BUSINESS MANAGEMENT

Units 3 & 4 – Written examination

(TSSM's 2011 trial exam updated for the current study design)

SOLUTIONS

SECTION A

Question 1

a. A public listed company is one that is listed on the Australian Securities Exchange (ASX). Individuals can buy and sell shares (ownership rights) as ownership is not restricted. As the business is listed on the ASX it is required to publish annual reports so information about these businesses is freely available.

I mark

b. The goals or objectives of a business like Harvey Norman Holding Ltd is to increase their profit, their share of the market and add to their net assets. Whereas a social enterprise, while making a profit, exists to fill a social need in our community. Any profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need. Fundamentally, they exist to benefit society, rather than owners.

2 marks

c. Harvey Norman Holdings Ltd. could use the number of sales over a period of time to evaluate its performance. If these are increasing then the organisation will be satisfied with its performance. But if there are reduced sales as indicated by the reduction in profits, then the organisation needs to develop strategies to address this issue such as reducing its prices on goods to attract more consumer spending, or providing special offers or more discounts.
Another key performance indicator could be the percentage of market share which refers to the proportion of the total retail market Harvey Norman Holdings Ltd. has in relation to its competitors such as Myers and Dick Smith. If this is increasing then the organisation is performing well achieving its objectives. But if Harvey Norman Holdings Ltd. is also losing some of its market share, then this indicates that customers are going to its competitors, leading to decreased sales and of course reduced profit levels.

Students could also refer to the rate of productivity growth, the number of customer complaints or the level of wastage.

4 marks

Question 2

Some skills a manager could use are:

- Communicating skills
  The ability to clarify with employees the tasks that they are required to complete. Communication movement will reflect the business structure and management style.
  Communication can be:
  - ✓ Written
  - ✓ Verbal
  - ✓ Non-verbal

  Listening is an important part of communicating
  Poor communication can lead to:
  * Staff frustration
  * Lack of motivation
  * Loss of direction

- Delegating skills
  Delegation is where a manager gives authority to an employee to complete a set task. Delegation allows employees to use/develop their skills/knowledge to their potential Managers who can delegate effectively will train the delegates to apply appropriate criteria to avoid losing control of their employees.
  Managers who can delegate are showing their employees that they trust them and see a future for them within the business.
  The skill of delegation is in selecting the most appropriate subordinate to delegate the authority to. Managers who delegate must also monitor, set targets and provide support to ensure that these delegated tasks are completed appropriately.

- Interpersonal skills
  This refers to the ability of a manager to identify, assess and manage the emotions of yourself and others – particularly staff. It is also referred to as people skills and it involves being empathic to the needs of staff. Having this skill allows a manager to build effective relationships with staff and other stakeholders. It is a relatively new skill but one that is gaining importance as managers interact more with staff – particularly in the decentralised workplace relations environment.
  Having good interpersonal skills assists in motivating staff and maintaining or developing a positive corporate culture.

  Students could also refer to other skills such planning, leading or decision-making. Students need to explain the skill and then applying it to the scenario to gain the full marks.

6 marks

Question 3

a. The operations area is responsible for the production of the business's product, whether it is a manufactured good or the provision of a service. It oversees the transformation of inputs into output, that is, the finished product.

Students could also refer to human resources, technology support, finance and sales and marketing.

2 marks

b. A partnership is a business structure where ownership is shared between 2 and 20 people. Each partner does not have to have an equal share and not all partners have to work in the business. This form of business ownership is easy to establish, provides greater access to capital, shares the workload and may improve the skill base of the business as well the range of services offered – for example an accountant and a lawyer may form a partnership.

4 marks

c. Materials management is a strategy that the operations manager would use to ensure that the right materials were delivered at the right time, in the right amount and at the right price to enable the olive oil products to be produced. This would involve the development of a product plan which outlines the activities that would be undertaken to create the goods ready for sale at the retail outlets. The operations manager could use the **just in time** inventory control approach, which means that the exact amount

of materials arrive to avoid waste and damage and to reduce the need for storage space.
However, there is a strong reliance on suppliers to meet the deadlines for this to work effectively. If suppliers are late in delivering materials production will cease as there is no stock of materials to draw upon.

4 marks

d. The main characteristics of manufacturing a product are:

- The output like the bottles of olive oil which can be seen
- Customer contact is limited during the production process
- The olive oil products can be stored
- The olive oil products are not customised to meet the specific request of buyers
- Productivity can be easy to measure as the olive oil products can be counted
- Conversion of inputs into a visible output

The main characteristics of the retail outlets include:

- The process of selling the output is intangible
- There is high customer contact with consumers entering the outlets to buy the olive oil products
- This part of operations is more labour intensive
- Productivity can be hard to measure due to different customer needs

*Students should refer to at least **two** characteristics of the manufacturing operations and the **two** contrasting characteristics from the service operations to achieve the full marks for this question.*

4 marks

Question 4

a. Locke and Latham developed a motivation theory that suggests employees can be motivated to improve performance if they have goals set for them. Goals give something that employees can strive for but they must be set carefully According to Locke and Latham, there are five goal setting principles that can improve a business's chances of success.
1. Setting Clear Goals - When your goals are clear, you know what you're trying to achieve. You can also measure results accurately, and you know which behaviours to reward. However, when a goal is vague – or when you express it as a general instruction like "take initiative" – it isn't easy to measure, and it isn't motivating. You may not even know you've achieved it!
2. Setting Challenging Goals - People are often motivated by challenging goals, however it's important not to set a goal that is so challenging it can't be achieved.
3. Securing Team Commitment - To be effective, your team must understand and agree to the goals – team members are more likely to "buy into" a goal if they have been involved in setting it.
4. Gaining Feedback - In addition to selecting the right goals, you should also listen to feedback, so that you can gauge how well you and your team are progressing. Feedback gives you the opportunity to clarify people's expectations and adjust the difficulty of their goals.

5. Considering Task Complexity - Take special care to ensure that work doesn't become too overwhelming when goals or assignments are highly complex.

Businesses should use a theory such as this to provide a challenge for employees. If challenged with clear goals and have the necessary support and training provided then they will work harder and improve productivity.

5 marks

b. A strategy available to managers to motivate employees is to offer performance-based pay. Some employees may strive to work hard knowing that their efforts will be rewarded monetarily. This could be effective with those who have families or financial commitments such as a mortgage. This is more likely to have short term benefits. If the work is not enjoyable or giving employees a sense of achievement, extra money may not be enough in the long run. There is also an issue that businesses may not be able to afford the extra payments as a long-term solution and there is a concept that if the environment in which the work is conducted then for some people money is not a motivator in these conditions.
A second strategy might be to invest in training for employees. Better trained employees feel more confident about their abilities. This can improve the corporate culture and lead to productivity improvements. If it is a service provider, then better trained employees may add to the customer satisfaction levels, resulting in fewer complaints and more repeat customers.
However training can be very expensive for a business. There is also the danger that once trained some employees might resign and take their new skills to another business where higher pay or career advancement is available..

8 marks

Question 5

Businesses need to manage change well. Management can use low-risk practices which avoid confrontation and encourage a supportive environment to promote the change. Practices like open communication where management help staff understand the need for change can help. Communication can be through emails, memos and meetings to help keep staff in the loop about what is to come. Another low-risk practice is management providing support to staff with additional training and a transition time for the change. This can reduce fear and anxiety which are the key factors for employees to resist change. Management could also negotiate agreements with employees to gain support for the change. Incentives could be offered during this process. Management could involve employees in the change process, allowing them to contribute to the decision-making to gain some sense of ownership in relation to the change. High-risk practices have the capacity to generate negative outcomes such as a high staff turnover or lower productivity levels because management may manipulate information about the change by withholding some of the key facts from employees. Threats to staff who resist the change such as retrenchment, transfer or loss of promotion can also alienate staff who will be less responsive to the change.
Change models provide a structure for the change and often a process to assist in the change being implemented effectively. One such change model is Lewin's Three Step Model.
Kurt Lewin developed a theory on the best approach for a business to manage change. Lewin believed that change occurs at many levels within a business – be it a large or a small business. He suggested that change can occur at the individual level, a structural or systemic

level or arise from inside the business through the culture of the business and the style of management in place within the business. He then developed three steps:

1. Unfreezing the present situation: this is the phase of preparing the business for change. This may involve minimising resistance and gaining commitment to the proposed change.
2. Moving to a new state: this is the change itself. This may involve change in structure, reporting relationships and reward systems, and should see changes in behaviour patterns.
3. Refreezing: this involves stabilising or institutionalising these changes by establishing systems that make these behaviour patterns relatively secure.

10 marks

SECTION B

a. Business change can be defined as the process of altering some aspects of the business – structure, policies, practices - to create a new form of them.

1 mark

b. The information regarding sales and competition can indicate a business should undergo some form of change. When deciding whether or not to change a business its management needs to consider how to change and the costs and benefits associated with the change.
Lewin developed a useful model for understanding the change process, known as a Force Field Analysis. This analysis allows a business to identify those forces which drive and foster changes and those which resist a proposed change.
Lewin suggested that a process to follow is to list and weight the driving and restraining forces that may be impacting on a business wishing to change or needing to change.
Such a process may involve steps such as:
1 Form a guiding group of people driving or enabling the change.
2 Identify the change proposal.
3 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) suggests the force is weak while a high score (5) suggests a strong force.
4 Prioritise the top 3 to 5 most restraining forces 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.
5 List the actions that are required to be completed to meet the proposed change and assign responsibility for each action.

Completing a Force Field Analysis can aid Angus & Robertson by comparing the 'for's and against' of the change so the business is able to determine whether the change is worth undertaking. It also allows a business to take action to overcome the key restraining forces by preparing strategies in advance and allows the business to prepare strategies to promote the driving forces and build upon them in the early stages so as to minimise or counteract the restraining forces.

6 marks

c. The driving force for change is technology. The development of the internet and online shopping has made is easier and cheaper for some products to be purchased from overseas (or even locally), avoiding having to physically visit stores.

2 marks

d. Porter developed a theory that attempted to explain how businesses may gain a competitive advantage over other businesses and therefore manage change as they attempt to do so. The objective of gaining a competitive advantage is to improve performance in those areas identified as key performance indicators that are a source of change for a business.
Porter theorised that to gain a competitive advantage businesses need to evaluate their strengths and act upon those strengths.
Porter's generic strategies describe how a company pursues competitive advantage across its chosen market, either via

- lower costs than its competition or
- by differentiating itself from its competitors

Lower costs allow an organisation to increase their profit margin and or increase competitive advantage through lower prices.
Lower prices can be achieved through strategies like:

- Production efficiencies (reducing waste)
- Supply Chain Management
- Asset Management

This strategy can be difficult to achieve as some costs can be difficult to cut without jeopardising quality or the reputation of the business. Sourcing materials from overseas to cut costs can see a business lose control of its supply chain and the quality of the materials. Outsourcing labour can lead to redundancies which create a negative image for the business. A business can also differentiate itself from its competitors.
Business' that are not the cheapest need to be different:

- This can be on quality
- Through innovation (the first business to do something)
- Services like additional warranties or benefits
- Brand power

Differentiation can be a cost to the business by making it different to other products. An added feature, an additional warranty or exceptional quality can be an added cost which customers might not see the value of.

8 marks

e. Learning organisations are those businesses where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning together to the improvement of themselves and the business.
In developing this theory Senge identified five principles of this theory. Three of these principles are:

1. Systems thinking is the key to this theory. It provides a framework that allows people to study businesses as a whole. It allows the business to assess themselves and have information systems that measure the performance of the business as a whole and of its various components.

2. Personal mastery refers to the commitment by an individual to the process of learning. There is a competitive advantage for a business whose workforce can learn more quickly than the workforce of other businesses. It is important to develop a culture where personal mastery is practiced in daily life since most learning is incidental. A learning organisation has been described as the sum of individual learning, but there must be mechanisms for individual learning to be transferred into business learning.

3. Mental models is the assumptions held by individuals and the ‘memories’ of businesses which preserve certain behaviours, norms and values. In creating a learning environment it is important to replace confrontational attitudes with an open culture that promotes inquiry and trust. Unwanted values need to be discarded in a process called 'unlearning. This is the process of building mental models.

8 marks