

BUSINESS MANAGEMENT

Units 3&4 – Written examination



2024 Trial Examination

SOLUTIONS

SECTION A

Question 1 (2 marks)

Corporate culture refers to the shared values, beliefs and ideals [1 mark] of all members of a business [1 mark].

Question 2 (3 marks)

There is a direct relationship between operations management and the achievement of business objectives. Operations refers to the activities undertaken by a business to produce a good or provide a service. It is intended that operations are conducted in such a way as to reduce costs, minimise waste and improve quality [1 mark]. Operations managers will implement strategies in an effort to improve operations – they may utilise an automated production line, quality control, forecasting or some other strategies to improve the operations of the business [1 mark]. In doing so, waste and costs are minimised and this can lead to an improvement in profit which is a business objective. Lower costs also suggest and improvement in efficiency and can also mean increased sales, both of which are business objectives [1 mark].

Question 3 (6 marks)

Reduce, reuse and recycle are strategies designed to minimise waste in production. Reduce is concerned with minimising the amount of resources used in production and as such creating less waste. In doing so, a business is able to decrease its costs, which improves efficiency as lower costs of production can often lead to an increase in profits and so operations become more effective. One means of reducing inputs in production is through implement the Just In Time system where inputs are ordered and delivered just as they are needed for production so there is a reduced chance of these inputs being lost, stolen, damaged are not being needed.

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. This also means there is less waste that needs to be disposed of, reducing disposal costs and improving efficiency.

Recycle 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.

Mark globally, however, ideally two marks for each strategy.

Question 4 (6 marks)

Porter developed two generic approaches to strategic management when dealing with change. He proposed that businesses could adopt a lower cost approach or a differentiation approach.

The lower cost approach involves a business doing what it can to reduce their costs of production so they become the lowest cost producer in a market. These businesses may seek to become a cost leader which is achieved by lowering costs so prices can be lowered to a competitive level. The lower cost approach requires a business to implement strategies such as Just in Time, an automated production line, quality assurance and other strategies that minimise the costs of production.

The second approach is the differentiation approach. Product differentiation refers to the use of brand names, a delivery method, advertising or a number of other factors to establish differences between substitutable products. In a differentiation strategy, a business will make their product different, unique or superior in some way to gain a competitive edge and allow the business to market itself as a leader or innovator in that industry.

The key similarity is that both approaches attempt to gain a competitive advantage by being different to other providers in the market – one by being the cheaper and the other by being unique.

Mark globally but consider a balanced response with 3 marks allocated to each approach.

Also consider additional points:

Similarities include:

- *Both strategies can be applied to either goods or services*
- *Both strategies will require ongoing investment from the business to be successful*
- *Both strategies focus on the business gaining a competitive advantage to address KPI's as sources for change*
- *Both strategies can have new competition that threaten their market share*
- *Both strategies aim to maintain a profit margin*

Differences include:

- *Lower cost can lead to lower selling prices, while differentiation can lead to higher or premium selling prices.*
- *Lower cost can be achieved through increased efficiencies by buying in bulk for example whereas differentiation focuses on creating a superior quality product with strong brand recognition and loyalty*
- *Lower cost can lead to increased market share by attracting price sensitive customers who will not remain loyal to the business, whereas differentiation attracts customers who are loyal to the brand because they see it as unique and are therefore willing to pay a higher price*

Question 5 (17 marks)

- a. Motivation is the desire that directs and sustains a person's behaviour to work well [1 mark] and ensure that there is a continuing commitment to improve performance [1 mark].

2 marks

- b. An appropriate motivational theory might be Locke and Latham's goal-setting theory. This theory proposes that employees are motivated when their managers work with them to set specific goals that are both challenging and achievable. Goal setting theory involves an employer meeting with staff individually and establishing individual goals that are clear, have an element of challenge and complexity. As they are developed by the manager working collaboratively with the employees, there should also be commitment from both parties to achieve the goals set. Setting goals collaboratively can allow the goals to be individualised as well as linking with the broader objectives of the business. This should improve motivation of employees which should improve the work done, make employees feel better about themselves and the business and hence reduce staff turnover. Throughout the period for which the goals were set, there should also be regular opportunities for feedback to ensure the employee remains on track and the goal is still relevant. If adopted, then this theory will motivate employees to attend work on a more regular basis and also increase their commitment to the business, reducing the level of staff turnover.

Mark globally

4 marks

- c. Long-term motivation strategies are strategies that take some time to have an identifiable outcome for employees and the business. One such strategy is career advancement. Career advancement involves providing opportunities for staff to increase their level of responsibility and often their pay. In the long-term this may be an effective motivator as employees engage in activities to learn new skills and abilities which will require regular attendance at work. A long-term impact of career advancement is a culture of self-interest as staff compete with each other if there are limited career advancement opportunities. A second strategy is investment in training. Staff training involves providing opportunities for staff to improve their knowledge, understanding and skills. This can have a positive impact on staff motivation in the short-term and long-term. This is because the training can be used to immediately improve staff productivity if the training is directly related to completing work tasks better. It can also have a positive impact on long-term motivation. Staff can be motivated when they are life-long learning and constantly improving their skills. By being trained in a variety of areas, staff may have the skills to seek promotions which may further boost long-term motivation.

Mark globally but consider three marks for each strategy.

6 marks

- d. Management by objectives is a performance management system where the manager and the employee jointly determine a set of employee objectives/goals at the beginning of the review period. The objectives/goals are set collaboratively but linking the employees' key duties to business objectives. This should result in the performance of the employee improving as clear targets are set and the business increases its chances of achieving its objectives as there is alignment between business and employee objectives.

However, in a large business it can be time-consuming to meet with all employees and set individual goals which then need to be monitored and reviewed over the period. Despite this process being quite time consuming particularly for management, the regular assessments as to what the employee has achieved compared to what they had planned to achieve is invaluable. It is an opportunity to reward employees who track, identify training needs for employees who might be struggling or impose some form of sanction for those who regularly fail to meet their targets.

As employees are the businesses greatest asset, applying the strategy of MBO is likely to increase the motivation of employees who feel valued by being part of the process. As such employees are likely to be more focussed and work harder, increasing their ability to serve customers and ultimately increasing sales.

Mark globally

5 marks

Question 6 (6 marks)

Pull, one-piece flow, takt and zero defects are the principles of a lean management strategy designed to improve the efficiency and effectiveness of operations by eliminating waste and improving quality. Lean management can be used to improve the effectiveness of a business's operations. By eliminating waste, it reduces costs that may lead to an improvement in profit. Furthermore, lean management can lead to increased customer satisfaction, which can result in increased sales and, subsequently, an improvement in profit.

Pull relates to avoiding overproduction and stockpiling by enabling customer demand to dictate the rate at which products are produced and/or delivered. This means a business is more likely to minimise waste as it will only be producing the outputs that will be sold. The costs of inventory will be reduced, as will the likelihood of stock becoming lost, damaged or perishing. In this way, customers 'pull' value through the production process, leading to efficiency.

One piece flow relates to eliminating waiting time or idle time for machinery and employees through having a piece of production move through the operations process one at a time. The operations system is focused and aligned to adding value, one piece at a time, removing all wasteful and unnecessary activities. This improves efficiency, as costs are reduced and waste minimised. Quality is improved, enabling the business to be more effective.

Takt refers to the rate of production needed to meet customer demand. Takt time is the average time that passes between production starting on one unit of a product and the start of production of the next unit, in order to meet demand. Takt is important as it is making use of lean principles, as it must know the minimum level of resources that are necessary in order to produce enough to meet customer demand. Takt helps the business to establish a consistent workflow, so resources and time are not wasted.

Zero defects is about the business striving for perfection with errors or defects being identified as closely as possible to where they occur. This allows issues in production to be resolved quickly

and levels of waste will be reduced. This improves efficiency, as resources are utilised with minimum waste, and avoids quality issues, leading to increasing profitability.

Mark globally

As a guide, one mark for each principle and two marks for the link to improving efficiency.

SECTION B

Question 1 (2 marks)

The management style being used by the CEO is the laissez-faire management style. In this style employees are allowed to manage their own work area and schedules [**1 mark**]. They will manage themselves as managers will have very little control of day-to-day activities [**1 mark**].

Question 2 (4 marks)

The two key objectives identified in the case study are making a profit and meeting shareholder expectations.

Profit is what is left after business expenses have been deducted from money earned from sales (revenue). A loss occurs when the expenses exceed the revenue [**1 mark**]. Roadrunner Couriers has identified that they will need to seek advice from Finance as to the future profit of the business to be able to fund the change identified [**1 mark**].

They have also identified that the profit figures diverted to funding the change to electric vehicles may impact the return provided to shareholders [**1 mark**]. Hence the second business objective is to meet shareholder expectations. Shareholders expect to make a return on their investment. They expect the business that they have invested in to make a profit, as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of a company's shares increases. If the part of the profit gained by the company is returned to shareholders, or the value of a company's shares increases, then shareholders will have their expectations met [**1 mark**].

Question 3 (10 marks)

Business change is any alteration in the internal or external environments that results in a different form of the business. Business change can be driven by a range of forces with two key forces impacting Roadrunner Couriers being societal attitudes and the owners of the business. Society requires that businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate and take care in their operations so as to not adversely impact the environment.

Businesses such as Roadrunner Couriers are constantly confronted by changes in society's attitudes and values. In recent years the concept of what society believes about the environment and how businesses should factor into their decision-making their impact on the environment has changed. These new attitudes about what is socially acceptable affects the ways in which businesses operate. Society in general can be made aware of what businesses are doing through increased access to rapid communications and therefore pressure from society can force Roadrunner Couriers to make the change to all electric vehicles to preserve and protect the natural environment.

As seen in the case study, managers are concerned about the environment and are looking for ways to improve their performance in that area. Hence, they are driving the change. Owners

establish a business and may also operate a business. In large businesses, managers are often employed to oversee the day-to-day operation of the business and as such have a keen interest in the performance of the business. They hope to see the business success as it can open up opportunities for them to gain promotion or pay increases through bonuses or gainsharing. These roles make owners and managers key driving forces for change. In a small business, the manager may also be the owner and so the livelihood of the owner is tied very much to the ability of the business to change and maintain sales, profit, market share and its customer base. In a large-scale business such as Roadrunner Couriers, 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 that will lead to a better outcome and more efficient achievement of business objectives – such a change is the move to electric vehicles which should improve the overall performance of the business in terms of social responsibility, reputation and profit.

However, changes such as the one proposed can create concern amongst employees who may fear that the change may result in job losses. This can lead to employee resistance, and it is the responsibility of management to implement strategies to overcome such resistance. Two such strategies are communication and support.

Communication is the exchange of information between management and 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 assists in the sharing of information at all levels of the business. As communication is a two-way process, managers at Roadrunner Couriers need to ensure that they provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change. This will gain support for the change and overcome resistance.

Support refers to management providing employees with assistance in moving from the current state to the new. Support for those going through a change would include counselling, training (supporting a change with new learning) and time. By doing this, management may be able to reduce fear and anxiety and gain the support of employees through the change.

Mark globally

Performance descriptors: typical performance in each range	
Marks	Descriptor
9-10 Very high	<p>A 9 to 10-mark response will exhibit a very high level of detail, which address all elements of the question to a very high level. Student shows an in-depth and sophisticated understanding of the elements of the question including:</p> <ul style="list-style-type: none"> ○ Coherent, comprehensive and sophisticated definition of business change ○ Clear proposal of two driving forces and comprehensive and sophisticated description of how these forces lead to business change. ○ Clear proposal of two management strategies and comprehensive and sophisticated explanation of how these strategies will overcome employee resistance. ○ Response must be linked to the case study. ○ Accurate and sophisticated use of business management terminology and understanding of appropriate business management principles.

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<p>7-8 High</p>	<p>A 7 to 8-mark response will not have all the features of a 9 to 10-mark response. For example:</p> <ul style="list-style-type: none"> ○ Coherent and accurate definition of business change. ○ Clear proposal of two driving forces and detailed description of how these forces lead to business change. ○ Proposal of two management strategies and comprehensive explanation of how these strategies will overcome employee resistance. ○ Response must be linked to the case study. ○ There are one or two inconsistencies or inaccuracies that can't be ignored.
<p>5-6 Medium</p>	<p>A 5 to 6-mark response is a '<i>middle of the range</i>' response. It will not have all the features of a 7 to 8-mark response to a significant degree. For example:</p> <ul style="list-style-type: none"> ○ A definition of business change is provided. ○ Proposal of two driving forces and an appropriate description of how these forces lead to business change. ○ Proposal of two management strategies and appropriate explanation of how these strategies will overcome employee resistance. ○ Response must be linked to the case study. ○ There are one or two inconsistencies or inaccuracies that can't be ignored.
<p>3-4 Low</p>	<p>A 3 to 4-mark response will usually include some accurate information, but does not address all aspects of the task. For example:</p> <ul style="list-style-type: none"> ○ The definition of business change that is provided is limited. ○ Proposal of two driving forces and limited description of how these forces lead to business change. ○ Proposal of two management strategies and limited explanation of how these strategies will overcome employee resistance. ○ Response must be linked to the case study. ○ There are significant inaccuracies such that the answer is not correct (e.g. it is not clear how the selected management strategy/ies is not linked to the business concepts).
<p>1-2 Very low</p>	<p>A 1 to 2-mark response is very limited. For example:</p> <ul style="list-style-type: none"> ○ The definition of business change that is provided is inaccurate. ○ Proposal of at least one driving force(s) but limited description of how these forces lead to business change. ○ Proposal of at least one management strategy but limited of how this/these strategy(ies) will overcome employee resistance. ○ Response must be linked to the case study. ○ A 1-mark response is a <i>very brief</i> response. It is more than writing nothing at all and is in some way linked to the statement/question.
<p>0</p>	<p>Student's response is entirely incorrect. Response does not relate to any of the elements of the question.</p>
<p>N/A</p>	<p>Student has not attempted the question.</p>

Question 4 (4 marks)

A management skill that managers at Roadrunner Couriers could utilise in this scenario is decision making. This skill is necessary for the successful implementation of the change and the change is expected to take five years and during that time smaller, important decisions will need to be made and will be needed to allow the overall change to occur [1 mark]. Decision-making will require managers to look at the different options to move forward and the skill is to select the most appropriate decision in each circumstance [1 mark].

A second skill, linked to that is planning. Planning is the ability to define business objectives and determine methods or strategies that will be used to achieve those objectives. It provides the key to both the short- and long-term success of a business [1 mark]. Roadrunner Couriers have set a five-year timeframe for the introduction of electric vehicles. Planning is needed to determine what things are needed to allow for the introduction of these vehicles and what order these events need to take place in to allow the change to occur [1 mark].

Question 5 (6 marks)

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 current vehicles and current training practices 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 level of employee resistance to the change. 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 electric vehicles are purchased, likely a staged implementation, and the new, appropriate training programs would be introduced. Staff would undergo the training relevant to their job with a view to ensuring safety standards are met and reduce the incidence of resistance.

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

- *Award one mark for explanation of the step*
- *Award one mark for the link to change at Roadrunner Couriers*

Question 6 (3 marks)

When change occurs, there are impacts on various stakeholders of the business. One stakeholder will be shareholders who invest in the business in expectation of receiving a return on their investment as well as an increase in the value of their shares [1 mark].

To that end, shareholders will not want to have their return on investment negatively impacted by the change. Management have indicated that some profits will be diverted to pay for the move to electric vehicle and this will impact shareholders returns [1 mark]. Over the time of the change and in the following years, if returns don't improve or fall too low, shareholders might withdraw their investment in the business and seek better returns elsewhere [1 mark].

Question 7 (6 marks)

When Roadrunner Couriers completes the change to all-electric vehicles for their business, it is important that the business identify two key performance indicators that can report on the success of the change. The cost and time involved in the change is likely to be significant and therefore the business needs to determine if the change was successful, and the objectives of the business were met. If the key performance indicators show the objectives were not met, then the business will maybe need to re-evaluate the change initiated and implement new strategies.

To assess the success of the change Roadrunner Couriers could look at net profit figures and rate of productivity growth.

Profit is the difference between revenue and expenses and is used to provide dividends to shareholders and/or re-invested back into the business. Given the cost of changing from fossil-fuel powered vehicles to electric vehicles, there may be a decrease in profits in the initial phase of the change. Once the change is fully completed it would be expected that profit would begin to rise, hopefully to the level prior to the change. If profit has declined, then the business may need to review the change and implement different strategies to increase profit.

Rate of productivity growth is the change in productivity in one year compared to that of the previous year. Growth in the rate of productivity indicates that the business is using resources more efficiently. Productivity will improve if a business uses fewer inputs to obtain the same level of output, or if more output is produced from the same input. The business would be hoping that productivity growth is not harmed by the move to electric vehicles and the business would monitor this key performance indicator to ensure the change doesn't negatively impact this indicator.

Mark globally

An approach can be to award two marks for each of the three concepts in the question.