growth in its number of clients over the past 12 months based on a growing reputation as an industry leader in quality and creativity. However, the business is struggling to keep pace with this growth. Recently, clients have begun complaining about delays in service delivery and a decline in the usually high standard of quality produced by A-Z's talented designers. The owners are meeting to discuss options going forward.

Characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations.

Apply business management knowledge to practical and/or simulated business situations.

Question 4a (4 marks)

Describe the interests of **two** stakeholders and explain how each could be affected by the recent events at A-Z Advertising.

Answer:

Stakeholders that could be used to address this question include:

- *Customers (example below).*
- *Competitors (example below).*
- *Owners/shareholders.*
- *Management.*
- *Employees.*

- *Customers are a stakeholder group who have a vested interest in the business and its products, which they purchase in exchange for money. Customers are interested in receiving high quality service, which is delivered on time, and good value for money.*
- *Customers would be negatively affected by the recent events at A-Z Advertising. The business has not been able to keep up with recent growth in client numbers, and this has had a negative impact on the quality of advertising services provided to customers. Delays in completing projects may put clients behind in their own business operations, affecting the promotion of their own products which may hurt their performance.*
- *Competitors are another stakeholder group which competes with businesses in the same market for a larger share of sales and profits.*
- *The main competitors for A-Z Advertising may be positively affected by the recent events. With the large increase in demand for advertising services that A-Z cannot meet, there is an opportunity for competitors to take advantage and attract clients from the business. This would help them narrow the competitive advantage that A-Z has with its image and reputation.*

Marking protocol:

Two marks for describing the interests of two stakeholders.

Two marks for explaining how each stakeholder could be affected (positively or negatively) by the recent events at A-Z Advertising.

Note:

- You must describe the *interests* of each stakeholder, rather than providing a description of who the stakeholder is.
- In questions where the business (or in some instances where the name of a manager) is directly referenced, you must draw on specific material from the case in your answer.

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

Compare and evaluate theories used for motivation when managing a business.

Apply knowledge about managing employees to practical and/or simulated business situations.

Question 4b (6 marks)

Compare the Goal Setting theory of motivation with the Four Drive theory of motivation. Justify the use of **one** of these two theories in addressing the current situation at A-Z Advertising.

Answer:

- *The Goal Setting theory argues that there are two factors which influence motivation: establishing goals that are clear, specific and challenging (but not overwhelming) and providing ongoing, constructive feedback regarding goal achievement. This theory differs from the Four Drive theory, which is argued to have four drives (instead of two factors): the drive to acquire (e.g. power, status), bond (e.g. have effective relationships with management), comprehend (e.g. learn and develop new skills) and defend (e.g. feel safe and secure in one's job).*
- *The two theories are similar in that both argue intrinsic (internal) and extrinsic (external) factors influence motivation. For the Goal Setting theory, it could be argued goals are intrinsic (achievement-focused) and feedback is extrinsic (as it is given by a manager). In the Four Drive theory, the drive to acquire and defend could be considered extrinsic, while the drive to bond and comprehend are intrinsic.*
- *Another difference relates to when each factor/drive is 'active'. In the Goal Setting theory, establishing goals and providing feedback are active and ongoing. However, in the Four Drive theory the drive to defend is only activated when there is a threat to a person's safety or job security.*
- *Both theories, however, argue that employees are motivated by a sense of achievement and accomplishment (setting goals and achieving them, the drive to comprehend and acquire).*
- *The Goal Setting theory would be appropriate for management to use given the current situation at A-Z Advertising. Given the stress that management and employees would be under given the growth in client numbers, it would be easy for management to increase their expectations of employees. This would add to their stress; therefore, management should ensure goals are negotiated and adjusted so that they do not become overwhelming for employees.*

Marking protocol:

This question is marked globally (i.e. on the whole). The following criteria could be used to assess your response:

5-6 High	<ul style="list-style-type: none"> • All elements of the question addressed. • Very high level comparison between the two theories which shows in-depth understanding of both similarities and differences between the theories. • Very high level justification of which theory is best suited to the case, specifically referencing the current situation at A-Z Advertising.
3-4	<ul style="list-style-type: none"> • Some elements of the question addressed.

Medium	<ul style="list-style-type: none"> • Good comparison between the two theories which shows a good understanding of points of similarity and difference (may only give one of each). • Good justification of most appropriate theory, but may lack clear links to the current situation at A-Z Advertising.
1-2 Low	<ul style="list-style-type: none"> • Limited comparison between the two theories, which shows only basic understanding of the points of similarity or difference (i.e. not both sides). • Little to no justification of which theory is best suited to supporting management and employees through the current situation at A-Z Advertising.
0 No score	<ul style="list-style-type: none"> • Response does not demonstrate any understanding of either motivation theory.

Note:

- As the task word is 'compare', you must highlight the direct points of similarity and difference between the two motivation theories.
- In questions where the business (or in some instances where the name of a manager) is directly referenced, you must draw on specific material from the case in your answer.

<p><i>Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises.</i></p>	<p>Question 4c (2 marks) Explain how the objectives of private companies such as A-Z Advertising differ from the objectives of a social enterprise.</p>	<p>Answer: <i>Business objectives that could be used to address this question include:</i></p> <ul style="list-style-type: none"> • <i>Financial objectives (example below).</i> • <i>Meeting shareholder expectations.</i> • <i>Social objectives.</i> <ul style="list-style-type: none"> • <i>Private limited companies such as A-Z Advertising have the main business objective of improving the financial performance of the business, including maximising their net profits (i.e. total revenue minus total expenses). This objective is important to private limited companies so they can generate greater wealth and returns for investors.</i> • <i>While social enterprises may also have an objective to generate increased net profits, their main objective is to provide a good or service to society which helps address social and/or environmental issues. As such, profits generated are re-invested into operating the business, such as the Thankyou Group using profits to fund food, water and other projects in third world countries.</i> <p>Marking protocol: One mark for explaining an objective of a private limited company. One mark for explaining how this objective would differ for a social enterprise.</p>
<p><i>Business objectives including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations.</i></p>		
<p><i>Apply business management knowledge to practical and/or simulated business situations.</i></p>		

Management strategies to seek new business opportunities both domestically and globally.

Apply business management knowledge to practical and/or simulated business situations.

Evaluate the advantages and disadvantages of various strategies in implementing change in a business.

Question 4d (4 marks)

Describe **one** strategy management at A-Z Advertising could use to take advantage of domestic or global business opportunities. Discuss how this strategy could help the business maintain its image as an industry leader in advertising design services.

Answer:

Strategies that could be used to address this question include:

- *New and emerging technologies (example below).*
 - *Innovation.*
 - *Franchising.*
 - *Research and development.*
 - *Seeking grants or funding from Business Victoria.*
 - *Product differentiation.*
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- *New and emerging technologies (tools used by businesses to support the production, delivery and sale of its goods or services) is a strategy A-Z Advertising could use to take advantage of the clear domestic opportunity in the market for advertising services.*
 - *With a substantial growth in customer demand for advertising services, A-Z could invest in new customer relations management (CRM) systems to better manage the needs of clients and ensure communication remains open.*
 - *Making use of CRM technology would enable staff to have access to relevant client information – advertising design briefs, project deadlines, etc. at all times, allowing them to better plan and organise projects to ensure deadlines can be met. This is beneficial given the recent complaints regarding projects not meeting agreed deadlines.*
 - *However, implementing CRM technology can be quite costly and time consuming. The technology itself may be expensive, and require staff to be trained to use it effectively. This could distract staff from their day-to-day activities, leading to further delays which could have a larger negative impact on the business' image.*

Marking protocol:

Two marks for describing one strategy for taking advantage of domestic or global opportunities.

Two marks for discussing how this strategy could help the business maintain its image in the market (with reference to a benefit and a limitation of this strategy).

Note:

- In questions where the task word is 'discuss', you must highlight the benefits and limitations of the central idea/s (in this case, a strategy management could implement to take advantage of domestic/global business opportunities).
- In questions where the business (or in some instances where the name of a manager) is directly referenced, you must draw on specific material from the case in your answer.

'Public servants at Centrelink, Medicare and Child Support will up the stakes in their long-running fight with the Department of Human Services (DHS) over pay and conditions...The agency's staff could strike from 30 minutes to a day each time in the fresh wave of industrial action, which the Community and Public Sector Union has blamed on the DHS' unwillingness to compromise in negotiations. But the department says the move will not change its offer in talks for a new enterprise agreement'.

Source: Doug Dingwall, 'DHS staff escalate pay fight with two weeks' strike action', *Sydney Morning Herald*, 13 April 2017

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

Management skills including communicating, delegating, planning, leading, decision-making and interpersonal.

Analyse and discuss management styles and management skills necessary for successful business management.

Question 5a (6 marks)

Outline the role of the Human Resource Manager as a participant in workplace relations and discuss **two** management skills that could assist them in addressing the current situation at the Department of Human Services.

Answer:

Management skills that could be used to address this question include:

- *Negotiation (example below).*
 - *Decision-making (example below).*
 - *Communication.*
 - *Interpersonal skills.*
 - *Leadership skills.*
 - *Planning skills.*
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- *The role of the Human Resource (HR) manager in workplace relations is to represent the interests of the business in negotiations with employees and/or their union representatives, to discuss proposed pay and working conditions and avoid disputes. If disputes do arise, the HR manager is also responsible for engaging in mediation and/or conciliation to ensure there is minimal disruption to regular operations.*
 - *Negotiation is a key skill the HR manager would need to manage workplace relations. Negotiation refers to the ability to discuss matters in an open and fair manner, to reach a compromise agreement between two parties.*
 - *Through effective use of negotiation, the HR manager at DHS may be able to participate in good faith bargaining with the union and avoid industrial action (e.g. strikes) from occurring. This would be beneficial as it would minimise disruptions to regular services. However, there is no guarantee that participating in good faith will resolve the growing dispute, and the two parties may still need to seek external support through mediation or conciliation.*
 - *Decision-making skills refer to management being able to use a systematic process to solve problems that arise in day-to-day operations. This includes steps such as identifying a problem and its cause, brainstorming strategies to address it, deciding on a course of action and monitoring/evaluating its impact.*
 - *The HR manager at DHS will need to use decision-making skills to resolve the growing conflict with its staff. This will involve deciding on the best course of action to avoid strike activity, and making decisions about what will/will not be considered in the new agreement. This is beneficial as the industrial action can be avoided as management address the core issue at hand. However, implementing this process may take time and be seen as the HR manager not participating in good faith negotiations.*

Marking protocol:

Two marks for outlining the roles/responsibilities of the HR manager regarding workplace relations.
Two marks each for discussing the use of two management skills, to a maximum of four marks.

Note:

- As there is no 'limiter' in the question relating to the role of the HR manager, students may provide a general outline of many roles/responsibilities, or outline one-two roles/responsibilities in more detail.
- In questions where the task word is 'discuss', you must highlight the benefits and limitations of the central idea/s (in this case, the management skills suggested).

An overview of the dispute resolution process including grievance procedures, mediation and arbitration.

Apply knowledge about managing employees to practical and/or simulated business situations.

Question 5b (4 marks)

The Fair Work Commission could use mediation and arbitration to assist the Community and Public Sector Union (CPSU) and the DHS resolve this dispute.

Describe **both** mediation and arbitration and justify the use of **one** of these approaches to dispute resolution between the CPSU and DHS.

Answer:

- *Mediation is a key process in dispute resolution which involves a third party (known as a mediator) supporting the two parties involved in a dispute. The mediator will not offer any suggestions to the parties, but will encourage them to continue negotiations that may have broken down, in good faith.*
- *Arbitration is the final step in a grievance procedure. It involves a 'judge' (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute in a more formal court-like setting and determining an outcome. The decision made by the arbitrator is legally binding and must be followed by both parties.*
- *The most appropriate approach for DHS and the CPSU to use in this situation is mediation. At this stage, the dispute has not become so serious that arbitration is required to overcome the conflict. As staff are threatening to take 30-minute strikes, and management have said they will not change their offer, a mediator could be brought in to help the parties continue negotiating in a non-threatening manner to work more productively towards a win-win outcome for both parties.*

Marking protocol:

Two marks for describing **both** mediation and arbitration.

Two marks for justifying the use of **one** of the approaches in relation to resolving the growing dispute between DHS and the CPSU.

Note:

- It would be difficult to justify the use of arbitration in this case as the industrial action is not so severe that it will have a significant impact on the operations of DHS. Arbitration is the last step in the grievance procedure and there is no evidence that the parties have engaged in mediation or conciliation. Therefore, marks would only be awarded for justifying mediation.

Change is a continuous and evolving process, which creates many new opportunities and challenges for business. In this continuously changing world, the businesses that learn and adapt the quickest have the greatest chance of achieving set business objectives.

An overview of the principles of the Learning Organisation (Senge).

Driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation,

Question 6 (10 marks)

Describe the principles of Senge's Learning Organisation theory. Analyse how adopting the principles of this theory could support the achievement of business objectives by:

Answer:

- *Senge's Learning Organisation theory argues there are five key principles necessary to create a learning organisation that can adapt and improve in response to changing business environments. These principles include systems thinking (being able to look beyond what is occurring in the business and consider external forces for change); personal mastery (developing the skills and competencies of individuals in the business to drive learning and growth across the business); mental models (being able to evaluate and scrutinise business processes); building a shared vision*

technology, innovation and societal attitudes.

The importance of leadership in change management.

Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives.

- Promoting driving forces for change
 - Promoting the use of leadership in change management
 - Promoting the use of low-risk strategies to overcome employee resistance to change.
- (establishing a collective and unified approach towards a common vision for the future); and team learning (enabling people to work together and have open communication to generate greater learning). Adopting the principles of Senge’s learning organisation theory can support driving forces for change, as well as the use of leadership and low-risk strategies to manage change.*
- *Driving forces for change are those forces which support a business’ efforts to introduce change and encourage, foster and initiate it. This can include effective management and supportive employees. The use of Senge’s theory can promote driving forces for change. For instance, by focusing on personal mastery, a manager overseeing the change process may invest in developing the skills and competence of employees in dealing with the change. This would encourage employees to be more supportive of the business’ change efforts, as they would feel comfortable in their own ability to adapt.*
 - *Leadership is an important skill for management to use when managing change, and involves guiding, supporting and inspiring others towards a common vision for the business. Effective leaders during change are able to communicate clearly, build trusting relationships with others, and make good decisions. By adopting Senge’s principle of building a shared vision, this can promote the use of effective leadership and help support the change process. Dictating a vision in an autocratic manner can turn employees away from supporting the change. By involving people in establishing the vision, the leader can foster genuine commitment (rather than compliance) to the vision.*
 - *Finally, low-risk strategies for implementing change involve managing employee resistance to change in a way that has a smaller chance of leading to negative outcomes such as employee resentment and poor morale if the change effort fails. These can include offering support, openly communicating about the change, etc. By adopting Senge’s principle of systems thinking, employees can have a much clearer understanding of the change and what has caused it. Considering external influences on the business (for instance conducting a SWOT analysis) can help those affected by the change understand the purpose (i.e. why it is necessary). This can help reduce irrational fears towards the change, and ensure a lower-risk approach to overcoming resistance.*
 - *Overall, the adoption of Senge’s principles of a learning organisation can help support the successful implementation of change by promoting driving forces and ensuring effective leadership and low-risk strategies are used. This can help support change, which would help businesses to better achieve business objectives such as improved profits, and greater returns for shareholders. This is because when a learning organisation is fostered, change is more likely to be supported and therefore occur more effectively and efficiently, saving the business on time and money.*

Marking protocol:

This question is marked globally (i.e. on the whole). The following criteria could be used to assess your response:

9-10 Very High	• Very high level of analysis which addresses all the elements of the question.
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	<ul style="list-style-type: none"> Shows an in-depth understanding of all the key terms and concepts. Links the principles of Senge's theory to all three of driving forces, low-risk strategies, and leadership, and to the achievement of business objectives.
7-8 High	<ul style="list-style-type: none"> High level of analysis which addresses most of the elements of the question. Shows an in-depth understanding of most of the key terms and concepts. Links the principles of Senge's theory to two of driving forces, low-risk strategies, and leadership, and to the achievement of business objectives.
5-6 Medium	<ul style="list-style-type: none"> Analysis is moderate and addresses some of the elements of the question, but not all. Shows a moderate understanding of most of the key terms and the link between Senge's theory and driving forces, low-risk strategies, and leadership.
3-4 Low	<ul style="list-style-type: none"> Analysis is limited – not all elements of the question are addressed (i.e. some evidence of linking Senge's theory to driving forces, low-risk strategies, or leadership). Shows only a basic understanding of the key terms and concepts.
1-2 Very low	<ul style="list-style-type: none"> Analysis is very limited. May only briefly describe one or two points about Senge's theory.
0 No score	<ul style="list-style-type: none"> Response does not relate to any elements of the question.

Note:

- In questions where the task word is 'analyse', you must examine in detail to discover the meaning or essential features of the ideas/concepts central to the question. In other words, you must identify the main features (i.e. of Senge's theory) then examine closely to show how the parts relate to the whole (i.e. how Senge's theory links to driving forces, low-risk strategies, and leadership).

Section B

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

Case Study

Tiny Tots Pty. Ltd. is a manufacturer of children’s educational toys established in 1997 by Janelle Clarke. Now the CEO of Tiny Tots, Janelle identified an opportunity in the market for children’s educational toys in 1996 after becoming a new mum, establishing the business as a sole trader. In 2011, Tiny Tots was awarded the Parents’ Choice Foundation Toy of the Year Award in recognition of having ‘the safest, highest quality and most educational children’s toys’.

On the back of this success, Janelle and her senior management team decided to expand operations into Asia and take advantage of growing demand, particularly in China. Due to rising labour costs in Australia, senior management made the decision in 2012 to shift production of Tiny Tots’ toys to China, seeking a cost advantage over new rivals in the market. However, since relocating production offshore, the business has experienced a severe decline in performance. Below is a summary of Tiny Tots’ performance over the past five years. Senior management have held a crisis meeting to discuss performance concerns, and have identified the following issues:

- Employees in the new factory in China do not have the necessary skills to manage operations effectively;
- Low levels of employee motivation due to poor working conditions;
- A perception among Australian-based retailers that Tiny Tots is not fulfilling its corporate social responsibilities in moving manufacturing off-shore.
- An increasing number of toys being damaged during shipping and handling from China;
- A lack of transference of Tiny Tots’ cultural values and traditions from Australia to China.

Key performance indicator	2012-13 financial year	2016-17 financial year
Net profit	\$5.9 million	- \$0.8 million
Percentage of market share (Australia)	7%	8%
Percentage of market share (China)	0.8%	0%
Percentage of waste generated in production	3%	15%
Labour costs	\$6.4 million	\$2.9 million
Rate of staff turnover	12%	28%

- *Characteristics of operations management within both manufacturing and service businesses.*

Question 1 (3 marks)

Outline **three** differences between the operations management of service businesses and manufacturing businesses such as Tiny Tots.

Answer:

Differences that could be used to address this question include:

- *Intangible vs tangible outputs (example below)*
- *Degree of customer contact (example below)*
- *Customisation vs standardisation (example below)*
- *Labour-intensive vs capital-intensive*
- *Storage/consumption*
- *Service businesses provide an intangible output that cannot be seen or touched. This is different to manufacturing businesses, which produce a tangible output which can be seen or touched. Tiny Tots for instance produce educational toys which can be physically seen and played with.*
- *Service businesses have a high degree of customer involvement in the operations system. This is because the customer must be present to receive or experience the service (for instance a haircut). This is different to manufacturing businesses, where consumption of the output does not occur until it is a finished good.*
- *Service businesses tend to produce highly customised outputs which are tailored to meet customer needs (e.g. medical advice from a*

doctor). This is different to manufacturing businesses which tend to mass produce standardised outputs which are the same (i.e. Tiny Tots educational puzzles would all be the same and mass produced).

Marking protocol:

One mark for each difference between manufacturing and service businesses, to a maximum of three.

Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management.

Apply operations management knowledge to practical and/or simulated business situations.

Interpret, discuss and evaluate business information and ideas.

Question 2 (6 marks)

Discuss how adopting the principles of Lean Management could assist Tiny Tots in meeting its corporate social responsibility considerations.

Answer:

- *Lean management is an operations strategy in the area of waste minimisation, which aims to improve the efficiency and effectiveness of operations by limiting waste and costs, and improving quality throughout the operations system. The aim is to eliminate processes that do not add value to a product as it is being produced.*
- *Some principles of lean management include ‘Kaizen’ and use of automation. Kaizen is the concept that employees are responsible for continuously improving operations and identifying/removing waste. Automation involves the use of robotics and machinery in producing goods more efficiently.*
- *By adopting these principles, businesses can be better able to meet their corporate social responsibilities (CSR) – i.e. expectations for businesses to go beyond basic legal requirements when operating, and take into account the effect of operations on society and the environment.*
- *By implementing the principle of Kaizen, businesses are making waste minimisation a core part of their real corporate culture. In doing so, the business and its people are fully invested in reducing waste in production, which can limit the negative impact the business has on the environment. However, to achieve this would take a significant investment in training to empower employees to continuously identify and remove wasteful processes. It is a long-term, high-cost strategy for optimising operations.*
- *By implementing the principle of using automation in production, this can help a business to improve their efficiency and precision when completing key processes. This can reduce the number of defects created, helping the business address CSR in relation to the environment. However, by introducing robotics, this could go against a business meeting its CSR principles as it may lead to job loss in the Australian economy as production would be more capital-intensive (as opposed to labour-intensive).*

Marking protocol:

This question is marked globally (i.e. on the whole). The following criteria could be used to assess a response:

5-6 High	<ul style="list-style-type: none"> • All elements of the question addressed. • Shows an in-depth understanding of all the key terms and concepts. • Very high level discussion of lean management with reference to both benefits and limitations of this strategy in regards to addressing corporate social responsibilities. • Clear and effective reference to Tiny Tots’ performance, particularly its percentage of wastage.
3-4	<ul style="list-style-type: none"> • Some elements of the question addressed.

	Medium	<ul style="list-style-type: none"> Shows a good understanding of all the key terms and concepts. Satisfactory discussion of lean management with reference to both benefits and limitations of this strategy in regards to addressing corporate social responsibilities. Lacks specific reference to Tiny Tots' performance.
	1-2 Low	<ul style="list-style-type: none"> Shows some understanding of all the key terms and concepts – may simply explain lean management and/or corporate social responsibility. Limited discussion of lean management with no clear reference to either benefits or limitations of this strategy in regards to addressing corporate social responsibilities. Limited or no reference to Tiny Tots' performance.
	0 No score	<ul style="list-style-type: none"> Response does not demonstrate any understanding of lean management or corporate social responsibility.

Note:

- In questions where the task word is 'discuss', you must highlight the benefits and limitations of the central idea/s (in this case, the principles of lean management).

Management styles including autocratic, persuasive, consultative, participative and laissez-faire.

Apply business management knowledge to practical and/or simulated business situations.

Analyse and discuss management styles and management skills necessary for successful business management.

Question 3 (4 marks)

Justify a management style that would be appropriate for Janelle to use when addressing the current decline in performance at Tiny Tots.

Answer:

Management styles that could be used to address this question include:

- *Autocratic (example below)*
- *Persuasive*
- *Consultative*
- *Tiny Tots is faced with a crisis situation and as such the autocratic style would be the most appropriate.*
- *The autocratic style is one where the manager has complete power and authority over decisions (i.e. centralised decision-making). The autocratic manager communicates decisions made in a top-down manner, with little to no input from others (i.e. one-way communication).*
- *The autocratic style is most appropriate as it is very important for Janelle to respond swiftly to the concerns raised. By using centralised decision-making, her senior management team and staff are very clear on the decision made and decisive actions can be taken quickly.*
- *As there is only one person making and communicating key decisions, this style is beneficial as there will be no confusion as to what must be done to resolve the decline in performance. This is important given the situation as there are several issues (e.g. culture, materials management, management of employees, etc.) to address immediately.*

Marking protocol:

Two marks for describing the characteristics of the selected management style.

Two marks for justifying why this style is most appropriate for Janelle to address the declining performance of the business.

Note:

- It would be difficult to justify the use of a more decentralised management style given that Tiny Tots is faced with a potential crisis due to its declining performance.
- Although the task word is 'justify', you are expected to describe the characteristics of the style. It is difficult to justify without first describing.
- To get the full marks for justifying the selected style, students must link the characteristics of the style to addressing declining performance.

Key performance indicators as sources of data to analyse the performance of businesses, including 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 and number of workplace accidents.

Management strategies to respond to key performance indicators, 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 and redeployment of resources (natural, labour and capital).

Interpret business information and ideas.

Apply business management knowledge to practical and/or simulated business situations.

Evaluate the advantages and disadvantages of various strategies in implementing change in a business.

Question 4 (8 marks)

Evaluate two management strategies (**other than lean management**) that Tiny Tots could implement in response to trends evident in its key performance indicators. Propose and justify the most appropriate strategy for Tiny Tots to implement. Refer to the data provided in your answer.

Answer:

Management strategies that could be used to address this question include:

- *Training employees (example below)*
- *Relocating manufacturing to Australia and export to other markets (example below)*
- *Implementing materials management, specifically inventory control*
- *Introducing state-of-the-art technology to increase the quality of manufacturing in China*
- *Focusing on motivation strategies that improve working conditions of employees (e.g. performance-based pay)*
- *Developing a stronger culture consistent with the culture the business developed in Australia (e.g. establishment of values, rituals, etc. and training staff around culture)*
- *Conducting performance appraisals and provide staff with feedback around performance*
- *Introducing quality management strategies (e.g. Total Quality Management)*
- *Finding a new supplier to transport finished products from China to Australia to reduce wastage during shipping*

- *To address the issues in performance, senior management at Tiny Tots should invest in training employees in its China-based factory. Training refers to the process of teaching employees knowledge, skills and abilities that will enable them to perform their job responsibilities more effectively and efficiently.*
- *Investing in on-the-job training (e.g. competency-based training) would address a number of issues with performance. Firstly, investing in the development of employees could address concerns around staff not possessing the skills required to perform their job. This could assist the business in achieving the industry-leading quality it has been known for. Investing in training could also address concerns around employee motivation. Employees based in China might be less likely to leave the business if they feel it is investing in their growth and development. This could help the business improve the rate of staff turnover, which has been increasing.*
- *While investing in training can support improved performance in these areas, there are some weaknesses associated with this strategy. Tiny Tots has experienced a significant decline in net profits since 2012 (with the business making an \$800,000 loss in the previous financial year). As such, it may not be a sensible strategy for the business to invest in the development of staff. Further, there is no guarantee that investment in training would be effective,*

Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business.

especially if staff continue to leave the business. The business may not achieve the return on investment it is seeking from this strategy.

- *Another strategy the business could implement is to relocate manufacturing back to Australia and instead export its products overseas in markets where there is significant demand for its educational toys. This strategy would likely be effective, as the decline in performance has occurred since the business shifted manufacturing offshore.*
- *By relocating manufacturing back to Australia, the business could address concerns around quality and gain greater control over its operations processes. This could help drive improvements in the business' market share in the Chinese market, which has declined to 0%. This strategy would demonstrate to customers that the business is considering its corporate social responsibilities, creating employment opportunities locally and not taking advantage of cheaper labour. Further, the business would be able to find a more reliable and reputable shipping company (e.g. Toll) to manage shipping and handling of goods exported overseas, addressing the 12% increase in wastage. Finally, this strategy would enable the business to take advantage of larger overseas markets (through exporting), which it was initially seeking.*
- *While this strategy has many benefits, it would be an extremely costly approach to addressing the performance issues. The business was able to cut its labour costs by more than half by moving production to China, and relocating back to Australia would see its labour costs rise significantly. This would have a negative impact on the business' net profit figures in the short-term, and given the business has made an \$800,000 loss, its shareholders may be concerned about the impact on their financial returns.*
- *The most appropriate strategy to implement is investing in training. Relocating production back to Australia would be far too costly for the business. By investing in training, the business can address issues related to quality and wastage, while improving its management of people (and motivation). Stakeholders (such as customers) may see this investment in improved working conditions and development of employees as the business fulfilling its corporate social responsibilities. This strategy would better address the declining market share and net profits, as well as reduce wastage and turnover back to 2012 levels.*

Marking protocol:

This question is marked globally (i.e. on the whole). The following criteria could be used to assess your response:

<p>7-8 Very High</p>	<ul style="list-style-type: none"> • All elements of the question addressed. • Shows an in-depth understanding of key terms and concepts. • Very high level evaluation of the two strategies suggested which shows in-depth understanding of the strengths and weaknesses of business strategies. • Very high level justification of which strategy is best suited to the case, specifically referencing the performance indicators and issues identified by management at Tiny Tots.
<p>5-6</p>	<ul style="list-style-type: none"> • Most elements of the question addressed.

	Medium	<ul style="list-style-type: none"> Shows a good understanding of most of the key terms and concepts. Thorough evaluation of the two strategies suggested which shows a good understanding of the strengths and weaknesses of business strategies. May be missing either a clear justification of one strategy, or reference to the key performance indicators.
	3-4 Low	<ul style="list-style-type: none"> Some elements of the question addressed. Shows only a basic understanding of the key terms and concepts. A simple explanation of the business strategies. Little to no justification of which strategy is best suited to responding to the performance indicators or issues identified by management.
	1-2 Very Low	<ul style="list-style-type: none"> Limited explanation of the strategies selected, or lists general ideas about business strategies.
	0 No score	<ul style="list-style-type: none"> Response does not demonstrate any understanding of business strategies to respond to key performance indicators.

Note:

- It would be difficult to justify the strategy of reducing business costs to increase net profits, as this strategy is the main reason why Tiny Tots is experiencing this decline in performance.
- Marks cannot be awarded for lean management as a strategy as it is specified in the question that this cannot be used.

The two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985).

Apply business management knowledge to practical and/or simulated business situations

Question 5 (4 marks)
Explain how businesses such as Tiny Tots can achieve a competitive advantage through Porter's generic strategies.

Answer:

- Businesses can achieve a competitive advantage (a condition that puts a business in a superior business position over its rivals) based on two generic strategies; cost and differentiation. Lower cost strategies involve the business seeking to gain an advantage over rivals by having the lowest business costs in the industry.*
- Tiny Tots have attempted to generate a competitive advantage based on cost by moving production to China and lowering the costs of operating. This enabled the business to reduce its labour costs from \$6.4 million to \$2.9 million, giving it a cost advantage over rivals manufacturing in Australia.*
- Differentiation strategies involve the business making their product unique compared to rivals (e.g. higher quality, faster delivery time, better customer support, etc.). By establishing a point of difference between the business' products and competitors, the business should be able to maximise its share of the market and profits.*
- This strategy was evident in Tiny Tots' success in being recognised as the highest quality educational toys before relocating production offshore to explore cost advantage strategies.*

Marking protocol:
Two marks for explaining the two generic strategies (cost and differentiation).
Two marks for referring to Tiny Tots to explain how each strategy could provide it with a competitive advantage.