# THE CPAP STUDY GUIDE TO VCE BUSINESS MANAGEMENT



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# ABOUT THE AUTHOR

**John Mitchell is an experienced VCE Business Management teacher at St. Joseph's College in Geelong. He holds Bachelor Degrees in Management and Applied Science from the University of Ballarat, as well as a Diploma of Education from the University of Melbourne. Prior to teaching, John worked in the financial services industry, specialising in the provision of mortgage products, before transitioning to the education sector in 2004, where he has become a leader in the field of business education. John has continued to help students achieve their best in VCE Business Management. He assesses end of year examination papers on an annual basis and is an enthusiastic, engaging and experienced presenter at student lecture programs. In 2012 he introduced a flipped classroom to his VCE Business Management classes and presented the technique to teachers on many stages, including the annual Comview conference for Commerce teachers. He is the founder and creator of the popular website TeachingBubble.com, which provides video lessons to enhance student understanding of the VCE Business Management course.**

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Support helps the employee feel valued within the business, which can provide the short-term motivation to perform at a high level. An employee that receives some form of support when they are finding things difficult (or have made a mistake) can feel appreciated, which motivates them in the short-term to get back to work. A supportive environment can create a culture where the employee feels others 'have their back' and will look out for them. This understanding that the business and its people will be there for them, can create long-term motivation for employees. ............................................. 52

# The Unit 3 Outline: Managing a Business

This unit focuses on the key principles and issues associated with managing a business efficiently and effectively to achieve the business objectives. Students will look at the challenges and complexities of managing a business and strategies used to effectively manage staff and operations to meet objectives.

## AREA OF STUDY 1: Business foundations

In this area if study, students are introduced to the key characteristics of businesses and their stakeholders. Students will examine a range of management styles and skills that can be used by managers and will apply these to contemporary business case studies.

## Outcome 1

On completion of this unit the student should be able to discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.

### Key knowledge
- types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises
- business objectives including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations
- characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations
- the areas of management responsibility including operations, finance, human resources, sales and marketing, and technology support, and how each area contributes to the achievement of business objectives
- management styles including autocratic, persuasive, consultative, participative and laissez-faire
- the appropriateness of management styles in relation to the nature of task, time, experience of employees and manager preference
- management skills including communicating, delegating, planning, leading, decision-making and interpersonal
- the relationship between management styles and management skills
- corporate culture both official and real, and strategies for its development

## AREA OF STUDY 2: Managing employees

In this area of study, students will investigate the factors involved in managing employees effectively to ensure that business objectives are successfully achieved. Students will consider the motivation theories of Maslow's Hierachy of Needs, Locke and Latham's Goal Setting Theory and Lawrence and Nohria's Four Drive Theory. Students will then use these theories to propose and justify solutions to employee management in business case studies.

## Outcome 2

On completion of this unit the student should be able to explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees.

### Key knowledge
- the relationship between managing employees and business objectives
- 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)
- motivation strategies including performance related pay, career advancement, investment in training, support and sanction
- advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation
- training options including on-the-job and off-the-job training, and the advantages and disadvantages of each
- performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation
- termination management including retirement, redundancy, resignation and dismissal, entitlement and transition issues
- the roles of participants in the workplace including human resource managers, employees, employer associations, unions, and the Fair Work Commission
- awards and agreements as methods of determining wages and conditions of work
- an overview of the dispute resolution process including grievance procedures, mediation and arbitration

**AREA OF STUDY 3: Operations Management**

This area of study looks at how a business can effectively and efficiently produce goods and/or services. Transforming inputs into outputs is a core activity of businesses and it is vital to maximise efficiency and effectiveness while meeting the needs of key stakeholders. Students examine operations management and consider the best and most responsible use of resources for producing quality goods or services in a global environment.

**Outcome 3**

On completion of this unit the student should be able to analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

*Key knowledge*
- the relationship between operations management and business objectives
- key elements of an operations system: inputs, processes and outputs
- characteristics of operations management within both manufacturing and service businesses
- strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development
- strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time
- strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management
- strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management
- corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs
- global considerations in operations management, including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management.

# CHAPTER 1: BUSINESS FOUNDATIONS

A business is a type of organisation that is involved in the provision of goods and/or services. While businesses have many varying objectives, they share a common goal, which is to make a profit. Businesses in Australia vary in size, ranging from micro-businesses with one employee all the way to large businesses such as Wesfarmers, which is one of Australia's largest employers with over 220,000 employees. Businesses play a major role in the economy and help to improve our standard of living. There are currently over 2.6 million businesses registered in Australia with many of them having a significant contribution to employment and income generation.

> **Exam Tip:** The VCE Business Management study design does not require students to distinguish between small, medium and large businesses and therefore this concept cannot be assessed. However, it is likely that students will study a variety of businesses throughout the year and these businesses may come in a variety of sizes, from small one person businesses to large multinational corporations.

**Small businesses** are those that employ 20 people or less. This also includes those businesses where only the owner works in the business. These small organisations are often referred to non-employing businesses. **Medium-sized businesses** employ more than 20 employees, yet have less than 200 employees. **Large businesses** employ more than 200 employees and will likely have more than $200 million in assets. It is normally the case that smaller businesses will earn less revenue (money generated from sales) than the larger businesses and also own fewer assets.

The bar chart below left highlights that the NSW and Victoria have the largest number of businesses in operation, accounting for approximately 60% of 2.3 million businesses in Australia. The adjacent pie chart highlights that the vast majority of Australian businesses are relatively small, with approximately 88% (i.e. 1.92 million businesses) having less than 5 employees. It is only a small minority of businesses (2.3% or 51,024 businesses) that are classed as medium-sized with 20 employees or more. While only 0.2% of businesses are large and employ more than 200 employees.
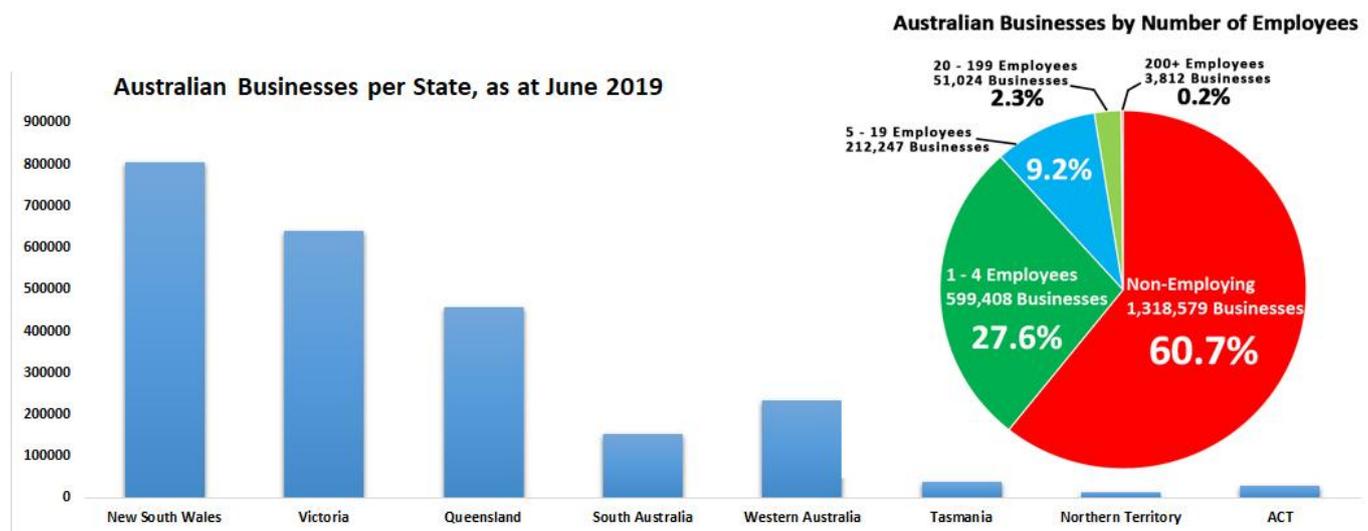


Businesses operate in one of two key sectors: the private or public sector. The **private sector** is where individuals, groups or institutions own a business, usually with the purpose of making a profit. The common types of business legal structures that operate in the private sector include sole traders, partnerships and companies (both private and public companies). The **public sector** comprises those businesses that are owned by the government, most notably Government Business Enterprises (GBEs).

There are different types of businesses that we address in this course: sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises. We will now examine each of these different forms of business ownership.

# *Types of Businesses*

## Sole Trader

A **sole trader** (also known as a **sole proprietor**) is a business with one person who owns and runs the business. It may have more than one employee however the sole owner provides the finance and makes the decisions on the direction of the business. The sole trader is the most common type of business due to the ease of establishment. A sole trader will require an Australian Business Number (ABN) and will need to register a business name with the Australian Securities & Investments Commission (ASIC) if the business's name is different to that of the owner. A sole trader has the same legal entity as its owner. The owner is legally responsible for all aspects of the business including **unlimited liability**. Unlimited liability means that the owner of the business is personally responsible for any of the debts incurred by the business. If the business is unable to pay its debts, the owner may have to sell his/her personal assets such as properties or motor vehicles to raise enough money to pay off the liability.

| SOLE TRADER | |
| Advantages | Disadvantages |
| --- | --- |
| Inexpensive to set up | Unlimited liability (personal assets at risk) |
| Owner has complete control | Business often relies heavily on the owner, resulting in long hours |
| Owner can keep all the profits themselves | Work/life balance may be affected (less holidays etc.) |
| No partner conflict | Owner usually puts up capital (financial risk) |
| Business can be sold without consent from partners | Capacity to raise capital is difficult |

> **Exam Tip:** In the 2017 exam, students where asked to define a sole trader. While many students wrote about unlimited liability and many other factors relating to a sole trader, some did not mention that a sole trader is a business that is owned by one person. In order to obtain full marks, students needed to address the concept of ownership.

## Partnership

A **partnership** is a business that is owned by between 2 and 20 people. Just like a sole trader, a partnership has the same legal entity to the owners and therefore has unlimited liability. There are some businesses that are permitted to have more than the typical 20 partners (e.g. accountants and solicitors are able to have more than the maximum 20 partners). However, the majority of partnerships have between 2 and 20 owners.

A partnership can help a business access larger amounts of capital as all partners can pool their funds together. It can also be beneficial if the partners have varying expertise. This can help provide the business with a range of skills and experiences that can contribute to the success of the business. As well as sharing in the liabilities of the business, the partners share in any profits the business generates. The amount each partner receives is proportionate to the percentage of the business the partner owns. For example, if a business has three partners, Sally, Eugene and Cassandra, where Sally owns 50% of the business while Eugene and Cassandra have 25% each, the profits paid to the partners will reflect those percentages.

While a sole trader often needs to carry the burden of most of the work in a business, a partnership can allow the partners to share the workload. This can relieve some of the daily pressure that the owners face, as each partner can be responsible for their own area of the business.

When starting a partnership, there should be a partnership agreement set out so that each partner knows their clearly defined role in the business. Although this is not a legal obligation, it can help prevent conflict down the track as each partner will know their roles and responsibilities in the business. Some businesses will have a **silent partner**.

A silent partner is one that has a financial stake in the business yet has no role in the day to day operations of the business.

| PARTNERSHIP Advantages | Disadvantages |
|---|---|
| Inexpensive to set up | Unlimited liability (personal assets at risk) |
| Workload is shared among partners | Profits are shared among partners |
| Debts and obligations are shared among partners | Potential for disagreements over key decisions (resulting in slow decision making). It can also be difficult to find suitable partners |
| Easier to raise more capital (pooled funds from the partners) | Can be difficult to remove a partner |
| Different skills and experience brought to the business | All partners are liable for the actions of each individual partner |
| If a partner leaves the business, it can continue to operate | |
| Often easier to take time off sick or for holidays | |

> **Exam Tip:** When describing a sole trader or a partnership, it is important that you refrain from talking about shareholders. The owners of a partnership are simply owners, not shareholders. Shareholders are the owners of companies.

> **Exam Tip:** In the 2018 exam, students were asked to define a partnership. It is important to state the amount of owners that a partnership has. While there are some situations where a partnership can have more than 20 partners (such as solicitors and accountants), the best responses will be those that state a partnership is typically a business that is owned by between **2 and 20 owners**.

## Company

A **company** is an independent legal entity that is able to conduct business in its own right. A company has members that own the company. These owners are referred to as shareholders. These shareholders are entitled to share in the profits of the business (through dividends). Shareholders elect company directors to manage and run the company.

The process of establishing a company is known as **incorporation**. The company will be registered with the Australian Investments and Securities Commission (ASIC) and will establish its own legal identity, almost like a new person. Like a person, this new company is able to incur debt, sue or be sued, and can continue beyond the life of its owners. The company must keep financial records of its business dealings and must also lodge a tax return with the Australian Tax Office.

Companies have **limited liability**, meaning the shareholders legal liability is limited to the extent of the value of their shareholding. This is very different to the sole trader and partnership businesses given that the limited liability protects the personal assets of the shareholders in the event that the company is unable to pay off its debts. Despite this limited liability, directors of the company can be personally liable if found to be fraudulent, negligent or reckless.

It is more expensive to set up a company structure and the company must provide financial reports to its shareholders and the ASIC. There are two forms of a company structure: private limited companies and public listed companies.

## Private Limited Company

A **private limited company** (also known as proprietary limited company) is an incorporated business that is owned by up to 50 shareholders. A private limited company can have a minimum of one shareholder and a maximum of 50 shareholders. Shares are sold privately and not open to being freely traded to the public, and only the other directors can approve a new shareholder. A private limited company must have at least one shareholder, one director and one secretary. These can be the same person, hence the requirement for only one owner. While private limited companies are often small or medium sized businesses, some large businesses use this structure. For example, Visy, which employs over 9,000 people, is one of Australia's largest private limited companies. A private limited company will have the letters 'Pty Ltd' after its name, meaning 'Proprietary Limited'.

| PRIVATE LIMITED COMPANY | |
| --- | --- |
| **Advantages** | **Disadvantages** |
| Limited liability – separate legal entity | More expensive to set up |
| Capital can be raised by offering more shares to investors | More reporting requirements to shareholders and ASIC |
| Legacy of the company can carry on long after owners or directors are gone (perpetuity) | Restricted number of shareholders |
| Pay company tax rate rather than income tax rate on profits | Shares cannot be traded freely |

## Public Listed Company

The other form of company structure is a **public listed company**. A public listed company is an incorporated business that is owned by public shareholders. Like a private limited company, a public listed company must have a minimum of one owner. However, there is no limit to the amount of shareholders this type of business can have. A public listed company is listed on an exchange such as the Australian Securities Exchange (ASX) and its shares can be traded (bought and sold) by the general public. Companies are able to raise money by offering shares to the public in exchange for money. The company decides how to use the money to improve the business and aims to make a return for the shareholders. In exchange, the shareholder owns part of the company and gets to share in any profits through dividends and any capital gains in share price.

Creating a public listed company is far more complex than any other structure. The process of listing on an exchange is both time consuming and costly and should be considered carefully. Because the public can purchase shares, the business's performance is open for public scrutiny and all audited financial reports must be available for the public to view. Unlike a private limited company, the directors have no say in who owns shares in a public listed company.

Public companies are legally obliged to report on their activities so the market is aware of anything that may affect the company's share price positively or negatively. The word 'Limited or Ltd' is at the end of the company's name which means the shareholder's liability is limited by the value of their shares.

| PUBLIC LISTED COMPANY | |
| --- | --- |
| **Advantages** | **Disadvantages** |
| Greater ability to raise large amounts of capital through share offers | Complex and expensive to establish |
| Limited liability – separate legal entity | No longer have full control over who is on the board of directors as shareholder vote in the directors |
| Legacy of the company can carry on long after owners or directors are gone | Large reporting requirements |
| Pay company tax rate rather than income tax rate on profits | Loss of control over who owns shares in the company |
| | Financial performance is open for public scrutiny |

## Social Enterprise

A **social enterprise** is a business that exists primarily to fulfil a vision that benefits the public or community rather than shareholders. They are commercially viable businesses that have a vision for an outcome that has a positive social impact on the community and they trade to fulfil that vision.

Many businesses consider themselves to have social objectives and work to benefit the community, however these objectives are ultimately designed to improve the business' bottom line. So while a business can behave in a socially responsible manner, this alone does not make it a social enterprise. To be deemed a social enterprise, the business must be selling goods and/or services to the marketplace with the primary purpose to fulfil a vision that benefits the community. While a social enterprise will often have an objective to make a profit, their primary objective is not to make a profit so they can return it to shareholders. Their primary objective is to benefit their community/social cause.

Some examples of the types of causes that social enterprises may look to impact positively:
- Businesses that operate to benefit the community or social cause
- Businesses developed to employ people with disabilities that are unable to work in mainstream businesses
- Businesses that are committed to fair trade and exist to benefit producers in developing countries
- Businesses that aim to train, support and employ disadvantaged job seekers and then transition them into mainstream employment
- Financial institutions that provide products and services to individuals, communities and organisations that have difficulty accessing finance from mainstream institutions
- Businesses that are set up to benefit the community in which they are primarily located

### Case study

*STREAT* was establised in 2009 by Rebecca Scott and Kate Barelle. STREAT is a social enterprise that runs a series of cafe's, catering and coffee roasting businesses. The primary aim of the business is to provide homeless youths a pathway to a sustainable livlihood, allowing them to escape homelessness and get their lives back on track. Through the sale of goods and services at their various business locations, STREAT provides training, counselling services, and work experience to help their members find employment and a home to live in. You can find out more about STREAT by going to www.streat.com.au/about

## Government Business Enterprise

A **Government Business Enterprise** (GBE) is a business that is owned by the Government and operates commercially with the aim of making a profit. There are GBEs at both Federal and State levels of government. Although GBEs are owned by the government, they are run just like any other corporation. An example of a GBE is the Australian Postal Corporation. Like other businesses, this GBE has a board of directors, has a CEO and has an aim to make a profit. Being owned by the government, the GBE will also have the objective to help satisfy the objectives of the government.

The government is not normally involved in the day-to-day operations of the GBE but are involved through the shareholder ministers who represent the government. The shareholder ministers that are involved in the running of a GBE are the Finance Minister and the portfolio Minister. The Finance minister takes a lead role in the GBE financial matters, with the portfolio Minister focusing on the operational issues. These shareholder Ministers represent the government and are responsible for areas such as:

- Providing GBEs with their objectives
- Proposing changes to GBE corporate objectives if necessary
- Selecting and removing GBE directors
- Assessing the financial performance of GBEs

In recent times, many GBEs have been privatised. This means the government has sold the GBE to shareholders in the private sector. Because the objectives are often set by the minister who is a member of the government, the direction of a GBE can sometimes change if a new political party is elected into government or if the political objectives of the government change.

## *Business Objectives*



**Vision**
What the business wants to become

**Mission**
What the business stands for, its purpose and how it intends to get there

**Objectives**
Specific goals that will help achieve the mission and vision

**Business objectives** are the stated goals a business is aiming to achieve in a specified period of time. Objectives help give the business and its employees direction. The types of objectives businesses have will vary, depending on the time frame. They can be long, medium or short-term objectives and it is important that they are specific and measurable so the business knows if they are being achieved.

It is important for businesses to set some kind of purpose so that the key stakeholders such as owners, directors, managers and employees know what the business is aiming to achieve in the long term. This type of objective can be set with a **vision statement** or a **mission statement**. A vision statement is a broad objective that states the overall aspirations of the business in the future. A mission statement is a little more specific than the vision statement. A mission statement is an objective that states a business's purpose and the way it will aim to achieve that purpose.

While not all businesses will have a vision and/or mission statement, they can help provide the people within the business direction and get them working for a common cause. By providing this direction, it can also help managers with their decision making, as the decisions that are made should have the vision and mission in mind.

Other common objectives set by businesses include:

### To Make a Profit

**Profit** is the amount of money left over once expenses have been deducted from the revenue earned (revenue – expenses = profit). It is important for a business to remain profitable if it is going to survive long term. Businesses can boost profitability by:
- increasing revenue (e.g. the money they bring into the business through sales of goods and/or services); and
- minimising their expenses (e.g. the money spent on wages, materials, energy and other inputs).

Making a profit consistently allows the business to grow and expand. It also gives the employees within the business some form of job security as they know the business is more likely to survive long term if it is profitable.

## Increase Market Share

**Market share** is the portion of the total sales the business has compared to the total sales for that industry, or compared to the total sales for a particular good or service, expressed as a percentage. For example, the pie chart to the right highlights that Apple has 53% share of the mobile phone devices sold in Australian markets, with Samsung controlling 25% of the market, while Huawei (9%) and OPPO (4%) hold a smaller share of the market.

Businesses often have the objective to increase their market share. Businesses will compete against each other to increase their market share. How they will do this can vary greatly. Some strategies include, aggressive marketing, opening up more stores or implementing technology. If a business is able to increase their market share it means that other businesses must be losing market share. For example, in December 2014, according to statcounter.com, Apple had approximately 60 per cent market share in Australia, while Samsung had 27 per cent, which means that both companies lost market share to their rivals in that particular market. All competitors will typically work hard to introduce new and improved products with the aim of attracting more customers and increasing market share.



Mobile Device Market Share Australia, Nov' 2019

Source: statcounter.com
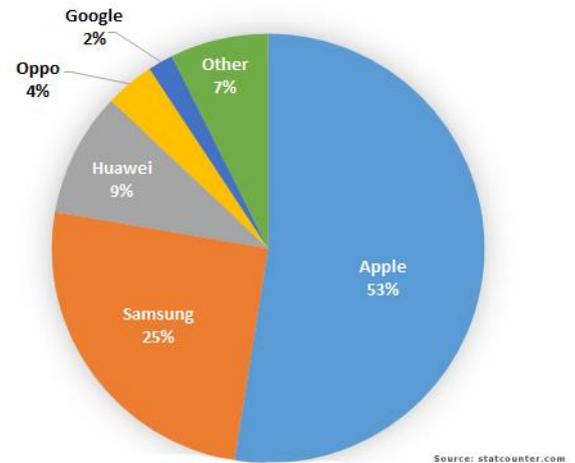
## To Fulfil a Market

Consumers always have wants and needs. If enough people have the similar wants and needs it creates a market that a business can try to satisfy or fulfil. Businesses can set themselves the objective to satisfy the needs of that market. For example, a particular location may have a population of young families move into the area. This particular market may have a need for childcare facilities for these young families. A childcare business may identify this gap in the market and meet the need of this particular market by opening up a childcare facility. This is beneficial to both the market and the business.

## To Fulfil a Social Need

Businesses can also fulfil social needs. This is typically the primary aim of a social enterprise. There may be a need within society where a business can help make the world a better place. Although businesses aim to generate income, many have a primary focus to improve the conditions of the world in which we live. Some businesses may look to improve the state of the environment, improve the living conditions of those less fortunate or provide employment to those in the local community that are unemployed.

## Meet Shareholder Expectations

**Shareholders** are the people who own a company, which will mean they have the expectation to make a return on their investment. Companies will often have the objective to meet these expectations which can influence the decisions and strategies that a manager uses. If the business is able to achieve this objective, and meet the expectations of shareholders, it may attract investment from other potential shareholders. The money generated from new investment can then be used to help grow the business. However, if the business does not meet the expectations of shareholders, they can sometimes sell their investment and invest their money elsewhere. This is often the case with public listed companies.

## Other Common Business Objectives

While the above objectives are part of the Business Management study design, businesses can have a range of other objectives. Some common objectives that a business may have include:

- Increase productivity growth
- Reduce the level of customer complaints
- Improve the level of workplace safety
- Increase employee retention and reduce the level of staff turnover

Once a business objective has been set, managers will decide on the best strategies to implement so the business objective can be achieved. A strategy is a specific action that a business implements to achieve business objectives. For example, a business that sets the objective to increase market share, may decide to implement the strategy of a new national advertising campaign.

Once the strategy has been implemented, the manager needs to determine if the set objective has been achieved. It was mentioned earlier that an objective should be a measurable so that it can be determined if it has been achieved

or not. Businesses will often use key performance indicators to assess if a business objective has been achieved. A key performance indicator (KPI) is a specific criterion or tool that can be used by a manager to measure if the business has achieved its set objectives. For example, if we look at the business that has set the objective to increase market share, the manager could use the KPI of percentage of market share to determine if the objective has been achieved. Alternatively, a business that is aiming to improve its customer satisfaction levels, may look at the number of customer complaints KPI to determine if the set objective has been achieved.

**Note**: Key performance indicators are not part of this area of study however, hopefully you can see their relationship to business objectives. We will address KPIs in more depth in Unit 4.

> **Exam Tip:** The business objectives listed in the study design are to make a profit, increase market share, fulfil a market need, fulfil a social need, and meet shareholder expectations. This means that they can be directly assessed and specifically included in a question. There are, however, other objectives that students can use in answers where appropriate such, as the ones used in this section (improve productivity growth, reducing staff turnover etc). If you are going to use a different business objective that is not in the study design, ensure that it is an objective that is **measureable**. Objectives that are not measureable are less likely to be accepted.

> **Exam Tip:** Be prepared to link these objectives to other sections of the course. For example, students could be asked a question such as: 'Describe two motivation strategies and explain how they can help a business to achieve their objective to increase market share'. This type of question requires students to link business objectives (Area of Study 1) with motivation strategies (Area of Study 2).

## *Characteristics of Stakeholders*

**Stakeholders** are those that have a vested interest in a particular business. All businesses have stakeholders and the decisions made by managers within a business can affect stakeholders in different ways. Stakeholders have differing interests in the business and a manager needs to consider these interests when making decisions. Stakeholders can come from the internal environment (from within the business) or from the external environment (outside of the business). For the VCE Business Management course, students need to know:

- who the key stakeholders are
- the interests that each stakeholder has in the business
- the corporate social responsibility considerations when businesses are dealing with these stakeholders
- the conflicts between the interest of differing stakeholders

This requires the need to address the concept of **corporate social responsibility (CSR)**. Although there is no universally accepted definition of corporate social responsibility, here is a common definition used:

*Corporate social responsibility is the continuing commitment of a business to legal obligation to*

CSR is about a business going above and beyond their legal obligations to operate in a way that benefits the three key areas (economic, social and environmental). These three areas are often known as the **'triple-bottom line'** where the business can evaluate how well it has performed economically, socially with its employees, customers and the community, as well as its impact on the environment. CSR should be a part of every function within a business. Although a business will have an objective to make a profit it needs to do so with CSR in mind. If not, it may make questionable decisions that have negative impacts on others (employees, community, customers or environment), which ultimately has the potential to reduce profitability in the long term. Research shows that many customers now consider CSR when making purchasing decisions. It is therefore important that businesses consider these issues when dealing with different stakeholders. We will now examine some of the key business stakeholders.

> **Exam Tip:** One of the biggest mistakes that students make with CSR is by writing about strategies that are legal obligations. For example, students often write about ensuring the safety of employees. This is not considered to be socially responsible because ensuring employee safety is a legal obligation for businesses. Some businesses will go far beyond their legal obligation in this area which can be deemed socially responsible. If asked about CSR, students need to ensure they are writing about considerations or issues that are about a business going above their legal obligations.

## Stakeholders from the Internal Environment

### Owners/Shareholders

Owners or shareholders (depending on the business type) are those that have invested money into the business and own a portion of the business. Depending on the size of the business, they may or may not be involved in the day-to-day operations of the business. Because of their financial investment, their interest in the business is to seek a return on their investment. As they are whole or partial owners of the business, shareholders are entitled to share in the businesses profits through dividends. They also look to gain a return on their investment through capital gains. This means the value of the shareholders' ownership has increased. Shareholders often place pressure on the managers of a business to continually improve profits and make decisions that will benefit the return for shareholders. With their ownership comes voting rights. This is where the shareholder is able to vote on important business matters at the annual general meeting.

Shareholders rely heavily on the information they are provided by senior managers about the future outlook of the business. It is also important that decisions made by management demonstrate corporate social responsibility so that no harm comes to the business's image as this could harm profits.

### Directors

Directors are the key senior personnel in a company who, collectively, are responsible for managing the company's business activities. Directors ordinarily meet once a month (at company board meetings) and are expected to be involved in setting the strategic direction of the business and to be remunerated fairly for their service. One corporate social responsibility consideration for directors is the need to consider the impact of their decisions on key stakeholders and the environment. Although directors are accountable to the shareholders, they need to consider other stakeholders when making tough decisions. In many businesses, the directors will be major shareholders in a company and they should be considering the impact of their decisions on employees, the community and the environment, rather than simply considering company profits.



### Managers

Managers are those that are responsible for overseeing different areas of the business and making decisions to ensure the business is achieving its set objectives. Managers are put in place to make decisions and lead employees towards the achievement of business objectives. Once objectives have been set, the managers will implement the best strategies to achieve them and measure their success with the use of key performance indicators. The interest of a manager is to be involved in the decision making of the business and to receive fair remuneration and benefits.

As for directors, managers need to consider the impact of their decisions on all stakeholders, which can be a difficult task as often a decision will affect differing stakeholders in unique ways. Many managers understand the importance of implementing corporate social responsibility practices into their processes. Although one of their main aims is to improve profits of the business, they often aim to do so while also considering the impact each decision has on society and the environment. Managers will often understand that corporate social responsibility practices can lead to improved business image and increased sales. For example, by implementing processes that aim to reduce waste and/or minimise impact on the environment, it can ultimately lead to lower production costs, which improves profitability.

**Employees**

Employees are those that complete work within the business in exchange for a wage or salary. They are the stakeholder that carry out tasks for the achievement of business objectives and are primarily interested in fair pay, good working conditions and ongoing employment. It is important that the business values the employees because happy and motivated employees are likely to work hard and be productive. The business needs to consider the impact that decisions will have on the employees and aim to be socially responsible when dealing with employees. For example, the implementation of new technology to improve productivity may cause concern or anxiety amongst employees. Employees may fear they don't have the skills to use the new technology or even question their job security. The managers can be open and honest about the impact the new technology will have on the employees. This could include support in the form of training to ensure they have the skills to use the technology. Other considerations include working hard to help the employees feel a sense of job security by offering ongoing training or even promotion opportunities.

**Stakeholders from the External Environment**

**Customers**

Customers are those that purchase goods or services from a business. The interest of the customers is they expect good quality products at fair prices. It is important that the business meets or exceeds the expectations of customers so that it can gain a customer for life – ones that will come back again and again. Generating repeat customers through customer satisfaction is often cheaper than attracting new customers.

Customers are becoming more aware of businesses that implement corporate social responsibility practices and research shows that many customers factor this into their purchasing decisions. This is just one customer trend and therefore important that businesses are keeping up to date with any changes in customer tastes or preferences. This helps to ensure that the business is staying current or even driving consumer preferences, which helps to maintain a competitive advantage for the business. Businesses can also go above and beyond their legal obligations in delivering value for money to their customers. For example, a business can check the quality of its products regularly to ensure that only the products that meet a high quality standard make it to the end consumer.

**Lenders**

Lenders are those parties who have loaned money to a business with the expectation that this money will be paid back (often with interest). They are typically financial institutions, such as banks, but can include family members or friends who may have provided loans to a sole trader or partnership during the start-up (or other) phase of the business.

Like shareholders, lenders have a vested interest in ensuring that the business remains viable and is able to meet its commitment to both repay the debt (the principal amount of the loan) as well as any interest on the loan. In this respect, lenders (like shareholders) are interested in the rate of return on their 'investment'. While lenders can and do influence the decision making of businesses, particularly when the business' debt levels are relatively high, they do not own a share of the business (unlike shareholders) and therefore have no 'voting rights' at annual general meetings.

Lenders will exert pressure on the managers of a business to make financially prudent decisions that do not expose the lender to excessive risk. Like shareholders, the lenders will tend to rely heavily on the information they are provided by senior managers about the future outlook of the business.

**Competitors**

Competitors are rival businesses that sell similar products in the same market. Competitors are constantly fighting to increase market share and become more competitive. It is important that the managers of the business are able to gain a competitive advantage to ensure the long term success and viability of the business. Keeping a close eye on what competitors are doing is important, as well as continuing to build on the business' strengths in the market. Competitors may bring out new products, open up a new location, improve their customer service, offer discounts or promotions, or even find a way to reduce production costs. It is important that a business is able to react quickly to competitors so that they can maintain their market share.

Smaller businesses will often face tough competition from larger businesses. The larger businesses are usually able to produce their goods and services cheaper than smaller businesses because they can produce on a large scale. This is known as reaping the benefits of 'economies of large scale production' (or 'economies of scale'). Smaller businesses will therefore need to find other ways to compete against these large competitors, such as offering superior customer experience for their clients.

Most businesses expect fair competition within the market. Dealings with competitors should be fierce yet ethical, which can inspire innovation in both new products and improved production methods. While a business will compete hard to attract customers, they need to behave ethically so they do not deliberately harm another business, which therefore reduces the competition in the marketplace.

### Suppliers

Suppliers are the organisations that provide resources to a business. These resources will be used to run the business and many will be required for the production of the good or service. The quality of the resources provided to the business can have a significant impact on the quality of the final product delivered to the end consumer. Although quality resources can be costly, poorer quality resources may result in higher costs due to increased wastage or faulty products. The interest of suppliers is to have a strong relationship with the business, to receive ongoing business and to be paid on time. It is important that a business has a strong relationship with its suppliers so that supplies are delivered on time, in the right quantities and at the right cost. Resources that do not arrive on time can slow or halt production, which can greatly affect productivity and ultimately the satisfaction of customers. For example: a car manufacturer will need to stop production if their supplier has not delivered enough engine parts in time for production. Also, a local book retailer will upset customers if they are sold out of the latest best seller due to their supplier not delivering on time. To avoid issues with delayed deliveries, businesses often have a variety of suppliers they can use where possible.

It is important that a business has fair dealings with their suppliers. Suppliers expect to be paid on time and have fair dealings with the business. The supplier want the business to thrive and increase sales so they can increase sales by supplying more to the business. Businesses also expect their suppliers to use corporate social responsibility practices as any that are deemed to be unethical will reflect poorly on both the supplier and the business. Many larger businesses will conduct audits of their suppliers to ensure they are meeting corporate social responsibility standards. Other CSR considerations is that a business may look to use local suppliers rather than those overseas. This will help support the local economy by indirectly promoting employment opportunities for Australians.

### Trade Unions

A trade union is a group that represents and protects the rights of workers in Australia. Employees can become a union member by paying a membership fee. This membership allows them to call on the union if needed in a situation, such as a dispute regarding pay or working conditions. The union expects that their members are treated fairly within the workplace. They also expect that during times of negotiation with the employer about wages and conditions, that there is bargaining in good faith, meaning that the employer will listen to the union's concerns and seriously consider their point of view. They also expect to be informed if there are issues that are affecting the quality of the employee's work environment or job security.

### Community

The community is the group of people that live in the same areas in which the business operates. Members of the community typically expect the business to treat its location with respect and understand its impact on the environment. Many members of the community may be happy that a business is located near them as it not only allows them access to the goods and services they provide but also provides employment for the local area. However, the business should also understand that any business operations can have negative effects on the area such as pollution. The business should be considering the local community when it makes decisions. For example: how it removes wastage, whether it gives back to the community or understanding the impact if it considers moving locations, especially overseas.

The table below is a summary of the key stakeholders, their interest and example of corporate social responsibility considerations.

| KEY BUSINESS STAKEHOLDERS | | | |
|---|---|---|---|
| Stakeholder | Definition | Interest | CSR Consideration Examples |
| **Owners / Shareholders** | People that have invested money into the business and own a share in that business | To get a return on their investment through dividends and capital gains | The business should demonstrate CSR to ensure the shareholder's investment is safe. The business needs to keep all shareholders informed about business operations and prospects, whether they be positive or negative |
| **Directors** | The senior people in the business who responsible for managing the company's business activities | Expect to be involved in setting the strategic direction of the business and to be remunerated fairly for their service | Including CSR into the future direction of the business. Not just focusing on profits. |
| **Managers** | Those that are responsible for overseeing different areas of the business and making decisions to ensure the business is achieving its set objectives | To be involved in setting objectives and ensuring the business is achieving these objectives | Managers need to make decisions that both demonstrate CSR and help the organisation achieve its long term objectives |
| **Employees** | People that work in the business in exchange for remuneration (e.g. wages) | To earn fair pay, have good working conditions and ongoing employment | Ensure that workers are paid fairly. Ensure employee's safety (beyond legal obligations). Being open and honest regarding job security |
| **Customers** | Those that purchase goods and/or services from a business | To receive good quality products at fair prices | Ensure products are of the highest quality, are value for money. This may mean slowing production to ensure product meets high quality standards |
| **Lenders** | Parties (typically banks or other financial institutions) who provide funds (via loans) to allow the business to operate or expand | To get a return on their investment through the payment of interest on the loans | The business should demonstrate CSR to ensure the lender's investment is safe. The business needs to keep lenders informed about business operations and prospects, whether they be positive or negative. |
| **Competitors** | Rival businesses that sell similar products in the same market | Competitors want to gain a competitive advantage and have healthy competition | Fair and honest competition that doesn't undermine ethical practices |
| **Suppliers** | Businesses that provide resources to another business | They want to see the business they are supplying increase sales so they can sell more supplies to that business, and also be paid on time | Procurement: ensuring that suppliers implement CSR into their practices. Using local suppliers |
| **Trade Unions** | Group that represents and protects the rights of workers in a particular industry | To see workers are treated fairly within a business and see them receive fair wages and good working conditions | Bargain in good faith and keep the union informed of anything that could affect the job security of employees |
| **Community** | A group of people that live in the same place in which the businesses operates in | To see a business thrive to ensure it continues to employ local residents and sell good products at fair prices | Give back to the community by supporting local programs. Minimise waste and ensure it is disposed in a way that has minimal impact on the environment |

## Conflicts between stakeholders

Although all stakeholders have a vested interest in the business, their interests are often quite distinct. These varying interests can be conflicting and it is important that managers take this into consideration when making decisions. An example of this could be a local retail store, where the employees have been asking for improved working conditions and higher wages. The manager may want to reward the employees for their hard work and offer a combination of higher wages and reduced hours. However, by deciding to do this, it may cause prices to increase or profits to fall, which conflicts with the interests of both customers (who are after lower prices) and shareholders (who are after higher profits). In this situation, the manager needs to make a decision that considers all stakeholders. The manager may be able to implement the higher wages while keeping prices the same, resulting in both stakeholders being satisfied. However, now that wage costs have increased the shareholders of the business may be dissatisfied as their dividends may be reduced.

Managers are faced with these types of situations regularly and it is important they are able to make decisions that take all stakeholders into consideration. This doesn't mean that they will be able to keep all stakeholders happy with every decision. In these situations, the manager will need to make a decision about which stakeholders will be the major beneficiaries, and then aim to minimise the impact on those that are dissatisfied with the decision.

In contrast, managers may be faced with the owners of the business that place pressure on them to make decisions that maximise the profits of the business, which can sometimes be to the detriment of other stakeholders. A manager may need to consider **corporate social responsibility** when making decisions, with a focus on the triple bottom line, rather than simply the economic impact of decisions. Trying to manage the conflicts between the interests of stakeholders can also be done while taking into consideration corporate social responsibility. For example, a manager might decide to improve the working conditions of employees to allow them a better work-life balance, which might negatively impact on the short term profits of the business. However, the hope would be that by providing better conditions, employees will be more satisfied with their workplace, work harder and be more productive. This will then help to maintain downward pressure on costs and improve profitability.

> **Exam Tip:** In examinations and assessment tasks, students often describe particular stakeholders well, yet fail to explain their interest in the business. For example, the 2018 exam asked students to 'Outline the interests of two stakeholders at Ocean Skate Hub...' Many students could identify and describe the stakeholder e.g. "One stakeholder is customers. Customers are those that purchase goods and/or services from the business." However, this type of response does not fully answer the question. The response needed to be supplemented with something like: "The interest of customers is that they want to purchase good quality products at fair prices."

> **Exam Tip:** Students should be prepared to demonstrate an understanding of the conflicts that can exist between stakeholders. For example, in the 2018 exam, students were asked the following question, "Outline the interests of two relevant stakeholders of Ocean Skate Hub. Explain how these interests may be in conflict". Many students found it difficult to clearly explain the conflicts between two stakeholders. It is important that students are prepared for a range of stakeholder conflict examples. While this section looked at an example between shareholders and employees, are you able to explain the conflict between customers and employees for example?

> **Exam Tip:** When responding to a case study referring to stakeholders, it is important to think about the relevant stakeholders for that scenario. If you are given a case study of a sole trader or a partnership, it would not be acceptable to write about shareholders, because these business types are not owned by shareholders. In this situation, it would be more appropriate to write about owners.

## *Areas of Management Responsibility*

A manager is a person who is responsible for a particular area of a business. They will be involved in setting the objectives for their particular area, organising resources, motivating and inspiring employees to achieve the set objectives and monitoring the processes and results. Each area within a business contributes positively or negatively to the overall achievement of a business's objectives. It is therefore important that the manager responsible for each area makes good decisions to ensure their area of responsibility is achieving its set objectives in the most efficient manner possible. Depending on the size of the business, these areas may be the responsibility of the owner or there could be specific managers that undertake each role specifically.

The following section describes the key areas of responsibility and the roles they play in helping a business achieve its overall objectives.

### Operations

Operations is the area of the business that produces the goods and services. The manager responsible for operations overlooks the operations system. The operations system has three main parts:

1. **Inputs**: these are the resources used to create a good or service.
   Resources include raw materials, facilities & equipment, human resources, time, and information.
2. **Processes**: these are the activities that convert or transform the inputs into the final product.
3. **Outputs**: these are the final goods or services produced, ready to be sold to consumers.

It stands to reason that a business will find it difficult to achieve objectives without a good or service to sell to the consumers. Managers will therefore need to ensure that the operations system (inputs, processes & outputs) is running effectively and efficiently so quality products are available to consumers at the right price. This will assist the business in achieving its objectives. For example, a business that has an objective to deliver a high quality product to its consumers, needs the operations area to be able to do this. The manager overseeing the operations system

needs to ensure there are high quality inputs such as raw materials and human resources. The manager then needs to ensure it has the correct processes in place, such as checking for defects at regular intervals and fixing them where required. Finally, the manager needs to ensure that the outputs consistently meet the standards expected by customers. All of this helps the business achieve its objectives of delivering a high quality product to consumers. We go into more depth in this area in Chapter 3.

## Finance

The area of finance is one that encompasses a range of activities revolving around the management of money and other assets. Keeping financial records is a key to the success of a business no matter what the size. The manager responsible for a business's finances aims to provide information to senior managers to help them make informed decisions, reduce costs and budget effectively for the future. Finance is a key for any business so it can buy stock, pay its employees, promote the business, develop products and grow. This area of responsibility can help a business achieve all of these objectives by ensuring the business has money available to do all of the things mentioned.

Managing the finances in a business will help it to achieve objectives related to profitability. However, the finance area can also assist with the achievement of other objectives. For example, finance can assist a business that is aiming at reducing its carbon footprint by introducing renewable energy. The finance manager will set the budgets to ensure that money is available to invest in renewable energy. It would also perform costings and feasibility studies to ensure that the business can afford to pay for it at the present time, or determine when the right time is to make such an investment.

Some of the key tasks of the finance area of responsibility include:

- **Budgeting and Forecasting**: This is where the manager responsible uses all available financial information to set a budget for other departments and forecasts future revenues and expenses. This information can help a business foresee any future opportunities or threats they may face.
- **Bookkeeping**: Keeping records of a business's financial affairs in order. This can help during times of tax or when a manager wants to create the financial reports of the business and assess its current financial position.
- **Reporting**: Creating both internal and external reports that show the financial situation of the business.
- **Payables and Receivables**: The area of finance also keeps track of cash flow (money flowing in and out of the business) to ensure all expenses are paid on time and to chase any money that is owed to the business.

## Human Resources

Human resources is the area of the business that manages the relationship between the employees and the business. The manager responsible for this area is involved in bringing quality people into the business, ensuring they are well trained, motivated and performing at a high level. The manager will also be involved in dealing with the termination process, where employees leave the business. Here are some of the responsibilities involved in the area of human resources:

- **Recruitment & selection**: attracting and hiring the best employees for the business.
- **Training & development:** working on improving the skills and abilities of the employees within the business.
- **Motivation:** attempting to help motivate employees so they perform at their best on a consistent basis.
- **Rewards & recognition:** positively reinforcing the desirable behaviours in the business.
- **Workplace relations:** Maintaining positive relationships with employees when issues or conflicts arise. This area is also involved in the development of agreements that outline the wages and working conditions (such as holiday leave, sick leave etc).
- **Termination:** Overseeing process of employees leaving the business either voluntarily or involuntarily.

Given that employees are typically the ones that carry out the day-to-day activities that enable the business to function, the human resources area plays a major part in a business achieving its objectives. Being able to employ/retain the best employees, and continuing to develop their skills/keep them motivated will ensure that employees are performing at a high level, which assists with the achievement of business objectives. For example, a business that wants to increase its number of sales will require high performing sales employees. The manager responsible for human resources might decide to implement a quality training program that allows the sales staff to improve their customer service skills. To the extent that this program leads to higher quality sales staff, it should result in the achievement of the business' objective to increases sales/profitability.

## Sales and Marketing

Marketing refers to the actions taken to promote a business and/or its products with the aim to increase sales. The sales and marketing manager will decide on the best course of action for promotion. This could include advertising, social media campaigns, promotional offers, direct selling and many more strategies.

We have stated earlier that some common objectives for businesses are to make a profit, increase sales and to increase market share. Marketing plays a vital role in achieving these objectives. A business can have a wonderful product to provide consumers, but if the consumer is unaware of the product or its benefits, it will then be difficult to attract sales. Marketing alerts and attracts consumers to purchase the goods or services, which assists the business in achieving its set objectives.

## Technological Support

Businesses rely on technology for fast communications, market intelligence and storing and processing of data. This kind of support is vital for a business to be able to improve processes and reduce costs. We often take technology for granted, but the way it enables employees to communicate with each other has helped improve productivity in most businesses. Due to technology support, employees are able to be out of the office and still complete their work.

Technology support works to ensure the technologies used by a business are maintained so that work can be completed and objectives achieved. This area will also investigate ways to implement technologies that will improve the performance of a business.

Technology has helped businesses to expand across borders due to the development of web technologies and e-commerce. These advances help businesses achieve their objectives by improving processes, improving products and reducing costs.

For example: businesses have been able to take advantage of cloud computing, allowing employees to work more collaboratively. Cloud computing has also allowed employees to work remotely when needed. This technology has improved efficiencies as many businesses no longer need to hold and maintain their own computer servers. Instead, they are able to make use of the servers of companies such as Amazon Web Services. This has resulted in great savings for many businesses. It also allows customers and employees to access the business outside of the normal working hours.

**Exam Tip:** Many students refer to "technology" as an area of responsibility. However, in past exams this has not always been an acceptable response. It is expected that students refer to "technology support" as the area of management responsibility.

**Exam Tip:** It is important that students develop a sound understanding of these areas of responsibility. There may be a question where the student can select which area to use in a response to a question. However, there could also be a question that specifies the area of responsibility that students must respond to. Accordingly, you should ensure that you can apply all of them well.

**Exam Tip:** It is common for students to forget what these areas of management responsibility are. Many students refer to concepts such as corporate social responsibility as an area of management responsibility. It is unlikely that this will be accepted as a response by examiners. It is advisable to use the areas mentioned in the study design.

**Exam Tip:** Students need to be able to explain how each of the areas of management responsibility can help a business achieve their objectives. For example, a business may be looking to increase sales or improve market share. The sales and marketing area may develop a new marketing campaign that will help attract customers to the business which can lead to improved sales. Ensure you can explain how each area can contribute to the achievement of business objectives.

# Management Styles

A management style is the way in which a manager makes decisions and communicates with employees. Managers will differ in how they do this. The 5 main management styles are autocratic, persuasive, consultative, participative and laissez-faire. The style a manager uses may come down to a number of factors such as:

- The personality of the manager
- The skills and experience of the employees
- The nature of the tasks that need to be performed
- The time available to make decisions

Many leaders will use a variety of styles depending on the situation they are faced with. For example, a manager that has been informed that one of the business's products is faulty and has the potential to harm customers may use a very direct autocratic style where decisions can be made quickly. However, if the same leader is faced with a situation where they have more time and feel employee input would be beneficial, they may use a more participative management style. The 5 management styles can be placed on a continuum from styles that are more task-centred (the manager focuses on the tasks that need to be performed) to styles that are more employee-centred (employees take an active role in the business which helps develop them for the future).

> **Exam Tip:** The study design specifies that students must know when each management style is appropriate in relations to: the nature of the task, time, experience of employees, and manager preference. Students need to ensure they are prepared to answer questions in relation to this with EACH management style. For each management style in this section, we will look at how each could be appropriate to the above factors.



Task-centred styles — Employee-centred styles

Autocratic — Persuasive — Consultative — Participative — Laissez-faire

## Autocratic Management Style

The autocratic management style is where the manager makes the decisions and tells the employees what tasks to perform. The manager prefers to have full control of their area of responsibility, without any employee input into the tasks that need to be performed. The autocratic management style is very task-oriented, where the manager uses one-way communication to tell the employees what tasks they need to complete and when they need to be completed, without the input from employees. The manager may even monitor the work closely while it is being performed by the employees. The directions provided to the employee are clear, which ensures they understand exactly what needs to be done. The making of decisions in isolation, without input from other parties, is often referred as 'centralised decision making'

new ideas from being explored.

The key characteristics of this management style are:

- Manager makes the decisions alone without input from employees (also known as centralised decision making)
- One-way communication (top-down)
- Managers place little importance on employee involvement in the direction of the business
- Manager places importance on completing tasks

| Autocratic Management Style | |
|---|---|
| **Advantages** | **Disadvantages** |
| Decisions are made quickly | No opportunity for input from employees |

| | |
|---|---|
| Clear communication to employees | May result in lower morale or poor motivation |
| Employees know exactly what their tasks are, often leading to improved task completion and/or improved productivity | Smaller pool of ideas |
| Decisions are made by an experienced manager | Very task focused with lack of employee development |

*When is it best used?*

The autocratic management style is often best used when time is a significant factor because decisions are made quickly without consultation. It can also be an effective style to use when the employees lack skill and experience. In this situation the manager may rely on their own experience to make good decisions.

**Nature of the task:** The autocratic management style is often appropriate when the tasks are simple or lack complexity. This allows the manager to simply tell the employees what to do without the need for other considerations.

**Time:** Due to the speed of the decision-making, the autocratic management style can be appropriate when there is a lack of time available to make decisions.

**Employee experience:** The autocratic style is often appropriate when the employees are inexperienced. In these cases, it can be best to direct the employees as they lack the experience to put forward ideas.

**Manager preference:** Some managers prefer to have complete control over the decision making so would use an autocratic style.

## Persuasive Management Style

The persuasive management style is where the manager makes the decisions and then explains to employees why the decision has been made aiming to convince employees as to its appropriateness. This style is very similar to the autocratic management style in that the decisions are centralised (made by the manager). However, the key difference is that when a decision is made the manager tries to convince the employees as to why it is the best decision in the circumstances. Therefore, more information is provided to the employees about why the decision has been made. The persuasive management style uses one-way communication (top-down), however more information about the decision is provided to the employee. It is again a task orientated style, where the employees are told what tasks need to be performed and why. Using the persuasive management style can help make the employee feel more valued because the manager is providing more information. It can also help gain support for decisions if the employee is told why decisions are being made. The persuasive style may also help develop the knowledge of employees as they learn why certain decisions are made. However, the employees are still not involved in decision making which can result in poor job satisfaction. The key characteristics of a persuasive management style are:

- Manager makes decisions alone, but gives explanations as to why a decision has been made
- One-way communication (top-down)
- Manager places importance on completing tasks
- There is some importance on employees being valued yet employees still have no involvement in decisions.

| Persuasive Management Style Advantages | Disadvantages |
|---|---|
| Decisions are made quickly | No opportunity for input from employees |
| Clear communication to employees | Workers can still have low morale/motivation due to lack of input |
| Decisions may be supported by employees as they are more informed | Small pool of ideas due to no consultation |
| Employees are clear about what it is they need to achieve | Task focused with lack of employee development (yet possibility for more employee development than the autocratic style) |

*When is it best used?*

a particular department, senior management would make the decision, inform employees the reasons for the decision but not involve employees in the decision making. It can also be an effective style to use when employees lack skills, knowledge and experience.

**Nature of the task:** Similar to the autocratic style, the persuasive style is often appropriate when the tasks are simple or lack complexity.

**Time:** While the persuasive style may take slightly more time than an autocratic style due to more information being provided to the employees, decision-making is still fast and can therefore be appropriate when time is lacking.

**Employee experience:** The persuasive style is often appropriate when the employees are inexperienced.

**Manager preference:** Some managers prefer to have complete control over the decision making but feel the best way to gain employee support is to convince them of their decisions.

## Consultative Management Style

The consultative management style is where the manager seeks the ideas and opinions of employees before they make a final decision themselves. This management style understands that employees and other stakeholders have important ideas and uses two-way communication to allow them to share their ideas. This can improve the relationships between employees and management, which may improve the morale and culture of the workplace. While the employees are more involved in the decisions that are made, the decision-making is still centralised. After consulting with employees, the manager will consider all options and then make a final decision. The employees will then be informed about the decision that has been made.

This style of management may cause some employees to become upset or angry if the ideas they put forward have not been included in the final decision. Despite this, the consultative management style is seen to be a more positive as it is more employee centred rather than simply task orientated. The autocratic and persuasive management styles demonstrated fast decision making, as the manager did not need to consult with employees before making a decision. However, with the consultative management style, the manager is spending time seeking out the opinions of employees before making a decision. This will increase the time it takes to come to a final decision.

The key characteristics of a consultative style include:
- Manager consults with employees before making decisions
- Two-way communication
- Centralised decision making
- Importance is placed on employee involvement yet management still maintains control.

| Consultative Management Style Advantages | Disadvantages |
|---|---|
| Larger pool of ideas to choose from | More time consuming to make decisions |
| Increased motivation as employees are more involved in the decision-making process | Some employees may feel undervalued if their ideas are overlooked |
| Employees more likely to take ownership due to involvement in decision making | Some employees may not want to be consulted regularly |

*When is it best used?*

manager can use to gain knowledge before decisions are made. The extra information and ideas may help the manager get a better perspective on the elements of the issue. It can also be a positive style to use when there is enough time to consult with employees. When a business is going through change, the consultative style can help the business manage the change. Asking employees for their ideas regarding changes can help them take ownership of the change rather than resisting it.

**Nature of the task:** The consultative style may be appropriate where the tasks are more complex. This will allow more ideas to be generated from employees so that the most appropriate decision can be made.

**Time:** Because of the increased time of consulting employees, the consultative style can be appropriate when there is more time available.

**Employee experience:** The consultative style is often best when the employees have a higher level of experience which allows them to put forward strong ideas based on knowledge and experience.

**Manager preference:** A consultative manager is one that prefers to include the employees in the process of making decisions. Although the manager makes the final decision, this type of manager is one that values the input of employees.

## Participative Management Style

The participative management style is where the manager and employees join together to make decisions as a team. This style is highly employee centred and the manager empowers employees to be involved in decision-making. This is known as *'decentralised decision making'*

so their ideas and decisions are an important element of a business' success. There is also an understanding that employee motivation can be increased if the employees have more of a say in what happens within the business. The participative management style uses two-way communication and encourages employees to give feedback and share ideas. This can help the employees to take ownership over decisions because of their heavy involvement in decision-making. Like the consultative management style, this style can be time consuming as ideas are discussed before a final decision is made. However, the benefits of team work and sharing ideas can help improve the morale and culture of the business. The key characteristics of the participative management style include:

- Decision making and authority being decentralised because managers and employees work in a team to make decisions together
- Two-way communication
- Employee-centred which can help develop employee skills, knowledge and experience
- Importance is placed on the idea that employees contribute significantly to the success of the business

| Participative Management Style | |
|---|---|
| **Advantages** | **Disadvantages** |
| Employees feel trusted and valued | It can be very time consuming as decisions are often discussed and debated |
| Improved morale and motivation due to involvement | Conflict may arise between workers if there are disagreements about decisions |
| Often there are better decisions made as more experience is pooled together | Some employees may not want to be involved in decision making |
| Employees gain experience in decision making which can help with career development | |

*When is it best used?*

The participative management style is often best used when there is an issue that will directly impact the employees. Allowing them to be involved in the decision being made can help reduce conflict or resistance to the final decision. It can also be a good style to use when the employees are highly skilled and experienced. Being able to draw on that experience can help the team to make a highly effective decision. It is important that there is ample time for ideas to be discussed and debated before the final decision is made. The participative style is also effective during times of change as it allows employees to have involvement in the change. If the employees have had involvement in the decisions regarding the change, they are more likely to accept it.

**Nature of the task:** The participative style may again be appropriate where the tasks are more complex. Including the employees in decision-making can allow decisions to be discussed and debated before the most appropriate decision is made.

**Time:** Decisions can often take a long period of time due to the level of discussion and debates that can occur. Because of this, it is often appropriate when there is ample time available.

**Employee experience:** The participative style is often appropriate when the employees have a high level of experience.

**Manager preference:** A participative manager is one that prefers to include employees in the decision-making. They often prefer to create an environment of collaboration and they value the skills and ideas of their employees.

# Laissez-faire Management Style

The laissez-faire management style is where the manager leaves the majority of the decision making and authority with employees. The manager may provide some initial boundaries such as budget and timelines, and then leaves employees alone for them to achieve the objectives. This means that the day-to-day running of the business is left largely to the employees. This is the most employee-centred style meaning it is very decentralised. To use this management style, it is likely that the employees are highly skilled and knowledgeable. Examples of businesses that may use this style could be advertising agencies or website development companies. The web designer or advertising expert would work with the client and make decisions on the best way to move forward. The key characteristics of the laissez-faire management style include:

- Employees being left alone to make their own decisions
- Authority and decision making is decentralised
- Communication is more often two-way as the initial objectives and constraints are set, however then there is normally only horizontal communication between employees in the team

| Laissez-faire Management Style Advantages | Disadvantages |
| --- | --- |
| Employees have a great deal of control which can help improve morale and motivation to achieve outcomes | Employees are not monitored regularly which can lead to a loss of management control |
| Encourages team work and creativity | There may be misuse of company resources |
| Communication is improved due to a team setting where ideas are constantly discussed | Increased freedom may lead to some employees being less productive |

## When is it best used?

The laissez-faire management style is often best used where a high level of creativity is important to the business. If employees are highly skilled and experienced, the creative freedom can lead to outstanding outcomes.

**Nature of the task:** The nature of the tasks can vary from simple tasks where the employees do not need supervision to more complex tasks where the employees have the skills and experience to perform their work and make decisions without input from management.

**Time:** While the time can vary, the laissez-faire style is often more appropriate when there is more time available.

**Employee experience:** Because employees are empowered to make their own decisions, it is often more appropriate if they have a high level of experience.

**Manager preference:** Some managers may prefer to empower their employees completely and allow them to solve their own problems.

**Exam Tip:** The 2016 exam asked students to "justify an appropriate management style" for the given scenario. In the event that a similar question is asked in the this year's exam, it is useful to remember that, although the question does not ask students to describe the chosen management style, it would be useful to do so at the start of one's response. This is because it is difficult to justify an appropriate management style without describing it first. The same advice applies more broadly when being asked to justify the use of a theory, skill, strategy, etc.

**Exam Tip:** In examinations, it is common to ask students to discuss an appropriate management style given the specific scenario provided in the stimulus material at the beginning of a question. In past exams , students have been given some flexibility with the style that could be selected. However, often not **all** styles are accepted for a given scenario. Be sure you know all the styles well so you can select the most appropriate and be prepared to justify your selection where necessary.

**Exam Tip:** Students often mix up the name of the style and characteristics. For example, they may identify a persuasive style yet describe a participative style. In most instances, whichever style is identifed, it will be assumed that this is the one you are talking about. Ensure you have studied hard and know the correct characteristics for each style.

## Management Skills

An effective leader will have a wide array of skills to draw upon in varying situations. While businesses are able to create vision/mission statements, little can be achieved unless the manager is able to get things done with the assistance of employees. The type of skills a manager possesses will heavily influence the extent to which they are able to get things done. Managers of all levels (senior, middle or front-line) will use a series of skills to try and achieve business objectives. Management skills include communication, delegation, planning, leading, decision making and interpersonal. Each of these will be examined below.

### Communication

Communication is the transfer of information from a sender to receiver and the ability to listen to feedback. Communication can be used both internally and externally. Internally, communication helps a manager to inform employees of the business' objectives, which then helps to provide employees with greater direction. The manager can encourage two-way communication to gather information from employees to help make more informed decisions.

External communication can be used to inform other key stakeholders about important information. For example, a senior manager in a company will need to communicate with shareholders about the performance of the business and its ability to deliver a return on investment in the future.

Managers who are able to communicate well with stakeholders increase their chances of successfully achieving business objectives. Effective communication is typically **two-way communication** where the manager is able to listen and respond to feedback. Two-way communication can improve morale within a business because employees feel valued as they are able to put their ideas forward. Managers need to be able to give concise directions and clearly articulate expectations and policies.

Communication can be **verbal** (written or spoken) or **non-verbal** (body language, visual). It is important that the correct method of communication is chosen for the scenario that faces the manager. For example, if a business has made the decision to downsize in order to cut costs, an email is not the most appropriate form of communication as the employees will likely have many fears and questions they need answered. Instead, a face to face meeting would be more appropriate so that the employees are able to have these concerns addressed directly.

### Delegation

Delegation is the passing of authority and responsibility from a manager to employee to achieve tasks. Delegation can help free up a manager's time so they can focus on their own (higher order) tasks. It helps to spread the load of work so that more can be achieved in the same period of time.

Some benefits of delegation include:

- The manager has more time to focus on longer term planning
- More can be achieved in less time by spreading the workload
- Employees are able to gain more experience and develop their skills by tasks being delegated to them
- Improved job satisfaction as the employees are trusted and relied upon to perform tasks

Managers need to be aware of the tasks they are delegating to employees. High risk decisions, confidential matters and strategic planning are not well suited to delegation as they can heavily impact the business if not done well. Tasks where delegation works well include interesting tasks, time-consuming tasks, routine tasks and tasks that will enhance the employee's skills and experience.

Tasks can be delegated to employees in three main ways:

1. To an employee that has the skills and experience to complete the task successfully. This will ensure the task is completed well.
2. To a group of employees. This allows the manager to set a challenge for a team where they can use each other's varying skills to complete the set task/project.
3. To an employee without the skills or experience to complete the task and provide support and mentorship to the employee. This can help the employee to develop their skills and experience for the future. If they are ever in need of advice they will have the support around them to ensure the task is completed successfully.
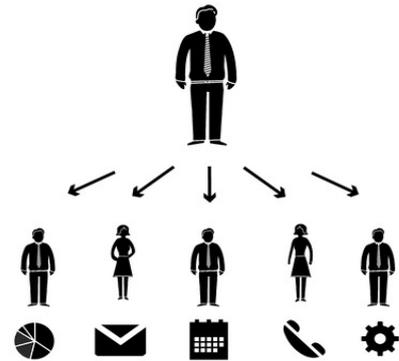
## Planning

Planning is the ability to set objectives and determine the strategies to achieve them. Planning is an important skill for all managers, whether it be a manager at a large multi-national corporation or a small business about to launch a new product. Planning helps provide guidance to the business and its employees. Planning ensures that employees understand what the business is aiming to achieve and the steps that will be carried out to achieve it.

Planning can be time consuming which can cause it to be neglected, especially by small businesses. However, the direction it provides both the owners and the employees of the business far outweigh the time it takes to conduct.

Without planning it is like setting off for a journey without a destination - you could end up in the wrong place! In the case of a business, this translates into a higher chance of making losses (or smaller profits) in the absence of planning.

There are three key levels of planning:

*Strategic Planning*
picture' planning that looks to the future about where the business wants to be in the next 2-5 years. An example of strategic planning is developing a mission statement that the business wants to achieve.

*Tactical Planning*
medium term goals that help the business achieve its strategic plans. Tactical plans are set for a time frame of approximately 1-2 years. An example of a medium term plan is to develop and implement a new training program to improve customer service skills for all employees within the next 12 months.

*Operational planning*
be in place to help the business achieve its medium term plans. A common example of a short term plan is the setting of a daily, weekly or monthly sales budget.

It is important that the strategic, tactical and operational plans are aligned. This will ensure the entire business is heading in the one direction. It can also be good practice to notify all employees of the strategic plans so they understand the reasons as to why they are working on achieving short term operational goals.

**Planning Process**

When a manager conducts planning they will follow a logical process. Sometimes, with a strategic plan, this process may be quite formal, while at other times very informal. Yet no matter what level of planning is being conducted, the manager will go through a set of steps in order to set the plan.

The common steps in a planning process are as follows:

1. **Set the objective:** Here the manager considers the outcome or goal the business is trying to achieve.
2. **Analyse the environment:** the manager will gather information to help them make an informed decision. For longer term plans, this may involve the manager conducting a SWOT analysis. SWOT stand for Strengths, Weaknesses, Opportunities and Threats. Here the manager may consider the strengths and weaknesses of the business. This information can help them make decisions that will utilise the business' strengths and not expose their weaknesses. Then the manager can assess any opportunities the business can take advantage of that may help them achieve their set objective and any threats that they need to avoid.
3. **Develop alternatives:** Armed with information gathered in step 2, the manager is now able to develop some alternatives that will help the business achieve its objectives. Each alternative should be analysed and then the most appropriate one selected.
4. **Implement the plan:** Once the most appropriate alternative has been selected it is time to put it into place. The manager should communicate with key stakeholders to help provide direction. Resources need to be allocated to the right areas of the business so that the plan can be implemented effectively. For example, a clothing retail business that has the objective to expand and decides to open a 2nd retail store in Melbourne's CBD, would be unsuccessful if it didn't have employees and stock in place.
5. **Monitor and evaluate:** now that the plan has been put into action, it is important to monitor and determine if the set objective has been achieved. If the objectives are not met, the manager can look to take corrective action.

> **Exam Tip:** The planning process listed here has been a common one used in past exams, however there is no specific planning process listed in the study design. That means it is fine to use a different planning process you have learned.

## Leading

Leading is the ability of a manager to motivate and inspire employees to achieve business objectives. Effective leadership is vital to a business successfully achieving its objectives. Planning provides the direction for the business and its employees, but it is leading that outlines 'why' the plan is important. This provides the motivation for employees to work hard towards the objective. Without strong and effective leadership it is difficult for a business to achieve its objectives as employees (and other stakeholders) may not see or accept the reasons for why they should be achieved.

Leaders are invaluable when it comes to communicating strategic direction of a business. Not only do they communicate the direction a business is heading, but they provide the motivation for accepting the importance of the direction. This helps to ensure that all employees are 'on the same page' - working in the same direction and towards a common cause.

An effective leader is one that makes a commitment to the mission of the business and takes responsibility for their role in achieving the mission. Leaders are able to communicate well, provide direction when the business 'gets off track' and make tough decisions for the greater cause of achieving the mission.

Good leaders are able to communicate well to a team and show support for those that are struggling to work towards the objectives. Leadership is an important skill in all aspects of the business. Simple things like leading by example and demonstrating the desired values can help inspire others to follow suit. Giving employees time to adapt to change and supporting them through changes is all part of being an effective leader.

Leaders aim to get the best out of their employees and research show that transformational leaders can be highly effective. Transformational leaders are those that value the abilities of employees and provide them with opportunities to demonstrate their ability to perform outstanding work. Showing this type of value to employees can create a positive culture where the employees are highly engaged and enjoy the challenges they face while at work. Showing trust in the employees can then lead to improved productivity and the achievement of business goals.

## Decision-making

Decision making is the ability to make a choice on a course of action from a range of alternatives. Decision-making is an important skill for managers at all levels. It is important for managers to make informed decisions so that the impact on the business is positive. Managers will need to make decisions each day with some having a significant impact on the business's future. Managers need to be able to assess available information and make a conclusion as to the best course of action. How decisions are made will greatly reflect the management style used at the time. Some managers will like to gather data and make decisions themselves without any employee input, while others would prefer to involve the employees in the decision making process.

To make strong decisions the manager can use a 6-step decision-making process:

1. **Identify the problem:** In order to make a decision, the manager needs to understand what they are trying to solve or work towards.

2. **Gather information:** for the manager to make informed decisions they need to gather information. This would include investigating the reasons an issue has arisen or gathering information on the business' finances so that a decision isn't made that could jeopardise the business' future.

3. **Develop alternatives:** now that the manager has gathered enough information they can create some alternatives that will help him or her to solve the problem or issue identified in step 1.

4. **Analyse the alternatives:** Each alternative should be analysed for its strengths and weaknesses in achieving the set objective.

5. **Choose an alternative and implement:** Once the alternatives have been analysed, the most appropriate is chosen and put into action. The decisions should be clearly communicated with key stakeholders so that relationships remain positive and they are clear on where the business is heading and the role they play in helping it get there.

6. **Evaluate:** Getting feedback on the decision to ensure it has been a successful decision and making any necessary adjustments

> **Exam Tip:** The decision-making process listed here has been a common one used in past exams, however there is no specific decision-making process listed in the study design. That means it is fine to use a different decision-making process you have learned.

## Interpersonal

Interpersonal skills relate to the ability of a manager to communicate with a range of people while building strong relationships. Using interpersonal skills is important for a manager to use when forming relationships. It shows a level of understanding and allows managers to communicate accurately and honestly with employees without jeopardising the relationship.

Communication is about delivering a message from sender to receiver and the development of good interpersonal skills allows the relationship between the parties to be supported or even enhanced while the message is being delivered. Research has shown that businesses that have managers with good interpersonal skills and foster positive relationships benefit from higher productivity, enhanced problem solving, fewer conflicts and higher quality outputs. Interpersonal skills are not just a 'nice-person' attitude. The manager is still able to address any incompetency an employee is displaying. However, if there are positive relationships between the manager and employee there is likely to be a better outcome. The way the message is delivered is important, as is the accuracy of the information so that a positive or constructive relationship is maintained. If effective interpersonal skills are not used, then

employees can become defensive or display discomfort and resentment when problems with their performance are being addressed.

It is important that any issues that do arise need to be problem-oriented rather than person-oriented. This means that 'the issue' is being addressed, rather than any personality attributes. Problem-oriented communication focuses on the problems and solutions rather than on personal traits. This helps maintain or improve the relationship as the employee realises the manager is working to improve the situation.

> **Exam Tip:** The skills listed above are the ones students must know and are directly examinable. However you are able to learn other management skills if you feel necessary. Negotiation and time management (listed below) are other examples. You are welcome to ignore these if you desire, however ensure you know all of the skills listed in the study design (communication, delegation, planning, leading, decision-making and interpersonal)

> **Exam Tip:** When asked to apply how a manager will use certain skills, it is important you can differentiate between the skills. For example, in the 2019 exam, students were asked to explain two skills that the Human Resource Manager would require in the given situation. Many students used communication and interpersonal skills. Both skills were fantastic skills to use in the scenario as the HRM was involved in the process of closing down multiple retail stores. However, using both of these skills together created some problems for some students. They found it difficult to differentiate between the two skills and ended up writing about communication for both skills. This is common between communication and interpersonal, as they are both very reliant on effective communication. Be sure you can differentiate the skills you use in your responses.

## Negotiation

Negotiation is where two or more parties come to an agreement through discussion. The outcome should be 'win/win' where all parties are satisfied with the outcome. There may be times where the parties need to compromise to come to an agreement. However, it will be more satisfying if the parties reach a solution where they all get what they want. This may require each party to think 'outside the box' so they can come up with an amicable solution.

Negotiation is an important skill in many situations. Businesses that are working on a deal with suppliers, vendors or unions use negotiation to ensure they get the best deal. For example, during a negotiation between an employer and employees about a wage increase, it is important that both parties win in this instance. If the business wins by not paying the employees what they want, the employees may be resentful. However, if the employees get what they want it could place the business under financial stress. This demonstrates why it is important that both parties are happy with the outcome. When negotiating it is important to:

- *Establish shared goals*

- *Separate the people from the problem*
  It is common for negotiations to break down due to personality clashes which can cloud a foreseeable solution

- *Listen actively*

- *Create options for mutual gains*

- *Be clear on the outcome*

  This avoids any confusion and conflict down the track.

### Time Management

Time management is the ability to organise and plan tasks to make the best use of available time. Part of time management is the ability to set deadlines and work to meet those deadlines in the most effective way possible.

Managers in businesses of all sizes will have lots of tasks they need to perform. Time management allows them to achieve those tasks. Some managers will delegate tasks to other employees to help them leverage their time. Having poor time management skills can cause the manager stress and therefore negatively impact on their effectiveness.

Managing time effectively can improve the productivity of the business as more is achieved in the same amount of time. It can also improve the work-life balance of the manager as they are able to complete their tasks and still have enough personal time outside of work.

Many sole traders can have battles with time management as they often have small budgets and look to complete most tasks themselves to save on costs. Time management skills can therefore be a crucial skill that enables them to not only complete the tasks of running the day-to-day operations of the business, but also to work on expanding or growing the business.

Effective time managers are able to write down all of their tasks and make distinctions between those that are important to the business and those that are less important. They are then able to prioritise those tasks in order of importance and set time frames in which they will be completed. They are also able to use leverage to delegate those tasks to other employees, which can help to improve their management of time.

## Relationship Between Management Styles & Management Skills

All managers have a particular style when making decisions and communicating with employees. In addition, all managers have a series of skills they use to get the job done. So what is the relationship?

The type of management style a manager decides to use will determine both the skills they rely upon and how these skills will be employed in any given situation. For example, all managers will make use of communication skills, however, the type of communication used will vary depending on the management style.

An autocratic manager will use one-way communication while a participative manager will use two-way communication. All management styles will use delegation to some degree also. The management styles that have centralised decision making will delegate tasks to employees while the styles that have decentralised decision making not only delegate tasks but also delegate decision making and responsibility to employees.

A manager can alter their style depending on the situation they face. However, those managers possessing strong communication and interpersonal skills will find it easier to use a consultative or participative style. In contrast, those managers with less developed communication and interpersonal skills (and/or those who like to take control of planning and decision-making) are more likely to use the autocratic or persuasive styles.

## Corporate Culture

Corporate culture is the shared values and beliefs of the people within a business. All businesses have a culture no matter what their size. Each business has its own way of doing things which works towards creating its corporate culture. There are two types of culture within a business:

**The official corporate culture:** this is what the business wants the shared values and beliefs of the people in the business to be. This can be seen in the business's official documents such as the mission statement, stated values, written policies, slogans and objectives of the business.

**The real corporate culture:** this refers to the underlying values and beliefs and behaviours of the people within the business. It can be seen in how managers communicate with staff, the standard of the employee's dress and

how they relate to one another at the workplace. Just because a business makes official statements about what its values are, does not mean the people within the business put them into practice. Successful businesses will work hard at developing their culture as they know that having a group of people with similar values will work well together in order to achieve a common goal. Some benefits of having a positive culture, where the employees share similar values are as follows:

- Reduced staff turnover
- Employer of choice which allows the business to select the best employees
- Improved productivity
- Higher morale within the workplace

## Elements of Corporate Culture

Listed below are some of the elements of a business's corporate culture. These elements could be used to indicate they type of culture a business has:

1. **Core Values:** these are what the business values most and will not change even when the business changes. They provide direction for the way the business operates. Core values act as guideposts that all employees should be aware of. Below is an example of the core values at Zappos (an online retailer).



Zappos core values

1. Deliver WOW through Service
2. Embrace & drive change
3. Create FUN & a little Weirdness
4. Be adventurous, creative, & open-minded
5. Pursue growth & learning
6. Build open & honest relationships with communication
7. Build a positive team & family spirit
8. Do more with less
9. Be passionate & determined
10. Be humble

Source: http://www.zappos.com

2. **Rituals & celebrations:** rituals are those things that occur regularly within a business. This could include a regular social gathering to enhance camaraderie or an annual awards ceremony to celebrate high achieving employees.

3. **Communication**: How management communicate with their subordinates and how employees communicate with each other is another element of culture. Businesses that have open two-way communication with managers and employees demonstrate they value relationships.

4. **Heroes**: heroes are those that the business 'looks up to' due to the way they demonstrate the business' desired values. This could be the founder of the business or an employee of the month. These heroes act as a person to look up to for others within the business.

5. **Physical environment**: the space in which employees work is another element of the corporate culture. Businesses that value team work are more likely to have a more open space, where teams could easily meet and interact with each other.

## Developing Corporate Culture

For a business to develop an ideal corporate culture, it must work on it continually. If this does not happen there will likely be a difference between the official corporate culture (the ideal culture of the business) and the real corporate culture (the actual culture within the business). Businesses that have a positive culture, where the employees share the same values and work towards a common goal, are more likely to succeed. Some means by which a business can develop its culture include the following points.

- **Communicate**: communicating the desired values and behaviours plays an important role in developing culture. The employees need to be aware of the expectations placed upon them. This helps to give them direction so they can embrace the desired values and beliefs of the business. The values should also be communicated regularly to help reinforce the expectations of employees.
- **Leading by example**: it is important for managers to demonstrate the desired values within the business. A business that values teamwork and open communication should have managers that are using two-way communication and working in teams. Leading by example encourages others to follow in the same manner.

- **Training**: training is where employees learn new skills and knowledge to help them perform more effectively in their job. Businesses should ensure that desired values of the business are implemented into the training program. For example, a business that values a high level of customer service should conduct ongoing customer service training.
- **Reward & recognition**: providing employees with recognition or rewards for demonstrating the correct behaviours in the business can help provide positive reinforcement for the employees. This not only increases the likelihood of the employee continuing to demonstrate the correct behaviours, but also encourages other employees to embrace the values.
- **Working on the elements**: in the previous section we spoke about different elements of a business's corporate culture. One way to develop the corporate culture is to work on establishing these elements. For example: a manager may work with employees to develop a set of core values/value statement. This would help to provide direction for employees on what the business values most. Another way could be to implement a specific management style. If the business values employee empowerment, it may look to introduce managers that have a participative management style.

> **Exam Tip:** Don't use "working on the elements" as a specific strategy to develop the corporate culture. If you wish to use anything from this area, it is advisable to use a specific strategy such as "develop a set of core values" or "change the management style to…." Working on the elements is too general on its own.

## REVIEW QUESTIONS 1 – Business Foundations

1. Outline 3 types of businesses
2. Explain the primary objectives of a social enterprise
3. Outline two characteristics of a public listed company
4. Outline one reason why a business owner would implement a private limited company over a sole trader
5. Lucy is a sole trader that owns a local sporti  goods store. She is considering bringing in partners to the business. Discuss the use of a partnership for Lucy
6. List 3 advantages of a business becoming a publicly listed company
7. Distinguish between a private company and a sole trader
8. Outline 3 common business objectives
9. Define a 'mission statement' and explain the role it has in a business
10. Explain the interest of 2 stakeholders
11. Describe the  ossible conflicts between the interests of two key stakeholders
12. Identify 2 stakeholders and explain one corporate social responsibility issue a business needs to consider for each
13. Explain how the finance are  of responsibility can help a business to increase its profits
14. Outline how human resources can help a business increase market share
15. Explain how operati  ns can help a business become more environmentally sustainable
16. Describe technology support and explain how this area can help a business improve its productivity
17. Outline how the sales and marketing area can help a business meet shareholder expectations
18. An advertising agency has a 2 week deadline to come up with a new advertising campaign for an important client. Evaluate 2 management styles that  he team leader could use to ensure a successful campaign is produced by the deadline
19. ' et Your Sparkle On  is a car detailing business. Recently, there has been a sharp  se in the number of customer complaints. Discuss an appropriate management style to overcome the rise in customer complaints
20. Define leading
21. Distinguish between communication and interpersonal skills
22. Describe 3 management skills and explain their importance in assisting managers to achieve business objectives
23. Damien is a local pizza shop owner. He is looking to expand the business by open  g another store in a new location. Justify two management skills Damien would need to use in this situation
24. Outline a decision  aking process a manager can use to make effective decisions
25. Explain the relationship between communication and a participative management style
26. Define  orporate culture
27. Outline 3 elements of corporate culture
28. Distinguish between 'official' and 'real' corporate culture
29. "The real corporate culture does not always reflect the official corporate culture." Analyse this statement
30. A clothing retailer that emplo  s 50 people across 4 stores in Victoria wants to be known for having the best customer service in the retail industry. Explain 3 ways the managers can develop a culture that values customer service
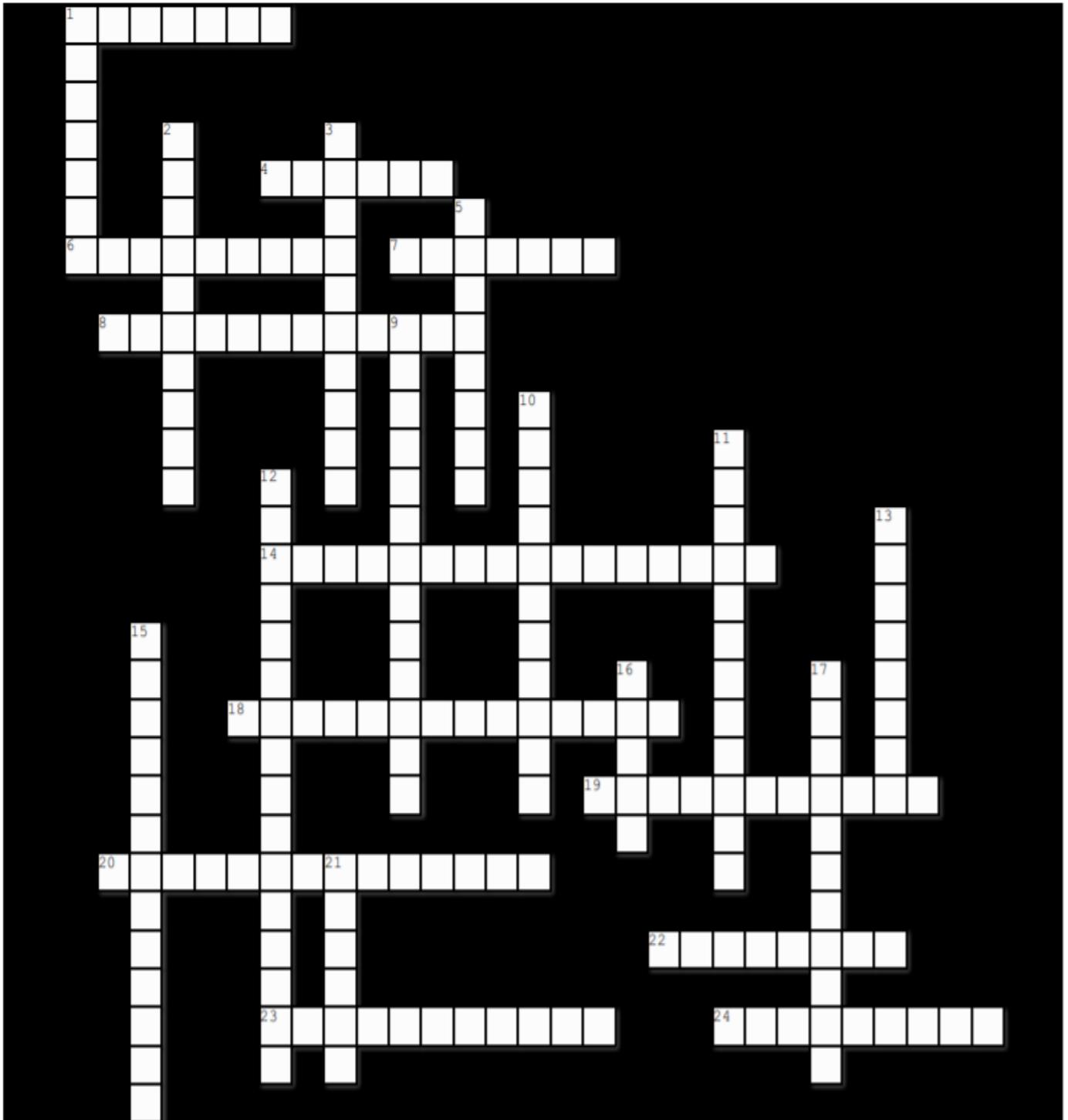
**Across**

**1.** Ability to influence and motivate others to achieve objectives
**4.** Typically the maximum number of owners for a partnership
**6.** Responsible for the overall direction of the business
**7.** Manages money and budgets
**8.** Two-way communication & Centralised decision-making
**14**. Shared values and beliefs of the people in the business
**18.** Selecting a solution from a range of alternatives
**19.** Rival businesses
**20.** Area of the business responsible for employees
**22.** Policies & mission statements help determine this type of culture
**23.** A person with a vested interest in a business
**24.** Desired business goal or outcome

**Down**

**1.** Type of liability for companies
**2.** _____ Business Enterprise
**3.** Management style that convinces employees
**5.** Fair pay, good working conditions is a stakeholder _____
**9.** Process of forming a company
**10.** A business objective, to increase _____
**11.** Owners of a company
**12.** Business that aims to help a social cause
**13.** They provide resources to businesses
**15.** Strengths Weaknesses _____ Threats

**16.** Type of interest group
**17.** Type of decision making in an autocratic style
**21.** Corporate _____ Responsibility

# MINI EXAM NO 1: UNIT 3 AREA OF STUDY 1 (40 MARKS)

**STRUCTURED QUESTIONS**

1.  **Define the following terms** **(6 marks)**
    a. **Partnership**
    b. **Business objective**
    c. **Real corporate culture.**

2.  **Sebastian is the operations manager of Baker Plus, a commercial bakery in Epping. More than 65% of the operations team have been with the business for more than 7 years. Sebastian has just been instructed by senior leadership to reduce the level of wastage produced during production.**

    a. **Discuss the most appropriate management style for Sebastian to use to achieve the set objective.** **(6 Marks)**
    b. **Explain the impact the management style used in Question 2a can have on the real corporate culture at Baker Plus.** **(4 marks)**

3.  **Distinguish between real corporate culture and official corporate culture** **(3 marks)**

4.  **Other than making a profit, outline one objective of a Government Business Enterprise.** **(1 mark)**

5.  **Luggage manufacturer and retailer, Adventurer, has performed poorly over the past two years. Sales have declined by over 20% in this time. CEO, Amanda Kiss, has decided to close down all but two of the retail outlets with the aim of selling the luggage products in major department stores such as Myer and Target.**

    a. **Justify two skills that Amanda will require when implementing this change.** **(6 marks)**

    b. **Identify two areas of management responsibility. Explain how each area can be used to help Adventurer in their current situation.** **(8 marks)**

    c. **Outline the interest of one of Adventurer's stakeholders. Explain one corporate social responsibility consideration in relation to the interest of this stakeholder.** **(3 marks)**

6.  **Outline the relationship between the management skill of communication and the consultative management style** **(3 marks)**

# YOU BE THE ASSESSOR:  UNIT 3 AOS 1

In this section, you are required to assess the responses presented for each of the questions.  You should award the responses a score and justify your decision.  Once complete, compare your assessment to that of the author [provided at the rear of the Study Guide].

## Question 1
**Outline one reason why a business may choose to operate as a private limited company rather than a sole trader.**                                                                                                    **2 marks**

**Sample answer 1**
One reason is because a private limited company would allow the owner to have limited liability whereas the sole trader has unlimited liability. Limited liability is where the owner's liability is limited by the amount of their investment. This would give them some legal protection for their personal assets which they would not receive if they were a sole trader.

Score out of 2 _____

Justification_____

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**Sample answer 2**
A private limited company is an incorporated business where the owner has limited liability. A sole trader is a business where there is one owner. A business may choose to become a private limited company because it gives the owner limited liability and they are allowed to have more than one owner. This will allow them to gather investment from others and possibly even share the workload between the owners which will make the daily running of the business much easier.

Score out of 2 _____

Justification_____

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## Question 2
**Sleep Well Doggy is a partnership between Jane, Alex and Miriam. The business offers overnight accommodation for dogs when their owners are away and unable to look after them for a period of time. Sleep Well Doggy employs 20 staff and works hard to ensure they feel valued in the business.**
**Explain the interests of two stakeholders at Sleep Well Doggy and outline how these interests may conflict**                                                                                                    **5 marks**

**Sample answer 1**
A stakeholder is a person with a vested interest in the business. One stakeholder of Sleep Well Doggy are the shareholders (Jane, Alex & Martin). Shareholders are those that own the shares in a business for which they have paid. They have unlimited liability which means they are personally responsible for any debts incurred by the business which can place their personal assets at risk if the business is unable to pay its liabilities.
Another stakeholder is the customers. Customers are those that purchase goods and services from the business. In the scenario of Sleep Well Doggy, the customers are those that bring their dogs into the business to look after.
These two stakeholders can conflict because the customers want to bring the prices down for the service, but the shareholders want to force the price up.

Score out of 5 _____

Justification_____

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**Sample answer 2**
One stakeholder is the owners (Jane, Alex and Miriam). The owners are the ones that have invested their money into the business and expect to make a return on their investment. They expect the business to make profits so they can share in these profits.
Another stakeholder is the twenty employees that work for Sleep Well Doggy. Employees are those that work for the business in exchange for a wage. The employees are interested in receiving fair pay, good working conditions and ongoing employment.
These two stakeholders can conflict because if the employees demand higher wages or improved working conditions, it can increase the costs of the business. This may result in less profits for the business which conflicts with the interest of the owners who want higher profits.

Score out of 5 _____

Justification_____

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## Question 3
Mrs T is a cereal manufacturer with factories in Victoria, Queensland and Perth. The company produces 12 different varieties of cereals and sells in the major supermarkets. Due to increased competition for supermarket shelf space, Mrs T has just been informed that one major supermarket will be dropping 5 of their cereal varieties. As a result, CEO, Jenny Harvard has decided to close down the Perth manufacturing facility and produce all of the cereals in the Victoria and Queensland factories.

**Explain two skills that Jenny will require during the closure of the Perth facility          4 marks**

**Sample answer 1**
One skill is communication which is the transfer of information from a sender to receiver with the ability to listen to feedback. Communication can be either one-way or two-way. Jenny will need use communication with the employees in the Perth factory as they will likely be losing their jobs. Jenny will need to be clear in when the closure will take place and any support that is available to the employees as they look for new employment opportunities.
Jenny will also need to use planning, which is the ability of a manager to set objectives and detail the ways to achieve them. In terms of the closure of the Perth factory, Jenny would be involved in both short-term and medium-term planning. This type of planning will be important for Jenny to set deadlines as to when the Perth closure will take place. She will then need to implement a plan on how to close the factory in a timely manner. Jenny would also need to set out a plan on how the business will be able to consolidate the manufacturing of all the business's cereals into only two factories.

Score out of 4 _____

Justification_____

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**Sample answer 2**
Jenny could use two-way communication with her employees from the Perth factory. This will allow Jenny to not only provide the information about the closure of the Perth factory to employees, but it will also allow Jenny to listen to the concerns of the employees. This will help demonstrate that Jenny values the employees despite the closure of the factory.
Jenny will also need to use delegation. Delegation is where the manager hands over authority of tasks to an employee. Jenny can delegate many of her normal daily tasks to another senior manager to allow her to focus on the closure. This will give Jenny the time she needs to support staff and manage the closure of the factory without being interrupted with her normal tasks. This will help the factory close successfully.

Score out of 4 _____

Justification_____

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## Question 4

Mindy's Curtains & Blinds is a private limited company that sells and installs curtains & blinds to residential customers. The business has grown into a leader in the south eastern areas of Melbourne. It is known for having the most comprehensive range of furnishings along with outstanding customer service. Majority shareholder, Mindy, believes in hiring the best staff available to ensure the company's standards continue to exceed the rest of the market. However recently, Mindy has seen a rise in the number of customer complaints.

**Justify an appropriate management style that Mindy could use to overcome the rise in customer complaints at the company** (4 marks)

**Sample answer 1**

Mindy should use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the final decision themselves. This style is characterised by two-way communication and centralised decision-making. The employees at Mindy's Curtains & Blinds (MCB) are highly skilled and knowledgeable which would provide a great opportunity for Mindy to seek feedback from them. These employees may have information on why the customer complaints have been rising and may even come up with new ideas on how to overcome them. This would allow Mindy to make a more informed decision as she will have the required details. With the employees making suggestions on how to overcome the customer complaints, Mindy will receive a larger pool of ideas which will help her make a stronger decision, helping MCB overcome the rise in customer complaints.

Score out of 4 _____

Justification

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**Sample answer 2**

Mindy could use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the decision themselves. This is characterised by two-way communication and centralised decision-making. The consultative style will help Mindy because it uses two-way communication. This allows employees to put forward their ideas which makes them feel more valued. Using two-way communication encourages teamwork amongst the employees which improves morale and will help build a strong culture at Mindy's Curtains & Blinds.

One issue with the consultative style is that it is more time consuming to seek feedback from all employees. Despite this drawback, the consultative style will help Mindy as she will be able to gather a larger pool of ideas which can help her make a more informed decision.

Score out of 4 _____

Justification

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## Question 5

**Many businesses are committed to environmentally sustainable practices as they look to be good corporate citizens.**

**Identify one area of management responsibility and explain how this area can help a business deliver in its commitment to environmentally sustainable.** 3 marks

**Sample answer 1**

One area of responsibility is corporate social responsibility. Corporate social responsibility is a business's commitment to go above and beyond their legal obligations to operate in an economically, socially and environmentally sustainable manner. A business that implements corporate social responsibility will go above and beyond their legal obligations to find new environmentally sustainable practices. This may occur by bringing in materials that are environmentally friendly or using renewable energy such as solar power to power the business's facilities. This will help them deliver in their commitment to be environmentally sustainable.

Score out of 3 _____

Justification_____

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**Sample answer 2**

An area of responsibility is the finance area. Finance is the area that manages the money and the budgets within the business. The finance manager will need to set budgets for the business that allow it to purchase environmentally sustainable equipment. For example, if the business is looking to implement solar power to provide energy to the facility, the finance manager needs to allocate funds to enable this to be purchased and installed, allowing the business to deliver in their commitment to environmental sustainability.

Score out of 3 _____

Justification_____

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## Question 6

Frank Byrne owns a personal training studio in Wodonga that has been in operation for 12 months. Frank employs 15 personal trainers along with 20 other staff. Frank has recently attended a leadership summit where he learned about the importance of developing a strong corporate culture. After some thought, Frank wants to develop a culture based around exceptional customer service and collaboration.

### Identify two strategies to develop corporate culture and describe how Frank could use these to develop his desired corporate culture
**6 marks**

**Sample answer 1**

One strategy that Frank could use is training in line with the desired culture. Training is the process of improving the skills and knowledge of individuals so they can perform their job to a higher level. Training can come in two main forms, on-the-job and off-the-job. It would be best for Frank to use on-the-job training, where he trains his staff in the workplace. Frank would implement customer service training and collaboration exercises to ensure the employees had these skills.

Another strategy would be to use communication to communicate the desired values of the personal training studio. Communication is the ability to transfer information from sender to receiver and the ability to listen to feedback. Frank could use communication to communicate the desired values of customer service and collaboration to his employees to ensure they are aware of the expectations when working in the business.

Score out of 6 _____

Justification_____

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**Sample answer 2**

One strategy is to develop a set of core values. Frank could work with his team to write up a core value statement that clearly outlines the values that Frank wants displayed in the business. This value statement would include exceptional customer service and collaboration, along with any other values the employees believe to be vital to the business. By involving employees in the process, it will help get buy-in from them which will help them work towards developing these behaviours. It also ensures that all employees are aware of the desired values which helps ensure they demonstrate these values in their work.

Another strategy is to train employees in line with the desired culture. Frank can train his staff in the core values that he wants displayed in the business. This would include customer service training so that employees develop the skills to deliver exceptional customer service. Providing employees with the skills they require to carry out the desired values, helps develop Franks desired culture. This also helps to reinforce the values that Frank desires which will help develop the behaviours that he wants displayed in his studio.

Score out of 6 _____

Justification_____

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# CHAPTER 2: MANAGING EMPLOYEES

A business can have the same products, the same amount of money, the same type of equipment and raw materials but it can't have the same employees. Many business owners say that it is hard to find good employees, therefore once a business finds good employees it is crucial they get the best out of them and work hard to keep them. While not all businesses have employees, those that do need to ensure they are managing their employees well so that the business is achieving its objectives. Medium and large sized businesses may have a dedicated human resource manager or team that looks after the overall management of employees. However many small businesses will not have this luxury and it will be left up to a manager or owner to take on this responsibility.

## *Managing Employees and Business Objectives*

Business objectives are the set goals a business is aiming to achieve in the future. Employees are the ones that carry out the tasks that result in business objectives being achieved. Therefore there is a strong relationship between the effective management of employees and the achievement of business objectives. Without the input of employees, a business will find it difficult to achieve objectives. For example, a business that has the objective to increase sales by 10% over the next 18 months needs the marketing employees to create promotional material and sales employees to work to improve their sales.

Businesses will work hard to enhance the job satisfaction and motivation of their employees so they are happy and willing to contribute to the achievement of the business's objectives. This will often involve *investment* in the development of employee skills via training and/or education programs over time. While the expenditure on skills development will cost the business money in the short term, it should help to generate a *return on the investment* in terms of greater job satisfaction, improved productivity and larger profits – which is the ultimate objective for most businesses.

The effective management of employees can be a major contributor to the success of a business because employees are in a key position to affect customers, business results and ultimately shareholder/owner value. The overall management of employees is more than a set of activities that coordinate the human resources. The aim should be to strategically integrate or align the interests of the business (its objectives) and the employees.

Because there are employees involved in all the aspects of a business, the manager responsible for managing employees will need to communicate closely with all other areas of the business. For example, the marketing department will require employees to carry out tasks that promote the business and its products. It is important that the human resource manager (or the manager responsible for employees) communicates with the marketing manager to determine their needs. It may be that the marketing team requires ongoing training to keep up to date with new techniques, product knowledge or technologies involved in the marketing mix. The human resource manager would then be responsible for putting together training programs that will allow the employees to improve their skills and knowledge. This will therefore help the marketing team achieve their objectives.



*"If you're trying to sneak out of work, you should at least get your coordinates right."*

**Exam Tip:** Although it has not come up in an exam, it is a common SAC question to ask about the relationship between employees and business objectives. 'Relationship' questions are often handled poorly by students in exams. Students often simply describe the two terms. This can be good prcatice, however you must also express the relationship between them. Ask yourself, 'How do employees help businesses achieve objectives?'

# *Motivation Theories*

Employee motivation is the reason that people are driven to perform certain actions or behave in a certain way at the workplace. The more motivated employees are in a business, the more productive they will be, and the more willing they will be to work hard towards the achievement of business objectives. Businesses all over the world look for ways to motivate their employees because they know it can help them to gain a competitive advantage in the market place. Many studies have been conducted into what motivates employees. In this section we will look at three motivation theories; *Maslow's hierarchy of needs*, *Locke and Latham's goal-setting theory* as well as *Lawrence and Nohria's four drive theory*.

## Maslow's Hierarchy of Needs

Abraham Maslow's research identified that humans are motivated by five sets of needs. He grouped the needs into lower-order needs and higher-order needs. The lower-order needs include physiological needs, safety & security needs and finally the love & belonging needs. The higher-order needs include self-esteem and self-actualisation.

Maslow stated that the needs had to be satisfied in sequential order (beginning with physiological needs) and the lower need would be a motivator until it was satisfied. Only when the lower need was satisfied would the employee be motivated by the next need in the hierarchy. This means that the physiological needs would be a motivator until they are satisfied. Only once this need was satisfied would the employee then be motivated by safety needs. This would continue up the hierarchy until the employee reached self-actualisation. Let's briefly elaborate on each of the five needs.
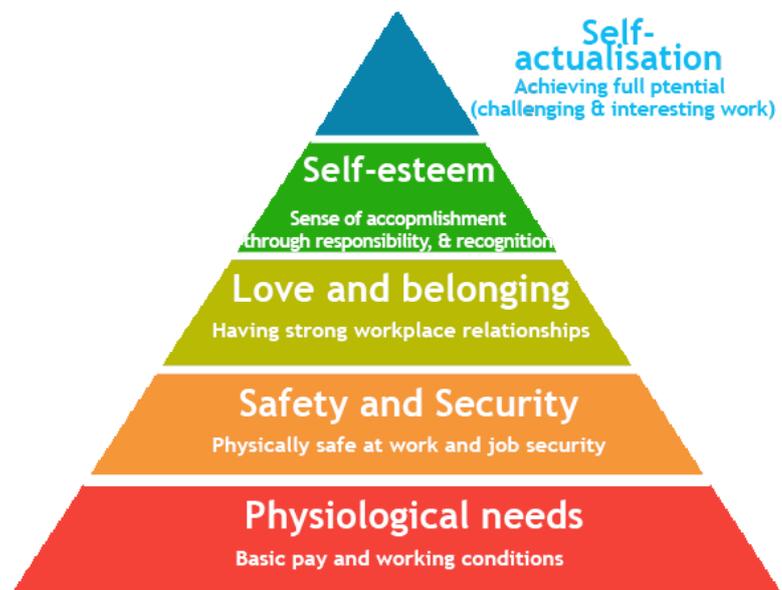


*Physiological*

shelter. A business can look to satisfy the physiological needs by providing a wage and basic conditions to employees that will enable them to purchase goods and services that satisfy these basic needs.

*Safety*

they can to provide a safe environment for employees. To address the issue of job security, the business can provide a number of strategies including ongoing employment through longer term contracts or ongoing training. Although training does not guarantee an employee a job in the future, it gives a sense of security as it is likely the business will want a return on their investment in the employee.

*Belongingness & love*

each other. For example, a business may structure their employees in teams or organise social gatherings to help build stronger relationships.

*Self    teem*

level, along with self-actualisation is where the employee can really begin to achieve great things for the business. The employee gains a sense of self-esteem by performing well in their job and being recognised for this good work.

*Self    tualisation*

> **Exam Tip:** Students often find it difficult to describe Maslow's theory. Take time to practice describing his theory. There are two important parts when describing Maslow's theory:  1. What it is and  2. How it works...And yes, it is important to know all the steps in Maslow's hierarchy in order! When describing his theory, students should ensure they mention each stage in the hierarchy in order.

> **Exam Tip:** It is extremely common for students to state that Maslow's first level in the hierarchy is the "psychological needs". Ensure you stat that the first needs are **"physiological needs"**

**How can a manager use Maslow's theory to motivate employees?**

A manager can use Maslow's theory to identify where an employee is on the hierarchy and then provide strategies to move them up to the higher-order needs. For example, a business that has recently had a rise in workplace accidents may identify that the employees are on the Safety level. The manager may then decide to close the factory down until new safety measures are put in place. This could satisfy the safety need and move the employees up the hierarchy. However, an issue with this is that it can be very difficult for a manager to identify where each employee is on the hierarchy. It can also be difficult to monitor their progress up the hierarchy.

It is important for a manager to realise that they may have employees that are on different stages on the hierarchy. Some more experienced employees may be at the self-esteem level while a new graduate may be at the physiological level. The manager will therefore need to provide a range of strategies with the aim of satisfying all levels for different employees. This can be a drawback of using Maslow's theory as it can be difficult to identify where each employee sits within the hierarchy. This can be especially difficult in businesses where there are large groups of employees.

The aim is for the employee to continue to move up the hierarchy so they will have long-lasting motivation. If a business simply provides good pay and job security, the employees will not be motivated in the long term. They will stall at the love and belonging level until it is satisfied. It is therefore important that a range of strategies are implemented to ensure that employees can continue to move up the hierarchy and work towards the higher order need. Providing this range of strategies can therefore be difficult and sometimes expensive to implement for all employees.

> **Exam Tip:** While it seems simple, students need to ensure they read the question in the exam carefully. An example of this was in the 2018 exam when students were asked to describe Maslow's hierarchy of needs and explain how it could be applied to the provided case study. Many students were able to apply Maslow's hierarchy well, but failed to describe the theory. When a question asks you to describe something (Maslow's theory in this case), ensure you describe it. Answering all of the question gives students the best chance to receive full marks.

> **Exam Tip:** The study design states that students need to be able to apply Maslow's theory. When doing so, students need to read and comprehend the case material. For example, in the 2016 exam, students were asked to justify two strategies to improve the corporate culture using Maslow's theory of motivation. Many students justified strategies around remuneration to satisfy physiological needs and ongoing contracts to satisfy safety needs. However, the employees in the case study were not dissatisfied with their wage or job security. In the event that a similar question is asked in future exams, higher achieving students will be those who are able to identify this and provide strategies to satisfy the appropriate level in Maslow's hierarchy.

> **Exam Tip:** In the 2015 exam a question asked students to discuss the use of Maslow's theory. Most students found it difficult to do this as they couldn't come up with any drawbacks of using the theory. Ensure you can address how each of the motivation theories will help improve employee motivation and the drawbacks of using the theory.
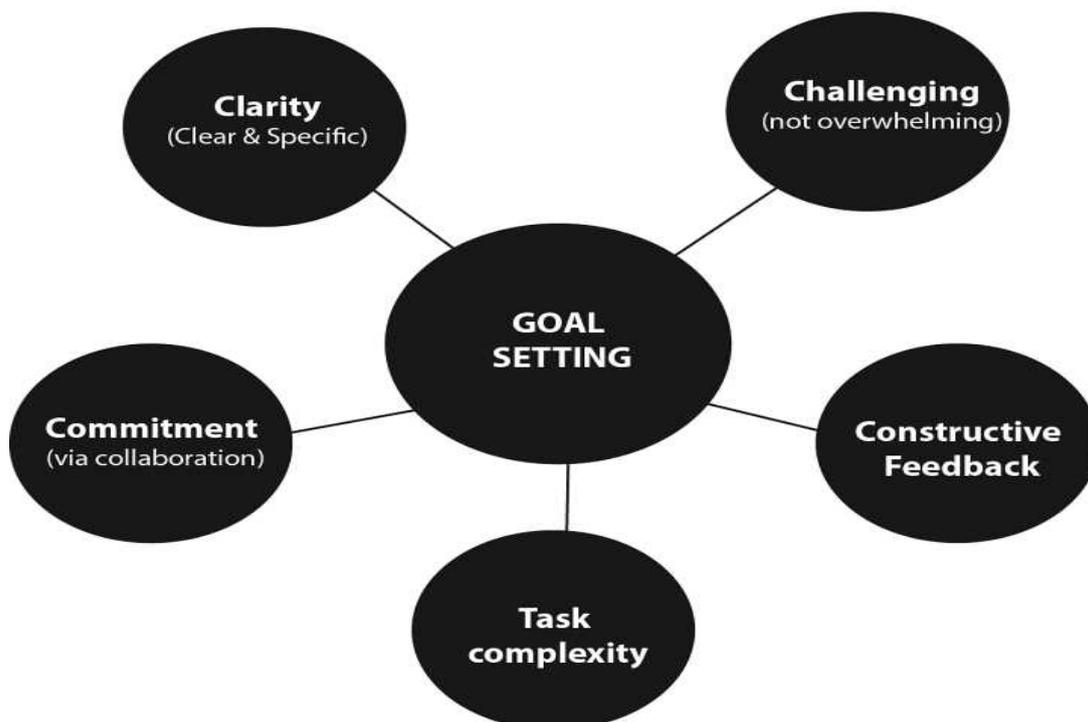
## Locke & Latham's Goal Setting Theory

Edwin Locke and Gary Latham found in their research that employees are more motivated by goals that are challenging but attainable. They found a direct correlation between challenge and motivation, where the greater the challenge the greater the motivation, as long as the employee believed they could still attain the goal. They found that employees were more likely to be motivated by goals that were specific, rather than vague or unclear goals. Through their research they also discovered that feedback was important for employees in order to maintain motivation towards the set goal. Locke and Latham's goals setting theory states that in order to provide motivation for employees, goals should be based around 5 key principles:

1. **Clarity**: Clear goals help give the employee a specific direction to work toward. They know exactly what needs to be achieved. Goals that are vague are difficult to measure and do not provide as much motivation for the employee as clear and specific goals. For example, if a goal is to simply "take initiative" it is difficult for the employee to know exactly how to achieve this successfully. However, if the goal is to generate five new leads each week for the month of March, they know exactly how their performance will be assessed and can take initiative on how to achieve this goal. It is ideal if a goal is given a timeframe so the employee understands when it needs to be achieved. This allows them to plan and coordinate resources to assist them in the achievement of the goal.

2. **Challenge**: As mentioned earlier, the more challenging a goal, the more motivation it can provide. This means that goals need to extend employees, so that they can work hard to achieve them, but without being too ambitious such that employees feel the goals are beyond their reach. Well thought out goals give employees drive and a sense of satisfaction that they are getting the best out of themselves. It will always remain a challenge, however, for managers to find the right balance such that the optimal level of motivation is achieved, where goals are neither too challenging nor too easy.

3. **Commitment**: While challenge is an important factor in gaining commitment from the employee, it isn't the only element. Locke & Latham found that higher levels of motivation were created if the employee was committed towards the achievement of the goal. If the manager sets the challenging goal themselves, they need to find a way to get the employee on board and committed to the cause. However, this can sometimes be quite difficult to achieve. An alternative is to include the employee in the setting of the goal. Goals can be set collaboratively between management and the employee. This ensures that management can help align the goal with business objectives yet the employee is likely to take more ownership over the goal and become more committed. This can also help build strong relationships between managers and employees. It also helps with the 'buy-in' of the goal where the employees are committed to achieving the goal.

4. **Feedback**: The manager should provide constructive feedback to the employee during the process of working towards a goal. This helps keep the employee on track. The employee can then make adjustments to their plan where necessary. The feedback provided should be ongoing, as difficult goals can take time to achieve. By providing regular feedback on the progress of a goal, it can help the employee to feel appreciated for their efforts, even though the end goal may seem far away. This concept helps to celebrate the progress of the achievement as well as offering advice on ways to improve progress towards the goal. The feedback can also come in the form of a reward or recognition that the employee receives after they have achieved such a difficult goal.

5. **Task complexity:** While goal difficulty is an important aspect, the manager must be careful that the complexity of the goal is not completely beyond the ability of the employees. Managers sometimes feel that they should 'throw the employee in the deep end and see if they can swim'. However, this can have a negative effect on motivation if the goal is simply too complex. While goals should extend employees to areas they may never have been before, the goals should still be tailored to the abilities of employees. This helps to ensure that goals can be achieved, providing employees with a sense of achievement and enabling the business to achieve its wider objectives. If tasks are complex for the employee, support can be provided to assist with the attainment of the goal. For example, training or support, such as a mentor, can be implemented to assist the employee.

## Key elements of Locke & Latham's goal setting theory

**How can a manager use Locke & Latham's theory to motivate employees?**

Goal setting is an important part of success. Quite simply, a manager can improve employee motivation by setting clear and specific goals that provide a challenge for the employee but are not overwhelming. It helps if the goals are set collaboratively which can help the employee become more committed to achieving the goal. Constant constructive feedback should be provided to ensure the employee remains on track. Using this theory to motivate employees can have some drawbacks. One issue is that it can be time consuming to set goals for the employees and then provide ongoing feedback. Another issue is the difficulty experienced by managers in trying to find the right balance between setting a challenging goal and setting a goal that is not too complex. Each employee will have different abilities and personality/character traits, such as resilience and perseverance. Therefore, what one employee finds challenging or complex, another may find easy and quite manageable. If the goal set is too easy, or too complex, the result may be demotivation.

> **Exam Tip:** In past exams many students have described Locke's theory with the S.M.A.R.T principles. The S.M.A.R.T principles alone do not address Locke's theory in its entirety as they do not address the the concept that goals need to be challenging. It is encouraged to not use the S.M.A.R.T principles when describing Locke & Latham's theory.

## Four Drive Theory

Lawrence and Nohria from Harvard Business School found that employee motivation is a fundamental part of humankind's makeup and humans have four key drives that motivate them. They found that all people have these drives, which shape the way they think and behave. The four drives are:

1.  *The Drive to Acquire*
    Ambition is one of the most powerful human passions. Lawrence and Nohria found that employees are driven by this ambition, leading to a drive to achieve more and rise in status within the business. It is therefore important for managers to set up recognition and rewards programs (not just base pay) that help employees to work towards achieving their goal of acquiring more material possessions and enhancing their status in life. The way employee performance is evaluated needs to be clear for employees to ensure they know how to work towards achieving set goals. This helps employees to strive to achieve bonuses and improved status. The business can allow the employee to advance their career to help improve their status within the business. However, this is difficult to implement for all employees as there will naturally be an insufficient number of promotions to accommodate all employees.

    Another issue with the drive to acquire is that it can become an expensive drive for the business to satisfy. Lawrence & Nohria found that humans' drive to 'acquire more' rarely stops. Accordingly, a financial reward that allows the employee to acquire material goods and/or a sense of status will help to satisfy the drive for a short time. However, the individual is then driven for more because that one reward is often not enough. This can therefore become an expensive exercise for any business.

2.  *The*
    employees to seek relationships with others within the workplace. Managers are encouraged to be people-centred to help satisfy this drive. They should also create opportunities for social interactions. Collaboration and teamwork should be valued at the workplace, which helps employees to feel connected as part of a group or team. Employees will then go out of their way or extend themselves to help people within their group. These relationships help develop a positive culture and can improve job satisfaction.

    The drive to bond is centred around the the human traits of love, caring, trust, empathy, friendship, loyalty and compassion. To help satisfy this drive, managers need to consider these traits when interacting with employees. Managers need to also find ways to enhance the bonds between employees within the business. Employees that feel as if they belong in the business, and have strong relationships, will often do more than is stated in their job description and therefore put more effort into their work.

3. *The Drive to Learn*

develop a deep(er) understanding of their work and their environment. Managers should look at how they can create challenges for the employees and provide them with opportunities to grow and enhance their knowledge and skills. By creating new experiences, challenges and opportunities to learn, employees are more likely to be motivated and engaged. The manager needs to ensure that employees are constantly challenged and that their tasks do not become routine or rote. Ongoing training programs, job sharing and involvement in decision-making can help to achieve this. When satisfying this drive, the business also



also benefits. Not only does it provide motivation for employees, but these employees are likely to find new and improved ways of doing things if they are empowered to satisfy their curiosity. This can improve processes within the business, as well as improve productivity growth.

Satisfying this drive can often come at a financial cost. Offering training programs or allowing employees to undertake their own personal development that takes them away from work for periods of time, can cost the business money, which is a downside of this drive.

4. *The Drive to Defend:*

as well as the business whenever they feel threatened. When an employee feels as though they are being questioned in areas such as the quality of their work, their decision making, or even their job position, it will likely stimulate the emotions of fear, anger or anxiety. These emotions drive the employee to defend themselves and their position within the business. Employees can also feel a sense of pride for the business and want to defend it against attacks. These attacks could come from competitors, the economy or even rumours. The employees also want to ensure they are safe in the workplace physically and mentally. Employees need to feel as though they can trust the people within the business to look out for their interests. Providing support for employees when required, being open and honest with employees and having grievance procedures in place, are all strategies that can help managers satisfy this employee drive.

The drive to defend is more latent, and does not need to be satisfied unless the employee feels threatened in some way. Managers should be aware of their interactions with employees such that the manager displays strong interpersonal skills and is supportive. The business needs to ensure that performance reviews are conducted fairly, and processes are put in place for grievances to be dealt with. This ensures that employees are treated fairly and consistently across the business.

It is important to note that each of the four drives can occur at the same time although the drive to defend is more latent. Individuals may have a drive that is more dominant than the others, and the more dominant drive can change over time. However, if one drive is significantly more dominant than the others, it can cause problems for the individual. For example, if an employee is very dominant in the drive to acquire, it can cause social issues as they continue to strive for money and status.

**How can a manager use the Four Drive theory to motivate employees?**

Many businesses use pay and conditions to motivate their employees. They often feel that by providing financial incentives, employees will be highly motivated. According to this theory, monetary reward is only one of a number of motivators, with employees being driven or motivated by much more. A manager, therefore, needs to implement strategies that will satisfy each of the other three drives identified in the 'Four Drive theory'. They should create opportunities for social interactions, offer challenging work and develop a strong purpose that employees believe in. Accordingly, if a business was to rely too heavily on one drive, employees are less likely to be fully motivated.

As mentioned throughout the drives, there are drawbacks to this theory. It can be difficult to satisfy each of the drives for all employees. For example, the drive to acquire is about achieving status and power. As mentioned earlier, a business can satisfy this by implementing career advancement opportunities. However, it is near impossible to promote everyone within a business and therefore difficult to satisfy this drive for all employees.

> **Exam Tip:** Some past exams have asked a general motivation theory question where students could decide which theory to use for their response, while other exams have asked students to apply a specific motivation theory. It is crucial that students know each of the theories well in the event that a specific motivation theory is asked about.

## *Motivation Strategies*

Motivating employees is a key function of business as it can lead to increased productivity, improved employee retention and the achievement of business objectives. Take a moment and think to yourself, what is motivating you to achieve your best in Business Management this year? If you aren't motivated to do well, what could your teacher do to try to motivate you? These are key questions that business managers need to ask so they can have a motivated workforce.

In the previous section we covered three key theories that looked at what leads to employee motivation. In this section we can look at different strategies businesses of all sizes can use to motivate their employees. Some key strategies are summarised below.

### Performance related pay:

Performance related pay is where the remuneration (e.g. wage or pay) of an employee is tied to their performance within the business. Often the employee will be given pre-arranged objectives or performance targets they need to achieve in order to increase the money they earn. This strategy is based on the premise that an employee will be motivated to achieve higher targets in order to be rewarded with higher wages. Some common performance related techniques include:

- Workers being paid a specific amount for each output they produce
- An assessment conducted in a performance appraisal to determine the bonuses the employee should receive
- Commissions where the employee shares in the profit they produce for the business
- Business wide incentives where all employees' bonuses are tied to the performance of the entire business
- Share plans, where the employee receives shares in the company for outstanding performance

For each of the motivation strategies covered in this section, it is important to be aware of the advantages and disadvantages so that you are able to evaluate or discuss their use in a business. Some advantages and disadvantages of performance related pay are summarised below.

| Advantages of performance related pay | Disadvantages of performance related pay |
|---|---|
| It can help attract highly skilled employees that believe they can comfortably achieve their targets and be rewarded for it | If assessment is subjective, employees can feel hard done by if they feel they aren't assessed fairly |
| Goals and targets are normally clear and specific | It can create a competition based culture which ca cause conflict between workers |
| Gives employers the flexibility to pay high achieving employees | It can be time consuming to set targets for all employees |
| Has the potential to weed out lazy workers | Outcomes are rewarded despite the effort or processes used |

**The effect on short-term and long-term motivation**

Performance related pay is an extrinsic motivator, meaning that behaviour is driven by external rewards such as money. The notion of rewarding an activity or outcome which will lead to the employee wanting more of it is typically more effective in the short term. Individuals will often have a quick boost in motivation because they are receiving an immediate reward. This can motivate them to work just as hard again. While there can be some performance related pay options that can positively impact motivation in the long term (e.g.share ownership plans), this strategy is seen more as a short-term motivator. Over the long term, performance related pay can have a negative impact on motivation. Employees can often become comfortable with the increased wages and be disappointed if they receive lower pay as a result of not meeting certain performance targets.

## Career Advancement

Career advancement is where an employee is given opportunities to develop their skills and take on a new position in the business, one that involves increased responsibility. Career advancement is a strategy to motivate employees as the employee becomes driven to further their career and take on this greater responsibility. While career advancement is a strategy for all businesses with employees, there is greater scope for larger businesses to offer these opportunities, due to the size of their workforce and the varying managerial positions available.

To provide opportunities for career advancement, managers should ensure the employees are provided with ongoing training and development. Participative managers that include employees in decision making can also help employees to gain experience which can advance their careers. It is important for the business to listen to the future goals of employees to see where they would like to take their career. This can help provide both managers and the employee with direction on how they can develop their career and still fit in with the current structure of the business. Some advantages and disadvantages of career advancement as a motivation strategy are summarised below.

| Advantages of Career Advancement | Disadvantages of Career Advancement |
|---|---|
| Reduced staff turnover as employees are moving up through the business rather than leaving for better jobs elsewhere | It can be difficult to provide career advancement for all employees, resulting in some employees missing out on promotions. This can cause resentment from these employees |
| Helps build a positive culture as the business promotes from within. Employees can feel valued by the business | If the business is only promoting from within, there may be a lack of outside perspective |
| Leads to long term motivation | Employees may receive a promotion that is beyond their capabilities as they have not completed work in that role previously |

**The effect on short-term and long-term motivation**

Career advancement is primarily a long-term motivation strategy. Advancing ones career is an intrinsic motivator, where the employee is motivated from within to enhance their career, leading to long-term motivation. Employees will often envision the type of responsibilities they would like to have in their long-term future. This appeals to their sense of ambition around increased responsibilities. If a business is able to offer career advancement, these employees are more likely to be motivated to work hard as they progress towards their ideal job within the business over the long-term.

## Investment in Training

Investment in training is where the business devotes resources to the process of enhancing the knowledge and skills of their employees. This enables the employees to improve their abilities and perform their job at a higher level. Training can be a major expense for a business, which can lead to it not being a priority, especially for those businesses with small(er) budgets. Training should be seen as an *investment* and investing in training can help to motivate employees.

Employees become motivated by training as their skills and knowledge are enhanced. This provides them with more confidence to perform well in their job. It is important for businesses to invest in training and develop their employees to either gain or maintain a competitive advantage. A workforce that is filled with eager employees that are passionate about what they do can help a business to achieve difficult objectives. Employees in this situation often want to learn more about the business (and the industry) and improve their own skills so they can enhance their performance. A business that invests in training allows this type of intrinsic motivation to flourish.  Some advantages and disadvantages of investment in training as a motivation strategy are summarised below.

| Advantages of Investing in Training | Disadvantages of Investing in Training |
|---|---|
| Employees perform better at their job which helps the business achieve objectives | Expensive to conduct training |
| Develops a learning culture | Loss of productivity when the employee is being trained |
| Employees feel valued because the business is investing resources in them | Overtraining employees can lead to increased stress for the employee and poor motivation |

**The effect on short-term and long-term motivation**

If an employee is having difficulty performing certain tasks in their current role, a training program to boost skills can help improve their performance and confidence, which motivates them in the short-term. Employees will often lack self-confidence if (they believe that) they are not good at their job. This can cause stress and anxiety, which often results in high levels of staff absenteeism or staff turnover. However, effective training programs will improve the skills of the employees, which improves their level of self-confidence and motivation to perform their work.

Investing in ongoing training, where employees are encouraged to continuously improve by learning new skills, can have a positive impact and create long-term motivation. Training enables employees to take on challenges within the business, which improves the level of motivation the employee has in their work. Ongoing training helps to motivate employees towards the long-term vision of themselves as employees of value to a business, improving their long-term motivation.

## Support

Support is where a business provides individual assistance and services designed to help employees cope with problems that negatively affect their lives and work performance. It is important that businesses understand that their employees will sometimes come across adversity in their personal life or in the workplace. The business plays an important role in providing support services that can help the employee work through these adversities.

Support can come in many forms. One example is an **Employee Assistance Program** (EAP), which is a confidential counselling service, offered by employers to their employees to help support their well-being in the workplace and personal lives. This type of support can help employees in the short-term to address and potentially overcome the problems they are facing which can help the employee regain focus and motivation. The counselling services are confidential and independent services and are paid for by the business. This helps to give employees the privacy they require to improve their mental health.

Another support mechanism a business can provide could be a **mentoring** program. When new employees come into the business, it can take them time to adjust to their new surroundings. A mentoring program, similar to those set up in schools to transition young students entering prep or year 7, assigns a designated mentor for the employee to provide them support during the first year (or longer) of their employment. This mentor can provide guidance and advice for the employee when required. This can help the employee to build relationships within the business, which can lead to improved motivation.

Businesses may also provide either financial support or financial support services to employees in need. This may be an advance on an employee's pay or access to financial services providing advice on issues such as superannuation or insurance. Some advantages and disadvantages of support as a motivation strategy are summarised below.

| Advantages of Support | Disadvantages of Support |
|---|---|
| Helps to improve the mental well-being of employees | It can be expensive for the business |
| Employees feel valued | Although confidentiality can be an advantage it can make it difficult for a manager to show emotional intelligence if they don't know which employees are having difficulty |
| Support is immediate and ongoing if required | The level of supports provided can sometimes be subjective, making it difficult to deliver supports fairly to everyone. |
| It can reduce absenteeism and staff turnover | |

**The effect on short-term and long-term motivation**

Support helps the employee feel valued within the business, which can provide the short-term motivation to perform at a high level. An employee that receives some form of support when they are finding things difficult (or have made a mistake) can feel appreciated, which motivates them in the short-term to get back to work. A supportive environment can create a culture where the employee feels others 'have their back' and will look out for them. This understanding that the business and its people will be there for them, can create long-term motivation for employees.

## Sanctions

A sanction is a penalty for poor performance or disobeying a business policy. Some employees will respond to having a sanction threatened, however it is usually just a short term strategy. Some employees will be motivated by positive reinforcement such as an incentive, while others will be more receptive to a punitive act such as a sanction. Sanctions can be a risky strategy as some employees may resent this and react against it. This can cause conflict within the business and harm the relationships between the manager and employees. If others see an employee sanctioned for doing the wrong thing, it can motivate them to ensure they do the right thing for fear of being sanctioned themselves. Some advantages and disadvantages of sanctions as a motivation strategy are summarised below.

| Advantages of Sanctions | Disadvantages of Sanctions |
|---|---|
| Some employees are motivated more by sanction than incentives | Often normally a short-term motivator |
| It can get some employees motivated to act quickly for fear of being sanctioned | Many employees are not motivated by this strategy |
| | It can cause resentment and conflict within the business |

**The effect on short-term and long-term motivation**

As mentioned earlier, sanctions are often seen as only a short-term motivator as they can get an employee motivated to do the right thing immediately. Managers that implement constant sanctions for employees as a way to motivate them, risk a negative impact on the long-term motivation of employees. While sanctions can ensure that employees continue to do the right thing in the short-term, constant sanctions as a motivator can result in a poor culture, where employees don't feel valued which can demotivate employees in the long-term.

> **Exam Tip:** Motivation strategies was the concept in the 10 mark question for the 2020 exam. This question asked students to evaluate two motivation strategies and then justify which would be most appropriate for short-term motivation and which would be most appropriate for long-term motivation. It is important in an evaluate question such as this that students address both sides. In this case, students needed to express the benefits and limitations (or disadvantages) of each motivation strategy. Students often fail to do this, making it difficult to receive full marks.

> **Exam Tip:** The 2019 exam asked students to apply a motivation strategy to a contemporary business case study. Students needs to remember that the study design states that "Using theories and motivation strategies, students propose and justify possible solutions to employee management in contemporary business case studies." This requires students to be able to apply the motivation theories and strategies to a contemporary business. this is often overlooked by students when preparing for their exam.

> **Exam Tip:** Ensure you can distinguish between motivation strategies and motivation theories. In the 2017 exam students were asked to describe an appropriate motivation strategy. Many students described a motivation theory and did not receive marks.

> **Exam Tip:** The study design asks you to know the advantages and disadvantages for each of these strategies. This could easily turn into a discuss or evaluate question.
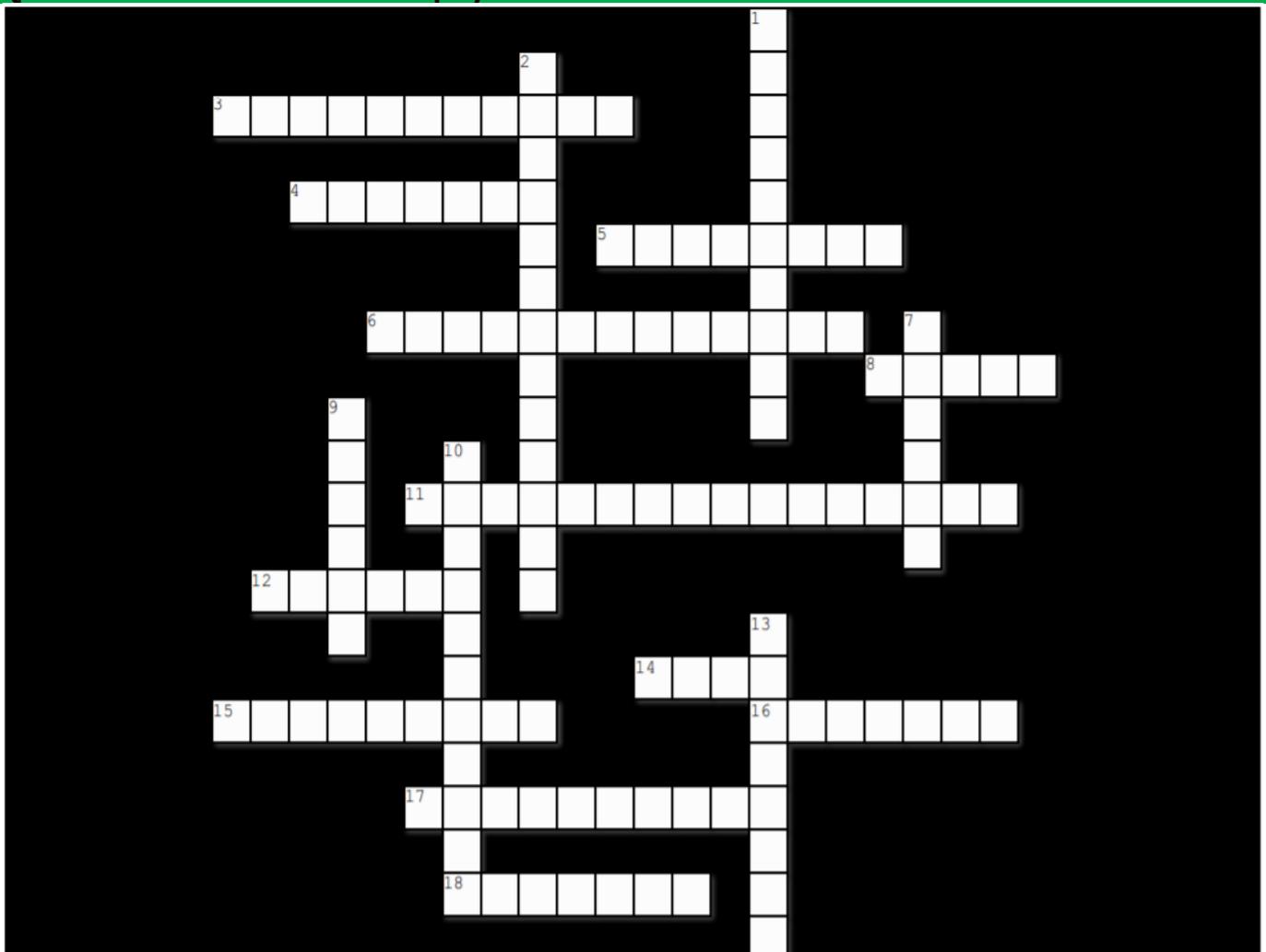
> **Exam Tip:** There are other motivation strategies available to managers. The list here are the ones students must know given that they are listed in the study design. Feel free to learn others and use them in answers where appropriate.

> **Exam Tip:** Students should keep in mind that the 'key skills' listed in the study design requires students to be able to "compare and evaluate strategies used for motivation and training..." This requires an ability to address the similarities and differences, as well as the advantages and disadvantages of each of these strategies.

## REVISION QUESTIONS 2 – Employee Motivation

1. Identify Maslow's five human needs
2. Describe Maslow's motivation theory
3. Explain how a manager can use Maslow's theory to motivate staff
4. Explain the relationship between motivated employees and business objectives
5. Describe Locke and Latham's goal-setting theory
6. Outline the relationship between challenge and task complexity according to Locke and Latham
7. Explain how a manager can use Locke and Latham's goal-setting theory to motivate employees
8. Outline the disadvantages of using Locke and Latham's goal-setting theory
9. Identify the four human drives according to Lawrence and Nohria
10. Describe each of the four drives and explain how they provide motivation for employees
11. Explain how a manager can use the Four Drive theory to motivate employees
12. Compare the key elements of Maslow's hierarchy of needs with Lawrence & Nohria's four drive theory
13. Phyllis is the owner of a recruitment firm. She ensures her employees are well remunerated and have provided fantastic career advancement opportunities. However she has found that many of the employees are still lacking motivation.
    Describe the Four Drive theory and explain how Phyllis could implement this theory to motivate her employees
14. Discuss the use of performance related pay when trying to motivate employees
15. Jo is the owner of a beauty salon. Recently she surveyed her staff and found they have poor motivation.
    Describe two motivation strategies and explain how they can improve motivation of her staff in the long term
16. Explain how employee motivation is improved by investing in training
17. Outline one way a manager can use support and one way they can use sanction to motivate employees
18. Compare performance related pay with one other motivation strategy
19. Peter's Travel is a travel agency owned by Peter Merriman. The business currently employs 35 people. Peter feels that his employees are highly unmotivated. In addition, many customers have been complaining recently about the lack of travel advice received from staff.
    a) Evaluate two motivation strategies that Peter could implement.
    b) Justify which would be most appropriate to motivates Peter's employees in the short-term, and which would be appropriate for the long-term motivation of Peter's employees.

## Quick revision crossword No 2: Employee Motivation

## *Training Options*

*Training*

overall business performance. Training should be aligned with the business' strategic objectives. If the business' strategic objective is to provide the best customer service in the industry, the training needs to specifically address this goal. Failure to link training with business objectives will mean that the business's strategy to gain a competitive advantage will not be supported.

Training is also important when an employee begins at the business. The employee may need to learn how to use particular machinery or equipment. Ensuring the employee receives the initial training they require can help them become productive much sooner. Training should not stop there though. Ongoing training can help the employee continuously improve their skills and chances for career advancement. Before undertaking training, a **Training Needs Analysis** (TNA) should be conducted. This is where the gap between an employee's current abilities and the needs for improvement are identified. A training needs analysis identifies:

- Which employees need training
- The type of training required
- How the training should be conducted.

Once the needs of the training have been identified, the training takes place. There are two main training options: on-the-job or off-the-job training. Let's take a look at each option.

## On-the-job training

*On*

would need to be trained in how to use the new system. This may be taught while they are working and is therefore known as 'on-the-job training'. An experienced co-worker often conducts on-the-job training, however at times, external organisations can be brought in to provide the training. This type of training can be either formal or informal. An experienced employee who teaches another employee how to perform a task is an example of *informal on-the-job training*. A more structured training program that is conducted in the normal work setting would be considered *formal on-the-job training*.

Common forms of on-the-job training include:

- **Demonstration/instruction:** the employee is shown how to perform the task
- **Job Rotation:** employees perform a number of roles to gain experience in a number of activities
- **Coaching:** a more comprehensive form of instruction that is ongoing. It is a planned one-to-one instruction from an experienced team member.
- **Understudy assignment**: this is where the 'understudy' observes another employee in their job. They are able to ask questions and learn from the experienced member while they are performing in their role.

*Advantages*

One advantage of on the-the-job training is that it is often more cost effective than off-the-job training. This can be beneficial for smaller businesses that don't have large training budgets. It can also allow the employees to share their skills and learn from each other. The employee undertaking the training can still be productive while they are being trained, as often they are performing their job during the training. On-the-job training also allows the employee to learn on the equipment they will be using daily, helping improve the transfer of skills.

*Disadvantages*

A disadvantage of on-the-job training is that if the training is conducted by another employee, they may not be an experienced trainer. The employee leading the training may be highly proficient at the activities they are teaching, yet may not be a qualified trainer with effective teaching skills. This can make it difficult for effective transfer of skills. Using an experienced employee can also increase the chance of poor habits being passed on through the business. Another disadvantage is that if the training is being conducted during normal production, it may disrupt the production process, reducing productivity or decreasing customer satisfaction. The training may also be disrupted by normal work interruptions. It can also impact on the service that is being delivered to customers. For example, a trainee making food or coffee may be slow, or may even make mistakes with the order, which can be frustrating for customers.

## Off-the-job training

*Off*

take the time to learn from the specialist's vast knowledge and experience. If it is done effectively, the employee will return to work with new skills that they can continue to improve upon. There should be a direct connection between the skills the employee is learning and the work they will be performing in the future. If this is not the case, the training will have little direct impact on the productivity or performance of the employee. Some common off-the-job training methods include:



- **Lectures and conferences:** this method is best used to train a large group of people. The presenters/trainers should have considerable depth of knowledge. Lectures and conferences allow the speaker to present to a large group of people while still providing opportunity for interaction and activities where the attendees can have hands on experience.
- **Official courses:** this is where the employee will undertake an official course by specialised training organisations. This can include universities, TAFE colleges and other registered training organisations. These types of courses are often lengthy and costly, however the employee may receive some form of qualification or certificate of completion.
- **Simulation**: the trainees are placed into an environment that simulates an exact situation. This teaches the trainees how to perform in certain situations. Airline hosts undergo extensive simulation training so they know how to deal with air emergencies. They are placed in plane crash simulations and must use the skills they have learned to help the survival of passengers.

*Advantages*

The main advantage of off-the-job training is that the employees often receive their training from trainers with a high level of experience in the area being presented, as well as experience as educators. This can help to improve the quality of the training experience and the employee can implement what they have learned sooner. This can work towards improving productivity and the achievement of goals. Being away from the workplace while being trained can allow the employee to focus on developing their skills and knowledge without other workplace interruptions. Employees may also receive a qualification that they can use to help advance their career.

*Disadvantages*

A disadvantage of off-the-job training is that it can be more expensive for businesses. The costs not only include those involved in hiring an external trainer but the cost of having the employee away from work (cost of a replacement and/or loss of productivity). Another disadvantage is that the business does not have full control over

what is presented. This may mean the exact skills and knowledge the employee is being presented with may not be relevant to the job they are performing. The employee may not be learning on the exact equipment or environment they will be working with in their actual job. This may make the transfer of skills difficult.

> **Exam Tip:** The study design states that students need to be able to compare and evaluate the training methods. This requres students to be able to express the advantages and disadvantages of the training as well the similarities and differences between on-the-job and off-the-job training. While it is important to know the advantages and disadvantages, students must also be able to apply them. For example, in the 2017 exam, students were asked to discuss a suitable training method for Car Bright (case material). Many students were able to look at the advantages and disadvantages of their chosen training method, however they failed to provide enough application to what was occurring at Car Bright. When asked to apply their response to case material, students should ensure their responses are speciific to the business.

> **Exam Tip:** The 2015 exam asked students to "Outline one form of training..." Many students gave responses that provided the type of training content e.g. OH&S training to ensure staff are safe at work. This was not accepted as a form of training. The basic forms include on-the-job and off-the-job training.

# *Performance Management*

Performance management is the process used to improve business and employee performance to ensure that goals and objectives are being met. Individual objectives should be aligned with business objectives so that the pursuit of employee objectives also helps to achieve the business's objectives. Analysing an individual employee's performance is an important aspect of performance management. If both individual and business objectives are aligned, the evaluation of employee performance (and taking corrective action where necessary) can help to keep a business on track to achieve its strategic objectives. Common methods to manage employee performance are outlined below.

## Performance Appraisals

Employee performance can be evaluated through a performance appraisal. A performance appraisal is a process that evaluates how well an employee has performed in their job over a period of time, provides feedback and helps develop new goals and objectives for the individual. As mentioned earlier, these new objectives should be in line with the medium-term and long-term objectives of the business.

The feedback provided to the employee in a performance appraisal is important so that the employee can improve. Any objectives that were set in a previous review should be analysed to determine if they have been achieved. The employee should be provided feedback on areas they have been performing well to help reinforce these behaviours. While it can be difficult to address, areas the employee needs to improve should also be addressed so that they can work on improving their performance in those areas.

| Employee's Name: |
| --- |
| Position: |
| Department: |
| Circle the appropriate score for each factor that best describes the employee<br>1 – unsatisfactory<br>2 – needs improvement<br>3 – satisfactory<br>4 – above average<br>5 – outstanding |
| (a) Output: ability to meet required standards or quality & quantity produced<br>1   2   3   4   5<br>(b) Job Knowledge: understanding of facts associated with role<br>1   2   3   4   5<br>(c) Judgement: ability to make effective decisions<br>1   2   3   4   5<br>(d) Initiative: can work unsupervised and seeks responsibility<br>1   2   3   4   5<br>(e) Overall Performance: All factors considered<br>1   2   3   4   5 |
| Manager comments on performance _____<br>_____<br>_____<br>_____<br>_____ |

Performance appraisals can be important for management to gain information they can use for important decisions such as promotions, transfers and terminations. Performance appraisals can also identify an employee's needs for training and development. It could be that an employee's performance highlights a knowledge or skills gap that warrants training or education. Alternatively, a performance appraisal might highlight that an employee's performance makes them a viable candidate for promotion or suggests that they could take on greater responsibility.

Performance appraisals can also determine how well a business is performing in other functional areas. For example, newly hired employees that are performing poorly may indicate issues with the recruitment and selection processes of the business. Similarly, the effectiveness of training and development programs can be determined through performance appraisal by assessing the performance of those employees that have participated in the programs.

An issue can arise with a performance appraisal if it is not conducted fairly. It is important that a manager is able to objectively conduct the appraisal on the employee, focussing solely on their work performance without consideration given to non-work related issues. An unbiased appraisal of employees, where personal feelings are set aside, is crucial to the ongoing success of performance appraisals. This necessarily requires a manager to determine the

difference between those factors that are contributing significantly to the business's objectives being achieved and those that are not. If this is not done fairly then it can cause conflict and resentment from employees and the entire process can become harmful to the business. Another disadvantage of a performance appraisal is that they are time consuming to conduct for all employees. In addition, some employees find it difficult to take constructive criticism which can make it a stressful time for both the manager and the employee receiving the feedback.

## Management by Objectives (MBO)

This is a performance management strategy that sets specific objectives/goals collaboratively with an employee, with feedback given on the progress towards them. Essentially, it allows management to align individual objectives with business objectives and analyse the employee's performance in achieving the goal.

It is important that the objectives set with MBO are measurable and attainable. It breaks down the overall business objectives into more specific objectives against which employees can be evaluated. The employee then becomes clear on the criteria by which they will be assessed. If the individual objectives are achieved, the business will also be achieving their overall objectives. MBO results in a hierarchy of objectives where the objectives of one level are linked with the next level in the hierarchy. This achieves a workforce where all employees play a role in the business achieving its objectives.

It is not enough for an objective to simply state a desire to increase sales. It needs to be more specific and measurable. The goal could be to increase sales of a particular product by 6 per cent over the next 12 months. These goals should be set collaboratively with management and employees. In addition, detail should be included on how the objective(s) are to be measured and the time frame in which the objective(s) needs to be achieved. Further, feedback should be continuous on the progress towards to objective. This not only builds relationships between management and employees, but helps to keep employees on track and increases the likeliness that goals will be achieved.

Like the performance appraisal, MBO can be time consuming. It can be arduous for a manager to collaboratively set goals with each employee and provide ongoing feedback to them.

## Self-evaluation

This is a form of self-assessment where the employee evaluates their own performance against set objectives. It allows the employee to see their strengths, weaknesses and needs for development.

The manager is able to see how the employee views their performances and the types of training they feel is required to improve and develop their career. This type of performance management can help open up communication between managers and employees. It allows the employee to play an active role in their performance reviews. However, it can be difficult for an employee to give themselves a fair assessment. If they feel they have done a good job in achieving their objectives, they may find it difficult to express this without appearing conceited (e.g. 'big-noting themselves'). Others may feel that if they are too harsh on themselves it may cause a manager to think less of their actual performance and place their job security at risk.

## Employee observation

Employee observation is where the employee performance is witnessed and assessed so feedback can be provided to the employee. Once objectives have been set, the manager evaluates an employee's performance by watching how they perform in their role and providing feedback to the employee. This can play a critical role in the employee's continued success in achieving individual and business objectives.



It is important that the observation is performed at different stages rather than simply a one-off. This provides the manager with a more informed view on the actual performance of the employee. In order to do this fairly the manager should have a plan for gathering information about the employee's work performance. If observations are performed only once, the accuracy of the observation can come into question. If the employee knows they are being observed, they may perform to a higher level than normal, or they may be nervous and perform poorly. Either may not be a true reflection of the employee's normal or 'every-day' performance.

The gathering of information on an employee's performance can come from a range of sources. A common method is known as '360-degree feedback'. This method of evaluation requires observations from a range of people that the employee comes into contact with. This could involve seeking feedback or information from fellow employees (who work closely with the employee), as well as any supervisors that regularly observe the employee in action. This helps to ensure that a fair and honest evaluation is conducted as information is gathered from a range of sources, rather than simply one source where the risk of a biased evaluation is higher. Those that are asked for information on the employee will normally be asked to fill out evaluation forms. It is important to use key evaluators that have observed the employee regularly so they are able to provide a fair an honest review on the employee's performance over time.

It can sometimes be difficult to analyse if objectives have been achieved with this method, because not all observers will be privy to the objectives of the individual employee. In addition, some feedback might be inaccurate as some employees could have a poor relationship with the person being reviewed and wish to harm their reputation and negatively impact on their appraisal.

> **Exam Tip:** It is a common mistake for students to think of performance management and performance appraisals as the same thing. A performance appraisal is a method used in performance management.

> **Exam Tip:** Question 1c of the 2020 exam asked students to propose and justify one performance management strategy that could be used by a manager to reduce staff absenteeism. The question was based on a small case study where the business was aiming to reduce staff absenteeism by 20%. Questions such as these are often handled poorly by students. While most students are able to propose an appropriate performance management strategy, many will not justify the chosen strategy in terms of it reducing staff absenteeism. Some students will state that the strategy will reduce staff absenteeism, however will not clarify why their chosen strategy will actually achieve this. When justifying, it is important to convince the reader and demonstrate why your chosen strategy will achieve a reduction in staff absenteeism (or whatever the specific question is referring to).

## *Termination*

Termination is where the working relationship ends due to the employee leaving the business either voluntarily or involuntarily. Termination is an important part of any business because the way it is handled can have an effect on its culture. Most businesses are looking at ways to improve profits, causing them to search for strategies to improve efficiency and reduce expenses. Given that one of the major expenses for many businesses is wages, it can sometimes result in many businesses restructuring in order to reduce costs, which often causes redundancies. The increase in technology and the changing consumer trends has seen some older industries being shaken up and needing to use termination strategies to remain competitive. Many businesses are faced with aging workforces and are facing a large portion of their workforce heading towards retirement. This can be a large transition for both the employee and the business so it is important that it is handled well.

> **Exam Tip:** In this section, it is not only important for students to know the different methods of terminations, but also the employee entitlements and transition issues that may arise. Entitlements can be seen as the rights that must be adhered to legally.Transition issues can be seen as the areas that a business will go above their legal obligations in the area of terminations. These are the things that a business may consider doing to help in the transition that are not a legal obligation

With all of the forms of termination outlined below, it is important that the business understands their legal obligations, especially for the involuntary methods (where the employee is being forced to leave the business). If a business fails to follow the correct procedures, they open themselves up to disputes and litigation. Australian employees are protected by the Fair Work Act to ensure they are not unfairly dismissed, given appropriate notice for redundancy or even allowed time off to attend interviews during a redundancy notice period. We will now examine the various methods of termination.

**Resignation**: This is where the employee decides to leave the business. This can be for a variety of reasons including:

- Unhappy with their current job
- Moving location
- Receive a better offer from another business
- Start their own business
- Wanting to change careers

It is important for the business to find out what those reasons are so the business can determine if there is an area the employee is unhappy with. An **exit interview** is where a manager asks a series of questions to the resigning employee. Questions are often based around the reasons why the employee is leaving, but can also be about areas

the employee feels the business can improve. This allows the business to identify any issues that may be forcing employees to leave. They can then rectify the issues if they deem it necessary, which may help to reduce staff turnover in the future.

### *Entitlements & Transition Issues for Resignation*

a period of notice to their employer before they leave. The amount of notice they need to give will be stipulated in the Award or Enterprise Bargaining Agreement (EBA) [More on this in later sections.] In terms of transition issues, it is unlikely that the employee will require assistance from the business with their transition into their new direction.

**Retirement**: This is where the employee leaves the business with the plan to no longer be part of the labour force. This can be a major change in a person's life and it should be handled as such by the business. Some people can find this change in their life difficult and a business should support the retiree during this time. It is also important that a business plans for its own transition. If a business has a large portion of its workforce nearing retirement age, it may have many years of experience that will be leaving the business in a short space of time due to retirement. Succession planning is an important aspect here so that when experienced employees retire, the business has competent people to step into the vacant roles. Succession planning is the process of developing skills and knowledge of people within the business to take on greater responsibility in the future.

### *Entitlements &        Issues for Retirement*

owing. Like any other form of termination, the business is entitled to be given notice that an employee is retiring.

Those retiring will often face issues with the transition. A business can make this transition easier by offering services such as counselling, superannuation or investment advice, along with lifestyle planning. Employers may also allow the employee to reduce the number of hours they work in the lead up to retirement. For example, a full-time employee that is planning to retire in the next few years may work four days for one year and three days the final year as they begin the transition into retirement.

**Redundancy**: This is when an employee leaves the business because their job no longer exists and the people that held those jobs are retrenched. This can be for a variety of reasons such as, poor financial performance, restructure or even the introduction of new technologies.

Often businesses will first offer *voluntary redundancy*

which they must notify the business if they are to take up the offer. Some employees may wish to take up the redundancy offer because they were thinking of leaving anyway. For example, some employees may be close to retirement and see it as an opportunity to receive a redundancy payout; others may have been considering starting a business or changing careers. The redundancy payout can provide these employees with the incentive to take up voluntary redundancy.

If there are still more positions that need to be made redundant after the process of voluntary redundancy, **involuntary redundancy** will take place. Involuntary redundancy is where the employee is told they will no longer have a position within the business and they are forced to leave the business. They still receive the same monetary payout as those taking up voluntary redundancy, except they are forced to leave the business.

### *Entitlements & Transition Issues for Redundancy*

The amount they receive will be outlined in their workplace agreement. Employees are also entitled to time off work to attend job interviews and look for new employment as well as pay for the work they have competed.

Redundancy can be a major change for employees and it is important that the business supports them in this transition. Businesses can offer support by providing counselling, career counselling, assistance writing resumes, outplacement services and/or extra training to enhance their employability. *Outplacement*

employment. This may include offers to train in interview skills or finding other specific job opportunities, all paid for by the business.

## Dismissal

Dismissal is when the employee is forced to leave the business for issues such as poor performance or serious misconduct. There are two main forms of dismissal:

**Summary Dismissal:** This is where the employer can dismiss an employee without notice or warning when the employee has had a serious breach of conduct. Serious misconduct includes things such as theft, harassment, fraud, or breaching safety standards.

**On Notice Dismissal:** Due to underperformance or breach of policy the employee can be dismissed on notice. This is where they are given a warning on their performance, it is recorded and they are given an opportunity to improve. If there continues to be reoccurrences, the employee will be given notice of their termination. How much notice is required will be set out in the workplace agreement.

*Entitlements & Transition Issues for Dismissal*

entitlements such as annual leave and any payments for the notice given. The amount of notice is normally 1-5 weeks. As mentioned earlier, employers need to ensure they know their legal obligations when dismissing employees. *Unfair dismissal* is where an employee has been dismissed from their job in a harsh, unjust or unreasonable manner. Employees that have been employed by the business for at least six months are entitled to apply for unfair dismissal or 12 months of employment for a small business.

Some businesses will decide to help employees manage this transition out of the workplace. While a dismissal can often be a bad experience, and the business simply wants to see the employee gone, this is not always the case. Sometimes the employee has given their best effort and things just haven't worked out. There are many cases where businesses are offering **career transition services** to employees that are going through dismissal. Career transition services are similar to outplacement services, in that they aim to assist the employee to find new work. This is going beyond the business's legal obligations and is an increasing practise for businesses looking to be socially responsible.

> **Exam Tip:** When addressing entitlements during termination, it is common for students to state that businesses pay out sick leave when the employee leaves the business. However, this is not normally one of the accrued benefits the employee receives when they leave the business.

### REVISION QUESTIONS 3 – Managing the Employment Relationship

1. Define training
2. Distinguish between on-the-job training and off-the-job training
3. Simtech is a large electronics manufacturer. Over the next 3 months it will be implementing new technology into its manufacturing which will improve productivity. Employees need to be trained in how to use the new technology. Discuss the type of training that would be best in this situation
4. Explain 2 forms of on-the-job training
5. Explain 2 forms of off-the-job training
6. Outline the advantages and disadvantages of both on-the-job and of-the-job training
7. Explain the benefits of training to both the employee and the employer
8. Define performance management
9. Outline the relationship between performance management and business objectives
10. Outline 4 methods of managing performance
11. Jared owns a local newspaper that employs 30 people. He understands how important performance management is and wants to implement a performance management strategy. Describe and justify one performance management strategy that Jared can use to help make his business a success
12. Explain the relationship between a performance appraisal and training
13. Define termination
14. Outline the difference between voluntary termination and involuntary termination
15. Describe the 4 methods of termination
16. Fiona is the Human Resource Manager at a large technology company. After a strategic planning meeting the company has decided to cut costs and reduce the workforce by a total of 300 employees across all divisions. Describe two transition issues associated with the redundancy at the technology company.
17. Justify the use of an exit interview
18. Distinguish between summary dismissal and on-notice dismissal
19. Outline the difference between voluntary redundancy and involuntary redundancy
20. Explain one entitlement issue and one transition issue with retirement
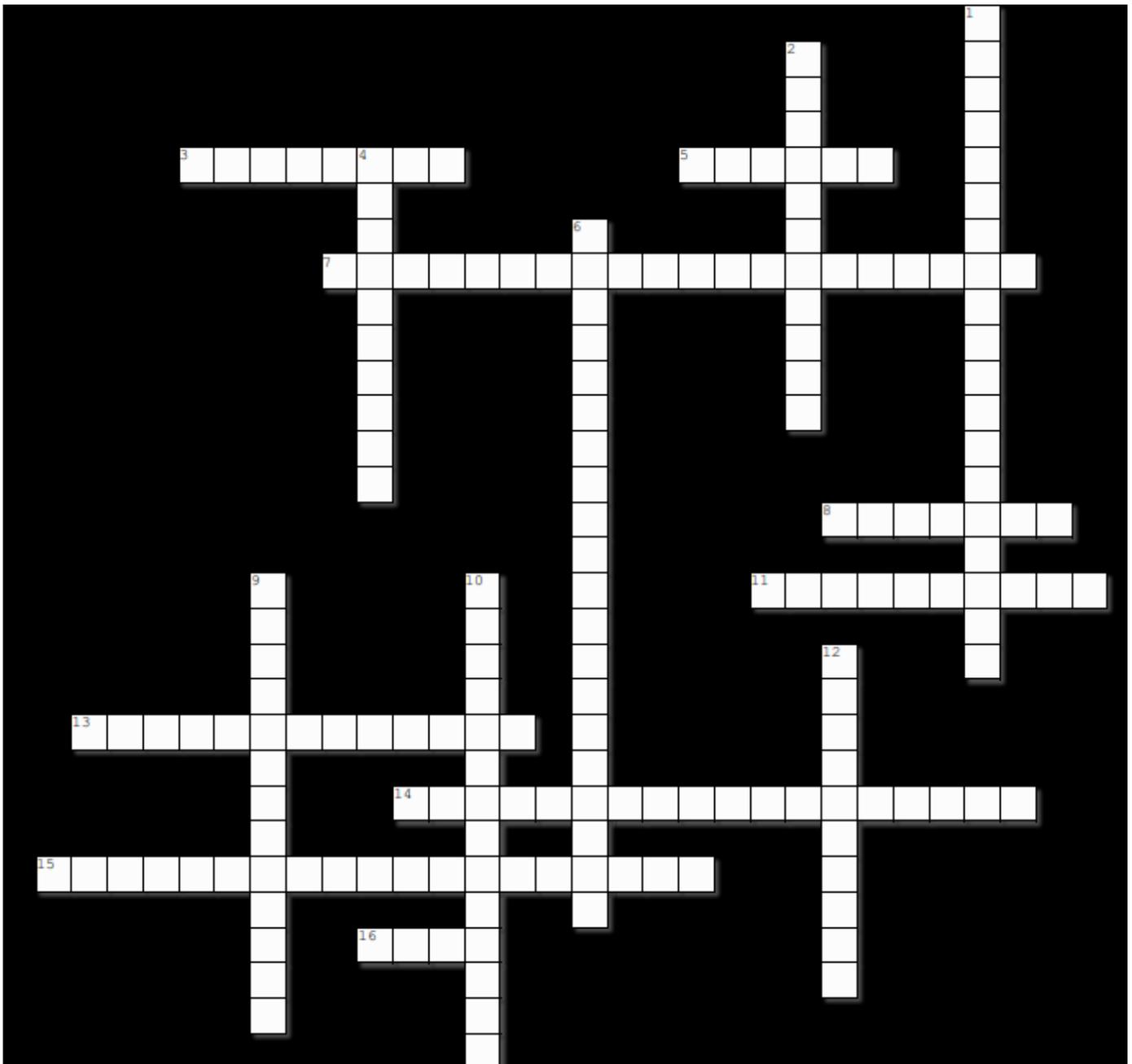
**Across**

**3**. Training Needs _____

**5.** Employees must give this to their employer when resigning or their pay can be docked (withheld)

**7.** An organisation that helps manage redundancy

**8.** Form of instant dismissal

**11.** Management By _____

**13.** A way to find out why an employee has resigned

**14.** A socially responsible consideration during dismissal

**15.** Where employees decide to take a severance package

**16.** Disadvantage of 'Off-the-job training'

**Down**

**1.** Using secret shoppers is a form of _____

**2.** A legal obligation during termination

**4.** An employee is placed in an environment that mimics a real situation

**6.** Process that evaluates employee performance, provides feedback and identifies training

**9.** A form of training where the employee is shown how to perform the task

**10.** A performance management strategy where the employee evaluates their own performance

**12.** Where an employee leaves the workforce

# *Roles of Participants in the Workplace*

Each of the following participants plays a vital role in businesses achieving goals and objectives: human resource managers, employees, employer associations, unions, and the Fair Work Commission. These key participants are heavily involved in the 'workplace relations' area of the business also. Before examining the roles that each participant plays, it is necessary to first provide some background on what is meant by workplace relations.

## *Workplace relations*

employed by a business they sign a contract which outlines the wages and conditions they will receive as well as the tasks they need to perform. There are many conditions that are involved in the contract, however the most common ones include leave entitlements, such as annual leave, sick leave and parental leave.

> **Exam Tip:** The terms workplace relations, industrial relations and employee relations are often used interchangeably and students will see these terms referenced in past examinations. For the purposes of VCE Business Management they mean the same thing.

The wage and conditions that an employee will receive is often the result of a negotiation between the employee and the employer or their respective workplace relations representatives. A union may represent the employee(s) while an employer association might represent the employer (we will get to these soon!). This form of negotiation or bargaining is called enterprise bargaining, because it is completed at enterprise level. Australia's current workplace relations system is typically referred to as a *decentralised system* because the negotiations are often conducted at enterprise/workplace level. [This contrasts with a centralised system which occurred in the past, where negotiations were conducted at a broader level between unions, employer groups and even governments.]

However, there are protections put in place for workers to ensure they are not taken advantage of and forced to receive very low pay and employment benefits. Australia has two main sets of protections in place for workers. Firstly, there is an industry award which sets out the minimum wage and conditions for all employees in a particular industry. The employees within that industry cannot (legally) receive wages or employment conditions that fall below those stipulated in the award. However, there is not an award for every industry in Australia. Because of this, Australia has a second form of work protections in the form of the 10 National Employment Standards (NES) and a minimum wage. The minimum wage and NES outline the minimum wages and conditions that all employees must receive if they do not have an award for their industry, or if an enterprise agreement does not govern their employment.

The aim of workplace relations is to try and align the needs of the business with the needs of employees so that both parties enter into an agreement that allows the employees to maintain or improve their standard of living while the business is able to achieve its overall objectives. The workplace relations system in Australia is overseen by the state and federal governments to ensure a fair playing field for both employees and employers. The aim of the governance is to ensure employee rights are maintained, while businesses are able to improve productivity and remain competitive in a global market. The Fair Work Act is the legislation that must be followed by all stakeholders involved in workplace relations in Australia.

Now that we have developed some understanding of workplace relations, we can advance to examine the key participants within the workplace relations system that were referred to above: human resource managers, employees, employer associations, unions, and the Fair Work Commission.

# Human Resource Manager (HRM)

The HRM is the person that manages the relationship between the business and employees. The HRM will often have both strategic and functional responsibilities. They can be involved in strategic planning so that the business is in a position to get the right types of employees into the business at the right time, which helps the business to achieve its long-term objectives. In a functional sense, the HRM needs to ensure employees have the skills and knowledge to be effective and efficient in their roles. The HRM is also heavily involved in workplace relations. The HRM will, in most cases, represent the employer and aims to create a workplace environment where employees are motivated and have the skills and knowledge to achieve the business' objectives. Some common roles of the HRM in workplace relations include:

**Negotiation of employment arrangements.** If a business has decided that it wishes to implement an enterprise agreement, it will need to do so by negotiating with the employees and their representatives. The HRM will be involved in managing this negotiation and may either represent the employer or seek out their own workplace relations specialist (such as an employer association) to represent them in the negotiations. In these cases, the HRM would act as an intermediary between the representatives and ensure that the senior managers or owners of the business are kept up to date on the negotiations. It is important that these types of negotiations are conducted in good faith so that positive relationships can be maintained and the needs of both sides are considered. An outcome that allows the employees to at least maintain their standard of living, yet improves productivity for the business, is important. This helps the business to maintain or improve its competitive advantage, which works towards a sustainable future for both employees and the business.

**Implement the agreement.** Once an agreement has been negotiated, accepted and approved by the Fair Work Commission, it must then be implemented. It is the HRM's responsibility to ensure it is implemented by the starting date. Any wage increases or changes in conditions must be in place by their due dates. Agreements are not simply there to increase the wages for employees. Instead, there are likely to be productivity gains that are built into an agreement in return for better wages and/or conditions. It is important that managers are notified of these changes so they are able to implement them and begin improving productivity.

**Resolving disputes.** While it is nice to think that interactions between managers and employees are positive, this is not always the case and often there may be a dispute within the workplace. Disputes may arise during the negotiation of a new enterprise agreement where the employees or union are not happy with negotiations and decide to take industrial action (action taken by employees as a protest, such as employees going on strike). It is important for the HRM to try and resolve this dispute quickly so that the employees get back to work and can become productive once again. Alternatively, disputes may arise during the time of an agreement, such as an employee who might be unhappy with how they have been treated by their supervisor or another employee. Again the HRM may look to conduct mediation to help the disputing parties resolve their conflict.



**Taking disciplinary action.** Employees may face disciplinary action for not conducting the work outlined in their contract or by breaching company policies. It is the role of the human resource manager to oversee the disciplinary action and ensure that it is conducted fairly. The employee may receive an official written warning that outlines where they need to improve.

**Termination**. As discussed in the earlier section, termination occurs when the employment relationship between the employee and the business comes to an end. The human resource manager needs to ensure that employees that are entering the termination phase receive all of their entitlements. For example, during times of redundancy, many of the employees are entitled to a redundancy package. The human resource manager needs to manage this process so that the employees receive their full entitlements.

Other roles (not necessarily related to workplace relations) that the HRM is responsible for include:

- *Recruitment & selection*. Recruitment is gathering a pool of qualified applicants, while selection is then choosing the most appropriate applicants for the business.
- *Training & development*. This ensures that the employees are improving their skills that allow them to perform to a higher level in their current role as well as preparing them to take on greater responsibilities in the future.
- *Rewards & recognition*. Designing, implementing and managing any reward and recognition programs the business feels will help improve the motivation of employees.
- *Occupational health & safety*. The human resource manager needs to stay up to date with OH&S legislation and ensure the workplace is compliant with all areas of the law.

> **Exam Tip:** In the 2017 exam, students were asked about the role of the human resource manager (HRM) in workplace relations with respect to a specific case study. Weaker responses were those providing very general comments about the role of the HRM. For example, writing about how the HRM recruits employees and manages the relationship between employees and management. However, the case study was about determining new wages and conditions for its employees. Stronger responses will have been those focusing how the HRM would look to negotiate with the employees (or their union) as part of enterprise bargaining to come to an agreement that benefitted both the employees and the business.

> **Exam Tip:** When discussing the role of a HRM, students should avoid saying that the HRM will represent employees during a negotiation. The reality is that a HRM is more likely to represent his or her employer during any form of wage negotiation.

## Employees

Employees are those that work in the business in exchange for remuneration, usually in the form of a wage. Their role is to work towards achieving business objectives. It is important that each employee knows their role as each individual plays a role in the achievement of these objectives. Depending on the business, many employees are expected to be involved in decision making and the development of the business. Each employee will play a different role in helping the business achieve its strategic objectives. These more specific roles are stipulated in an employee's job description, which outline the duties they must perform in their position.

Today, employees have a more active role to play in workplace relations given that many businesses rely on enterprise agreements, which are negotiated at the enterprise level. While a union will often represent employees during the negotiations of a new agreement, the employees will need to vote on the terms and conditions contained in the (proposed) agreement. Employees are also able to vote for or against industrial action, such as a strike during the negotiation period. While the employees are conducting their work, they need to ensure they are carrying out the tasks in the job description and following company policy to avoid any disciplinary action.

## Employer Associations

An employer association is an organisation that provides advice and support to member organisations (i.e. employers) to help them better understand their obligations in the workplace, as well as provide more generic assistance in their dealings with stakeholders more generally. For example, the Australian Retailers Institute has members that are employers in the retail industry. These members have a common interests and provide support for each other. An employer association aims to assist an employer in areas of:

- *Workplace relations*

  enterprise bargaining period (the negotiation between employer and employees in regards to wages and conditions.)
- *Changes in laws*

- *Networks*

  beneficial relationships with other business owners.
- *Human resources*

## Unions

A union is an organisation that aims to preserve and/or advance the wages and working conditions of employees in a particular industry as well as protect the rights of workers during their period of employment. Union membership is voluntary and employees that opt to become members pay an annual fee for union services. The union will often be called in to represent its members when a new enterprise agreement is being negotiated. Their aim is to get the best wage and conditions for its members without jeopardising the financial future of the business. If the negotiations are not going well, the union can recommend that its members take industrial action, such as a strike.

A representative from a union can be used during a workplace dispute. If an employee has a dispute with their employer, or an employee is receiving disciplinary action, a union representative may be used to ensure the employee is treated fairly. A union may also offer legal representation or advice in situations where the employee requires it, such as for claims of unfair dismissal.

The rate of union membership in Australia has dropped significantly since the workplace relations system became increasingly decentralised from the early 1990s. Since this time there have been many changes in legislation which reduced the amount of power unions have in the workplace relations landscape, resulting in many employees questioning the value of union membership.

Within the workplace, the union members will usually vote for a union representative (also known as a 'shop steward'). This employee is then available to provide any advice or support that is required. If issues arise that are beyond the representative's knowledge and experience, workers from the union can be called in to provide advice or support.

## Fair Work Commission

The Fair Work Commission (FWC) is Australia's national workplace relations tribunal. The FWC was put in place after the government passed the Fair Work Act 2009, which outlines the rights and responsibilities of employers and employees. The FWC operates under the Fair Work Act to ensure that these rights and responsibilities are fulfilled. The Fair Work Ombudsman is another independent statutory office that is in place to enforce compliance with the Fair Work Act. They provide advice to employers and employees on pay rates and other issues regarding Australia's workplace relations system.

Some roles of the Fair Work Commission include:

- **Approve enterprise agreements**. Once the employer and employees have agreed to the terms of a new enterprise agreement, it must be lodged with the Fair Work Commission who check to see it meets their requirements. There are many requirements that need to be met if an agreement is to be approved including:
  - Bargaining has been conducted in good faith
  - The employees would be better off overall on this agreement than they would be on an industry Award (i.e. their wages and conditions go above what those in the industry Award)
  - There is a nominated expiry date
  - Dispute resolution procedures are stipulated in the agreement

- **Approve or disapprove industrial action**. Industrial action from either the employer or the employees cannot be taken legally without being approved by the Fair Work Commission. If the industrial action is approved, then it is classed as **'protected action'** and gives them immunity from civil liability. If industrial action is not approved it is classed as **'unprotected action'** which may result in financial penalties from the Fair Work Commission.

- **Resolve disputes** if required through mediation, conciliation or arbitration. If disputes cannot be resolved within the workplace, the Fair Work Commission can act as an independent third party to help resolve the disputes.

- **Provide a safety net of minimum conditions** (including minimum wages) in Awards. The Fair Work Commission has the power to make changes to industry awards which set the minimum wages and employment conditions for an industry.

- **Remedy unfair dismissal claims**. Employees that feel they have a case for unfair dismissal can apply to the commission within 21 days to have their case heard.

## *Wages and Conditions of Employment*

As already discussed, employees perform work for a business in exchange for money and other conditions or benefits (e.g. leave entitlements). The total remuneration provided to employees will, to a large degree, be determined by the business. However, a business needs to find a balance between offering employees an attractive enough package to first entice, and then retain, highly skilled employees, while simultaneously keeping the business financially viable in the long term. Ultimately, the remuneration provided to employees will be heavily influenced by the prevailing conditions in labour markets. For example, if there is a shortage of particular types of workers (such as mining engineers during the mining boom), then businesses will be required to offer a relatively large remuneration package to attract workers. In contrast, if there is a surplus of workers (e.g. an abundance of cleaners) then employers will only need to offer low and basic remuneration in order to attract these workers.

When a new employee agrees to work for a business they will sign an agreement that outlines the wage and other conditions they will receive. The **conditions of employment** are the benefits they receive including: annual leave, sick leave, redundancy pay, parental leave, redundancy pay and many other benefits. As part of the agreement, the employee will be offered a particular employment arrangement. Common employment arrangements include:

- *Permanent Employment*

  employees have a nominated number of hours they will work and receive the same benefit of the full time employee (annual leave etc.) on a pro rata basis.
- *Fixed*

  employee yet there is a specific end date.
- *Casual employment*

  of the standard hourly rate).

A business needs to decide on the type of agreements they offer employees. The type of employment arrangement (full-time, part-time or casual) is important, yet the business also needs to decide what wage and other benefits the employee will receive. This is stipulated in the agreement the employee signs.

Before we look at the types of agreements available to employers it is necessary to look at the **National Employment Standards** (NES). All agreements must include the NES. The NES outline 10 conditions that protect the rights of employees to ensure they are not taken advantage of by employers. The basics of the 10 National Employment Standards are outlined in the table below.

| 10 Minimum Standards include: |
| --- |
| 1.  **An employee can work a maximum of 38 hour per week** |
| 2.  **Certain employees are able to request flexible working arrangements** |
| 3.  **Parental leave and related entitlements** |
| 4.  **Annual leave** |
| 5.  **Personal carers leave and compassionate leave** |
| 6.  **Community service leave** |
| 7.  **Long service leave** |
| 8.  **Public holidays** |
| 9.  **Notice of termination and redundancy pay** |
| 10. **Fair work information statement** |

The National Employment Standards, along with the National Minimum Wage, are the basic protections for all employees in Australia. These set the bare minimum wage and conditions that all employees must receive from their employer. All agreements must include these 10 National Employment Standards as a bare minimum. It is unlawful for any employer to provide below these minimum standards to their employee.

> **Exam Tip:** The National Employment Standards are unlikely to be specifically referred to in the examination given that they are not included in the study design. However, knowledge that these standards exist can be helpful because they set the minimum standard for all employees across Australia.

Now that we know the minimum standards that must be included in all agreements, we can look at the types of agreements available to employers. These are the types of agreements used to determine the wages and conditions of employment for employees. If these agreements do not apply to a particular business, they must meet the minimum wage and national employment standards, which helps to ensure that all workers receive fair pay and protection in Australian workplaces.

**Awards**

Awards set out the minimum wages and conditions employees are entitled to in a particular industry. The National Employment Standards in the previous section set the minimum conditions for all workers in Australia. The award, is more specified because it sets out the minimum wages and employment conditions for a particular industry. Awards therefore, act as a safety net for employees that ensures an employee does not receive wages or conditions that are below the set industry award. Some businesses will use the award as their main agreement. This means their employees will receive the minimum wage and conditions for their industry. Other businesses will have an enterprise agreement which will mean their employees will receive higher wages and/or better conditions than those stipulated in an award. In this situation the industry award is used as the benchmark for assessing enterprise agreements before approval from the Fair Work Commission.

Managers need to be aware of the award that applies to them so they know the minimum wages and conditions they must offer employees. Some businesses may have two or more awards that apply to them. For example: a building and construction business that has qualified trades people, as well as office staff, will have two awards that apply to them:

1.  The Building and Construction Award (for the qualified tradespeople)
2.  Clerks Award (for the office staff)

The Fair Work Commission is responsible for making the different industry awards and may consider submissions received from unions or employer bodies. As the workplace relations system in Australia changed and evolved, the awards became increasingly complex, with many inconsistencies and overlapping conditions. As a result, the awards were eventually modernised and simplified into over 100 industry and occupation awards. The awards must include the 10 National Employment Standards, but can also include other clauses above the NES. These clauses include:

- Pay
- allowances

- hours of work
- rosters
- breaks
- penalty rates
- overtime

As mentioned earlier, the award does not apply if a business has an enterprise agreement. Let's take a look at these types of agreements.

## Agreements

**Enterprise agreements** (also known as collective agreements) set out the wages and employment conditions for a group of employees at a particular workplace.

Enterprise agreements are determined through **enterprise bargaining**. Enterprise bargaining is the negotiation of wages and working conditions at the workplace level, through negotiations between an employer and employees (or their respective representatives). In contrast, in an award, the wage and conditions are determined by FWC, with no direct involvement from individual workplaces.

All enterprise agreements must meet or exceed the National Employment Standards, have wages and/or conditions that go above the industry award and include a **flexibility clause**. This flexibility clause allows an employee and an employer to make alternative arrangements to the agreement. For example:

*Paul is expected to work from 9am – 5pm. However on a Tuesday and Thursday Paul wants to coach his daughter's soccer team and training begins at 4:30pm. On these days Paul would like to begin at 8am and finish at 4pm, however the agreement states that employees are to be paid penalty rates if they work before 9am. The two parties may come to an agreement where Paul can work his desired hours on training days and will forego the penalty rates.*

Once an agreement has been agreed to by both parties, it must be approved by the Fair Work Commission. The Commission will look to ensure:

- Both parties have bargained in good faith
- The agreement passes the better off test. This is where the FWC ensures an employee would be better off overall on the agreement rather than the industry award.
- The agreement has been agreed to by relevant employees (a majority of over 50% have voted 'yes')
- The agreement does not contain terms that exclude elements in the National Employment Standards (NES)
- The agreement does not include any unlawful terms
- The agreement specifies an expiry date (not more than 4 years)
- The agreement provides a dispute resolution process
- The agreement includes a flexibility clause

**A process for an enterprise bargaining agreement**



Employees gather to decide what they want in a new agreement (possibly with their union). Employer does the same

Bargain in good faith commences

Both parties agree to terms

Employees vote on the agreement

Fair Work Commission approval

New agreement is implemented

Decision to commence negotiating a new agreement (usually before the expiry of the current agreement)
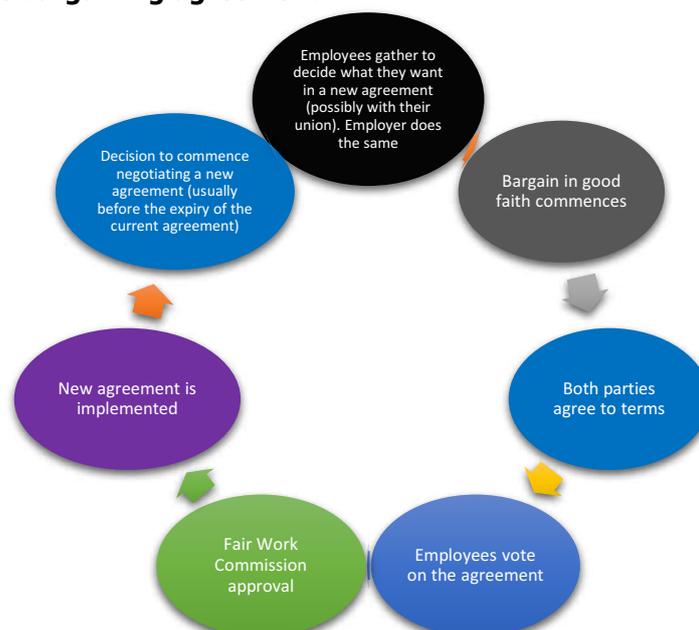
**Individual Contracts** are an agreement between an employer and an individual employee. These types of contracts must still comply with the NES, relevant awards or enterprise agreements. It is therefore likely that the wage and conditions are above those listed in the relevant agreements for the particular business. Individual contracts are often common law contracts for highly paid employees where any disputes that cannot be resolved within the workplace are able to be settled in court rather than through the Fair Work Commission.

*In Summary*

Many businesses these days will have an enterprise agreement. This allows them to negotiate wages and conditions with their employees that are above the minimums. These enterprise agreements must still comply with the conditions set out in the industry award and the NES. Despite this, enterprise agreements provide more flexibility for businesses and employees. The employees are able to negotiate higher wages and/or improved employment conditions, while the business is able to negotiate productivity gains. The main form of agreement is the enterprise agreement (also known as the collective agreement) which sets out the wages and conditions for a group of employees in a business. Individual agreements are for individual employees and are common law contracts. These type of contracts are often for highly paid employees such as executives.

If a business does not have an enterprise agreement, the employees will fall onto the industry award. The award sets out the minimum wages and employment conditions for those employees within the industry. The award is determined by the Fair Work Commission and must comply with the National Employment Standards. Employees are unable to lawfully receive wages and employment conditions below those set out in the award.

> **Exam Tip:** The 2018 exam asked students to explain awards and agreements as a way of determining wages and conditions. The question then asked students to propose and justify the most appropriate method for a specific case study. This shows that, not only do students need to be able to explain what an award and an agreement is, but also that students need to understand the situations they are most appropriate. Either method could have been proposed by students in the 2018 exam, but the key was the justification. In the event that a similar question surfaces this year, you need to ensure that you understand the benefits of both an award and an enterprise agreement and be able to use this information to justify its use.

> **Exam Tip:** The 2020 exam asked students to compare awards and agreements as methods of determining wages and condistions of work. It is therefore important that students can explain the similarities and differences between the two methods.

**Similarities between Awards and Agreements**

- Both approaches must comply with the 10 National Employment Standards (NES).
- Both involve the Fair Work Commission. (i.e. Awards are set by the FWC and agreements must be approved by the FWC).
- Both are legally binding and enforceable once agreed upon and approved.
- Both outline the wages and conditions of employment for employees in the business.

**Differences between Awards and Agreements**

- Awards are established by the Fair Work Commission whereas agreements are negotiated through enterprise bargaining.
- Agreements provide more flexibility where productivity gains can be rewarded with improved wages and/or conditions, whereas productivity gains cannot be negotiated into awards.
- Awards cover all employees in a particular industry whereas agreements cover a group of employees at a particular workplace.
- Awards set the minimum wages and conditions for the industry whereas an enterprise agreement will often include wages and/or conditions that are higher than those in the award.
- Agreements can be tailored to suit the needs of a particular business whereas awards cannot.
- Negotiating an agreement is often more time consuming than establishing an award.

# *Dispute Resolution*

There are times when disputes arise in the workplace. Disputes may occur for a variety of reasons including:

- wages
- hours of work or other conditions
- occupational health & safety concerns
- job security
- discipline action
- the way an employee was treated by a manager or other co-worker.

When conflicts occur, it is important that the underlying grievances are taken seriously and the conflict is resolved quickly.

Effective dispute resolution can help employers maintain positive relationships with employees by addressing the issues early on. Employees are likely to be more productive if they know their concerns are taken seriously and believe that the employer is working hard to come to a fair resolution.

While many disputes will simply be a complaint raised within the workplace, there are other times where they can escalate and industrial action can take place. Industrial action will often take place during the bargaining period for a new enterprise agreement. When negotiations break down, one or both parties may decide to take industrial action to persuade the other party to agree to their terms. Some common forms of industrial action include:

- *Strike:* the employees remove themselves from the workplace for a specified period of time
- *Lockout:* the business refuses to allow the employees to attend work
- *Work bans:* a ban is placed on a type of work or a piece of equipment. E.g. a work ban may be placed on a fuel truck which means that planes cannot be refuelled
- *Picket line:* a protest that takes place outside the workplace. This not only attracts media attention but may also prevent suppliers from entering the business or non-union members from attending work
- *Work*-to-rule: the employees only perform the tasks that are specifically listed in their job description and do not perform any extra duties
- *Go*-slow: employees adopt a practice that restricts, limits or delays the work performance resulting in poor productivity.

While the purpose of this industrial action is to try and force the other party to concede in part or in full (i.e. move to accept and adopt their stance in the dispute), it is important that disputes are resolved quickly. This will help to ensure that the relationship can return to being positive, one where the employees are happy and motivated towards achieving business objectives.

*Protected & Unprotected Industrial Action*

For industrial action to be lawful, it must be approved by the Fair Work Commission. When a party (employees or employer) decide to take industrial action, they must notify the Fair Work Commission who will decide to approve it or not. If approved, it is deemed "protected industrial action" and therefore lawful. If the Fair Work Commission disapproves the action, it is deemed "unprotected industrial action" and is therefore unlawful. If the party continues with unprotected industrial action, damages can be sought.

There are a number of requirements that must be met before the Fair Work Commission approves the action, including:

- no action taken before the expiry of a current enterprise agreement
- both parties have genuinely tried to reach an agreement
- required notice has been provided to the other party
- employee action has been authorised by a secret ballot (i.e. an anonymous vote)

> **Exam Tip:** The information above is aimed at extending your knowledge of workplace disputes (especially when coming to a new enterprise agreement). While it is not part of the study design, and therefore unlikely to be examined specifically, it can help students understand industrial disputes in more depth.

As mentioned earlier, disputes can arise as a result of many issues (enterprise bargaining being just one reason). Any dispute should be taken seriously by the business so it can be resolved in a fair manner, resulting in employees getting back to being productive. We will now go through the dispute resolution processes in the study design.

## Grievance Procedure

A grievance procedure is a formal process where internal disputes can be addressed. The grievance procedure gives employees the opportunity for their dispute to be resolved in the workplace. The grievance procedure will outline what the employee must do to have their grievance resolved. For example, the first step may be to bring the grievance to their supervisor. The supervisor may be able to resolve the issue, if not then the issue may be brought to the next level of management and so it continues until the grievance is resolved. One of the benefits of using a grievance procedure is that disputes can be resolved within the business. Also, because the procedure is outlined, each grievance should be handled in the same way, making it fair and equitable for everyone. If the conflict is not resolved, one of the steps in the grievance procedure may be to undergo mediation.

## Mediation

Mediation is a dispute resolution method where an independent third party will aim to facilitate the conversation between the two disputing parties. The third party can be an independent person agreed to by the disputing parties, a representative from the business or even a representative from the Fair Work Commission.

It is important to note that the mediator (the person facilitating) only facilitates the conversation and <u>does not</u> offer suggestions or make any decisions on behalf of the disputing parties. The goal is for the disputing parties to come to a resolution themselves. The mediator ensures that everyone gets to have their say and be heard. The benefit of mediation is that the disputing parties come to a resolution themselves. This is beneficial because it is more likely that each of the disputing parties will be happy with the outcome. One of the drawbacks is that there is no guarantee that a resolution will be arrived at, which will result in the dispute dragging on for longer.

> **Exam Tip:** In the 2017 exam students were asked to distinguish between mediation and arbitration. Many students failed to describe mediation effectively. Many of these students stated that mediation assists the parties in coming to an agreement or offers advice in a dispute. This is not the case for mediation. Mediation is where the independent third party facilitates the conversation so the two disputing parties can come to an agreement.

## Conciliation

Conciliation is similar to mediation in that an independent third party aims to facilitate a resolution between two disputing parties, however the third party often makes suggestions to the disputing parties on how to best move forward. Conciliation is often used in unfair dismissal cases and the Fair Work Commission may be called upon to act as the independent third party.

In conciliation, each party can negotiate in an informal manner to try to come to an amicable solution, however they are under no obligation to reach an agreement. Each party has the right to hold their position and move forward to an arbitration hearing. The benefit of conciliation is that if an agreement is reached it is because both parties have agreed to the outcome.

> **Exam Tip:** Conciliation is not specifically listed in the Study Design. This means you can still use it in your responses where appropriate, however you cannot be asked specifically about it.

## Arbitration

Arbitration is where an independent third party hears the arguments of both disputing parties and makes a binding decision on the outcome. Sometimes arbitration is necessary because both parties are unable to come to an agreement through processes such as mediation and conciliation.

The FWC will hold arbitration hearings for a variety of disputes including unfair dismissal, disputes about awards and disputes over enterprise agreements. One of the benefits of arbitration is that there will be a definitive outcome to the dispute. This can prevent the dispute from dragging on any longer. However, although an outcome is guaranteed, a disadvantage is that the final decision is taken out of the hands of the disputing parties. This may result in one or both parties being unhappy with the final outcome, which has implications for the employment relationship going forward.

> **Exam Tip:** It is common for students to state that arbitration is a court hearing. This is not the case. While it is similar to a court in the sense that the disputing parties put their arguments forward and an indiependent party makes a final decision, it is not a court. Arbitration is an independent tribunal.

## REVISION QUESTIONS 4 – Wages & Conditions of Employment

1. Outline 3 roles of the human resource manager in the workplace
2. Contrast the role of an Employer Association with that of a Union
3. Explain the role employees have in the workplace
4. What is the Fair Work Commission and what involvement does it have in workplace relations?
5. *Bibson Hire is a business that rents out construction equipment. It is owned by Joel Bib and his son Jake. Bibson Hire is in the process of negotiating a new enterprise agreement with the workers union. Negotiations have broken down and the union is considering strike action*
   and the Union in the situation at Bibson Hire
6. Outline the 3 main types of employment arrangements
7. Explain the purpose of the National Employment Standards
8. Describe an award and outline the purpose of an award
9. Define enterprise bargaining
10. Explain what is meant by a flexibility clause
11. Outline the benefits of an enterprise agreement for both the employees and the employer
12. What role does the Fair Work Commission have with respect to enterprise agreements?
13. What needs to be satisfied before the Fair Work Commission will approve an enterprise agreement?
14. *Paula runs a small café on a popular street. She currently has 8 employees. She is unsure if she should use the industry award or have an enterprise agreement*
    Recommend which one Paula should use. Justify your choice.
15. Identify 4 possible reasons a workplace dispute may occur
16. Define grievance procedure
17. Explain why it is important for a business to have a grievance procedure
18. Compare mediation and arbitration
19. Distinguish between mediation and conciliation
20.
*and a manufacturing facility all in the one location. Claudia has always ensured she implements all occupational health & safety regulations. However, her manufacturing employees have a dispute regarding their sa*
*these employees acknowledge the safety regulations are being followed, they believe that the business can go further to ensure their safety. Claudia feels extra precautions are not necessary.* **Justify an appropriate dispute resolution process for Claudia to use to overcome the dispute with her manufacturing workers**

## Quick revision crossword No 4: Workplace Relations
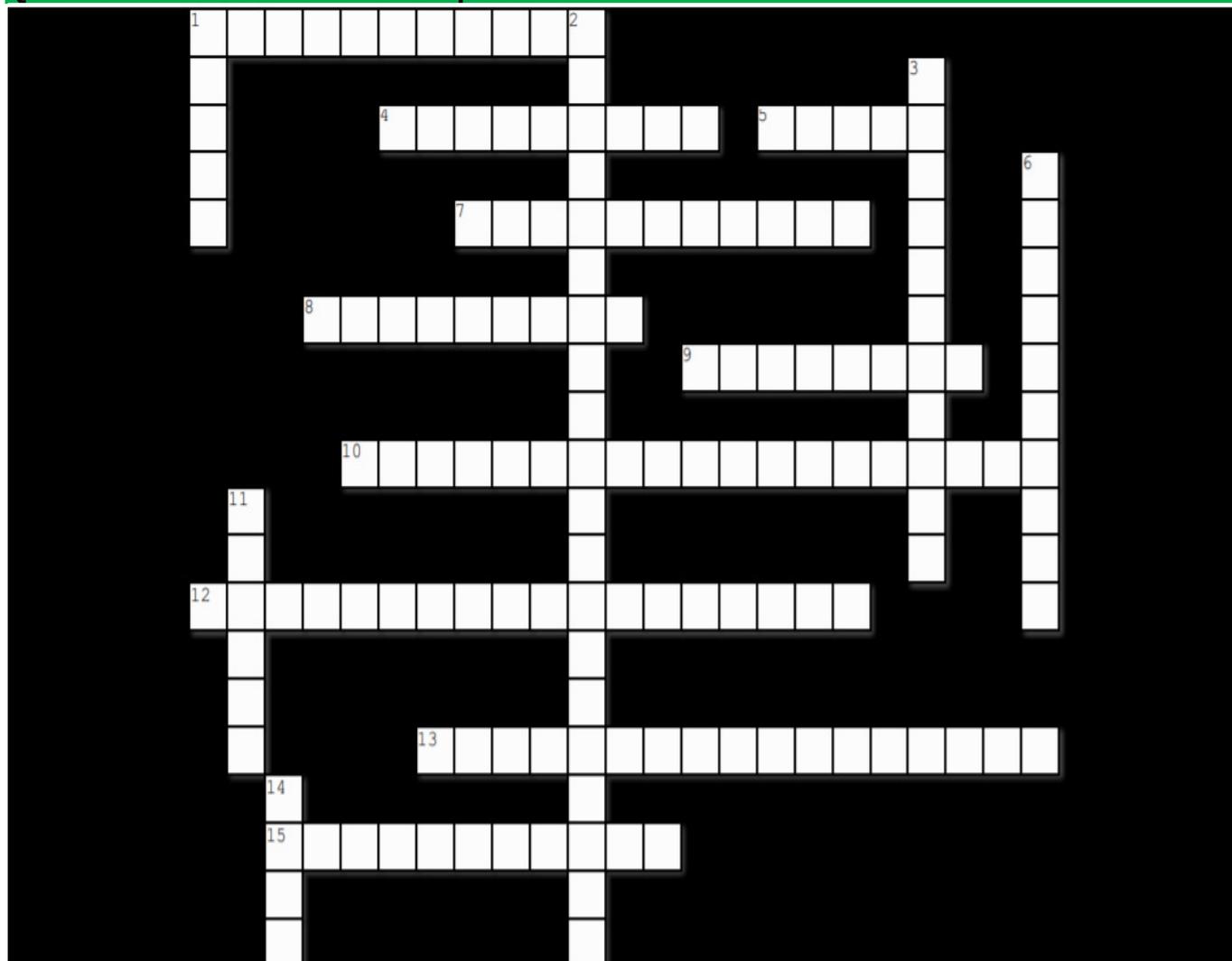
**Across**

**1.** One of the 10 National Employment Standards
**4.** Where an independent third party helps facilitate conversation
**5.** An organisation that protects the rights of employees
**7.** The legislation that the FWC operates under
**8.** An employment arrangement where there is a specified end date
**9.** During negotiations, the human resource manager normally represents who?
**10.** An organisation that represents employers in relation to workplace relations
**12.** An internal process to resolve disputes
**13.** All enterprise agreements must have this to allow employees to make alternative arrangements with their employer
**15.** Dispute resolution process where the independent third party makes the final decision

**Down**

**1.** Wages and conditions that cover an industry
**2.** The process of negotiating agreements and workplace level
**3.** Action that is not approved by the FWC
**6.** Enterprise _____ Agreement
**11.** Where the employees decide to protest by not turning up to work
**14.** The _____ Work Commission

# MINI EXAM NO 2: UNIT 3 AREA OF STUDY 2 (Total marks = 50)

## SECTION A

1. **Describe the Four Drive Theory and explain how it could be used to motivate the employees in a business you have studied this year.**                                                          **(4 marks)**
2. **Explain one entitlement and one transition issue that may result from retirement.**          **(4 marks)**
3. Cindy Bloomberg is the Human Resource Manager at Ultimate Security, a large commercial security firm in Victoria. Ultimate Security currently has five major locations throughout Victoria. To minimise costs and improve efficiency, Ultimate Security has decided to consolidate its operations and run one head office in Melbourne only. The other four offices will be closed, resulting in a reduction of office staff required. Cindy has been left in charge to ensure a successful closure with minimal disruption to customers.
    a. **Explain the role of both Cindy and the employer association when dealing with the redundancies at Ultimate Security.**                                                                    **(4 marks)**
    b. **Evaluate both awards and enterprise agreements. Justify the most appropriate method for Ultimate Security.**                                                                               **(6 marks)**
4. Mining company, Dig It, is currently in negotiations for a new enterprise agreement. Negotiations have broken down and the workers union is threatening strike action.
    **Analyse the most appropriate dispute resolution process to resolve this dispute.**           **(5 marks)**
5. **Distinguish between a performance appraisal and self-evaluation.**                            **(2 marks)**

## SECTION B
## CASE MATERIAL: Taragon

Human Resource Manager at Taragon, Jim Cook, has just presented the latest employee satisfaction data to a senior leadership meeting. The data from the most recent staff survey shows that employee motivation is at an all-time low. CEO, Shona Filipe, is shocked at the findings. Shona has lead the advertising firm for the past 8 years and prides herself on creating an environment that her employees are excited to turn up to each day. However, the data shows that staff are averaging more than 8 sick days each for the year. This has increased from an average of only 3 days just two years ago. Shona has ensured that employees are well remunerated for their work. This has enabled Taragon to attract high quality employees and helped the advertising agency develop a competitive advantage. However, Shona was shocked that while employees felt they had good job security, they also felt they weren't provided ongoing training opportunities. More than 50 per cent of employees also expressed they felt their work wasn't valued by senior management. Shona has called for another senior leadership meeting in seven days' time to discuss solutions to the issues raised.

6. **Define the following terms**                                                                  **(4 marks)**
    a. **Management by objectives**
    b. **Performance related pay**
7. **Explain how the effective management of employees can help Taragon achieve the objective of increasing profits**                                                                               **(2 marks)**
8. **Heading into the next leadership meeting, Jim is going to propose Taragon implements a motivation theory. Describe Maslow's motivation theory and explain how Jim could use this theory to motivate the employees at Taragon.**                                                                           **(5 marks)**
9. **Discuss one motivation strategy that could be implemented to reduce the amount of days off employees are taking at Taragon.**                                                                  **(4 marks)**
10. **Justify an appropriate performance management strategy that Jim could use to improve the performance of the employees at Taragon. Describe one training option that could improve the level of employee satisfaction. Explain the relationship between your chosen performance management strategy and training option.**

**(10 marks)**

In this section, you are required to assess the responses presented for each of the questions.  You should award the responses a score and justify your decision.  Once complete, compare your assessment to that of the author (provided at the rear of the Study Guide)

## Question 1
### Outline one form of training that management could consider to ensure that employees have the required skills. 2 marks

**Sample answer 1**
One form of training is on-the-job training. On-the-job training is where the employee learns while they are at work performing their job. The employee is often trained by an experience team member of the business. On-the-job training ensures employees have the required skills as they are learning from an experienced team member who will show them how to perform tasks. The employee also gets to practice the new skills while they are performing their job which can enhance the employee's skills that are required to perform in their job.

Score out of 2 \_\_\_\_\_

Justification_____

_____

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**Sample answer 2**
One form of training is on-the-job training. This is an important type of training because the employee is able to perform their job while they are being trained while helps improve the business remain productive. The employee can be taught by an external trainer or an experience team member of the business.

Score out of 2 \_\_\_\_\_

Justification_____

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## Question 2
Future is a financial planning firm with a strong reputation. Future takes pride hiring highly talented employees. In order to retain these employees it is known for paying its staff high salaries that are above the industry average. Despite this, staff are leaving the firm at an increasing rate and Senior Management believe the staff are not working to their best.

### Explain, with reference to Maslow's hierarchy of needs, why the high salaries at Future do not appear to be motivating staff. 4 marks

**Sample answer 1**
Maslow's theory is based on a hierarchy of five human needs that include the low level needs of physiological and safety, as well as the higher level needs of social, self-esteem and self-actualisation. Maslow stated that employees will be motivated by the lower need until it has been satisfied. Once the need has been satisfied, the employee will be motivated by the next level in the hierarchy. Future are currently giving employees high salaries which is only satisfying the physiological level in Maslow's hierarchy. Because this level is being satisfied, it is no longer a motivating factor for the employees. The employees will now be motivated by a higher level in the hierarchy such as safety or social. In order to motivate employees, Future need to implement strategies that will satisfy these higher levels of Maslow's hierarchy. For example, Future could provide ongoing contracts and implement social gatherings to satisfy the safety needs and then the belongingness & love needs.

Score out of 4 \_\_\_\_\_

Justification_____

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**Sample answer 2**

Maslow's theory is based on a hierarchy of five human needs that include the lower level needs of physiological and safety, as well as the higher level needs of social, self-esteem and self-actualisation. The managers at Future need to ensure they are satisfying each of the levels in the hierarchy and pay is already being satisfied. There will be employees on different levels of the hierarchy which is why employees are not motivated.

Score out of 4 _____

Justification_____

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## Question 3

DK is a jewellery manufacturer in Melbourne. The business employs 80 workers and uses the industry award to determine the wages and conditions for its employees.

**Explain the role of the human resource manager and the union at DK.**                    **4 marks**

**Sample answer 1**

The human resource manager will represent the employer during negotiations around a new wage agreement. The HRM will take into consideration the wants of the employees to try and negotiate a deal that is beneficial for both the employees and DK. Once an agreement has been approved by the Fair Work Commission, the HRM would then need to ensure the wages and conditions are implemented in a timely manner.

The role of the union is to represent the employees when it comes to industrial relations issues. They will try and fight for higher wages in a negotiation to get the best deal possible for employees. If the union is not happy with how negotiations are going, they may decide to take industrial action such as a strike. They would need to ensure that they apply to the FWC to get the action approved to avoid any litigation.

Score out of 4 _____

Justification_____

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**Sample answer 2**

The role of the human resource manager is to manage the relationship between the employees and DK. Because DK uses the industry award, the human resource manager will be involved in ensuring that employees receive all of their entitlements stipulated in the industry award. If a dispute arises between the workers, the human resource manager would be involved in helping resolve the dispute. The HRM would follow the steps outlined in the grievance procedure to ensure that the dispute is resolved in a fair manner.

The union's role is to represent the workers at DK to offer any advice or representation if required. If the DK workers believe the business is not providing any of the entitlements stipulated in the industry award, they can ask the union for their advice or to represent them, ensuring the matter is resolved. The union can also be called upon by their members to place pressure on DK to offer an enterprise agreement in a fight for higher wages or improved working conditions. The union will also represent the employees if they are ever involved in a dispute with DK.

Score out of 4 _____

Justification_____

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## Question 4
## Distinguish between arbitration and mediation
3 marks

**Sample answer 1**
Mediation is where an independent third party helps two disputing parties come to an agreement by making suggestions on how to best resolve the conflict. While the mediator helps resolve the conflict, the final decision is made between the two disputing parties themselves. Whereas arbitration is where an independent third party listens to each side and makes a final decision about the dispute. One difference is that mediation is less formal than arbitration.

Score out of 3 _____

Justification_____

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**Sample answer 2**
Mediation is where an independent third party helps facilitate an agreement between two disputing parties. The mediator is not involved in any decision making and does not make suggestions, however will facilitate the conversation between the two disputing parties. Whereas, arbitration is where an independent third party will listen to the two disputing parties and make a final decision about how to resolve the conflict. One difference is that in mediation, the two disputing parties come to their own agreement whereas in arbitration, the independent third party makes a decision on the resolution.

Score out of 3 _____

Justification_____

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## Question 5
JB Memorabilia produces sports memorabilia in various locations across Australia. Due to increased competition from American producers, JB has decided to close three of its locations. This will result in a number of redundancies across the business.
## Describe one employee entitlement and one transition issue associated with the closure of the locations.
4 marks

**Sample answer 1**
During the redundancies that will occur as a result of the closures, the employees are entitled to a redundancy package. A redundancy package is a payment based on how long the employee has been with JB Memorabilia that helps them during the severance until they find new employment. The amount of severance pay provided is stipulated in the employment agreement.
One transition issue is that many of the employees will be left without employment as a result of the closures. This may place the employees under financial stress as they have lost their source of income for their families.

Score out of 4 _____

Justification_____

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**Sample answer 2**

Due to the redundancies, one entitlement is that employees are entitled to a redundancy package. A redundancy package is a payment to the employee based on how long the employee has worked at JB Memorabilia. This payment is to help the employees during the transition from being employed to unemployed and provides some short term financial security until they find new employment.

One transition issue could be the use of outplacement services. Outplacement services are external organisations that manage the transition for the business during times of redundancy to help find new employment opportunities for their redundant employees. This can help the employees that have been terminated because the outplacement service can help prepare the employees by providing career advice, help writing resumes and assistance in finding new employment opportunities.

Score out of 4 \_\_\_\_\_

Justification_____

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## Question 6

Bingham Finance is a medium-sized financial services firm with an excellent reputation. Bingham Finance looks to employ the best university graduates each year. It is also well known for paying its staff high salaries that are above the industry average. Despite this, senior management feel employees are not working to their full potential and a recent staff survey indicated that employees are not motivated at work.

**Management at Bingham Finance want to improve the motivation of employees. Discuss the use of a motivation strategy that could be implemented at Bingham Finance to improve employee performance.**

**4 marks**

**Sample answer 1**

One motivation strategy that Bingham Finance could implement is career advancement. Career advancement is where employees receive opportunities to be promoted and move up the corporate ladder. This can motivate employees as they see Bingham Finance is investing in them and sees potential in them. This can improve motivation as the employee takes on greater responsibility. This improved motivation will improve employee performance as the employee are motivated to work hard and be rewarded with promotions and increased responsibilities. However, it can be difficult to provide career advancement to all employees and if only some employees receive promotions it can cause resentment from others.

Score out of 4 \_\_\_\_\_

Justification_____

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**Sample answer 2**

One motivation strategy is performance related pay. Performance related pay is where an employee's wage is tied to how well they perform at work and meet targets. The more targets the employee meets the higher their wage will be. This can be a good way to motivate the employees at Bingham Finance as they will be motivated to achieve even more money than they are receiving. Attaching an increased wage to the employee meeting extended target will motivate them to work hard to achieve them. However this can cause an unhealthy rivalry between some of the employees at Bingham Finance as they work against each other to fight for clients and extra pay. This can harm the culture of the business.

Another motivation strategy investment in training. Training is where the employees learn to improve their skills so they are able to perform better in their job. Being trained in the latest financial products may help the employees perform better in their job as they are more knowledgeable about the latest product. This helps them provide an improved service to their clients and they are motivated as they are gaining confidence in their job. Employees may also feel valued as the see Bingham Finance is investing in them which can lead to improved motivation.

Score out of 4 \_\_\_\_\_

Justification_____

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# CHAPTER 3 – Operations Management

Operations is the function of the business that produces goods and/or services. Without a good or service a business has nothing to sell to consumers and therefore has no way of making money. Operations converts inputs into a final output. We will get to those terms soon, but for now just know that it is a vital part of a business and without it, businesses will not be able to achieve their objectives.

## *Operations Management & Business Objectives*

As we have mentioned in earlier sections, businesses have some common objectives such as making a profit, increasing market share and many others. **Operations management** plays a major role in businesses achieving their objectives. Let's think about what operations management does for a second.

Firstly, in order to produce a good or service it is likely the business will require some materials. The quality of these materials will play a role in the end quality of the good or service. For example, the quality of the parts used for a car, the ingredients used for a restaurant meal, the oil used for a massage, will all have an impact on the good or service that is being provided. The cost of these materials may also impact on the cost of the end product. Higher quality materials are likely to be more expensive for a business to purchase which may force it to increase the price to consumers.

Now, let's think about the processes used to create these goods or services. These can also impact on the quality of the end product. How well a designer jacket is stitched, the craft in a piece of furniture or the way a steak is cooked at a restaurant all impact on the quality of the product. The type of processes used can also impact on the speed in which goods or services are produced and the cost of producing them. For example, an expert baker may make their bread and rolls by hand. This could mean a high quality product, but the method of production is likely to make it difficult to produce large quantities quickly, resulting in a higher per unit cost (i.e. higher cost per loaf or per roll). However, a baker that uses large machinery to produce bread and rolls rapidly in mass quantities will increase **productivity** and reduce unit costs. Some might argue that this type of production results in lower quality bakery products compared to those produced by the expert baker, which can negatively impact on sales volumes and profits. Ultimately, the type of production method used will depend on the demands of consumers (or some will say, the demands of the market place). If, in a particular area, consumers are very price conscious, then a boutique or expert bakery might not perform well in comparison to a bakery producing on a mass scale.

### So what does all of this have to do with business objectives?

A business that effectively manages its operations system will be able to satisfy customers and increase profits. Implementing effective strategies will allow a business to achieve objectives based around quality, improved profits, increased productivity and increased market share. For example, if a business has an objective to increase market share, one way to achieve this is to improve the quality of its products. Operations management can facilitate this by implementing strategies, such as acquiring higher quality materials that helps to improve product standards and boost overall quality of the product. This is likely to increase customer satisfaction, leading to more sales and increased market share. Operations plays a role in other objectives also. If a business had an objective to be more socially responsible by reducing their impact on the environment, they could use energy that is carbon neutral to power their facilities. They could also introduce materials that are less harmful on the environment and use machinery that is either energy efficient or minimises wastage during production. These are just some examples of how operations can play a role in helping a business achieve the objective of being more environmentally sustainable.

# *Operations System*

It was stated earlier that operations management is the function of a business that converts inputs into outputs. This process is what we call the operations system. The operations system begins with inputs; these inputs are converted or changed through activities called 'processes'; and the end result is the output. We will now examine each of the respective elements of the operations system.

## Inputs

Inputs are the resources used to create a good and/or service. As mentioned earlier, the quality of the inputs can help improve the quality of the final product. It is important that a business is able to obtain the right quality of inputs for the right price to ensure they are able to achieve their objectives. There are five main resources that businesses use to create goods or services:

1. **Raw materials:** these are the supplies that go into the making of a product. Raw materials can come in their natural or processed state. For example, for a car manufacturer they would include the parts that make up the car such as windscreens, tyres, nuts & bolts, seats etc.
2. **Capital** - **Facilities & equipment:** these inputs include all the machinery, vehicles, computers etc. that are used during the production process as well as the facility or buildings used.
3. **Human resources**: these are the managers and employees that work to produce a final good or service.
4. **Time**: time is a non-renewable resource that a business needs to make best use of. Businesses will often assess the amount of goods or services they can produce in a period of time to measure their efficiency.
5. **Information**: this input can include information on customer trends, the market or information on how to make a product. Information can be very important for some businesses. For example, Coca-Cola keeps the information about the ingredients of its syrup recipe a secret from its competitors. This helps maintain the quality of its product and create a competitive advantage.

The types of inputs required by different businesses will vary greatly. For example, a doctor will rely heavily on information to provide a high quality service to patients. The past history of the patient and information regarding medical practices will be highly important. On the other hand, a car manufacturer will rely heavily on car parts (raw materials) and equipment (e.g. machines and robots). Although the types of inputs will vary across businesses, they are still aiming to make best use of their inputs in order to remain productive.

> **Exam Tip:** It is common for students to write that inputs are the raw materials used in production. However raw materials are just one type of input. Inputs are the <u>resources</u> used in the production of a good or service.

## Processes

Processes are all the activities used to transform inputs into the final output. For example, Apple takes all their parts (glass, electronics, cameras etc.) and transforms them through the manufacturing and assembly processes into a final product (the iPhone).

A business is often trying to use new processes to help improve productivity or quality. The type of processes used by a business will again vary depending on the type of good or service that is being produced as well as the quantity and quality that is being produced. For example, a manufacturing business that is producing in mass quantities is likely to use lots of machinery to produce the products due to their speed and efficiency. In contrast, a manufacturer that is producing a small amount of high quality products may produce them by hand with more time spent on each process to limit imperfections.



It is also important that you think about the processes for service businesses. Manufacturing businesses often use more machinery and robotics to help automate many of their processes. However, service businesses are often more labour-intensive and focus on the interactions between the business (or its employees) and the customer.

## Outputs

Outputs are the final product produced by the business. The quality of the output is a direct reflection of the inputs and processes. Outputs can be classed as either goods or services. Goods are a tangible product (meaning it can be touched or handled) such as a car, phone or book, whilst a service produces an intangible product (meaning it cannot be touched or handled) such as a flight from Melbourne to Sydney or educating VCE students.
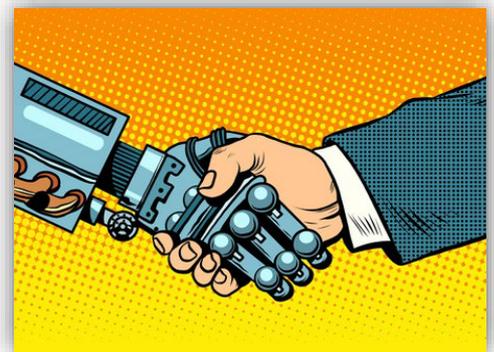
To remain competitive and achieve business objectives the output needs to meet the needs and wants of the market. It should meet the quality expectations of consumers, meet their price expectations and be delivered in a timely manner. All of this is achievable if the operations system is running effectively and efficiently. All three parts of the operations system must be in sync if the business is to achieve success.



**Inputs**
Materials such as cocoa, milk, sugar
Employees
Manufacturing facilities and equipment
Time
Information - recipe

**Inputs**
Facilities
Employees
Oils
Equipment - towels, massage tables etc
Time
Money
Information - e.g. patient history

**Processes**
Preparing ingredients
Measuring ingredients
Mixing ingredients
Quality checks
Packaging the chocolate

**Processes**
Consultation
Assessment
Performing the Massage

**Outputs**
Completed chocolate ready for sale

**Outputs**
Delivering massage and helping repair injury

An operations system for a chocolate manufacturer          An operations system for a masseuse

> **Exam Tip:** Students often forget what the 'elements' of the operations system are. If an examination question asks for the elements of the operations system, it is referring to inputs, processes & outputs.

> **Exam Tip:** The 2018 exam asked students to describe the elements of the operations system for a particular business. In these types of questions, it is important that students take the time to actually describe each element. Simply listing the element (e.g. inputs) is usually not enough to obtain the mark.

> **Exam Tip:** Students are often able to apply the operations system well to a manufacturing business. However, in the past, students were asked to apply the operations system to a service business. Many students handled these types of questions poorly because they have only practised applying the operations system  to manufacturing businesses. Ensure you know how to apply to both manufacturing and service buisnesses.

## *Manufacturing and Service*

Throughout this section we have continued to mention that operations are about the production of goods and/or services. It is important to know that manufacturing businesses (those that produce goods) are quite different to service businesses. While the operations of manufacturing and service businesses will often differ significantly, they do share some similarities. For example, both use an operations system that involves inputs, processes and outputs. All businesses use a variety of resources to produce their output, and both types of businesses produce an output that is sold or exchanged for money. We will now examine some of the key characteristics of manufacturing and service businesses.

### Manufacturing

A manufacturing business will transform its inputs into a **tangible output**. Tangible outputs are physical products that can be touched or handled. Because these goods are tangible, it means they can be **stored** and sold at a later date. For example, a book publisher that manufactures a number 1 best seller, can print thousands of copies in a day. Those copies do not all have to be sold immediately. They can be stored, moved and sold at a later date if necessary.

With a manufacturing business, the production process and consumption are not linked. For example, a car manufacturer assembles the car in a large factory. Once it is completed, a consumer will purchase the car and use

or consume that product at a later date. Another characteristic of manufactured goods is that the goods can often be used over and over after they have been purchased.

Finally, the processes used in a manufacturing business are often more capital intensive, where they use machines and equipment to produce the final output.

## Service

A service business differs from a manufacturing business in that it transforms its inputs into services that are **intangible**. Intangible output means the products cannot be touched or handled. For example, while you attend school to achieve your VCE, you cannot touch the education you are receiving, however you can benefit from the learning you are being provided. Because services are intangible, they also **cannot be stored**. For example, if an airline that has a flight scheduled for take-off at 9:30am and it has 50 empty seats, those seats cannot be stored and sold at a later date. Once the flight takes off, those empty seats become lost revenue and it is like they have evaporated.

Often the production of a service will be linked closely with consumption. This means that the service will often be consumed while it is being created. For example, a customer that receives a haircut will receive it while the hairdresser is providing the service. For many services such as this, the customer often needs to be present to receive the service. Finally, service operations are often more labour intensive, where humans are typically performing the bulk of the service being provided. For example, the provision of a haircut primarily relies on the skills of the hairdresser, with the use of capital (such as dryers and clippers) representing a relatively small component of the total inputs.

It is more common for businesses to provide both manufactured goods and services together. Consumers now expect more than just purchasing a manufactured good. They often expect a quality service while they are purchasing the product, as well as after sales service when they take it home. This service can be as simple as a warranty, or it can be an ongoing service that is provided by the business. For example, Nike no longer just sells shoes and active wear. They also provide a service to go along with their manufactured goods. Consumers can sign up to the Nike Membership where they become part of a community. This membership allows people to access services such as the Nike Run Club, or the Nike Training Club where access is provided to training programs. Combining both manufactured goods and services allows businesses to improve their customer experience with the aim of having a life-long customer.

The table below shows a summary of the key characteristics for manufacturing and service operations.

| Manufacturing | Service |
|---|---|
| Produces tangible goods | Produces intangible services |
| Goods can be stored | Services cannot be stored |
| Production and consumption rarely linked | Production and consumption often closely linked |
| Customer does not need to be present during production | Customer often needs to be present during delivery of service |
| Often more capital/machine intensive | Often more labour intensive |

**Exam Tip:** When students are asked to distinguish between the operations for manufacturing and services businesses, it is important to match the differences up. For example, some students may write a response stating that a manufacturing business produces a tangible output while a service business has more customer involvement. These types of responses do not demonstrate a clear difference. Students need to ensure the differences match up. For example, a manufacturing business produces a tangible output that can be touched or handled, whereas a service business produces an intangible output that cannot be touched or handled.

**Exam Tip:** Students often remember two differences betwen manufacturing and service businesses. However, the last time this came up in an examination, students were asked for three differences!

**Exam Tip:** The 2019 exam asked students to 'compare' the characteristics of operations management within a manufacturing and service business. Many students found it difficult to address the similarities between the two. While there are quite a few differences you need to know some similarities also, like the ones mentioned at the beginning of this section.

## *Technological Development Strategies*

Technological development can be described as new applications of scientific knowledge which aim to optimise the operations of businesses. Technology can be implemented into the operations system to help improve quality, safety, productivity or even accuracy. Businesses that are able to implement technology successfully can often gain a competitive advantage in the market place. It is therefore important that operations managers monitor relevant technological developments so they can stay up with their competition. While many technologies are expensive to implement, which can make it difficult for smaller businesses to afford them, the long-term benefits often outweigh the initial costs. We will now take a look at some common technologies in today's operations systems.

### Automated Production Lines

An automated production line is where a series of machines and workstations are arranged in sequence to perform tasks automatically with little to no employee involvement. Each station performs a specific task that happens automatically, controlled by an electronic control system (ECS). Implementing an automated production line can greatly improve productivity for manufacturing businesses.

A fully automated production line does not need human resources to be directly involved in production as each part of the production process is performed by automated machines. Instead, the human resources are more involved in design, monitoring systems, making adjustments and providing machines with product parts. Robotics are often a major part of automated production lines. Robotics are a form of technology that perform complex tasks, such as welding, heavy lifting, packaging, testing and other essential tasks. There are two main types of automated production lines:



The production of aluminium cans is highly automated. Rexam Corp have only 15 employees involved in the production of over 3.6 million cans in a 12 hour shift

1. **Hard Automation**: hard automation (also known as fixed automation) uses machines or robots that are built for a specific purpose. It is very difficult for these machines or robots to perform a different task. Because of this, hard automation is best for mass production of the same product with very few variations. The benefits of hard automation is that it is able to mass produce products, reducing the unit cost of the product. The drawback is that there is a very high initial cost for the equipment and there is lack of variation in the products.

2. **Soft Automation**: soft automation (also known as flexible automation) uses machines and robots that are reprogrammable and reconfigurable. It is an extension of programmable automation. Soft automation is highly

flexible and can produce a large variety of products. The equipment is easily reprogrammed to take on new products of product variations. This type of automation is great for batch production where a small amount of a particular product are made before producing another product. The disadvantages of soft automation are again the high initial cost of purchasing the equipment but also production is slower compared to hard automation. Product variation has a cost, which is a slower production rate.

The use of automated production lines has allowed businesses to control their manufacturing processes more precisely. They are able to perform tasks with more accuracy and consistency than humans, which improves the effectiveness of the operations by enhancing quality. Automated production lines are able to assemble products quicker than ever before and often with less wastage, which leads to improved efficiency. Automation has greatly changed the role of employees. It is important that employees are trained in automation as they will typically be the ones monitoring and fixing them when they break down.

## Computer-aided Design

Computer-aided design (CAD) is a software system that enables a product to be created in digital form, modified, analysed and tested before it is put into production. Often the design of new cars and planes are completed on computer to see if the physics of the design works. This process can greatly reduce the time it takes to put a product into production. CAD allows for greater creativity in product design as concepts can be tested through simulation before they are produced.

Using CAD has many advantages. Firstly, the designer can make alterations to the design without needing to erase and redraw. This greatly reduces the time taken in the design process, improving efficiency. Computer models are often 3-dimensional compared to a normal 2-dimensional drawing. This allows the design team to gather a more accurate perspective of how the end product will look visually. This is often used for cars and buildings. Designers of buildings are able to showcase rooms to potential clients before the building has even started. This can help generate income through sales which help fund the project, improving effectiveness of the operations. CAD can improve efficiency by reducing the amount of wastage. Designers are able to easily make changes to designs on the software rather than spending the resources to produce multiple prototypes. CAD can also be linked with computer-aided manufacture (CAM) which helps streamline the production process.

The main disadvantages of CAD are that it can be expensive to purchase. This makes it difficult for smaller businesses to obtain the software to be able to compete. Employees also need to be trained in how to use CAD which can slow productivity as they gain familiarity and experience using the new system.

## Computer-aided Manufacturing

Computer-aided manufacturing (CAM) is the use of software and computer controlled machinery to manufacture products. The main purpose of CAM is to create a faster and more efficient production process. As with many technological developments involved in operations, CAM is often more precise, which results in less wastage and improves productivity, hence improving efficiency. CAM also allows for products to be more consistent, helping to improve the customer experience, leading to improved effectiveness. CAM often combines with CAD to produce products, where the design of the product will be conducted with CAD, with the design then being implemented into the CAM software to manufacture the product.

One of the disadvantages of CAM is again the high initial start-up cost of purchasing the equipment. It can also take a long time to program the software that operate the machines in the exact way the business wishes.

## Website Development

The development of websites has greatly improved the operations of many businesses. The banking industry is a case in point. Since the development of web technology, banks have been able to offer their services to clients 7 days a week, 24 hours a day. Before this technology most banks were only open between the hours of 9am and 4pm on weekdays. The use of web technology has enabled banks to not only improve their service by making it convenient for consumers, but it has also enabled them to serve more customers than ever before.



Websites have also altered the way many businesses manage their operations. Businesses of different sizes are able to have a virtual shop front with the use of a website, yet not produce or stock any supplies. **Drop shipping** allows

a business to simply take sales from customers, communicate those sales to a manufacturer who then distributes the product to the consumer. This system has created a level of efficiency that has not existed with traditional businesses. It has allowed businesses to begin with a very low start-up cost and have very low running costs.

The use of website by many businesses, not only provides information to consumers and other stakeholders but enables businesses to take orders from their website which can automatically trigger the operations process to begin. For example, Dell computers receive orders via their website from customers. These orders enter a central data system which is directly linked to the manufacturing process. Previously this type of technology remained the domain of larger businesses with big budgets. However, more recently this type of technology has been used by smaller businesses. If you have ever ordered fast food or a coffee online, then you will know exactly how this works. Many food take-away businesses and cafes have implemented this technology where customers order online (via a website or smartphone app). This order then triggers the operations system to begin. The order is produced and the customer picks up their food/drink, or it is delivered to their door. This type of technology is allowing businesses of all sizes to increase sales and improve their operations systems.

Website development can improve operations of a business by being able to provide relevant information to customers regarding products. The business is also able to use its website to determine demand of particular products. This can assist with materials management as the operations team has a better understanding of what products are in demand, which helps to ensure that the right materials have been ordered to meet this demand.

One of the issues around website development is the cost of launching and maintaining a website. Because customers can now access the website at any time, processes need to be in place to enable the business to respond to customer requests. Some larger businesses implement a support centre to help deal with customer questions and/or concerns. While online purchases can boost efficiency for the business, it increases the risk of data and privacy breaches, as the customer enters information on the website. Another issue that needs to be considered is the distribution of the products. If customers from far away locations are able to purchase products on the website, the business needs to find a way to get the products to them in a timely manner. New distribution channels may need to be implemented.

> **Exam Tip:** The 2019 exam was a perfect example of how important it is to read the case material before writing responses. Question 2 in Section B asked students to describe one way technological developments could help the business improve its efficiency in its operations. Many students decided to use the strategy of website development. However, the business already had a website where customers could purchase products. As a result, this was not the best strategy to use. While one could argue that the business should put further investment into website development to improve the website etc, it was important to read the case material before simply using website development. Reading time is an important aspect of the exam.

> **Exam Tip:** When using website development, it is important that it is referred to improving the operations of a business. The 2018 exam asked students to describe how website development could improve the operations of a specific business. It is very common for students to state that a website will enable a business to increase sales in areas that they are currently not selling to, and that it creates awareness to again increase sales. These types of responses are referring more to sales & marketing than they are operations. In these situations, ensure your response refers to the 'operations' of the business, not increasing sales by making customers more aware.

> **Exam Tip:** The techonology strategies listed in the study design are: atomated production line, computer aided design, computer aided manufacturing and website development. This means you can be asked specifically about them. However, you are welcome to use other technology strategies where appropriate. If you are given a case study and the listed technologies don't seem to fit, you can think logically and use a legitimate technology strategy for that business.

> **Exam Tip:** The study design specifies that students need to be able to compare and evaluate the strategies related to operations management. This requires you to be able to not only know the benefits and limitations of each of these technology strategies, but also the similarities and differences between them

## Technological developments for the service industry

So far the technological developments spoken about have very much been aimed towards manufacturing, with the exceptions of CRM and website development which are heavily used in both manufacturing and service businesses. While it is impossible to list every technological development used by businesses, we will take a moment to address some common developments that are regularly used by service businesses.

- **Video conferencing:** video conferencing is telecommunications technology that allows two-way audio and video transmissions. This enables many service businesses to communicate with employees, clients or suppliers in different locations.

- **Data analytics software:** data on client potential customer trends are very important for businesses such as real estate agents, lawyers and other professional consultants. Software systems that are able to gather and analyse data can help improve the productivity of these service businesses. For example: a real estate agent that uses software to gather data on recent sales in an area can quickly provide an estimate to their client on what price to put their property on the market for. Similarly, property developers are able to conduct feasibility studies with the same type of data to decide if a project should go ahead or not.

- **Cloud computing**: Cloud computing is where remote servers are hosted on the internet to store, manage and process data. This can improve the productivity of a business and help reduce costs of needing to host their own servers. This allows data, contacts, calendars etc. to be stored on the cloud and accessed anywhere with an internet connection. This greatly improves efficiency, reduces costs, improves mobility of the business and improves collaboration as documents can be accessed and altered by multiple people in different locations.

- **Social media:** Twitter, Facebook and Instagram etc., have allowed service businesses to improve their access to customers. Retail outlets are able to stay in contact and interact with customers. They are able to improve the service they deliver as the business is able to send a message through social media if it is experiencing any issues and customers are able to express concerns or have their questions answered. Many large businesses have employed people to manage these accounts and respond to any questions or concerns that customers have.

## *Materials Management Strategies*

Materials management is the planning, organising and controlling of a business's supplies. The aim is to ensure the business has the right type of materials (also known as 'stock' or 'inventory'), in the right quantities and at the right time. This helps the operations run effectively and efficiently. Without the right type of materials, the quality of the product may be compromised. Without having enough materials on hand, production may be held up as it waits for materials to arrive. However, having too much stock that is idle can cripple a business financially. Firstly, the money invested in the stock cannot be used in other areas of the business. Secondly, stock that is idle may go to waste if it is perishable, or it can become lost or damaged if in storage for long periods of time. There are three main types of materials that must be managed in a business:

1. **Raw materials** from suppliers (inputs) that are to be put into the production process
2. **Unfinished goods** (goods that are still in the process of being transformed into an output)
3. **Finished goods** that are waiting to be delivered

Operations managers must firstly use planning when dealing with materials. They need to ensure there are enough materials on hand to continue with production. The operations manager also needs to ensure the quality of the materials will help achieve any quality goals the business may have. The operations manager then needs to coordinate the materials to ensure they are stored correctly (if necessary). They need to ensure that the materials are where they need to be during production so that production can continue without any stoppages or slowdowns.

Finally, the operations manager must monitor or evaluate the materials system to ensure the materials are helping the business achieve its objectives. Monitoring delivery times from suppliers and quality of materials are some of the important measures for an operations manager. We will now examine some strategies that can help to improve the effectiveness and efficiency of materials management.

## Forecasting

Forecasting involves using factors such as historical data and seasonal fluctuations to try and predict future demand for a business' products. Forecasting allows a business to prepare to meet the forecasted demand. For example, many businesses will be able to forecast sales to increase at Christmas time. This allows the operations manager to prepare the operations system so they have enough materials on hand to meet the demand. However, forecasting is not only conducted during busy holiday period - operations managers will use forecasting methods to predict the demand for products all year round. It helps the operations team to get on top of things and ensure they have enough materials to meet the changing market demands. Having enough materials on hand improves the effectiveness of a business's operations because it allows the operations system to continue without stops or slowdowns due to insufficient materials on hand. Having enough materials on hand helps to meet customer demands and allows the business to deliver their products to customers in a timely manner, again improving effectiveness. Forecasting also improves the efficiency of the business because it helps prevent overstocking or understocking of materials allowing for a continuous flow in production, minimising starts and stops. This also reduces the amount of idle stock leading to a reduction in damaged stock or supplies becoming obsolete.

Imagine how management of a business would be without some form of forecasting. The operations manager would wait for orders to come in, and then try to produce the amounts specified in the order. This would be a dangerous way to run a business as it exposes the businesses to problems that could be avoided. For example, what happens if an order is larger than normal and the business doesn't have enough supplies to complete the order? Will there be enough time to complete the order by the required date?

Failure to undertake forecasting has the real potential to reduce customer satisfaction and ultimately reduce market share and profitability. Forecasting will therefore be common place for an operations manager. It allows the operations manager to order supplies ahead of time if required and ensure there are enough employees on the roster for those days of high demand. Some businesses may even get ahead by producing more than required on days leading up to an expected busy time.

One of the issues with forecasting is that it is not always accurate. Although historical data is a good way to predict what future demand will be, there are no guarantees. If a business has forecast to sell 1000 units on a particular day, yet the order comes in at 1500, the operations system is immediately put under pressure. Alternatively, it can happen the other way. Instead of the forecast 1000 units of product expected, the order may come in at 600. This may result in overstocking, resulting in some items going to waste or having too many employees rostered on, which increases unit production costs. Despite these drawbacks, forecasting is a common tool used for operations managers and can be used in conjunction with a master production schedule and materials requirement plan.

> **Exam Tip:** Question 5b of the 2020 exam asked students to analyse how forecasting might be used by Chef@Home to improve the efficiency and effectiveness of its operations. With these types of questions, it is important to be clear about how forecasting can improve both efficiency and effectiveness. Students will often refer to effectiveness and efficiency as one term and try to demonstrate how forecasting will improve them both together. (e.g. Forecasting can improve efficiency and effectiveness at Chef@Home by....). While it is not impossible to receive full marks with this approach, those that perform well in these questions often address one at a time. For example, the student will focus on how forecasting will improve efficiency at the business first and make this clear. Then they will demonstrate how forecasting will improve effectiveness at the business. Focusing on one at a time often helps demonstrate a clear understanding. This exam tip refers to other areas of operations where students are expected to understand how the strategy will improve efficiency and effectiveness (Technology, Materials, Quality, Wast Minimisation).

## Master Production Schedule

A master production schedule (MPS) details what is to be produced, the quantities of each product and when it is going to be produced. This gives the materials manager an indication of what materials will be required to meet the schedule. The master production schedule will also outline types and amount of employees that are required to complete the work. It also allows them to manage the logistics of the supply chain to ensure orders can be transported to the customers. The MPS can improve effectiveness because like forecasting, it enables the business to ensure it has enough materials on hand to meet the demand. Knowing exactly how many of each product is going to be produced and when it needs to be produced by helps the operations manager order enough materials to meet

their orders. The MPS improves efficiency by enabling production to flow continuously, improving productivity along with reducing wastage.

## Materials Requirement Planning

Materials requirement planning (MRP) is an inventory control system that provides an itemised list of materials needed to produce specific forecasts or orders. The MPS outlines what will be produced, in what quantities and when. The MRP can then be used to determine the exact materials required to meet the MPS. It will include the specific materials needed and in the exact quantities and when they should be delivered. This can be done on a monthly, weekly or daily basis, depending on the business, the type of product they are producing and the rate in which they are producing them. The master production schedule ensures that the business is never understocked with supplies, so that production is continuous, improving effectiveness as it allows the business to meet customer demands. Efficiency can be improved as it ensures the business isn't overstocked where money is tied up with idle stock. It has the benefits of other materials strategies in that it can reduce the amount of wastage that results from having large quantities of stock in storage for long periods of time (i.e. less damaged stock or obsolete stock), improving efficiency. The MRP outlines:

- The specific type of materials required to meet the MPS
- The exact quantities of each material
- The times they will be delivered

One of the drawbacks of the MRP is that it is often based on information from other areas of the business such as forecasting or from the master production schedule. There is not guarantee this information is correct which can make it difficult to cope with fluctuating orders as a result of varying customer demand.
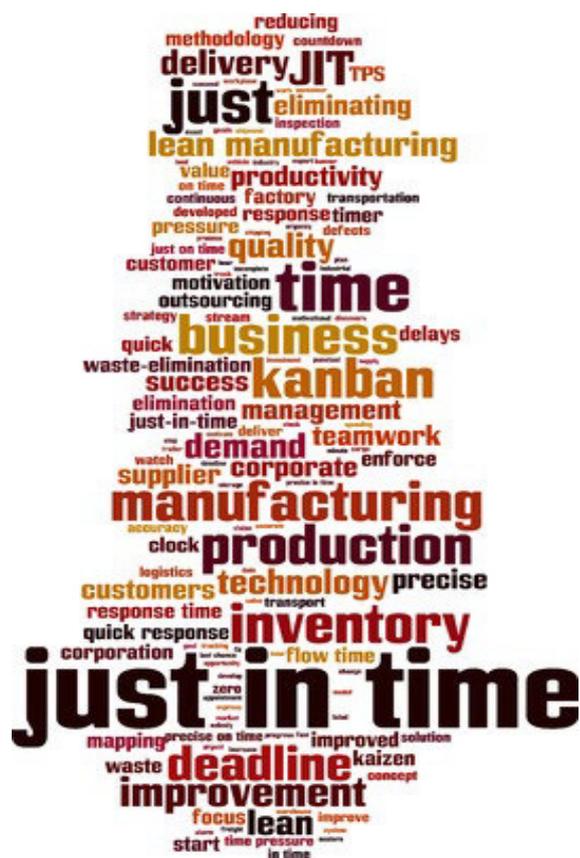
## Just-In-Time

The just-in-time system (JIT) is where materials are delivered just as they are needed in the production process. This reduces the need for storage costs as materials are moved quickly into production. As mentioned earlier, having too much stock on hand is tying up money unnecessarily. While inventory is being stored, it can be lost or damaged which forces it to go to waste. It also occupies space which can limit the space available for expanding the production process. While supplies are in storage for long periods they may become obsolete, which again creates more waste. And finally, the cost of constructing and maintaining storage facilities can be highly expensive.

A JIT system will help to solve many of these problems. No longer are materials stored for long periods of time, if at all. This leads to less wastage from damaged, lost, obsolete or stolen stock. It reduces storage costs and increases the amount of space that can be used for production. The JIT system will therefore have the potential to result in significant benefits for a business by improving its efficiency. JIT allows the business to make better use of the factory space along with meeting customer demand due to a continuous flow in the operations system, which improves their effectiveness.

An example of a company that uses a JIT system is Harley Davidson. Harley Davidson implemented a JIT system to improve the efficiency and effectiveness. They were able to reduce their inventory levels by over 75 per cent and currently have more space in their facility to improve production. The famous motorcycle company is able to produce more motorcycles in one building than was previously possible in multiple facilities. This has enabled the company to get its products to the market quicker and greatly reduced production costs, thereby improving profitability.

In order to have an effective JIT system, there must be strong relationships between the business and its suppliers because, if the stock doesn't arrive on time, production will be slowed or even stop. This can be a major drawback to the JIT system. In addition, a business will have no control over issues that may arise at a supplier, such as a wage dispute with its employees which results in industrial action (e.g. a strike). This is likely to result in delayed delivery of supplies, causing production to slow down or stop. This hurts productivity and may even harm the reputation of the business given they are less likely to satisfactorily meet market demand. As a consequence, businesses should have back-up suppliers to rely on in the event that their preferred suppliers are unable to meet their commitments for any period of time. The JIT system also allows less time for a business to check the supplies

for faults. This again, stresses the importance of having strong relationships with suppliers because the success of the supplier and the business are closely linked. However, despite these drawbacks, the JIT system can greatly improve the efficiency and effectiveness of the operations system and improve the competitive advantage of the business, provided that the system is managed well.

> **Exam Tip:** Students often think of materials strategies applying only to manufacturing businesses. However, service businesses also need to manage their materials efficiently, such as a hairdresser needing to ensure that they have appropriate supplies of shampoos or a travel agency needing to have adequate supplies of promotional material and stationery. Ensure you have examples of how each of the above strategies can be used in both a manufacturing AND service business.

> **Exam Tip:** The study design specifies that students need to be able to compare and evaluate the strategies related to operations management. This requires you to be able to not only know the benefits and limitations of each of these materials strategies, but also the similarities and differences between them

## *Quality Management Strategies*

Being able to produce a good or service is one thing, but having the right quality is another. If a business wants to improve its reputation and generate repeat business, then it needs to provide quality products. So what role does operations have in creating quality? We need to remember that operations involves inputs, processes and outputs. The quality of the output is a reflection of the quality of the inputs and the processes. With word of mouth being able to spread so quickly in today's society, especially due to social media, it is crucial that businesses of all sizes maintain a level of quality that satisfies customers. There are three main quality strategies:

- Quality control
- Quality assurance
- Total quality management

### Quality Control

Quality control checks for defects by performing inspections at various points in the production process to check for defects in the product. The aim of quality control is to identify problems early so they can be rectified quickly. In order to do this effectively there must be:

1. **Benchmarks** set
2. **Inspections** conducted on a regular basis
3. **Comparisons** made between the product and the set benchmark
4. **Corrective action** in the event that product quality is deemed to be below the benchmark



Quality control can be performed in both manufacturing and service businesses. We will now look at an example of each:

**Manufacturing:** a car manufacturer will most likely examine every car at various stages along the production line. The quality of a motor vehicle is critical to the safety of the consumer, therefore certain parts of the car need to be quality checked every single time. If there are any defects found during an inspection, they will need to be rectified before being delivered to the customer.

**Service:** management at a clothing retailer may decide to use a secret shopper to check on the quality of the service employees are delivering to customers. The secret shopper will interact with a sales employee as a normal customer and assess the quality of the customer service being delivered. Secret shoppers can use a scorecard to assess the cleanliness of the store, wait times, sales skills etc. This can provide management with vital information on the quality and consistency of the service being delivered.

Using a quality control strategy allows a business to manage quality more effectively because defects are identified early in the production process. This allows faults to be rectified quickly, which not only ensures a higher quality product for the customer (improving effectiveness), but also reduces wastage, improving the efficiency of the business. Ensuring that only the products satisfying the business's quality standards actually make it to the end consumer will improve customer satisfaction, resulting in improved effectiveness for the business.

One drawback of quality control is that is takes time to conduct regular inspections. Each time the product is checked against quality benchmarks, it adds time to the overall production of the product. Some may argue that quality control is a reactive approach as it identifies defects after they have been made, rather than preventing them before they occur.

> **Exam Tip:** Quality control is often confused with quality assurance. If asked to identify or describe a quality strategy, it is likely that the strategy you identify will be the strategy you will be assessed on. Ensure that you clearly know the difference between the quality strategies and how to describe each strategy well.

## Quality Assurance

Quality assurance is where a business achieves a standard of quality in the production of a good or service as assessed by an independent body. The business must meet standards that are set for their industry in order to receive the quality assurance. Once these standards have been achieved, the business obtains a certification or endorsement from the independent body.

One of the most common standards is the **ISO 9001 certification,** with the most recent update of the standard being the ISO 9001:2015 standard. The aim of this set of standards is for businesses to achieve conformity of goods and services while consistently meeting customer needs and expectations. This standard can be used by businesses in many different industries. According to the International Organisation for Standardisation, there are more than one million companies and organisations certified to ISO9001. There are no specific processes prescribed in the standard, however businesses will be assessed against a cycle known as the **PDCA** cycle, where PDCA stand for:

| | |
|---|---|
| **Plan:** | planning processes to meet quality expectations of the consumer |
| **Do:** | once processes are planned they need to be carried out according to the plan |
| **Check:** | regularly checking the processes of the quality management system to ensure they are meeting set standards |
| **Act:** | taking corrective actions and preventative actions where necessary |

Once a business receives the ISO certification it can give consumers confidence that the business is using processes that help to deliver a high quality good or service. Like quality control, the quality assurance helps the business to become more effective because it ensures that the operations system meets an independent standard, resulting in better quality, an improved reputation, and higher sales/profits. Having the correct procedures in place also improves efficiency because it results in errors being rectified early, resulting in less wastage. Quality assurance is often seen as a proactive approach to quality. The aim is to meet standards around the quality processes that will prevent defects from occurring rather than identifying them after they have occurred (like in quality control).

One of the key disadvantages of quality assurance is that there are often high initial costs in setting up the processes to meet the set standards. It can also be time consuming to implement as all staff need to be trained in how to perform the new processes in place.

> **Exam Tip:** In examinations, many students struggle to understand the differences between Quality Control and Quality Assurance. It is important to remember that Quality Control is often a system set up by the business where they set their own standard for the end good or service. They then proceed to check the good or service against the desired standard and take corrective action where necessary. Whereas quality assurance is where a business meets a set of predetermined standards that are set by an independent body. These standards are not always based on the end product. Often, quality assurance will assess the processes involved in the operations system. For example, the PDCA cycle mentioned above assesses the quality management systems rather than the end product. The business can receive an ISO certificate because they meet these process standards which will result in a quality product.

## Total Quality Management

Total quality management (TQM) is a whole organisation approach to achieving quality based on continuous improvement in the area of quality. With a TQM strategy, quality is embedded into the culture and every employee understands that they have a role to play in improving quality. It is a management philosophy that aims for continuous improvement in the quality of the business' processes and final products. The aim of TQM is to have a production process that is defect-free and a business will strive for continuous improvement until this goal is achieved. Implementing a TQM strategy into a business can be very time consuming and expensive, as it results in a shift in culture as processes are continuously being updated. Some may argue that more time is spent on discussing ways to improve quality than there is in actually doing work. It can also be difficult to gain the level of commitment required from all employees within the business. However, it is a philosophy that can lead to a strong competitive advantage if it is implemented well. TQM is based on three key principles:

- Continuous improvement
- Employee empowerment
- Customer focus

**Continuous Improvement:** the business uses regular evaluation to have ongoing improvement into the future. The business will continue to set higher standards that it aims to achieve. It is based on the principle that the business understands that quality is an ongoing journey that can always be improved.

**Employee Empowerment:** employees are given responsibility to improve the quality of the business. They can do this through quality circles. Quality circles are where small groups of employees meet together to discuss new ways of improving the quality of their processes. It helps to generate new ideas that management can then implement to help improve the quality of the final output for consumers.

**Customer Focus:** The entire focus of TQM is on the end customer. With TQM all employees play a role in delivering quality outputs. Employees need to ask themselves "how can they meet the needs and expectations of the customer?" If TQM is implemented correctly, every employee will understand their role in helping the business to meet or exceed the quality expectations from customers.

Like the other quality strategies in this section, TQM enables the business to gain a competitive advantage by having a strong focus on quality and looking to continually improve. This can improve customer satisfaction and boost customer loyalty, resulting in a higher level of effectiveness. Due to the culture of the business continuously looking for ways to improve all systems, it should result in improved efficiency, as fewer resources will go to waste.

> **Exam Tip:** It is common for students to offer very brief descriptions of TQM. In your descriptions it should address the key elements of: continuous improvement, employee involvement/empowerment & customer focus.

> **Exam Tip:** The study design specifies that students need to be able to compare and evaluate the strategies related to operations management. This requires you to be able to not only know the benefits and limitations of each of these quality strategies, but also the similarities and differences between them

## *Waste Minimisation*

Throughout this section of the study guide we have continued to use the term waste minimisation. Minimising waste is an important aspect of a business improving productivity and being able to compete in the marketplace. Waste minimisation can be described as the process of reducing the amount of resources that are misused or discarded by the business during its operations.



Waste can have an impact on the environment as much of it goes into landfill. However, it can also result in lower productivity in many instances. For example, assume that there are two businesses producing chocolate cakes, both using the same materials sourced from the same suppliers. However, one business might require more of each raw material to produce the same amount of cakes as the other business. Perhaps it's because their eggs are handled poorly and break before entering production, or they have old equipment that sometimes contaminates the cake mix and needs to be thrown out. This will add to per unit costs of

production, raise prices and result in customers buying their cakes from rival businesses. Put simply, waste costs money and impacts on both profitability and the viability of a business.

It is important to understand that waste does not only come in the form of materials. While looking to reduce the amount of materials waste is vital to a business, wastage can come in many other forms. Excess transportation can be a form of waste, as can using too many employees to perform a task. There are a number of areas that could be causing waste in the production process and it is important for the business to identify each area. Wastage should then be monitored regularly to determine which areas of the business need improvement.

Excessive waste might result from the use of poor quality materials, poor processes, defective machinery/equipment, or even poorly trained staff. To reduce waste, it is important that the causes are identified and rectified.

## Lean Management

Lean management is where a business establishes systems that aim to eliminate waste and inefficiencies in the operations system and maximise customer value. In simple terms, lean management aims to create more value for customers while using fewer inputs. Lean management is based around continuous improvement where small, on-going incremental changes are made to processes in order to improve the end quality for the customer along with improved efficiencies throughout the business. Lean manufacturing has been traditionally used in manufacturing businesses, however it is increasingly being employed in service businesses. In more recent times, health care facilities have been implementing the concept of 'lean' to their operations systems. For example: minimising the time it takes to perform surgery and also reducing the amount of materials used in that surgery.

As mentioned earlier, wastage can come in many forms.
Below are 7 typical areas where waste can occur:

- **T**ransportation – inefficient movement of materials or products
- **I**nventory – supplies that are unused and discarded or idle supplies
- **M**otion – excess movement of people, machines, materials or the product
- **W**ait times – excessive wait times between production and distribution or waiting between processes
- **O**verproduction – producing more than consumers demand
- **O**ver-processing – performing operations on the product that do not add value
- **D**efects – defective products that need to be fixed or go to waste



**Note:** A common acronym to help memorise these areas of waste is TIMWOOD.

While the above areas look to improve inefficiencies, the lean concept is a whole business approach where the customer is put first. It is not enough to reduce the amount of resources used if it will decrease the quality of the end good or service. The lean management philosophy is aimed at improving the customer value while improving efficiency. Whenever a business is able to reduce the amount of waste it produces it gives itself a greater opportunity to improve its profitability and competitiveness.

> **Exam Tip:** Students are able to use the 7 areas of waste as principles of lean management if they choose. If you don't there is no need to memorise these 7 areas of waste. However, it is important to understand that waste can come from more areas than simply materials. It is common for students to think of lean management as reducing the amount of material waste. However, as the 7 areas of waste demonstrate, waste can come from many more (often intangible) areas. This is an important concept to understand when leanring about lean management.

**Lean management principles** look to minimise the 7 wastes listed above while increasing customer value. Some of the principles that allow this to happen are:

*Pull Focussed:*

amount that the market is demanding. This allows the business to stop over-producing so that waste is greatly reduced.

*One*

however only one item is at a given stage of the production process at one time. This allows for that particular stage to focus on the one item which reduces the amount of errors and speeds up the process.

*Takt:*

demand. It is better to have a continuous flow of production rather than having various starts and stops. Having a continuous flow allows the business to synchronise processes which reduces waiting times throughout the production.

*Zero Defects:*

production. Defects are rectified before they move on to the next stage of the operations system.

> **Exam Tip:** You may have learned different principles form the ones mention in this study guide. There are no specific lean prinicples listed in the study design. This means that many others are accepted. Use the guidance from your teacher as to which lean principles you will focus on.

## *Corporate Social Responsibility in Operations*

We mentioned earlier in the section on 'stakeholders' that corporate social responsibility was the continuing commitment of a business to go above and beyond their legal obligations to operate in an economically, socially and environmentally sustainable manner. If a business aims to implement corporate social responsibility (CSR) practices then it is important that these are implemented into all areas of the business, including operations.

While the goal of the operations function is to produce a good or service in the most effective and efficient way, many businesses will also aim to achieve this by ensuring that its production has a positive social and environmental impact. It is important that operations managers are aware of a business' CSR objectives so that they can align their strategies to help achieve these objectives. For example, if a business has an objective to minimise its impact on the environment, an operations manager could use a strategy to implement bio-degradable packaging.

> **Illustration of CSR in operations**
>
> Imagine a handheld electronic device. It may have travelled the world multiple times before it reaches the consumer. The inclusion of many parts and different tasks or functions may have been performed on the device before it is ready to be sold. This can increase carbon emissions as the product travels around the globe. In addition, the life-span of the product is relatively short and it goes to waste thereafter. The production and use of the product will therefore tend to have an enormous impact on the environment. But whose responsibility is it to minimise the impact on the environment and society more generally? Ultimately, it is the operations manager's responsibility. The operations manager needs to work on streamlining a scattered global supply chain. They need to ensure that suppliers are treating their employees fairly and also producing in a sustainable manner. They need to work on using more sustainable or renewable materials, in addition to developing strategies to minimise the impact on the environment once the product has ended its life span. Every section of the operations has the potential to have an economic, social or environmental impact and it is the operations manager who oversees this.

Implementing CSR into the business' operations can often be more costly or, in some cases, slow down production. However, there are also direct benefits for the business, including improved reputation, reduced long term costs, and providing a workplace that employee's value. CSR needs to become part of the culture of a business. This means it should be part of the everyday activities. Decisions made within the business need to reflect the **triple-bottom line** (economic, social and environmental). This means that the decisions made by a business should not be made under a profit paradigm with the social and environmental impacts being an afterthought. These three elements should be properly balanced when managers are making decisions.

For us to examine how CSR can be implemented into operations, we will look at CSR in terms of the operations system (inputs, processes, outputs). Here are a few examples of how a business can implement CSR practices into the operations system.

**Inputs**

*Procurement:* it is the responsibility of the operations manager to ensure that suppliers are behaving in a socially responsible manner. The operations manager can source supplies from businesses that are socially responsible themselves. This is especially important when dealing with overseas suppliers, particularly those in developing countries, where the working conditions can be vastly inferior to those enjoyed by workers in Australia. A business will therefore need to ensure that the conditions for the workers at overseas suppliers are satisfactory to meet an appropriate standard of living. Another consideration with the procurement is by sourcing supplies from local suppliers. This helps to benefit the local economy by supporting local employment.

*Environmentally sustainable inputs:* using inputs that reduce the impact on the environment. This could include implementing materials that are better for the environment or using renewable energy to power the facility is a way to minimise the impact on the environment. For example: Google is committed to powering 100% of its operations with clean energy and purchases renewable electricity from wind and solar farms around the world. While this is expensive to implement (Google has invested in excess of $7 billion), it is clearly going above and beyond any legal obligations.

Another example relates to Lego, who in 2018 launched a new version of the traditional Lego brick. The plant based plastic is developed from sugarcane, which will reduce the significant impact the business has on the environment. They understand that being a large business can bring with it a large carbon footprint and the company is aiming to reduce its (negative) impact on the environment.

*Supply chains:* simplifying supply chains can help to reduce the amount of transportation required in the operations system. This reduces the carbon footprint of a business and can also help to improve productivity and the speed in which products are able to be produced. Using local suppliers rather than overseas suppliers can help to simplify the supply chain and reduce the carbon footprint and transportation costs.

**Processes**

*Waste minimisation:* implementing strategies to reduce the amount of waste generated in the operations system will reduce the impact on the environment. Making the most efficient use of resources available can assist with this. For example: clothing manufacturers implement software systems that layout their patterns on large pieces of fabric to ensure minimal fabric is wasted. While this technology can be expensive to implement initially, it helps to improve the impact on landfill, improves the efficiency of the business and reduces inventory costs. Any waste that is generated in the operations system should be recycled or disposed of in an ethical manner to again help reduce the impact on the environment. Introducing lean management can help to reduce wastage from the operations system which can lead to improved productivity, lowered costs and enhanced competitiveness.

*Recycling resources:* working to recycle the resources used can again reduce the negative impact on society and the environment. This can again lower materials costs as less are required to be purchased. For example, BMW has a number of recycling programs to help improve its impact on the environment. BMW not only has standard programs, such as recycling paper and plastic, but recycles its car parts. The manufacturing facility uses parts from old BMW's and refurbishes them so that they can be used in new cars. BMW has established a dismantling centre that removes all the parts to be restored. This greatly reduces BMW's impact on the environment.

*Effective management of employees:* treating staff fairly and with respect can be seen as ethical practice. Abiding by laws relating to employees is obviously important but not necessarily seen as a part of CSR. Going above what is required by law with regards to employees can help improve the morale of the business and assist it in achieving overall objectives. Ensuring employees are all trained and receive pay conditions in the facilities that benefit their work environment is a CSR issue that many businesses introduce.

*Quality systems:* Delivering a high quality product to the end consumer is not always easy. There are often many steps in the production process where things can go wrong. Implementing quality systems such as quality control, quality assurance or TQM can help to improve the quality of the end product. While these systems may slow down production as materials and products are checked along the way, they help to deliver a product that is free from harm for the consumer.

**Outputs**

*Quality outputs:* as mentioned earlier, it isn't always easy to deliver a high quality product to the consumer. Effective operations management will work towards delivering a product that is defect free and adds real value to the consumer. If there are defects with the product, the operations system should have processes in place where customers can return the product or have their issue resolved. While it is a legal obligation to make products that are fit for purpose and of merchantable quality, the way these issues are handled by the business can be above what is legally required. Defective products that are dangerous or harmful can result in injury to the end consumer, so it is important that operations managers implement good strategies and processes that ensure high quality output is consistently delivered. The ongoing provision of high quality service to customers is not only ethical, but helps to improve the image and reputation of the business.

*Packaging:* packaging decisions that minimise the impact on the environment can also be considered to fit within the realm of CSR. There are many options available to businesses in relation to packaging. For example, a business may decide to use packaging that is recyclable or biodegradable over packing that has a negative impact on the environment. With the rise in online shopping, businesses now need to consider how they can deliver a product through transit without damaging the product along the way. Spending extra on packaging that ensures the product is the same quality as if it were purchased in store is an ethical issue that businesses face.

The table below, shows a summary of some of the key CSR issues in the management of operations.

| Elements of the Operations System | Corporate Social Responsibility Considerations |
|---|---|
| **Inputs** | • Procurement – ensuring suppliers incorporate CSR practices (e.g. no child labour) <br> • Prompt payments and fair negotiations with suppliers <br> • Using local suppliers to support local jobs and economy <br> • Environmentally sustainable inputs <br> • Using renewable energy to power facilities <br> • Simplifying supply chains to reduce carbon emissions |
| **Processes** | • Efficient use of resources <br> • Ethical disposal of waste <br> • Waste minimisation strategies <br> • Job rotations to help motivate employees (rather than performing same tasks every day) <br> • Implementing extra quality checks to ensure high quality <br> • Ensuring employee health and safety beyond legal requirements |
| **Outputs** | • Packaging decisions – minimise packaging and its impact on environment (e.g. biodegradable packaging) <br> • Creating goods that are high quality and good value for money for customers <br> • Considering the product after its life span. E.g. producing a product that can be recycled <br> • Ethical dealings with customers regarding returns and making repairs/replacements for defective goods |

> **Exam Tip:** When answering question on social responsibility in operations, students should make it clear as to why the consideration is socially responsible. Often students will identify a legitimate CSR consideratiion, yet fail to outline why it is socially responsible or the positive impact it has.

# *Global Considerations in Operations*

The number of jobs created by the manufacturing industry has been declining in Australia for decades. Due to **globalisation**, where businesses are now competing in global markets, manufacturing output in Australia has declined for over four decades. The cost of manufacturing products can be highly expensive as the cost of local suppliers and wages are high compared to other less developed countries. Those manufacturing businesses that still exist in Australia will often consider using overseas businesses in the operations process. We will now examine some ways that this will typically occur.

## Global Sourcing of Inputs

Sourcing inputs from businesses across the globe can have both positive and negative impacts. A business may decide to source inputs for a variety of reasons. It may be that raw materials are cheaper than if they were to be sourced locally. Businesses that are able to decrease their raw material costs need to also consider the quality of the materials. If the quality is comparable to local materials, then it can make sense to source materials from overseas suppliers. This **cost savings** can help to improve productivity and **competitiveness** for local businesses.

Businesses may also source other inputs, such as machinery and equipment, from offshore. Although it may be costly to obtain equipment and ship it to Australia, often it may be 'state of the art' equipment that can greatly improve the quality of the product and/or productivity.

Ultimately, the benefit of sourcing global inputs is that it typically reduces **production costs**, improves **productivity**, lowers **prices** and boosts **competitiveness**. This enables an Australian business to improve its profitability and maintain its share of an increasingly global market. This will not only mean that Australian businesses can potentially sell more products to overseas buyers (i.e. exports), it will help Australian businesses to compete against imports. For example, Australian manufacturers also compete against foreign manufacturers whose production costs are lower. This allows them to sell products at reduced prices to Australians either onshore or online. Reducing input costs by sourcing inputs from overseas suppliers therefore gives Australian businesses of all sizes a greater chance to compete against these relatively cheap imports.

The drawback associated with global sourcing of inputs is that it creates job losses (or reduced hours of employment) for Australian workers, particularly in the short term. In addition, businesses also need to consider the corporate social responsibility practices of suppliers. They need to ensure that the standards of the workplace conditions are acceptable and the quality of the processes remains high. Another issue with sourcing materials overseas is that if the quality of inputs received are not to the required standard, production may slow or stop while waiting for the materials to be returned. If a business is going to source inputs from overseas, it is important that it has a contingency (back-up) plan in case things go wrong with the foreign supplier.

Sourcing materials from overseas has become much more available to smaller businesses due to the communication benefits of the Internet. Companies such as Alibaba makes it incredibly easy to source global supplies for Australian businesses and it has become a major strategy for many businesses in a variety of industries.

## Overseas Manufacture

For many manufacturing businesses, it isn't enough for them to simply obtain inputs from overseas. The cost of manufacturing in Australia is relatively high due largely to the cost of labour (e.g. wages) and the regulatory burden imposed by governments. As a result, many businesses have decided to manufacture their products overseas. Many clothing businesses use manufacturers from China, Indonesia, Bangladesh and Vietnam. The cost of manufacturing in these countries is much less than Australia as the average wage cost is much lower, and local businesses face a much lower cost complying with government laws and regulation. These lower costs enable businesses to deliver lower **prices**, improved **competitiveness** and **higher profitability**.

The imperative to reduce costs is not the only reason that businesses consider overseas manufacturing. A business that is looking to sell its product(s) in a foreign country may also decide to set up a manufacturing facility there. Being able to manufacture in the country of a business's major market makes sense. The business will be able to

distribute its product to the market much more quickly than if they manufactured in their home country and shipped the product overseas. This also enables the business to be more responsive to their market.

A business that decides to set up their own manufacturing facility in a foreign country will have increased initial costs. Obtaining approval from foreign governments and setting up a new facility can be a timely and costly process. However, the business is able to have more control over their production process while still taking advantage of the lower wage costs.

## Global Outsourcing

So far we have spoken about the core manufacturing process and using global partners to help improve efficiency. Yet both manufacturing and service businesses are able to outsource across the globe. Global outsourcing is where a business uses organisations from around the globe to undertake some of the business functions. This is typically done to reduce costs, improve quality or improve productivity.

Businesses are finding that other organisations are able to perform specialised tasks more effectively and efficiently compared to completing these tasks in-house. Often the tasks that are outsourced are those that are not part of the core activities of the business.

The following are some examples of tasks that are regularly outsources by businesses (both service and manufacturing):

- Software development
- Call centres (both technical support and sales)
- Finance and accounting
- Packaging and distribution
- Research & analysis
- Data entry

Outsourcing these tasks allows a business to take advantage of the expertise of other businesses. For example: a business may decide it needs a call centre and chooses an expert company in India to run the call centre. Not only can this be highly cost effective, but it potentially enables the business to make use of the skills of a highly experienced call centre.

Global outsourcing is available to businesses of all sizes, even enabling many individuals to begin virtual online businesses. The following is an example of a small business using global outsourcing.

### Global outsourcing example (small business)

Emily loves fashion and decided to begin a small business selling women's casual clothes. She had a very small budget to start the business. This restricted her as she didn't have enough money to buy stock or rent out a retail facility. She decided to use global outsourcing to run her clothing business on a very small budget. Emily went online and hired a web developer from India to build her a basic website where she could show the designs she was selling. The problem was she didn't have any stock. She gets online again and searches for clothing manufacturers and eventually finds a reputable clothing manufacturer in China. The issue now is that she doesn't have anywhere to store the stock. She contacts the manufacturer and discovers that it offers a service called 'drop shipping'. Drop shipping means that Emily doesn't have to hold any stock. When Emily makes a sale through her website, it will be recorded with the manufacturer. The manufacturer will package the items and ship them directly to the consumer. Emily hasn't even physically seen or touched the items. All Emily needs to do now is promote her website. She does this by creating Facebook ads. She gets these designed by a designer in Sweden for the cool price of $25. She places the ads on Facebook, attracts customers, makes sales and distributes the goods to the consumer all with the power of global outsourcing.

Global outsourcing can enable a business to lower its costs and improve efficiency but more importantly an Australian business is able to make use of another organisation's expertise. Whether it be finance, call centres, web development or distribution, a business can hand off those activities and focus on their own core activities.

Similar to outsourcing more generally, a downside is that the Australian business will lose some control over the processes they are outsourcing. Language and cultural barriers are also an issue that needs to be addressed to ensure the activities are being completed to expected standard. It is likely that the service provider is working with multiple businesses, which means that it is unable to give a business 100% attention all of the time. In addition, it can take time for businesses to find the best organisation to partner with and, for small businesses that do not have the finances to travel and physically view the facilities, it can be difficult to find a reputable outsourcing organisation.

## Supply Chain Management

Supply chain management is the management of the flow of supplies from point of origin, through the operations system all the way to the end consumer. It involves all of the businesses that are involved in getting a product to the end user. Often operations management is only concerned with what happens within its own 'four walls'. However, all of the other businesses and activities that are involved in the production of a product will clearly impact on the price and quality for the end consumer. Essentially, supply chain management is concerned with the flow of materials from suppliers, through the workplace, and then to the end consumer. Let's take a look at a basic example:

*A simple product such as a t-shirt requires a number of different resources and processes to create the end product. It requires fabric, thread, designs and tags to be able to manufacture the t-shirt. Where the business obtains these materials will alter the quality and price of the end product. Once the business assembles these materials into a t-shirt, it then needs to find a way to get the t-shirt to the end consumer. It may be transported to a distribution centre such as a wholesaler. This wholesaler costs money to power and operate, which increases the price of the t-shirt. From here, the t-shirt will be transported to a retail store which also costs money to operate. Finally, an end consumer will purchase the t-shirt and pay a price that covers all of the preceding costs and hopefully allows a profit for all involved.*

Managing the above process is the responsibility of the supply chain manager. Their job is to manage the chain of supplies from obtaining resources through to getting the product to the end consumer. Supply chain management is critical to the operations system because:

If there are not enough materials on hand production will slow or stop
If the quality of the materials are poor it will reflect in the end product
If the costs of the materials are too high, it affects the value for the consumer
If logistics and distribution are inefficient it will delay the products getting to the market which again can affect the value for the consumer

It is important the supply chain is managed well, where strong relationships are created with all those involved in the chain. Optimising the supply chain can help a business to gain a sustainable competitive advantage. The following is a great example of a business that optimises its supply chain.

### Supply chain management (Zara)

The clothing industry is highly competitive yet has a variety of niche markets. Many of these companies will design an entire line, source the materials, manufacture in bulk and then logistics will find a way for it to get into stores. This type of supply chain can be slow and often the trends will be changing before the clothes really hit the market. Zara on the other hand bases its whole business strategy on its supply chain. It understands that getting newly designed clothes into a consumers' hands while a trend is still current is what sets it apart from competitors. The faster Zara is able to get new trends into stores, and the cheaper they can do this, will result in larger profit margins. Zara changes its clothing designs approximately every two weeks, whereas its competitors change their designs every 2-3 months. This is a huge competitive advantage, yet it takes an incredible supply chain to allow it to happen. Zara's supply chain is slightly different as they design individual pieces and then manufacture them in small quantities before logistics take over and distribute them. Zara is able to design new garments and manufacture them and get the garments into stores quicker than any off its competitors. Zara is able to do this by streamlining its supply chain. The designers, manufacturers and suppliers are all located within close proximity to each other. They also use a just-in-time system for their materials which helps to improve the process. This allows Zara to take advantage of fast moving trends which gives it a competitive advantage.

**Exam Tip:** The study design states that students need to be able to interpret, discuss and evaluate business information and ideas. Could you evaluate or discuss the above strategies? The 2020 exam asked students to discuss the considerations managers should take into account when deciding whether to source some ingredients from overseas suppliers. Many students foudn it difficult to look at both the benefits and limitations of global sourcing of inputs (especially for a business that delivers food to people at their homes, which was the case study in question). Ensure you can address both the advantages and disadvantages of each of the above strategies.

## REVISION QUESTIONS 5 – Operations Management

1. Define operations management
2. Outline the relationship between operations management and business objectives
3. Fletcher's is a clothing manufacturer that specialises in both men's and women's nightwear fashion. Owner and designer, John Fletcher, wants to increase sales over the next financial year by 10%. Outline how operations can assist Fletcher's to achieve this objective.
4. Explain the elements of the operations system for the following businesses:
   a. Furniture manufacturer
   b. Book publisher
   c. Bank
   d. Hospital
5. Outline 3 differences between the operations management of service and manufacturing businesses
6. Outline 2 similarities between the operations management of service and manufacturing businesses
7. Explain how forecasting can improve the effectiveness of a business's operations
8. Lilly is the operations manager of a medium sized toy car manufacturer. She wants to improve the productivity of the manufacturing process. Justify one technology strategy Lilly could implement to improve productivity.
9. Discuss the use of technology in a business you have studied this year.
10. Evaluate the use of a just-in-time strategy (JIT) for a local restaurant. In your response, refer to effectiveness and efficiency
11. Compare a Master Production Schedule with Materials Requirement Planning
12. Distinguish between computer-aided design and computer-aided manufacturing
13. Outline the following concepts of Total Quality Management (TQM)
   a. Continuous improvement
   b. Employee empowerment
   c. Customer focus
14. Why could it be advantageous for a business to implement an ISO 9001:2015 accreditation?
15. List two advantages and two disadvantages associated with the use a quality control strategy
16. Explain why waste minimisation strategies are important for a business
17. Describe 3 areas that a business can produce wastage
18. Explain the principles of lean management
19. Explain how lean management can help a business to improve its efficiency
20. Define corporate social responsibility (CSR)
21. Outline why a business would want to use environmentally sustainable inputs
22. Discuss the implementation of CSR practices in operations management
23. Jeremy is the operations manager of a large food processing company in North East Melbourne. He knows the importance of implementing CSR practices. Describe ONE CSR strategy that Jeremy could consider from each of the elements of the operations system.
24. Outline two benefits for a business sourcing their inputs globally
25. Outline two drawbacks for a business sourcing their inputs globally
26. Explain why a business might decide to manufacture overseas
27. Explain the impact that global outsourcing has had on small businesses in Australia
28. Define supply chain management
29. Outline why it is important for a business to manage its supply chain
30. Outline the relationship between supply chain management and business competitiveness. In your answer, refer to Zara or another business you have studied this year
31. Distinguish between global outsourcing and global sourcing of inputs
32. Simco is an electronics manufacturer. Sharon is the operations manager and has recently discovered that there has been a defect with one of its products and customer complaints have risen sharply. Describe an appropriate management style that Sharon could use to rectify the problem
33. Describe three management skills and justify their use for an operations manager
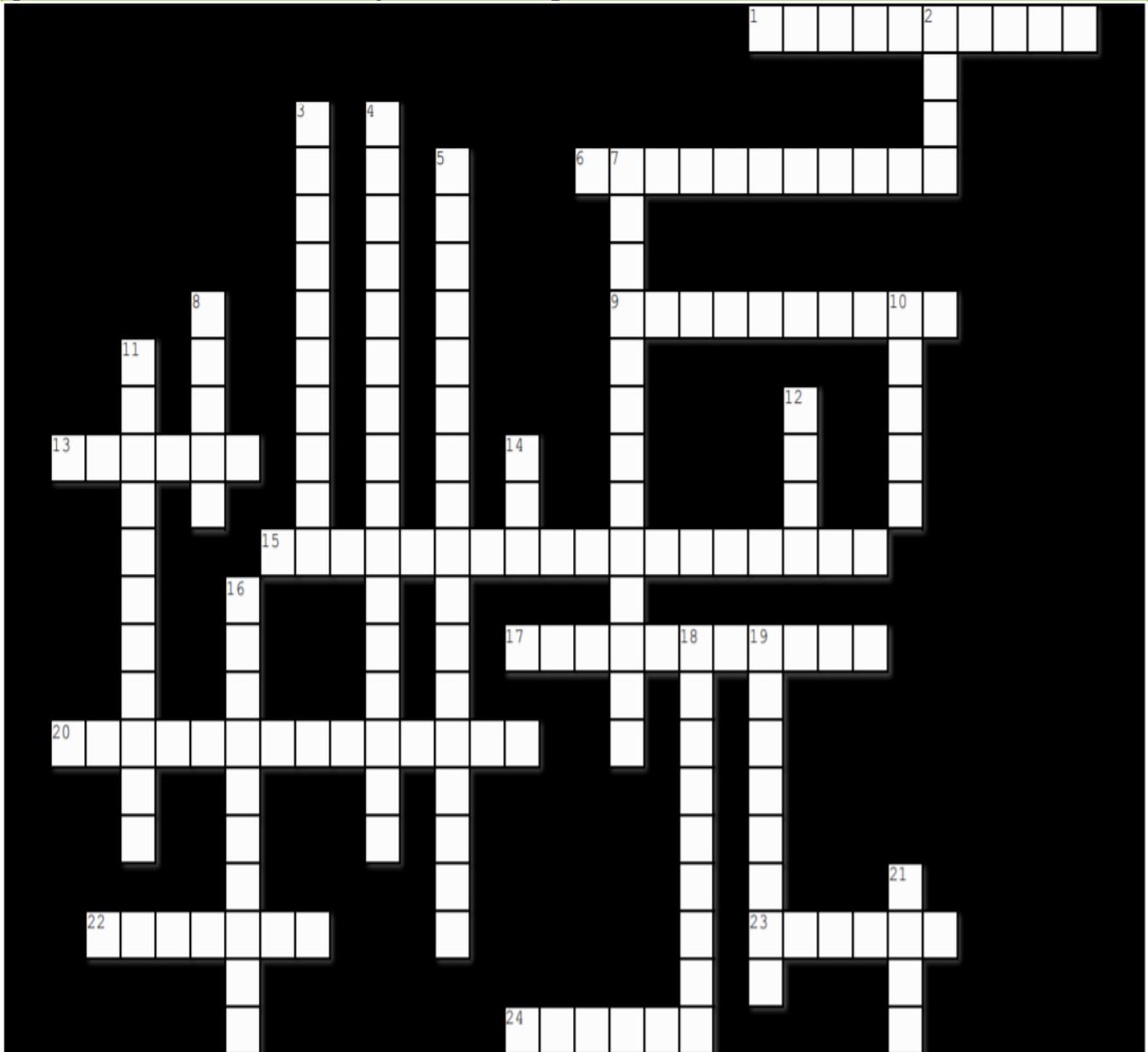
**Across**

**1.** The area of the business that produces good and/or service

**6.** Materials _____ Planning

**9.** Making the best use of resources

**13.** The first element of the operations system

**15.** Creating an online presence to improve operations

**17.** Using historical data to predict demand

**20.** Checking products against standards at regular intervals

**22.** The seven areas of waste

**23.** Service businesses are often more _____ intensive

**24.** Service businesses cannot be _____

**Down**

**2.** The heartbeat of the operations system

**3.** Where materials arrive just as they are needed for production

**4.** Strategy where an independent body sets the standard for quality

**5.** Where a business uses overseas organisations to undertake some business functions

**7.** The success in which business objectives are achieved

**8.** Discarding resources in the production process

**10.** The third stage in the ISO cycle

**11**. Management of supplies from supplier, through the operations system and to the end consumer

**12**. A non-renewable resource in operations

**14.** Software that allows a business to design and test products

**16.** The type of improvement TQM is based on

**18.** _____ Production Line

**19.** Manufacturing goods produce _____ outputs

**21.** Lean management principle where products are made from customer demand

# MINI EXAM NO 3: UNIT 3 AREA OF STUDY 3 (Total marks = 50)

## SECTION A

1.  **Define the following terms** **(4 marks)**
    a.  Supply chain management
    b.  Lean management

2.  **Explain how operations can help a business increase their market share** **(3 marks)**

3.  **David owns a furniture manufacturing business.**
    **Evaluate two technology strategies that David could use to improve the efficiency of his operations. Justify the most appropriate strategy for David to implement.** **(5 marks)**

4.  **Compare quality control and total quality management** **(4 marks)**

5.  **Identify one similarity and two differences between the operations of a manufacturing business and a service business.** **(3 marks)**

6.  **Outline one advantage and one disadvantage of a business implementing overseas manufacturing.** **(2 marks)**

7.  **RM & Sons is a medium sized business that manufactures blinds and curtains. The company is owned by Roger Mason. Roger's son, Philip, is in charge of operations. Philip is considering global strategies to help improve the business's operations. Roger has told Philip that he is open to any changes, but he will never approve overseas manufacturing.**

    **Other than overseas manufacturing, discuss one global consideration that could improve the operations at RM & Sons.** **(4 marks)**

## SECTION B
## CASE MATERIAL: Leura Sound

Leura Sound is a music events company owned by Tiffany Parks. The company was founded 15 years ago when it began hosting small music events at Leura Gardens along the peninsula. It has grown significantly over that time and now hosts 8 major music events across the country. Last year, more than 300,000 music fans attended Leura Sounds' events. Leura Sound is unique in that it runs all operations itself without outsourcing anything. This means it runs all catering, both food and beverage at all its events. The food is produced at a different facility and delivered to each event, where it is sold. Over the past 3 events, the company has received more customer complaints than ever. The majority of the complaints have been about the quality of the food. Tiffany has called for a review of all food manufacturing processes.

### STRUCTURED QUESTIONS

8.  **Describe the operations system as it would apply to Leura Sound.** **(6 marks)**

9.  **Discuss one quality strategy that Leura Sound could implement to reduce the number of customer complaints.** **(4 marks)**

10. **Tiffany is confident that the food production can reduce the level of wastage currently generated during production. Explain how the principles of lean management could help reduce the level of wastage in the food production at Leura Sound** **(5 marks)**

11. **Justify one materials management strategy Leura Sound could implement to improve efficiency** **(4 marks)**

12. **Explain one corporate social responsibility consideration from each element of Leura Sound's operations system** **(6 marks)**

# YOU BE THE ASSESSOR:  UNIT 3 AOS 3

In this section, you are required to assess the responses presented for each of the questions.  You should award the responses a score and justify your decision.  Once complete, compare your assessment to that of the author (provided at the rear of the Study Guide)

## Question 1

Damko is the manufacturer of white goods, specialising in fridges, washing machines and dryers. To help improve efficiencies, operations manager, Helen, has decided to import parts from overseas. Some employees have expressed concerns about the impact this will have on the overall quality of the finished products.

### Explain a management of quality strategy that Damko could use to ensure its quality remains high 4 marks

**Sample answer 1**

One quality strategy that Damko could use is quality control. Quality control is where the business performs quality checks. This strategy will help check for defects in the operations system and ensure that the customer receives the best quality white good. Another quality strategy is Quality Assurance. This is where the business meets a set of independent quality standards and receives a certificate to show they have met the quality standards. One common set of standards is the ISO9001:2015 series. This will help Damko improve their quality as the alter processes to meet the international standards.

Score out of 4 _____

Justification_____

_____

_____

**Sample answer 2**

One quality strategy that Damko could implement is quality control. Quality control is where the business performs quality checks at regular intervals. During these checks, the product is assessed against a benchmark and corrective action is taken if necessary. This strategy will help Damko improve its overall quality as only those white goods that meet the set standard will make it through to the consumer. This helps to reduce wastage as faults are detected early. Using quality control will ensure that any quality issues that arise as a result of the new overseas supplies, will be identified and rectified before production is completed. This will ensure that the level of quality remains high or even improves despite the change in suppliers.

Score out of 4 _____

Justification_____

_____

_____

## Question 2

Carrie is a breakfast cereal manufacturer in East Melbourne. Carrie is owned by Carrie Crisp and has a range of cereals with low sugar and high fibre. Ms Crisp has just come back from a manufacturers conference in Sydney where she learned about global considerations for manufacturing businesses. Ms Crisp is now considering using some of these global strategies.

### Evaluate one global consideration that Ms Crisp should implement to improve the operations at Carrie

### 6 marks

**Sample answer 1**

One global consideration is global sourcing of inputs. Global sourcing of inputs is where the business receives resources from a foreign country to use as part of their operations. Global sourcing of inputs comes with many benefits. One benefit is that the business can often receive inputs that are cheaper than in Australia. Some countries use cheaper labour which enables them to sell their resources far cheaper than the suppliers in Australia. Another benefit is that some resources are higher quality in other countries than they are in Australia. This can help Australian businesses improve the quality for their products which can improve the overall customer satisfaction.

However, global sourcing of inputs also has some drawbacks. One of the drawbacks is that because the resources such as materials need to travel a long way, it increases the lead time of the business which means it will take longer to receive their materials and therefore produce their products. This also reduces the flexibility of the business because changes to the materials used will be far slower due to the increased transportation time.

Despite these drawbacks, businesses can improve their overall efficiency and effectiveness by sourcing their inputs from overseas suppliers.

Score out of 6 _____

Justification_____

_____

_____

**Sample answer 2**
One global consideration that Carries can use is global sourcing of inputs. Global sourcing of inputs is where the business receives resources such as materials from overseas suppliers. This can help Carrie improve her operations because she may be able to receive materials such as bran, wheat and fruits that are much cheaper than Australia. This can help reduce her production costs which can improve her profit margins. Using overseas suppliers can also improve the overall quality of her cereals. She may be able to make use of countries with higher quality food materials to improve the quality of her products which will improve the customer satisfaction of the business.

However, sourcing inputs globally will increase the time it takes Carrie to receive her materials. This can slow production because the overall lead time is increased due to the increased transportation. If Ms Crisp finds that an order from her overseas suppliers does not meet the desired quality, it will take a long time to return them and receive a new order. This greatly reduces the flexibility of her business which can harm the overall operations at Carrie.

Despite the possible advantages of sourcing global inputs, Carrie should continue to use local suppliers for her cereals. This will enable Carrie to reduce the lead time for their cereals which will enable the business to get their products to the market quicker.

Score out of 6 _____

Justification_____

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## Question 3
Alice Smith has read the biographies of many great business leaders. She would like to follow in the footsteps of these successful leaders. Alice has just taken over as the CEO of The Traveller's Helpmate, a business that publishes print and online travel guides. Her observation is that her staff are professional, highly educated and independent. In private conversations, some staff have said that they felt underappreciated by the previous CEO as positive feedback was rarely provided.

*Source:*

**the operations system.**                                                          **6 marks**

**Sample answer 1**
Corporate social responsibility is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

The first element of the operations system is inputs. To implement corporate social responsibility in the inputs, Alice could source her materials from suppliers that are also deemed to be socially responsible. The second element is processes. Alice could ensure she is investing in staff by training them and ensuring they have the correct skills to complete tasks.

The final element is the outputs. Alice should ensure her product is fit for purpose and offers the customers good value.

Score out of 6 _____

Justification_____

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**Sample answer 2**
Corporate social responsibility is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

The first element of the operations system is inputs. Inputs are the resources used to create a good or service. To ensure Traveller's Helpmate is implementing CSR into the inputs, Alice could source her materials from suppliers that are also socially responsible. This means that the supplier is not exploiting labour or harming the environment. For example, the paper supplier should be conducting ethical practices around logging.

The next element is the processes, which are all the activities involved in transforming inputs into outputs. A corporate social responsibility issue with the processes is to ensure employees are well trained and have the opportunity to be upskilled. This demonstrates corporate social responsibility because Alice is investing in her employees to ensure they have the skills to enhance their careers. The final element is the outputs, which are the final good or service. A CSR issue involved with the outputs is that the travel guides are fit for purpose and of excellent quality. This will involve keeping information in the guides relevant and up to date. This is socially responsible as it is ensuring the quality of the product for the end consumer.

Score out of 6 _____

Justification_____

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## Question 4
### Compare the characteristics of a service business's operations and a manufacturing business's operations
**4 marks**

**Sample answer 1**
Both manufacturing and service businesses go through the three phases of an operations system which includes the inputs, processes and outputs. Both types of businesses will use resources for their inputs and look to transfer these inputs into a final output. The final output in both service and manufacturing businesses are sold for money.
However, there are some key differences between the operations of a service and manufacturing businesses. A manufacturing business produces a tangible output, meaning it can be touched or handled. Where as a service business produces an intangible output, meaning it is unable to be touched or handled. Another difference is that a manufacturing business is often more capital intensive where machinery and equipment is used, often to automate processes. Whereas service businesses are often more labour intensive where employees are the ones delivering the service.

Score out of 4 _____

Justification_____

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**Sample answer 2**
A manufacturing business produces tangible outputs whereas a service business produces intangible outputs. Manufacturing businesses can store their products because they are tangible. Service businesses cannot store their products because they are intangible. Manufacturing businesses are more capital intensive, whereas service businesses are more labour intensive. Consumption will normally occur separately from production in manufacturing. But in services the consumption and production often occur at the same time. There is very little customer involvement during production for a manufacturing business. Customers are often heavily involved during the production of a service. An example of a manufactured good is a guitar. But a service could be guitar lessons.

Score out of 4 _____

Justification_____

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## Question 5
Soothing Sound is the manufacturer of audio equipment, specialising in home audio systems and speakers. Soothing Sound is committed to delivering high quality audio equipment aiming to achieve this with tough quality standards and performs regular quality checks to ensure it meets its standards. Operations manager, Hailey, has implemented many improvements over the past 3 years since being in the role. One major change has been the automation of the production of some of the major products. Seventy percent of the business's products are now produced using automated production. However, Hailey is driven for new ways to improve Soothing Sounds operations.

### Describe and justify one technology strategy and one quality strategy that Hailey could implement to improve the operations at Soothing Sound
**6 marks**

**Sample answer 1**
One technology strategy that could be implemented is computer aided design (CAD). Computer aided design is the use of computer software to aid in the creation, analysis and optimisation of a design for a product. CAD could be used by Hailey as the design team could use it to create new audio equipment ideas. This would improve the effectiveness of the design process as the team at Soothing Sound would be able to view the new audio products and make suggestions on modifications without the need to create a physical prototype, speeding up the design process, helping Soothing Sound get their products to the market quicker.
One quality strategy would be total quality management which is a whole organisation approach to quality that is based on continuous improvement. Using TQM would raise the level of quality for Soothing Sound's audio products as employees would use quality circles to find new ways of improving the level of quality. This would improve the level of quality of the speakers and other audio

products, helping increasing the level of customer satisfaction. It would also improve the overall operations system as the employees are more empowered to find new ways of operating.

Score out of 6 _____

Justification_____

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### Sample answer 2

Soothing Sound could implement computer aided design. Computer aided design will allow Hailey to improve the operations as they will be able to design new products without building prototypes. Being able to view the new audio products, such as speakers, on a computer will allow them to gather feedback from others before they go into production. This will improve the overall design process of any new products. This will improve the effectiveness of the operations as the feedback can be used to ensure that desirable products are made. This will also allow Hailey to design the operations system around the new products so that any new processes can be implemented effectively.

A quality strategy that Hailey should implement is quality control. Quality control would help the operations team identify errors early. Identifying these errors will allow them to rectify these problems so that only the audio products that meet the highest of standards will make it to the end consumer. This will improve the overall reputation of Soothing Sound and allow them to increase their percentage of market share.

Score out of 6 _____

Justification_____

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### Question 6

**A4 is a paper manufacturer that is looking to improve its operations. Explain a strategy that A4 could use to improve the efficiency and effectiveness of its operations in relation to materials.          4 marks**

### Sample answer 1

One materials strategy is the Just-In-Time (JIT) strategy. JIT is where materials arrive just as they are needed for production. This reduces the need for storage costs because materials are being delivered more often and do not need to be stored. A4 could use the JIT system to ensure materials are delivered at the time they are needed for production. This will allow them to make better use of their facilities and will ensure that production continues.

Score out of 4 _____

Justification_____

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### Sample answer 2

One materials strategy is the Just-In-Time (JIT) strategy. JIT is where materials arrive just as they are needed for production. This reduces the need for storage costs because materials are being delivered more often and do not need to be stored. This can improve the efficiency at A4 because they are using less resources by spending less money on storage. The JIT system will improve efficiency at A4 because it helps reduce wastage because raw materials can often be lost, damaged or become obsolete while being stored for long periods. A4 will also improve their effectiveness because the reduction in storage costs and wastage will lead to greater profits because the JIT system allows them to produce each batch of paper at a cheaper rate.

Score out of 4 _____

Justification_____

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# The Unit 4 Outline: Transforming a Business

This unit focuses the concept that business are under constant pressure to adapt and change to meet their objectives. Students will look at the importance of reviewing key performance indicators to determine current performance and the strategic management necessary to position a business for future success. Students will study a theoretical model to undertake a business through change and consider strategies to manage change in the most efficient and effective way to improve business performance. The importance of leadership in change management will also be addressed. Students will use a contemporary case study from the past 3 years to evaluate business practice against theory.

**AREA OF STUDY 1: Reviewing performance – the need for change**
In this area of study students develop an understanding of the need for change. Managers regularly review and evaluate business performance by using key performance indicators and use the results to make decisions regarding the future of the business. Managers may take a proactive or a reactive approach to change. Students investigate the ways a business cans search for new business opportunities as a source of future business growth and consider the current forces for change on a business. Lewin's Force Field Analysis will be applied to contemporary case studies and consider approaches to strategic management using Porter's Generic Strategies (1985)

**Outcome 1**
On completion of this outcome students should be able to explain the way business change may come about, use key performance indicators to analyse business performance, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.

**Key knowledge**

- The concept of business change
- 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
- Key principles of the Force Field Analysis theory (Lewin)
- Driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes
- Restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations
- The two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985)

**AREA OF STUDY 2: Implementing Change**

In this area of study students explore how businesses respond to evaluation data. It is important for managers to know where they want a business to be positioned for the future before implementing a variety of strategies to bring about the desired change. Students consider the importance of leadership in change management, how leaders can inspire change and the effect change can have on key stakeholders. Students will consider the principles of Senge's Learning organisation and apply the Three Step Change Model (Lewin) in implementing change. Using a contemporary business case study from the past four years students evaluate business practice against theory, considering how corporate social responsibility can be incorporated into the change process.

**Outcome 2**
On completion of this unit the student should be able to evaluate the effect8vness of a variety of strategies used by managers to implement change and discuss the effect of change of the key stakeholders.

**Key knowledge**

- the importance of leadership in change management
- 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)
- management strategies to seek new business opportunities both domestically and globally
- an overview of the principles of the Learning Organisation (Senge)
- low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives
- high-risk strategies to overcome employee resistance, including manipulation and threat
- key principles of the Three Step Change Model (Lewin)
- the effect of change on stakeholders, including managers, employees, customers, suppliers and the general community
- corporate social responsibility considerations when implementing change
- the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

# CHAPTER 4: REVIEWING PERFORMANCE

So far we have looked at different ways to manage a business to ensure its success. Once a business has been established, employing people to produce goods and/or services, managers need to decide what comes next. We live in an environment that is forever changing and businesses also live in this changing environment. It is therefore important for businesses to adapt to change in order to increase the likelihood of success into the future.

However, before businesses discover what they need to do in the future, they first need to understand where they are currently positioned as a business in a dynamic market place. This requires businesses to evaluate their current practices and/or performance and compare the results with their desired objectives. Once they have this information they can then make informed decisions on how best to move forward.

This chapter is all about how to evaluate a business and move forward. Sometimes the evaluation will show that a business is operating at a high level and achieving its objectives. While other times the evaluation will show poor results that need to be rectified. Whichever is the case for a particular business, it needs to adapt and move with the changing times. If it doesn't, it can have dire consequences for the business. The business could lose a competitive advantage or even go bankrupt. Before we move into the course content, we will look at an example involving Toys "R" Us in order to demonstrate the importance of evaluating and moving with the ever changing business environment.

> ### Failure to change (Toys "R" Us)
>
> Toys "R" Us went into administration in May 2018, but the deminse of the giant toy seller began much earlier. Rather than invest in its own e-commerce site, Toys "R" Us decided to sign a contract that allowed it to sell toys on Amazon's platform. One of the issues with this was Amazon also sold other toys that would act as competition. This meant that when online shopping was rising, Toys "R" Us didn't establish their own competitive e-commerce website and, as a result, failed to compete with other toy retailers in this space. Another problem they faced was the change in consumer trends. Busy parents began purchasing toys from department stores such as Kmart, where they could complete other purchases in the same location. Toys "R" Us was warned that due to these changing consumer trends, they would find it difficult to compete by only selling toys.
>
> In May 2017, Toys "R" Us announced it would revamp its website to improve the customer experience. The retailer announced it would invest $100 million to revamp the website over a three year period to jump start it's e-commerce business. Failure to realise the importance of developing its own website during an e-commerce boom, and failing to move with consumer trends, resulted in the company filing for bankruptcy in the United States on September 2017. In Australia, Toys "R" Us entered administration in May 2018 and, after failing to find a buyer for its Australian stores, closed down all stores in the country, resulting in over 700 job losses.

The reactive approach of Toys "R" Us to the business environments caused the demise of a company that was established in 1948. It demonstrates that a business's ability to adapt and change to the pressures it faces has a large impact on the future of the business. In this chapter we will look at how businesses can evaluate their current practices and how they can position themselves for the future.

## *Business Change*

Change is a business's planned or unplanned response to both internal and external pressures. At times, these changes could be described as 'radical'. **Radical changes** result in a major alteration of the business. These changes are often initiated by critical events, such as a dramatic drop in financial performance, a merger/takeover, or a competitor that disrupts the industry. For example, Uber's impact on the taxi industry is resulting in radical changes to the way taxi operators run their business. Often during times of radical change the survival of a business will depend on how well it implements the required changes.

Another form of business change is **incremental change**. Incremental change occurs more frequently, but is less traumatic to the business and is part of its natural development. These changes include new systems, including new products or implementing a new policy. The business remains relatively the same, however it is working towards improving some aspect of its function. Incremental change is important for a business because it is continually improving, which can help it to gain or maintain a competitive advantage and stay current in the market place.

Change within a business can be planned or unplanned. Unplanned change occurs randomly and may be disruptive. This could be a major strike by employees that results in the closure of a school or a sudden change in funding from the government. Unplanned changes can take management by surprise and can often be disruptive to the business.

It is important that management are able to adapt quickly to unplanned changes and minimise any negative effects they may have on the business.

Planned change is where managers decide on a specific course of action to alter the business in some way that will assist in the development of the business in the future. This may occur when a manger identifies a gap in performance and aims to rectify the situation. Planned change can also occur if management proactively analyses the dynamic business environment and feels it needs to reposition the business in order to maintain competitiveness.

As effective as managers can be at predicting the future, it is not always possible to be correct 100 per cent of the time. It is therefore important that the business has managers that are competent at both planned change and adapting to unplanned change.

Businesses can either be proactive or reactive when it comes to change. **Proactive change** refers to a business that is foreseeing alterations in the business environments and looks to implement their own changes in order to take advantage. For example, Amazon is often able to make changes for the future before its competitors. Sometimes it will even lose money in the early stages of implementing the changes because it knows that these losses will be more than offset by the profits to be made in the long term. In many instances, businesses will invest in research and development to reveal future trends in the market, or innovate as a means of developing new strategies that will give them a competitive advantage.

Other businesses may be reactive when it comes to change. **Reactive change** is where a business is impacted by the business environments and is forced to change in order to protect or preserve its position in the market. Some businesses may constantly look to see what their competitors are doing and try to react accordingly. Others will be faced with some form of crisis (like Toys "R" Us) and then implement a strategy to try and overcome the crisis. Being reactive is much less desirable that being proactive because businesses risk 'falling behind the pack' as their rivals enjoy a 'first mover advantage'.

> **Exam Tip:** the terms 'proactive change' and 'reactive change' are not in the key knowledge section of the study design. However, they ARE still mentioned in the study design in the preamble for this area of study. This means they are still assessable. This was the case in the 2019 exam where students were asked to describe both approaches to managing change. This is an important lesson that all of the study design is assessable.

## *Key Performance Indicators*

As mentioned earlier, part of transforming or changing a business is to firstly know 'where the business is at'. To understand this, a manager needs to evaluate key processes and see if they are meeting desired goals or set targets or how **effective** the business is. The manager must also look at the amount of resources being used to achieve those objectives, which relates to how **efficient** the business is in converting inputs into outputs.

On the one hand, **effectiveness** indicates the extent to which a business is achieving its set goals and objectives. For example, if Business XYZ has a goal to increase market share by 5%, then it is effective if it achieves this goal. On the other hand, **efficiency** assesses how many resources are being used by the business to achieve the set goals. For example, while Business XYZ might be able to achieve its 5% increase in market share, it may not be considered efficient if this increase was achieved by a 20% increase in marketing expenditure, which has the potential to place Business XYZ in a dangerous financial position. However, if Business XYZ is able to achieve the goal of 5% growth in market share without any increase in marketing expenditure (or more generally by making better use of its resources) then it would be considered both effective and efficient.



The concepts of effectiveness and efficiency are important considerations in the context of reviewing a business' performance. There are many businesses that generate large revenues and achieve their goals of increasing sales and making customers happy. However, if they achieve these goals inefficiently, it can result in financial losses that ultimately has the potential to cause the business to be unsuccessful. It is therefore important to measure the effectiveness and efficiency of all areas of a business.

To evaluate a business, managers will use key performance indicators that provide information on how the business is performing in specific areas of the business. Key performance indicators can be defined as a criterion that

businesses can use to measure their success in achieving business objectives. Key performance indicators can be used to evaluate both individual and overall business performance. We spoke earlier in Chapter 2 about managing both individual and business performance. Performance indicators are how this type of performance can be measured.

Before we move on and look at specific key performance indicators that can be used to evaluate business practices, it is necessary to address the issue of benchmarking, which was introduced earlier when considering 'Quality Management Strategies'. **Benchmarking** (setting a standard to measure against) assists when using performance indicators to appreciate if the result is a positive one or one that indicates an issue within the business that requires attention. Without a benchmark the manager is unable to identify if a business is performing well, or if adjustments or radical change is required. For example, Kelly is the manager of a local newsagent. She measures the number of sales for each day and finds she has made $1500 in sales on Tuesday. How does she assess this? Is this a figure Kelly should be happy with? It is difficult to know unless there is some form of benchmark to measure this against. If the benchmark is $1200 then Kelly is likely to be happy. However, if the benchmark was $2500, Kelly is likely to look into why the figure on this particular Tuesday was so low. So what could Kelly do to set a benchmark? At the beginning of the day Kelly could look at the number of sales for the last few Tuesdays and set a benchmark based on this. This can give meaning to the $1500 in sales for Tuesday. If she hasn't quite met her benchmark based on the past few Tuesdays, then it might indicate that there is an issue with some of her processes. If this slide in sales continues, then it is likely that Kelly will need to implement some changes to her processes to help boost the number of sales.

We will now examine some specific key performance indicators.

> **Exam Tip:** Benchmarking is not specifically listed in the study design. However, it is difficult to 'explain' how a business could use a performance indicator or 'justify' its use without some form of benchmark. For example, in the 2012 exam, question 1c asked students to identify and justify two performance indicators that Websters could use to measure the success of the business' change in focus. Websters had changed their focus to competing on quality, so many students selected the performance indicator 'number of sales', which was a great indicator to use. However, without some form of benchmark, it is very difficult to justify. Students needed to write something like:
>
> *Number of sales could measure the success of Webster's change in focus of competing on quality as they coud look at the number of sales before the change of focus and after the change in focus. If the number of sales has increased after they have implemented strategies to compete on quality, then the strategy could be deemed a success. If however the number of sales stayed the same or even decreased after the implementation it would indicate that the change has not been successful.*
>
> As you can see there is no mention of the word benchmark (although it would be fine if you did), however there is a clear indication that the results of the performance indicator is being measured against something. In this case, previous results of the same indicator before the implementation of any changes.

## Percentage of market share

Market share is a representation of the portion of sales that a business has compared to the total sales for the industry or product, expressed as a percentage. For example, if consumers as a whole were to purchase 100 apples and 30 are from one business, that business would have a market share of 30%. One of the common objectives of businesses is to increase their percentage of market share, which effectively enables them to have greater 'control' of the market. If the percentage of market share for a business increases, it means it is taking market share away from competing businesses. In contrast, a decrease in the percentage of market share is a strong indicator that a business is losing its competitive advantage as customers choose to purchase from rival businesses.

> **Exam Tip:** the 2014 exam asked students to define percentage of market share. Many students submitted answers that had the terms in the definition. For example, "percentage of market share is the business's share of the market". This was not an acceptable response. Students are encouraged not to use the terms within their definitions.

## Net profit

Net profit is the amount of money that is left after expenses have been deducted from revenue earned. Businesses are able to increase their net profit in a number of ways. They can do so by firstly increasing their revenue. Secondly it can be achieved by reducing their expenses. With the use of some smart strategies, a business may even be able to do both. Let's take a look at a hypothetical restaurant.

*Schumer's is a local BBQ restaurant in Echuca that specialises in BBQ ribs. Schumer's earns revenue by selling meals to consumers and last year it made a net profit of $85,000. After all expenses are paid Schumer's makes a net profit of approximately $6.20 per meal. Owners Jim and Helen have set themselves to increase their net profit for next year. Helen comes up with the idea to promote the business through social media, at virtually zero cost. This method*

*is very cost effective and brings in an extra 20 meals per week, resulting in an extra $124 (approximately) profit each week ($6.20 x 20 customers) or approximately $6,448 per year.*

*Schumer's has been purchasing its ribs from a large national supplier. It purchases around 14,000kg of ribs each year and pays $9.30 per/kg. However, Jim has approached a local supplier and found that it is able to give him a better deal on the ribs. After establishing this relationship, Schumer's is able to purchase ribs at $7.42 per/kg. This saving of $1.88 per/kg of ribs increases net profit by approximately $26,320 per year ($1.88 x 14,000kg) just for changing suppliers. With these two simple strategies, Schumer's is able to meet its goal and increase net profit by approximately $32,768.*

Net profit is what determines a business's long term success. Many businesses are able to have large revenues (i.e. money generated from sales) but can still have negative net profit figures at the end of the year. Clearly, these businesses are either not pricing correctly (i.e. their price is too low) or they are doing a poor job at minimising expenses (i.e. their expenses are too high). Ultimately, if a business is unable to maximise its revenue and minimise its expenses, it will have a difficult time achieving a net profit.

Net profit belongs to the owners of the business (e.g. shareholders in the case of companies) and management will typically decide to return some (or all) of the net profit back to the shareholders (e.g. via the payment of dividends). However, management will sometimes decide to retain part of the net profit within the business to use for future investment. Shareholders will often put the CEOs of companies under pressure to increase profit figures as they want to maximise the return on their investment. This in turn will result in CEOs being constantly vigilant in seeking out new ways or strategies to boost net profit over time, from the simple deployment of a new marketing or pricing strategy to wholesale changes to the structure of the business.

> **Exam Tip:** There are many different forms of profit. The key profit indicator in this course is Net Profit. Simply stating "profit" as a KPI is likely not specific enough to obtain full marks. While is it not expected students understand all different forms of profit, stronger responses will be specific and use Net Profit.

## Rate of productivity growth

As discussed in earlier chapters, rate of productivity growth is a measure of efficiency for a business, and compares the amount of outputs produced to the amount of inputs used in production and the rate in which this increases over time. This is often used in both the operations and human resource functions to determine how efficiently the business is operating. The managers of these functions will look at the rate in which the productivity is increasing or decreasing. The growth in the rate of productivity helps the business to measure how efficiently they are using their resources. The more efficiently a business can produce outputs will help to determine its competitive advantage in the market place. Businesses can improve their productivity in a number of ways, including:

- using fewer resources to produce outputs
- producing more outputs from the same amount of inputs
- producing more outputs while using fewer inputs

By improving the rate of productivity growth, a business is able to produce each good or service at a lower per unit cost. This should result in improved profitability or allow the business to pass the cost savings on to consumers. Either way it allows them to gain a **competitive advantage** over time. Because time is one of the resources used to produce a good or service, a business is able to improve productivity by producing goods and services faster. This not only means that more can be produced over any given time period (which reduces average or per unit costs), it will help the business to get their products to the market quicker than its competitors, often leading to increased sales. Productivity is an important measure for businesses because it has a significant impact on the costs of producing a good or service. It is important that productivity growth is measured regularly so problems with production can be identified and addressed early.

## Number of sales

Number of sales measure the amount of goods/services sold over a given period of time. This is an important measure for businesses as it can alert them to potential problems in the event of declining sales. Although a poor number of sales figure will not necessarily identify the exact issue that is occurring, it will alert management to an issue that needs further investigation. It is typically an objective of businesses to increase sales in order to maximise profit and improve profitability.

The number of sales will be measured at regular intervals to help determine which products are selling well and which are not. Number of sales can also help to measure the success of marketing campaigns, sales training and product innovation. It provides managers with information on which to make decisions and implement changes. For example, the number of sales can help managers to decide on which product lines to continue with and which to abandon. As with all indicators, it is important that number of sales is benchmarked. It could be that sales are compared to the same time last year, month or week. Whether the results are positive or poor will determine the course of action that will be taken by a business. For example, strong sales results may encourage the manager to expand the business into a new area, while poor sales may result in a new advertising campaign being developed.

## Rates of staff absenteeism

Staff absenteeism is the rate in which employees fail to attend work on a given day, when they are scheduled to be there. In general, satisfied employees are more likely to have regular attendance and less likely to be absent. High staff absenteeism rates can be a reflection of a number of factors including, job dissatisfaction, ongoing personal issues or employee health issues.

Absenteeism is a major cost to businesses, so it is important that managers aim to keep this rate as low as possible. When an employee is not at work, they are not contributing to the achievement of business objectives, which impacts negatively upon the productivity of the business. Even if someone replaces them for the day, there is an increase in costs for the business. For example, if your teacher is absent for a day, it is likely that a substitute teacher will replace them. Your teacher will typically be entitled to some form of leave (e.g. sick leave), so they will still be paid even though they are absent from work. The substitute teacher will also be paid for a day's work, which increases employment costs for the school even though 'the same' amount of work is being performed.

If a business identifies that its rate of staff absenteeism is increasing, it is crucial that it uncovers the reasons for the absences so that any problems can be rectified. If it is revealed that the absenteeism is an indication of poor job satisfaction, then a business can plan for changes in the future, with the aim of improving job satisfaction for employees. Although absenteeism on its own will not specifically reveal the core issue that requires attention, it will alert managers that there is an issue that needs to be investigated.



"Can't come in today. I'm in bed with a nasty bug."

## Level of staff turnover

Level of staff turnover is the rate in which employees are leaving the business and need to be replaced. Similar to absenteeism, a high staff turnover rate can indicate that employees have low job satisfaction. Whenever an employee resigns from their job it is important that an **exit interview** be conducted. The exit interview is where the human resource manager will ask the employee why they are leaving the business. This can help identify areas in which the business needs to improve. For example, a business might identify that its staff turnover rate is high and, after conducting exit interviews, it discovers that employees are leaving because they are not happy with the safety procedures in the business. This then identifies an area of the business that needs to change and, once rectified, it should help to reduce the rate of staff turnover.

Staff turnover can be costly to a business as it needs to go through the whole recruitment, selection, induction and training processes for the replacement workers. There is also the likelihood of productivity losses caused by any operational disruptions within the business due to employees leaving.

## Level of wastage

As discussed earlier, the level of wastage refers to the amount of resources that are discarded by the business during the production process. This is an important indicator for the operations function as this is the main area that materials are used. Wastage costs a business money as the materials cannot be used to generate income. Each resource that goes to waste is money that is effectively going to waste. It is therefore important for businesses to reduce the amount of wastage.

Wastage can arise at different points in the production process where materials are discarded. Materials may be discarded because of poor quality, poorly trained employees or poor processes. It is important that wastage is monitored so that these issues can be quickly identified and rectified.

## Number of customer complaints

Number of customer complaints refers to the amount of consumers that are unhappy with the business and/or its products and have expressed their concerns to the business. Successful businesses aim to have a high level of customer satisfaction so they are able to have repeat customers. If customers are complaining it is important that they are addressed quickly.

Complaints can arise for a number of reasons. It could be that consumers are not happy with the quality of the product or the service they have received. For example, customers may not be happy with a controversial marketing campaign and decide to express their concerns to the business. Whatever the complaint is based upon, it can provide information for the business on how it is performing in different areas of the business. It then gives the business an opportunity to rectify the situation.

Businesses will realise that many customers will not submit an official complaint and instead simply decide not to purchase from the business in the future. Their dissatisfaction is likely to be passed onto friends and family which can harm the image of the business. It is therefore important to take every complaint seriously as there are likely to be other customers with a similar 'unrecorded' complaint. Individual complaints need to be addressed, but so too does the underlying issue or problem. Successful businesses will often see customer complaints as a way of receiving information that can help them to improve their processes.

## Number of workplace accidents

Number of workplace accidents is the amount of unplanned or uncontrolled events that result in personal injury or property damage at a business. It is a measure of workplace safety. Businesses aim to reduce the number of workplace accidents so that employees are safe at work and happy with their work environment. Employees that feel unsafe are likely to be unmotivated and may look for other employment. Along with the effects of employees being injured at work, accidents can also slow or halt production and will be followed by investigations from Safe Work Australia (Note: the Victorian branch is called Work Safe Victoria).

Australia had 106,260 serious claims in 2016/17, with 38 per cent being from stresses placed on the body and 24 per cent from slips and falls. These claims resulted in an average of 5.4 weeks off work and an average of $11,500 paid in compensation for each claim. This doesn't take into account the impact injuries have on the mental health of the injured employee and their families. If the number of workplace accidents is high within a business, it is important the causes are addressed immediately and any necessary changes are made, regardless of the financial cost to the business.

## _Force Field Analysis_

The force field analysis theory is a tool created by **Kurt Lewin** in the 1940s. It has long been used as a decision-making tool for businesses. The tool is used to compare forces for and against a particular change so that an informed decision can be made. The force field analysis is an effective tool for the management of change as a business is able to assess the forces for the change and those that are against the change. This can give a clear perspective as to what a business will be up against and to decide if the change is worth pursuing.

When using the force field analysis, the managers can undertake a series of steps including:

1. The first step is for the manager to identify and write down the forces that are working against the change. We can refer to these as **restraining forces** because they are working at keeping the business in its current state. On the other side, the manager will write down all of the forces that are for the change. These are called **driving forces,** as they will drive the business towards the new desired state. The state in which the business currently stands is called **'equilibrium' or 'status quo'**. The driving and restraining forces will pull in opposite directions and the force that is greater will decide if the change will be successful or not.

2. The next step in the force field analysis is to analyse each force to determine how powerful each one is. During the analysis, each force is given a value from 1 (weak) to 5 (strong). In order for the change to be successful, the aim is for the value of the driving forces to be more than the restraining forces.

3. Once each force is analysed, the next step is to work on an action plan to overcome the restraining forces (or at least reduce their power) and to promote the driving forces. This will help to increase the overall value of the driving forces so that the change is more likely to be successful.

Once the force-field analysis is completed, the manager can make an informed decision about whether to pursue the change or not. If the manager decides to implement the change, they are more prepared because they have an idea of the issues they will face and can work to overcome them. It also allows the manager to identify the driving forces,

which may include key people in the business. The manager can then use these people to assist them in driving the change.



| Restraining forces<br>Against change | ← | Equilibrium<br>(current state) | → | Driving forces<br>Towards change |
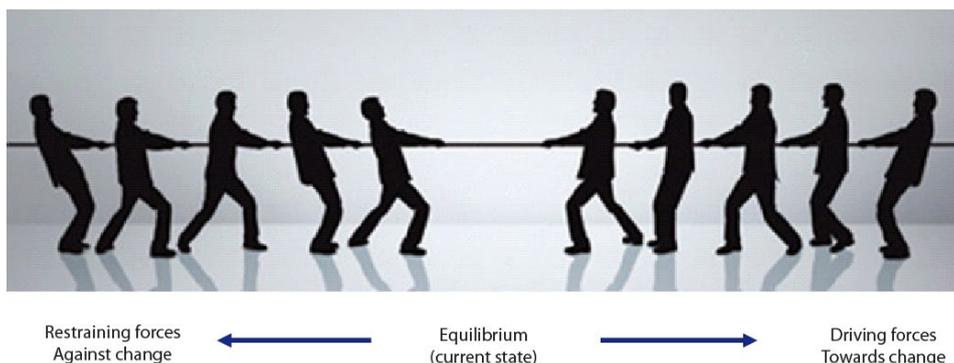
It is illustrative to use an example that relates to a change that might be proposed in a business A bean bag manufacturer is looking to introduce new technology that will automate large portions of the manufacturing process.



**Driving Forces**

| 4 | Improve productivity |
| 5 | Achieve economies of scale |
| 5 | Improved profits in the long term |

**14** TOTAL

**Introducing New Machinery**

**Restraining Forces**

| High initial cost | 4 |
| Ongoing maintenance costs | 2 |
| Redundancies (employee resistance) | 4 |
| Need to retrain employees | 2 |

TOTAL **12**
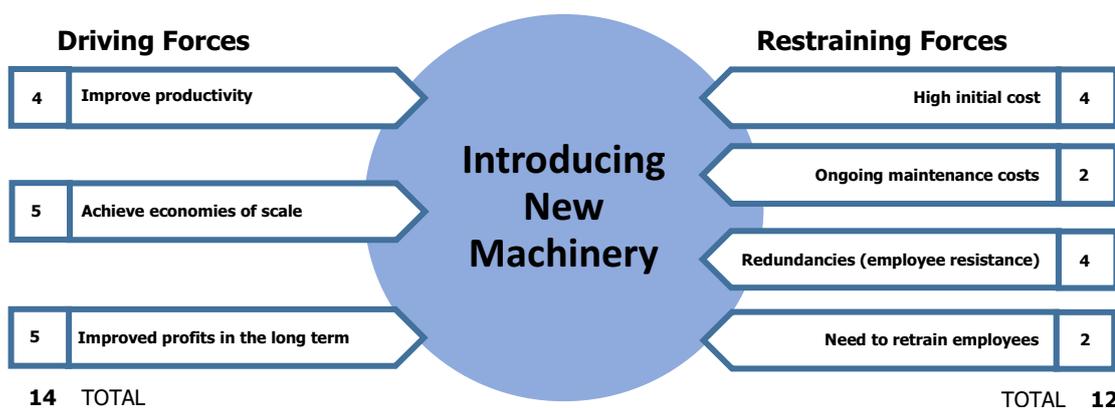
In this case, there are more restraining forces identified, but the value or weighting of the driving forces is higher, which gives the business a greater chance of success. However, the weighting of these forces is subjective, so it is still important for the business to work on an action plan that will look to reduce the restraining forces. For example, the business may work on a way to reduce employee resistance. They may decide to redeploy employees or bring in outplacement services to assist redundant employees to find new employment. This has the potential to reduce the weight of this restraining force and therefore increase the likelihood of successful change.

The benefit of the force-field analysis is that it provides the business with an objective view of the change before it is even attempted to be implemented. Managers may be holding meetings and asking for feedback from key stakeholders about a particular change. It is likely that there will be arguments for the change and against the change. However, these discussions can sometimes cause decisions to be made based on subjective information, where strong personalities push their agenda and have too much influence on the outcome. While these opinions may be valid, it is important to look at each possible driving and restraining force to give a clear view on the success of the change. It also allows managers to discuss how they can reduce the identified restraining forces and increase the driving forces. This can assist with the direction of a clear plan on how to implement the change.

**Exam Tip:** Students need to be able to explain the principles of the force-field analysis. An example relates to the 2018 exam, where students were asked to respond to case material and explain how the business could apply the principles of Lewin's force-field analysis. In that case, it was not enough to simply state that the force field analysis identifies and analyses driving and restraining forces. While this is the basis, students needed to clarify the typical steps in the force-field analysis. The force field analysis give a weighting to each force, and then develops an action plan to overcome the restraining forces and increase the driving forces where possible.

**Exam Tip:** Many students state that the aim is to have more driving forces than restraining forces. This is not the case. It isn't the amount of forces that counts. It is the weiging/power of each force. For example, a business could have all the driving forces to push the business to the new state, however there may be one very powerful restraining force that simply cannot be overcome. It is the value, not the specific number of forces that is important.

# *Driving Forces*

Driving forces are those that initiate, encourage and support a change. They are pushing the business away from its state of status quo and towards the new desired state. We will now examine some common driving forces for change.

## Managers

Given that managers are employees holding some form of responsibility within the business, they can be a driving force by initiating change that helps to position the business for the future. Management will often be looking at performance indicators and developing strategies that will aim to improve the results of these key indicators. For example, a manager might analyse the net profit figure and notice that it is well below the set benchmark. The below par figure is announced to the market and shareholders are unhappy. The manager might then decide that the best course of action is to close down a specific product line that has become unprofitable. In this respect, the manager becomes a driving force for change.

Managers can initiate either incremental change or radical change. Often it will be senior management that initiates radical change that will have a dramatic impact on the business. Middle and lower level managers will often be involved in initiating incremental change within their teams.

A change in management, such as a CEO, can be an initiator of change within a business. Often a new leader will come in with a vision and fresh ideas on how to develop the business, which can have a large impact on the future of the business.

Driving forces are also about supporting change and management can play a major role in this respect. If a manager has good leadership qualities and is experienced in the change process, they can be a driving force by supporting the business through the change. Managers that believe in the benefits of change will work hard to promote these benefits to other employees. They will motivate and inspire employees to work towards a common goal which can help to move the business towards the new desired state.

## Employees

As discussed earlier, employees are those that work for the business in exchange for remuneration. They can play a major role in the success of the change by initiating and/or supporting change. For example, employees that see a need for an improvement in working conditions will often become a driving force for a change to these working conditions within the business. Employees can also develop new ideas and technologies that change the strategy for a business.

Employees that believe in the need for change are likely be a driving force by supporting the change. It can also be common for employees to fear and resist change within a business as they fear for their job security. However, if managers are able to get the employees 'on board' to support the change, it can go a long way to the successful implementation of the change.

## Competitors

Businesses competing in the same market can initiate change given that there is an ongoing battle for market share. For example, if a competitor introduces a new product onto the market, or implements an exciting marketing campaign, or introduces new technology into its business, it will typically cause rival businesses to respond by initiating change within their own organisations. When Aldi entered the Australian market it offered a more streamlined range of relatively basic every day products at cheaper prices than the giant supermarkets, Coles and Woolworths. Aldi immediately gained a small market share from its rivals, which then initiated changes within the local supermarkets as they needed to find a way to remain competitive. In response, Coles and Woolworths looked to their supply chain and found ways to reduce unit costs by negotiating lower prices from suppliers. This in turn enabled them to pass on these lower costs to consumers in the form of lower prices, which helped these supermarkets to address the threat posed by Aldi.

Obviously it is better to be **proactive** and be the business that is initiating changes in others. However, it is important that businesses keep an eye on what others are doing so they are able to implement strategies that will maintain any market edge they have.

## Legislation

It is important for Australian businesses to be aware of the legislation they need to abide by and implement it into their processes. Changes in legislation will initiate change within businesses as they need to update their practices and be in line with the new legislation. For example, a change in employee relations laws could change the working conditions a business is providing its employees.

Businesses need to contend with governments at the local, state and federal levels. Changes in any laws or regulations must be met by the business. For example, the federal government introduced the 'Country of Origin Food Labelling' legislation on July 1, 2018. This law forces any business that grows, produces, manufactures, distributes or sells food in retail outlets to change their food labels to meet the new requirements. All businesses that must comply with this legislation need to alter their food labels to show where their product is from and what percentage of its ingredients are Australian.

## Pursuit of profit

Businesses share the common goal of making a profit (revenue less expenses), and when the KPI of net profit is below benchmark levels, it can initiate change in pursuit of higher profits. Businesses might make changes to their training and development, to their product mix, or any range of strategies that will help them to improve profitability.

However, poor profit figures are not the only initiator of change. Even businesses that have met or exceeded their profit targets will often look to implement changes to continue to increase their profit. If this is the case, they will have the funds they need to implement key changes within the business. For example, a local shoe retailer that has recently had high profit figures might decide to expand into a new location in pursuit of higher profits. Or Facebook may decide to introduce video advertisements into your news feed to help increase its net profit. Whether the KPI of net profit is positive or negative, businesses will still initiate changes to pursue higher profits.

## Reduction of costs

Often businesses are unable to succeed because their costs (i.e. expenses) are too high. As important as generating revenue is to a business, managing costs is the other part of the equation that determines the amount of profit for a business. If management decides that costs are too high, or that there is a way it can reduce costs further, it is likely to initiate a change in order to reduce costs as a means of maximising profit. Sometimes a change may have a high initial cost, but result in a long term reduction of production costs. For example, over the past 15 years, many retail businesses have implemented a point of sale (POS) and stock tracking system. This can be expensive to implement, but allows businesses to keep track of their inventory. Not only will it enable managers to speed up the process of servicing customers, but it facilitates the tracking of inventory to determine those items of stock that are selling well compared to those that aren't. This helps to improve the effectiveness of meeting customer needs by having the right inventory to sell as well as reducing the costs of having idle stock on hand.

While the need to reduce costs will not only initiate change, it can also support change. More specifically, if a business is looking to implement a change for another reason (e.g. greater competition), a reduction of costs will be a supporting force. For example, with respect to Coles/Woolworths and the introduction of Aldi into the market, the need to achieve a 'reduction of costs' for the large supermarkets will be a supporting force in this instance. Similarly, in the case of the shoe retailer introduced earlier, the pursuit of higher profits might result in management purchasing larger quantities from suppliers. This should then result in some form of bulk purchasing discount which helps to reduce costs of goods sold and increase profitability.

## Globalisation

Globalisation has resulted in businesses competing in a global market due to the improvement of communication, unrestricted trade and lower transport costs. Globalisation is the process where businesses develop international influence and begin operating on an international scale. It has been a driving force for many businesses of all sizes. Globalisation has increased competition and allowed businesses to expand into new markets. With the improvement in communication methods, businesses of all sizes are able to sell their goods and/or services to global markets. This has provided opportunities for businesses to increase their revenue substantially. Globalisation has also facilitated direct foreign investment by means such as opening up factories, offices or retail stores across the globe. This has put pressure on businesses to take advantage of the increased ability to sell to a larger market.

## Technology

Technology is changing at an increasing rate and this can put pressure on businesses to initiate changes. Technology can impact all areas of a business and it is important that it is implemented effectively. If a technological development becomes available, management needs to decide if it needs to be implemented into the business. If a viable new technology is not introduced into a business it can cause the business to fall behind their competitors or even enter into bankruptcy. However, technology can be expensive to implement and requires careful evaluation before being implemented.

Technology can impact on a business indirectly. For example, the introduction of cloud technology has enabled businesses to collaborate more effectively. Cloud technology has also allowed employees to work remotely and has been a key driver in businesses altering their business structures. During the COVID-19 pandemic, businesses that had already implemented cloud technologies into their business had an advantage as their staff were well versed in how to work remotely when required.

## Innovation

Innovation is the creation of a new idea in the form of a new process, product or method. Innovation can both drive a business to change and cause major restructuring across industries. For example, innovations and developments in the automotive industry have caused many businesses such as Tesla, General Motors and Volvo to build self-driving cars. Once the technology was initially developed, carmakers have invested heavily in the technology with General Motors announcing it will release a car that has no steering wheel or pedals in 2019. The release of the vehicle has been pushed back, but the technology has initiated changes throughout the industry. In addition, innovations often drive health businesses to change the way they diagnose and treat diseases. For example, innovations in new drugs can alter the way a doctor treats a patient.

## Societal attitudes

As a society we have divergent attitudes towards different things. These will change over time which can cause change within businesses. Due to online privacy breaches there has been an increasing social trend where society is expecting businesses to protect their private information. This has placed pressure on businesses to alter the way they operate online and many have had to change the way they store and use customer data. Consumers are becoming more aware of businesses using their data and are now demanding more control over their private data.

Societal changes can also impact on the human resources of a business. In 2016, the Australian Bureau of Statistics reported that labour force participation of women was at its highest level ever. The average age for new mothers also increased to more than 30. These statistics indicate that women will increasingly require flexible work arrangements to help them to balance their career and family responsibilities. As a consequence, many businesses now offer highly flexible arrangements and even offer job sharing to help assist with this change in society. This also benefits businesses as it stops them from losing highly talented employees and encourages mothers to bring their talents back to the workforce.

> **Exam Tip:** Question 6 of the 2020 exam asked students to analyse how societal attitudes have been a driving force for change in a contemporary business they had studied throughout the year. This question highlights an important point. Students are expected to be able to apply the content of this outcome to real life businesses. This is often done well by students. In the past, many students have studied a business and a few of the driving forces have been relevant to the change in that business. However this question makes it clear that students should have contemporary business examples of how each driving force (and restraining force for that matter) can influence change within a business.

## *Restraining Forces*

Restraining forces are those that work against a change and aim to keep the business in its current state. It is important for the leader of the change to be aware of the restraining forces so they can aim to either remove them or minimise their impact on the change. However, if the restraining forces are too great, it is likely that the change will be unsuccessful. The common restraining forces include managers, employees, time, organisational inertia, legislation and financial considerations. Each of these is considered below.

## Managers

While managers will often be a driving force behind change, there are many examples where management acts as a restraining force. Managers that do not believe in the change are unlikely to lead the business through successful change. It is important that the leader of the change can demonstrate the benefits of the change to key stakeholders. The manager will find this difficult if they do not believe in the benefits themselves. This can work against the change and make it difficult to implement successfully.

Managers with poor communication skills are also likely be a restraining force given that change requires strong communication. In addition, the autocratic and persuasive management styles can work against a change, as they lack of employee consultation from these management styles can cause fear and anxiety amongst employees, resulting in increased resistance. Managers that do not have the desired skills for leading a change can also act as a restraining force as it is likely that the lack of direction results in change not being well received by key stakeholders.

## Employees

Employees are often one of the key stakeholders that resist the change and work against it. It is usually the case that a change will impact on the employees in some way which can cause fear and anxiety. Employees may fear their job security or even their ability to perform the new tasks. Often rumours can start when a change is being discussed, which can add to the fear of the unknown for the employees. This causes resistance to the change and can often prevent the change from being implemented successfully. Given that employees will often be the ones enacting the changes (i.e. putting them into effect), their opposition to the changes will make it difficult for the changes to be successfully implemented within a business.

## Time

Time can be a restraining force for two main reasons. Firstly, it could be that insufficient time is given to those responsible for implementing a change. Change can often take a long time to implement effectively, and leaders might require training on the most effective strategies to employ in order to successfully implement the change. However, if the key people are not given sufficient time to go work through a thorough process then it can work against a successful change.

Secondly, it could be the wrong time to implement the change. It could be the wrong time of the year or the wrong time in the economy. For example, assume a company was planning to take over and then restructure another company. It could be a poorly timed take over if the share market was booming, because the share price of the target company is likely to be relatively high, which causes the total purchase price of the acquisition to be high. In contrast, it perhaps would be a better timed take over if the share market was relatively flat (or declining) and the price of the target company's shares was relatively low.

## Organisational Inertia

Organisational inertia is the tendency of a business to continue along its current path with people unenthusiastic towards change. Often large businesses can have a significant amount of organisational inertia as they simply don't adapt well to the factors from the external environment. When a business has a culture that doesn't adapt and is not dynamic, it can be difficult to implement a successful change. Think about how difficult it would be to move a stationary semi-trailer due to the inertia it has. A business that has organisational inertia is based on the same principle. It takes a massive amount of force to be able to move a resistant workforce.

## Legislation

Sometimes a business can plan to implement a change but finds that there is some legislation that is going to make it more difficult. This can cause the business to source out legal advice which can become costly. For example, a business that wishes to move to a new location may find that there are zoning or building laws that will prevent it from developing in the new location. If this is unexpected, it makes it difficult to plan for, which pushes out timelines and budgets for the change.

## Financial considerations

The cost of the change is a major consideration. Costs associated with the change may not be viable or may put the business under financial pressure. It is important that the business conducts a cost-benefit analysis to determine

whether the change is worthwhile. If the costs are high or burdensome then it can act as a significant restraining force for the change. Financial costs may include new equipment, new facilities, redundancies, training costs, recruitment costs or even loss of income due to the impact of the change being implemented.

> **Exam Tip:** Question 6 in Section B of the 2020 exam asked students to outline how two of the listed restraining forces might influence Manitta Mining's ability to successfully introduce change to business operations in the future.
>
> A common issue with these types of questions is with the application. Many students will mention Manitta Mining in their response yet fail to provide clear application as to how it will be a restraining force for that business in their current situation. For example, many students will use financial considerations and provide a general response as to how the increased costs of the change may make it difficult to implement the change successfully. These types of responses are general in nature. Students that provide a response that is applied more specifically are likely to score higher. For example, students could respond by stating that a large mining company such as Manitta Mining may find the high costs of mining into a new area difficult to overcome, hence working against the change. The expense of conducting research at the new mining site, as well as setting up new mining equipment will be expensive and may work against the implementation of the change.

> **Exam Tip:** in previous exams, there have been questions that have asked students to describe and apply the driving and restraining forces to businesses they have studied. Students have generally struggled with these questions because they have not described the driving and restraining forces. It is common for students to get caught up in explaining how each force initiated, supported or worked against change. However, in these questions, it was important to describe the force (theory) and then apply it to the scenario (application)

> **Exam Tip:** the current study design lists specific driving and restraining forces, meaning that they can be specifically examined. However, during class you may learn about other forces that apply to a business you are studying. If appropriate for the exam question it is fine to use different forces.

# _Porter's Generic Strategies_

Imagine you were purchasing a new set of headphones. Would you prefer to purchase a set of cheap, no-frills headphones or a more expensive headphone set that has better features? Answers to this question will vary and it will be a decision that each individual makes depending on their circumstances. However, it does highlight that there are typically different options available to consumers, which have come about because businesses are always trying to gain a competitive advantage. Some aim to gain this advantage by lowering costs, while others aim to do so by offering a difference in features or quality more generally.

In 1985, Michael Porter set out in his book that there are three key generic strategies that businesses can use to gain a competitive advantage. The three generic strategies are **lower cost, differentiation and focus**. For the purpose of this study guide we will consider lower cost and differentiation. Lower cost and differentiation (providing unique benefits) are classed as generic strategies because they can be applied to goods and services in all industries. Not only will we look at the two thoughts on gaining a competitive advantage, but we will consider the activities that Porter suggests can lead to a sustainable competitive advantage in each generic strategy.

### Lower Cost

Lower cost (also known as cost advantage) is a strategy where a business aims to become _the_

strategies do not significantly reduce the value to the end consumer.

Once a business becomes the low cost producer in its industry, it is able to gain a competitive advantage using one of two main options:

1. By lowering costs, it is able to reduce the price of the good or service which allows the business to be more attractive to price sensitive consumers. This opens up the market for the business as more consumers are likely to purchase from the business. **OR**

2. By lowering costs and selling the good or service at or near the industry average, it will allow the business to increase its profit margins significantly. This allows the business to potentially make more money per sale than any of its competitors.

> **Exam Tip:** It is very common for students to state that the lower cost strategy is about selling their products at the cheapest price in the industry. This is NOT correct. While the business may decide to do this, the most important thing is to lower its costs. This means reduce the operating expenses of the business. A business that simply lowers it PRICES without lowering its costs will simply lose profit margin and may actually lose its competitive advantage. However, by lowering its costs it has options available to gain a competitive advantage.

In order to achieve a cost advantage, it is important that the business understands where its costs come from. Many businesses focus on raw material costs and labour costs, however there are many more costs involved when producing a good or service. Porter found that there are two main ways to gain a cost advantage:

1. Reconfigure the value chain
2. Control cost drivers

Before we examine each of these methods, it is important to understand the concepts of 'cost drivers' and 'value chain'.

> **Exam Tip:** The next section on Value Chain and Cost Drivers are not specifically part of your study design. It is not foreseeable that you will need to know this is such depth. However, understanding the value chain and cost drivers in this section can help you gain a better understanding of Porter's theory. However, if it becomes too confusing, simply ignore it and just focus on the lower cost and differentiation strategies.

## Value Chain

The value chain refers to the activities performed by a business to design, produce, market, deliver and support its products. Each one of the activities aims to add value to the product. The value chain is made up of '*primary activities*' and '*support activities*'. **Primary activities** include:

- Inbound logistics: activities associated with receiving, storing and distributing inputs
- Operations: activities involved in transforming inputs into outputs
- Outbound logistics: activities involved in collecting, storing and distributing products to the consumer
- Marketing sales: activities associated with attracting consumers to purchase the good or service
- Service: activities involved in providing services to enhance the value of the product, such as installations, technical support and product repairs.

**Support activities** include:

- Procurement: the function of obtaining inputs (e.g. raw materials, supplies, facilities, machinery and equipment)
- Technology development: all primary activities require technology whether it be know-how, equipment or procedures
- Human resources: activities involved in the establishment, maintaining and termination phases of the employment cycle
- Firm infrastructure: activities involved in planning, finance, accounting, legal and quality management

The primary activities are the main functions of the business involved in the creation of the good or service and the distribution to the consumer and the support provided after purchase. The support activities are those that help the primary activities function effectively. Both the primary and support activities help to add value to the product. How each is performed, along with the costs incurred, will determine if the business has high or low costs compared to its competitors. Each one of the primary and support activities has costs associated with them given that each requires payment for human resources, technology and/or other inputs. In order to reduce these costs and gain a cost advantage, a business needs to understand their value chain and work at minimising the costs associated with each activity. Before any cost reduction strategies are implemented, it is important that a business understands the impact a strategy might have on the end value for the consumer. While reducing costs is the aim, if it dramatically reduces the value to the consumer, it is likely that sales, market share and profits will decrease over time, to the detriment of the business.

Reconfiguring the value chain can be done in a variety of ways. A business could adopt a more efficient way to design, produce, distribute or market the product. For example, a manufacturing business may look to reconfigure its primary activity of operations by deciding to produce a standard product in mass volumes. In order to do so it can implement an assembly line layout that is able to achieve economies of scale by producing more outputs in the same time and/or with the same resources. This can allow the manufacturer to reduce their production costs and gain a cost advantage over its competitors.

## Cost Drivers

Cost drivers are the areas or activities of business that generate costs while the business is producing and selling the good or service via the value chain. Each of the specific activities will influence the costs incurred by the business. Working on reducing these costs is important if the business is to gain a cost advantage. Below are some of the key cost drivers for businesses:

- *Economies of scale:* being able to operate more efficiently by producing in larger quantities. Doing this will spread the overall costs of the business across a larger volume of products which reduces the cost per product produced. Being able to achieve this is an effective way to achieve a cost advantage.

- *Linkages:* It is important for managers to understand how different activities relate to each other in terms of cost. To fully understand the costs incurred by a business, activities cannot be looked at in isolation given that many of them are closely linked. For example, one way to reduce costs is to purchase cheaper inputs. However, this might not reduce the overall costs of the business. It is indeed possible for overall costs to fall even when input costs are rising. To illustrate, imagine a copier business that manufactures and supplies the photocopiers to your school. If they were to use higher quality parts during the operations process it may increase input costs. However, the photocopiers are likely to experience fewer breakdowns, which ultimately reduces the overall costs associated with the servicing of photocopiers.

- *Integration:* integration is where a business is able to perform tasks themselves rather than outsource to the market. For example, a business is able to reduce the cost of its logistics by having its own fleet of trucks. De-integration could also be a cost driver if the business is able to reduce costs by outsourcing parts of the business. Many clothing manufacturers have made use of de-integration by outsourcing their manufacturing process.

- *Location:* the location in which an activity is undertaken can impact on the costs. Locations differ in their costs relating to wages, raw materials, utilities, taxes and other factors. For example, offshore locations can offer many cost advantages for businesses, particularly in relation to the lower cost of wages and the lower tax regimes in many developing economies.

A business that is able to analyse its cost drivers and make adjustments can help it to gain or maintain a cost advantage. It is important that these cost drivers are analysed regularly as costs will often change. Opportunities to reduce costs can arise at any time and management need to be able to take advantage of them. Controlling these costs will help a business to develop or consolidate a cost advantage over its competitors.

### Drawbacks of the Lower Cost Strategy

One of the major drawbacks of the lower cost strategy is that there is a chance that any cost reductions in production may have a negative impact on the quality of the end good or service. Reducing costs can also be difficult to sustain in the long terms as other businesses will also investigate ways to reduce their costs. Another drawback is that if the business decides to lower the price of its product(s), some customers might see this as a sign of lower quality. Another disadvantage is that with lower prices, the business will need to sell more of its products to make the same level of profit.

## Differentiation

The differentiation strategy is where a business seeks to be unique in its industry in some way that is valued by consumers. It provides attributes that its consumer perceives as important. The business is rewarded by being able to command a premium price for its products. If a business is able to successfully differentiate itself from competitors, it is able to be unique and stand out to its buyers. Although a differentiation strategy can lead to a competitive advantage, it is still important to manage costs because a business that differentiates must maintain similar costs to

its competitors. Unless the premium price exceeds the cost of including the differentiating benefits, the business will fail to achieve enhanced performance.

Porter found that many businesses aim to differentiate themselves by focusing on the product and/or the marketing to sell the product. While these can be effective strategies, it is important for managers to look for ways to differentiate anywhere along the value chain. Any activity in the value chain presents an opportunity for a business to be unique. How businesses differentiate will depend on their industry and the goods or services they sell, however some common ways a business is able to differentiate include:
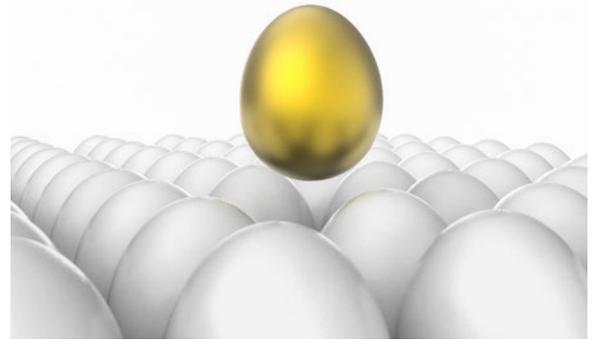
- Procurement: purchasing premium inputs that greatly enhance the quality of the end product
- Patents: patents or other intellectual property that secure the uniqueness of a product or part of a product unique (e.g. Under Armour's patent for a sensor in shoes that can measure the wearer's blood pressure and adjust the sole's shape as a result of the reading helps provide a competitive advantage)
- Marketing: highly effective sales and marketing campaigns can help to highlight or showcase the unique qualities of a product
- Relationships: forming relationships with high profile/talented personnel that are associated with the product (E.g. Nike's Air Jordan shoes continue to be one of the leading selling shoes due to Michael Jordan's involvement)
- Innovation: introducing new or revised innovative processes, such as Coles and Woolworths implementing new distribution and storage processes that helped to improve the quality of their fresh produce
- Training: new training programs that greatly enhance the skills and abilities of employees
- Distribution: improved delivery systems that allow the business to get their products to the consumer faster. This is especially important for businesses that sell online
- Location: ensuring that the location of a business or its product offerings maximise the chances of it 'standing out' from its competitors. For example, a bank that is able to secure the contract to supply ATM services at a particular venue or event, such as the Grand Prix or a weekend exhibition or show.

## Drawbacks of the Differentiation Strategy

Differentiation is normally costly and the more unique the strategies that are employed, the higher the costs are likely to be. This can impact negatively on profitability if the additional costs incurred from differentiating the product does not lead to an equivalent increase in sales revenue. For example, assume that a business spends $500,000 for a one year exclusive sponsorship arrangement with an elite sports professional. It would need to be confident that this cost (or investment) generates more than $500,000 in additional sales revenue over time. This additional revenue could come in the form of more sales volumes and/or higher (premium) prices being charged on the relevant products. Another drawback of differentiation is that charging a premium price limits the segment of the market that might be attracted to the product. Some customers are more price sensitive and will either not be able to afford the premium price or would prefer to purchase a cheaper option.

## Choosing the right generic strategy

Either a **lower cost** or **differentiation** strategy can be used to transform a business. The key is to understand the value chain of the business and monitor it regularly to ensure new opportunities are taken advantage of. However, a business that decides to implement both strategies by lowering costs with more differentiation runs the risk of being mediocre at both strategies, which might result in no competitive advantage at all. Porter suggests that to gain a competitive advantage, businesses should focus on either the lower cost OR differentiation strategy and be the best at that strategy in its industry. Businesses that look to implement both, are likely to be mediocre at both with no clear market advantage. Porter calls this being 'stuck in the middle'.

To avoid being 'stuck in the middle', Porter suggests that managers can undertake a series of steps to decide which strategy is best for the business.

1. *Conduct a SWOT analysis*

Carrying out a **SWOT analysis** (strengths, weaknesses, opportunities and threats) on the business to determine where the business currently sits in the market and what they are currently good at. Some businesses may have

something unique they can make the most out of, while others may have a relationship with a supplier that allows them to have costs lower than their competitors. After gathering the information the business will understand the areas they can take advantage of and the possible areas they are not strong in.

2. *Use five forces analysis*

Next the business should use the **five competitive forces analysis** to understand the nature of the industry in which they operate. Porter found that there were five forces that determined the competitive power of those within the industry. With a better understanding of where the power lies within an industry, a business can see where opportunities might exist to:



"Let's identify our weaknesses … and don't look at me when you list them."

- further strengthen its competitive advantage
- improve and erode the competitive advantage enjoyed by rival businesses, or
- avoid provoking dominant and powerful competitors that have the potential to seriously damage a business

The five competitive forces are as follows:

**Supplier power –** a business assesses how easy it is for suppliers to drive up prices. Gathering information on how many suppliers exist in the market for each input and the uniqueness of the product or service can help to determine the power they have over a business. The smaller the number of potential suppliers for a business, or the more unique is the supplier's product, the more power suppliers will tend to have over the business.

**Buyer power –** in contrast to supplier power, buyer power examines how easy it is for buyers to drive supplier prices down. If there are only a few powerful buyers of a business' products, the power lies with the buyer rather than the business. For example, many Australian small to medium sized farming business sell exclusively to one or both of the major supermarkets (Coles and Woolworths). This means that the supermarkets exert a significant degree of 'market power' over the farmers, preventing the farmers from having absolute freedom to raise prices and, in many cases, forcing (or squeezing) farmers to reduce prices on the stock it sells to supermarkets. Some buyers are also more price sensitive which can make it difficult for the business to raise their prices.

**Competitive Rivalry –** this looks at the number of competitors and the capability of each. If there are many competitors in the marketplace offering products that are equally attractive as the business, it is likely the business will have very little power within the industry. In these situations, it can be difficult for the business to bargain with customers as they can simply go elsewhere to get what they want. However, if a business offers relatively unique products, where there are few competitors, it will have more power to raise prices (or maintain high prices) without fear of losing any significant market share.

**Threat of substitution –** this is related to competitive rivalry and refers to the ability of customers to find a product or service that is similar to (or easily substitutes for) the one offered by a business. If substituting the business' good or service is relatively easy, the influence and power of the business is once more diminished.

**Threat of new entry –** power within the industry can be affected by the ease with which competitors can enter the same market as the business. If the entry costs are relatively low (e.g. it is relatively cheap to physically set-up a business and/or regulatory requirements are minimal) then it can be easy for other businesses to enter the market and take market share. This once more reduces the power of a business, as any attempt to raise prices is likely to be met with the entry of new businesses into the market, which ultimately forces prices back down to lower levels.

3. *Compare the SWOT analysis with the five forces analysis*

Once both the SWOT and five forces analysis has been completed, the results should be compared to determine the best strategy for the business to gain a competitive advantage. When looking at the information gathered in the SWOT analysis, a business should be asking itself if it can overcome any of the issues found in the five forces analysis. For example, if one of the strengths of a business is that it offers a unique product to the market, it should look at ways to protect any intellectual property that is built into the uniqueness of its product. This is likely to cement the business' position in the market place as the only business selling the product, which reduces

the 'threat of substitution', 'threat of new entry' and 'competitive rivalry'. Due to this uniqueness in the product, the business might therefore decide to use the differentiation strategy as a means of gaining a competitive advantage.

> **Exam Tip:** It is an expectation that students can compare the two generic strategies. The 2020 exam asked students to compare both strategies and it was expected that students were able to demonstrate a clear understanding of the similarities and differences between the lower cost and differentiation strategies. Below are some examples of similarities and differences.

## Similarities between the lower cost and differentiation strategies
- Both strategies outlie how a business can gain a competitive advantage in their industry
- Both strategies aim to maintain or increase profit margins
- Both strategies can be applied to either goods or services
- Both require ongoing investment from the business to be successful in the long term

## Differences between the lower cost and differentiation strategies
- Lower cost results in lowering the costs of the business whereas the differentiation strategy often result in higher costs
- Lower cost can lead to lowering the price of the product whereas differentiation will often lead to premium prices
- Lower cost can increase market share by attracting price sensitive consumers who often lack brand loyalty whereas differentiation attracts customers that are often more brand loyal and willing to pay a premium price

> **Exam Tip:** The most important thing to understand regarding this theory is simply the lower cost and differentiation strategies, how a business can achieve the competitive advantage with these strategies, along with their benefits and drawbacks. The extra information in this section is to simply help you understand the theory in more depth. However, you may need to decide which strategy a business should implement based on case material you have been provided in the exam. In some cases, you could choose either strategy and justify it well (this was the case in the 2017 exam). However, you could be given a case study where only one of the generic strategies would be acceptable to use. To select the best one, you need to understand the theory. In the 2019 exam, the case study was very much tailored to the differentiation strategy. It is therefore important to understand the types of situations each strategy is most important. This is where the extra information in this section can help.

## REVIEW QUESTIONS 6: Reviewing Performance

1. Define 'business change'.
2. Distinguish between proactive change and reactive change.
3. Distinguish between planned change and unplanned change.
4. Explain why benchmarking is important when using key performance indicators.
5. *Gerry is the owner of a local independent sup rmarket that employs 30 people. He has recently become concerned with staff morale*
6. *Melanie is the operations manager of a large chocolate manufacturer. She has to introduce a just n ime system* **key performance indicator that would measure the success of the new strategy.**
7. **Decca is a bicycle manufacturer in Melbourne. It has recently introduced new machinery into the operations system. Below is some key performance indicator data 6 months after the implementation of the machinery.**

| Productivity | ↑ |
|---|---|
| Staff absenteeism | ↑ |
| Level of wastage | ↓ |
| Customer complaints | ↓ |

   Referring to the KPI data, explain the impact the new machinery has had on Decca.
8. Explain the steps involved in performing a force-field analysis.
9. Outline two benefits of a business using a force-field analysis.
10. Define 'driving forces'.
11. Explain how the following factors can be driving forces for change in a business:
a. Managers
b. Pursuit of profit
c. Competitors
d. Reduction of costs
e. Technology
f. Globalisation.
12. Define 'restraining forces'.
13. Explain how the following factors can be a restraining force for change in a business:
a. Employees
b. Managers
c. Time
d. Legislation
e. Organisational inertia
f. Financial considerations

14. **Identify Porter's two main strategies for gaining a competitive advantage.**
15. **Outline two ways a business is able to gain a competitive advantage by lowering costs**
16. **Explain the concept of differentiation.**
17. **Outline three ways a business is able to gain a competitive advantage through differentiation.**
18. **Why is cost still an important aspect in the strategy of differentiation?**
19. **Explain what is meant by a business that is 'stuck in the middle'.**
20. **Outline the process a business can use to determine which generic strategy will help them gain a competitive advantage**
21. **Compare the lower cost strategy and differentiation strategy.**
22. *Debbie owns an ice cream manufacturing business*
    **for Debbie to gain a competitive advantage.**

## Quick revision crossword No 6: Reviewing Performance
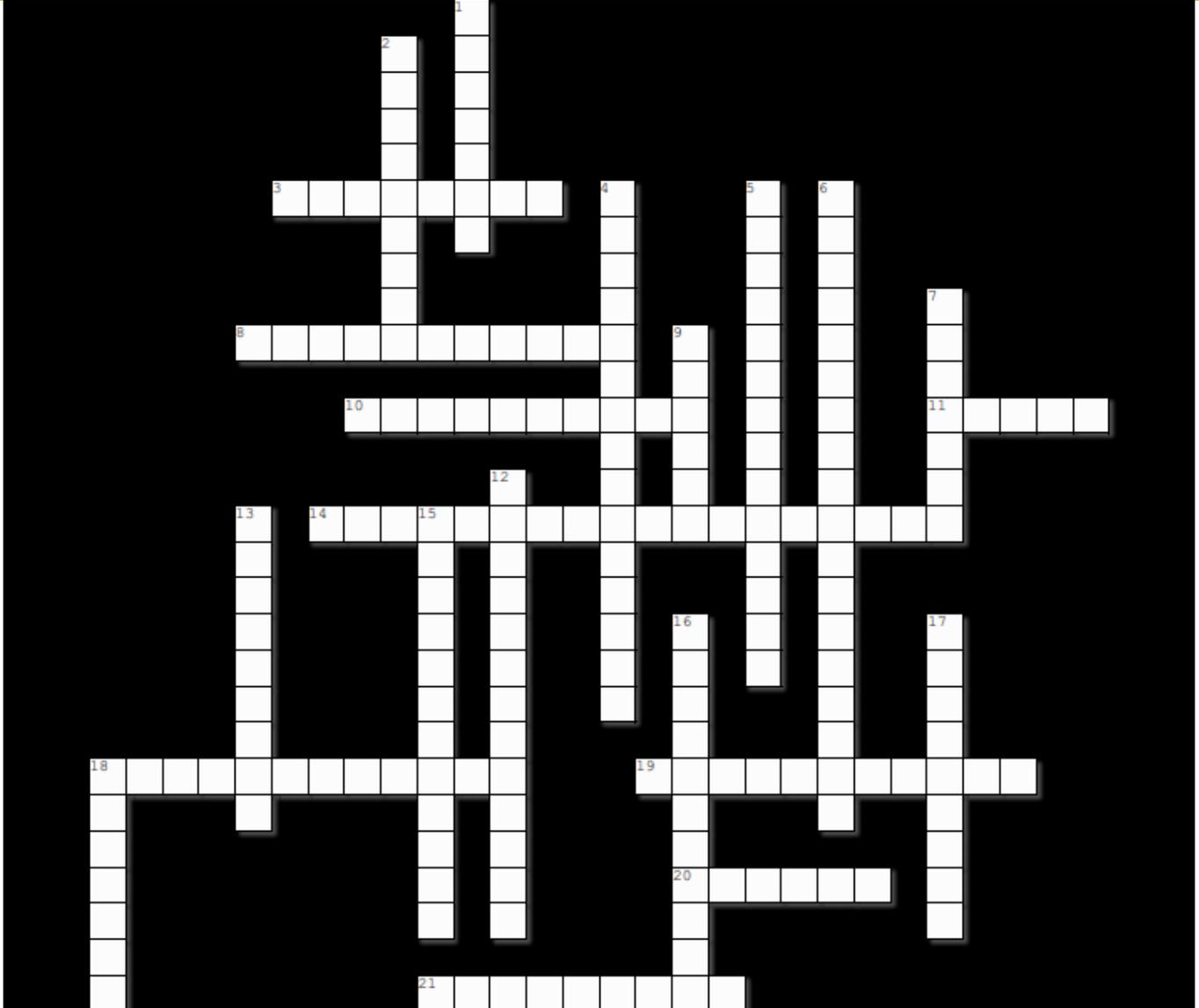


### Across

**3.** . Where a business changes after being impacted by the business environments

**8.** The portion of sales a business has compared to the entire industry

**10.** A type of analysis to determine the forces for and against a change

**11.** A German-American psychologist

**14.** One of the 5 competitive forces that assesses the number of competitors and their capability

**18.** A way to achieve differentiation

**19.** Rival businesses that drive change

**20.** A type of plan to reduce the amount of restraining forces

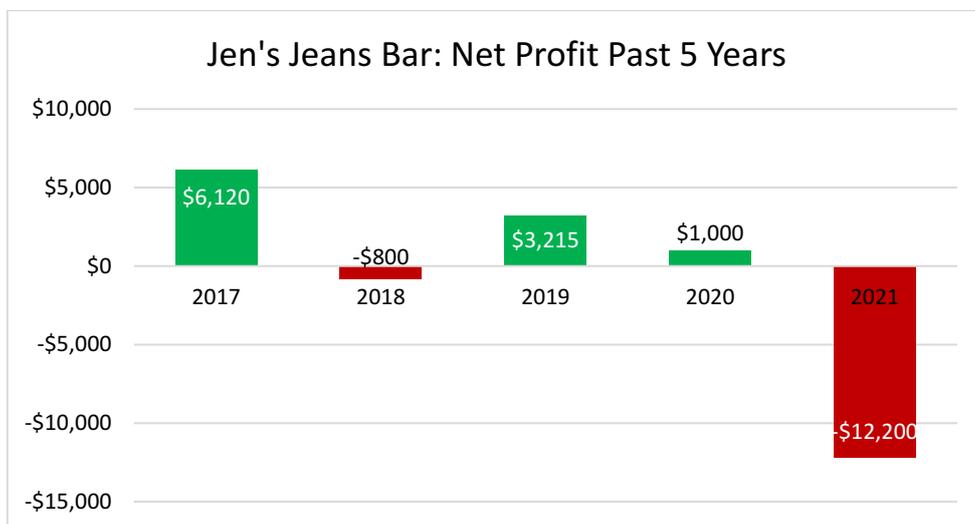**20.** A type of scale that can help lower costs

### Down

**1.** Lower cost and differentiation are known as what type of strategies?

**2.** Foreseeing the business environments and making changes before others

**4.** Being unique in some way that is valued by consumers

**5.** A form of inertia

**6.** Unplanned or uncontrolled events resulting in injury or property damage

**7.** One drawback of the lower cost strategy is that it may impact

**9.** Stuck in the _____

**12.** The rate in which people leave the business and need to be replaced

**13.** A standard that KPI data can be measured against

**15.** The amount of outputs produced compared to the amount of inputs used

**16.** Key _____ Indicators

**17.** These can be either a driving force or a restraining force

**17.** Forces that push a business towards change

# MINI EXAM NO 4: UNIT 4 AREA OF STUDY 1 (Total marks = 40)

## CASE MATERIAL: Jen's Jeans Bar

Jen's Jeans Bar is a unique private limited company that was started in 2009 by Jen Hilfred. Jen had a vision of creating a place where people can gather socially and shop at the same time. She established Jen's Jeans Bar, which is a licenced bar where people come to socialise and can shop for their favourite pair of jeans at the same time. Jen was confident she had something unique as there was no other retail store like it. Initially, things went well and within six months the business was bringing in a steady flow of customers. However, the business has found it difficult to make any significant profits. Below are the past five year's net profit figures.



Jen's Jeans Bar: Net Profit Past 5 Years

| Year | Net Profit |
|------|-----------|
| 2017 | $6,120 |
| 2018 | -$800 |
| 2019 | $3,215 |
| 2020 | $1,000 |
| 2021 | -$12,200 |

As can be seen, the past 12 months has been a disaster for the business. Jen is under financial stress and considering closing down the store, and she has 16 employees who are all concerned about their job security. However, her dream has been to run a successful business, so in a last effort to survive, Jen has brought a shareholder on board. The new shareholder, Alice, also owns a business consultancy firm and has agreed to not only bring in her expertise, but also to invest $120,000, with $80,000 of the investment in the form of a no-interest loan, which will be paid back to Alice over five years. Alice has some recommendations for the business moving forward:

1. Remove the bar concept and just run a clothing retail store given that profit margins on the jeans are higher than any products from the bar.
2. Bring in a greater variety of clothing to complement the jeans.
3. Implement a new inventory tracking system that is designed to keep track of stock, automatically order products that are low in stock, and prevent selling out of popular products.

While Jen is sad to see the bar removed, she is happy to implement the changes to save the jobs of her employees and give herself a chance to run a profitable business.

## STRUCTURED QUESTIONS

1. **Define the following terms (4 marks)**
   a. **Business change**
   b. **Organisational inertia**

2. **Outline the key principles of a force-field analysis and explain how Alice and Jen could use it to see if the changes are worth implementing.** **(6 marks)**

3. **Describe two possible driving forces for change at Jen's Jeans Bar.** **(4 marks)**

4. **Outline two possible restraining forces against the proposed changes at Jen's Jeans Bar.** **(4 marks)**

5. **Describe three of the key performance indicators that could be used to determine if the changes were successful** **(6 marks)**

6. **Jen and Alice are discussing how they can gain a sustainable competitive advantage so the business can make a significant profit. They are debating using one of Porter's generic strategies. Evaluate the 'lower cost' and 'differentiation' strategies as they would apply to Jen's Jeans Bar. Recommend which key approach would be appropriate for Jen's Jeans Bar and justify your recommendation.** **(6 marks)**

7. **Analyse the driving forces and restraining forces that have caused change in a business you have studied this year.** **(10 marks)**

# YOU BE THE ASSESSOR: UNIT 4 AOS 1

In this section, you are required to assess the responses presented for each of the questions. You should award the responses a score and justify your decision. Once complete, compare your assessment to that of the author (provided at the rear of the Study Guide).

## Question 1

**Define the following performance indicators.**                                                                                  **4 marks**

a)      **Percentage of market share**

b)      **Number of customer complaints**

> **Sample answer 1**
> a) Percentage of market share is the portion of customers who buy a product from a business out of the total number of sales in the industry, expressed as a percentage.
> b) The amount of people that are dissatisfied with the business and have notified the business of their issue.
>
>                                                                                          Score out of 4 _____

Justification_____

_____

> **Sample answer 2**
> a) Percentage of market share is the percentage of the market that a business owns
> b) The amount of people that are dissatisfied with the business.
>
>                                                                                          Score out of 4 _____

Justification_____

_____

## Question 2

Soft Furniture is a furniture manufacturer with 10 stores across the east coast of Australia. Owner, Melanie Abdul has always looked for ways to improve the customer experience in her stores. Recently she has introduced Virtual Reality (VR) technology into the retail experience for customers. The VR technology allows customers to put on a headset where they can see the furniture in virtual rooms to give them a better picture of how the furniture will fit into their own homes.

**Justify two key performance indicators that Melanie could use to measure the success of the new technology**

**4 marks**

> **Sample answer 1**
> One key performance indicator that Melanie could use is the number of customer complaints. The VR technology has been introduced to improve the customer experience, so if the technology is successful in achieving this, it would be expected that the number of customer complaints would be reduced. The technology should allow customers to be more informed regarding their purchasing decisions which will improve their level of satisfaction and reduce the number of customer complaints.
> Another key performance indicator is the level of staff turnover. The VR technology may replace the jobs of some employees, which will lead to an increase in staff turnover because more employees are being made redundant. This will reduce the wage costs if the business but it significantly increases the level of staff turnover which shows that the VR technology has not been a total success.
>
>                                                                                          Score out of 4 _____

Justification_____

_____

> **Sample answer 2**
> Melanie could use the number of customer complaints. The number of customer complaints measures the amount of people that are dissatisfied with the business or its products and have notified the business of their dissatisfaction. For the technology to be a success it would be expected that the number of customer complaints would reduce because customers are happier with the business. The VR technology should improve the level of customer service that Soft Furniture delivers and allow the staff to guide customers to the furniture that is best for them. This will improve the level of customer satisfaction and reduce the number of customer complaints, resulting in the technology being a success.
> Melanie could also use the number of sales indicator. Number of sales measure the amount of products sold over a specified period of time. With Soft Furniture being at the cutting edge of technology in the retail sector, more customers are likely to shop at their stores rather than competitors. This would improve the number of sales that Soft Furniture has which would demonstrate that the VR technology has been a successful investment.
>
>                                                                                          Score out of 4 _____

Justification_____

_____

## Question 3

BubbaBoo is a pram manufacturer operating in Horsham, Victoria. Competition has risen sharply in recent years, and BubbaBoo has found it difficult to maintain their level of market share. At a leadership meeting 9 months ago, operations manager, Emily Myer, announced she would introduce the quality control strategy to help improve the level of quality for customers. The business has been using a quality control system for 6 months now and below is the recent key performance data.

| Key performance indicator | Before the quality control | 6 month data |
|---|---|---|
| Number of customer complaints | 45 per month | 10 per month |
| Number of sales | $122,000 per month | $155,000 per month |
| Productivity | 90 prams per day | 70 prams per day |

**Referring to the above data, analyse the extent to which the quality control strategy has been a success at BubbaBoo**                                                                                  **6 marks**

### Sample answer 1

Introducing quality control has had mixed results at BubbaBoo. By introducing the quality strategy, the number of customer complaints has dropped dramatically. Quality control results in the business checking the quality of their prams at regular intervals during the production process. This ensures that only the prams that meet BubbaBoo's quality standards actually make it to the end consumer. The number of customer complaints has dropped because the quality control strategy has resulted in a higher level of quality for their prams which is improving the level of customer satisfaction, showing the strategy has been successful in improving this area. The number of sales has also increased significantly, from $122,000 per month to $155,000 per month. This may be a result of the improved quality prams. This improves the image of BubbaBoo's brand and will likely result in improved word of mouth and online reviews. As customers hear about the improved quality, it has resulted in more sales of their prams.

However, not all of the results are positive. The level of productivity growth has decreased since the introduction of quality control, resulting in less prams being produced per day. Quality control can slow down production because it takes time to perform the quality checks throughout the production process. This is likely the reason why productivity growth is negative over the past 6 months. The introduction of the strategy will also take time for employees to become accustomed which will impact the productivity growth in the short term.

Score out of 6 _____

Justification_____

_____

### Sample answer 2

Quality control is a strategy that checks the product against predetermined quality standards at regular intervals. This helps to improve the quality of the end product. At BubbaBoo, the quality control strategy has had mixed results. Firstly, the number of customer complaints has reduced since the introduction of the quality control system. The number of complaints has dropped from 45 per month to only 10 per month which is a significant decrease which shows the strategy is successful.

Another area that has been improved is in the number of sales. BubbaBoo previously had $122,000 worth of sales per month. Since the introduction of the quality control system, the number of sales have improved dramatically in 6 months, where the business now has $155,00 per month.

However, not all the results have been positive, which show mixed results in terms of the success of the strategy. The productivity levels have dropped by a significant number. Before quality control had been implemented, BubbaBoo was producing 90 prams per day. However, 6 months after the introduction of quality control, BubbaBoo is only producing 70 prams per day. This shows that while the strategy has been positive in some areas, it has had a negative impact on other areas.

Score out of 6 _____

Justification_____

_____

## Question 4

Bridal retailer, Bindi, opened their original Melbourne location in 2014 and in the past month have established an additional location in Sydney. The business began as a partnership between best friends Jodi and Mikayla. Both Jodi and Mikayla have a large vision for the business and are looking to expand again by opening a new location in Brisbane within the next 2 months.

**Outline how TWO restraining forces might impact on Bindi expanding into Brisbane.**       **4 marks**

### Sample answer 1

One restraining force is the financial considerations. Businesses need to consider the costs associated with the proposed changes as it can place the business under financial stress if they spend money on a change that they cannot afford. This would place pressure on Bindi as the business may not be able to afford the change which could place them under financial pressure and make it difficult to survive. They should wait until they have enough funds to be able to expand into Brisbane.

Another restraining force is managers. Managers that lack the experience or skills to implement a change can act as a restraining force as they are unable to drive the business towards the new desired state. Jodi and Mikayla may not have the skills and experience to drive the new change within the business. This may make it difficult for them to implement the change successfully.

Score out of 4 _____

Justification_____

_____

### Sample answer 2

One restraining force is financial considerations. Change can come at a high financial costs making it difficult for the business to implement changes if they are not in a strong financial position. The costs of opening a new store location in Brisbane will come at a significant cost to Bindi. The cost of the new shop fit out, purchasing new bridal stock and releasing a new marketing campaign will be high, making it difficult to implement successfully. With Bindi only recently opening a new location in Sydney, Bindi may not have the available funds to open the new location in Brisbane without placing the business under financial stress.

Another restraining force is managers. Managers that do not have the skills to implement the desired change can find it difficult to break the status quo and work towards the new desired state. Both Jodi and Mikayla have only expanded in the past month and will be very busy establishing the new store in Sydney. They may not have the capacity to open a new location in another state so quickly. While they have shown the ability to run a successful Melbourne location, it is too early to tell if they have the ability to successfully run stores across multiple states. If they lack this ability it could make it difficult to run the new Brisbane store successfully.

Score out of 4 _____

Justification_____

_____

## Question 5

Jimmy's Pty. Ltd. is an online sporting goods retailer owned by Jimmy Breheny. The private limited company has established a brand that is now well known throughout Australia. Jimmy is looking to open a number of physical retail stores to help increase sales. Jimmy wants to conduct a force field analysis to help the success of the change.

**Explain how Jimmy could apply the principles of the force field analysis theory during this change**

**5 marks**

### Sample answer 1

The force field analysis is a tool that managers can use to analyse the force for and against the change. The first step when using a force field analysis would be for Jimmy to identify the driving forces. Driving forces are those that support the change and help push it towards the new desired state. A driving force for Jimmy could be the pursuit of greater profits, where he is looking to expand to increase the net profits of the company. Next, Jimmy would identify the restraining forces, which work against the change and try to keep it in its current state. A possible restraining force for this change could be the high level of capital investment required to establish the physical stores.

Once the forces have been identified, Jimmy would need to analyse each one to determine their weighting. He might allocate a number out of 5 to each force, with 1 being the least powerful and 5 being the highest value. The aim of the analysis is to have the value of the driving forces be higher than the value of the restraining forces.

Once the analysis is done, Jimmy would create an action plan on ways to reduce the restraining forces and increase the driving forces. This will enable Jimmy to make an informed decision about whether the change was worth investing in as well as an action plan to move forward, helping increase the chance of success.

Score out of 5 _____

Justification_____

**Sample answer 2**

The force field analysis is a tool that analyses the forces for and against a change. Jimmy would need to firstly identify the driving forces for the change. Driving forces are those that help initiate or support the business through the change. These are important if the business is going to move towards its new desired state. Once this is completed, Jimmy would need to identify the restraining force. Restraining forces are those that work against the change and try to keep the business where it currently is.

Once each force has been identified, they need to be analysed. Each force is analysed to see how powerful it is in regards to the change and will give Jimmy a clear indication of what he is facing as he moves forward. The aim of the business is to have more driving forces than restraining forces. This will ensure there is enough force to push the business towards the new state and it will help the expansion into new physical retail stores.

Score out of 5 _____

Justification_____

_____

## Question 6
**Compare Porter's generic strategies**      **4 marks**

**Sample answer 1**

The lower cost strategy is where the business aims to be the low cost producer in the industry. Businesses are able to lower their costs in a number of ways. This can include the business looking at all areas of the business to reduce expenses. Many businesses will look to source cheaper materials in order to lower their costs, while other businesses will look to minimise waste within the business. Once the business has lowered their costs, they can lower their prices and become more attractive to the price sensitive consumer. This can help them gain a competitive advantage and possibly increase their market share.

On the other hand, the differentiation strategy is where a business looks to gain a competitive advantage by being unique in some way that is valued by customers. A business can achieve this in a number of ways. One way is to have unique features that customers desire. Another way is to have a higher quality product. Being unique is often more costly for the business however, they are rewarded by being able to charge a premium price. Customers are often more loyal to a business that has implemented differentiation as they are more attracted to the uniqueness and willing to pay a premium to receive it.

Score out of 4 _____

Justification_____

_____

**Sample answer 2**

Both the lower cost and differentiation strategies are ways a business is able to gain a competitive advantage in the market place. The lower cost strategy is able to achieve this by becoming the low cost producer in the industry and can then lower their prices. This helps the business attract price sensitive consumers. Whereas the differentiation strategy achieves the competitive advantage by being unique in some way that is valued by customers. Another similarity is that both strategies look to maintain or even increase the profit margins within the business. Another difference is that the lower cost strategy often results in lower prices for the customer, however when a business implements the differentiation strategy, he business is often rewarded by being able to charge a premium price. The unique offering during differentiation can often result in stronger brand loyalty from customers, while the lower cost strategy will usually not result in the same level of brand loyalty as the customers are more price sensitive.

Score out of 4 _____

Justification_____

_____

_____

In the previous chapter we addressed the way a business can evaluate its performance and make decisions on how to transform. These transformations could be a result of either a positive or poor performance over time. Once managers have decided to transform a business in some way, they will need to implement those changes. This chapter focuses on how management will implement change in a business.

Change within a business can cause significant anxiety for different stakeholders, so it is important that it is well managed in order to maximise the chances of it being successfully implemented in the long term. If the implementation of change is poorly managed, it can create an unpleasant working environment characterised by conflict and poor relationships between the business and various stakeholders, particularly employees, where staff absenteeism and staff turnover are likely to be the result.

> **Exam Tip:** The study design requires students to use a contemporary business case study from the last four years and apply the change theory in this chapter to the relevant case study. This is designed to provide students with an opportunity to demonstrate their understanding of the course in a contemporary setting. In exam questions that require students to refer to a business case study, it will be common for many students to get carried away with the case study and forget about the theory that is relevant to the question. For example, the 2018 exam required students to "Explain the importance of leadership in change management. In your response, refer to a contemporary business case study." Many students simply wrote about the business they had studied or referred simply to the importance of leadership in general, without addressing the key elements of the question, which was to explain the importance of leadership in change management. This made it very difficult to achieve full marks for their responses and highlights the importance of maintaining a focus on the question being asked. Always remember that the specific business that 'you' study is to help you demonstrate your understanding of the <u>content</u>.

## *Leadership in change management*

Change challenges the status quo of a business which can cause resistance from major stakeholders, including the employees. Many employees do not particularly like change and prefer their work environment to remain predictable. Before we get into the importance of leadership when implementing change, we should first reacquaint ourselves with the concepts of change and leadership. Change is a business's planned or unplanned response to factors from the business environments. These changes can be radical (major changes) or incremental (smaller changes). Leadership is motivating and inspiring employees to achieve business objectives. During times of change, the business objectives have likely altered, or the method of achieving them has. Leadership helps motivate employees to achieve these newly set objectives. Without effective leadership, employees are likely to be resistant. Employees and other stakeholders may not believe in the change if poor leadership is displayed, making it difficult for the change to be implemented successfully.

So what does good leadership during change involve? Initially, good leaders will prepare the people in the business for a change in the status quo. This may involve communicating the changes that are about to take place and the impacts this will have on them. This may also involve communicating where the business currently is and why the change is taking place. Leadership is important here so that the employees feel well informed and the leader can answer any questions or concerns the employees may have.

Next, leadership involves building commitment from employees. This may involve training employees or building work teams and putting systems in place to help implement the change. Strong leaders will continue to support employees through this change and motivate them to work towards the new state. There may be hurdles that need to be overcome here and a good leader will support employees during these times to ensure that they continue to see and strive towards the end goal.

Leadership is important during times of change so that a clear vision is created and communicated to the key stakeholders. Good leadership will help to get all stakeholders 'on the same page' and working towards a common goal. They will support those that are finding it difficult to adapt to the new state by displaying **empathy** and **good listening skills**. This will allow the leader to understand stakeholder concerns and work towards reducing resistance. Once stakeholders are working towards a common goal, a good leader will ensure that all processes and system are

in place to allow the change to be effective. The leader will continue to generate energy around the change especially during difficult times. This helps to keep stakeholders in the frame of mind that keeps them focused on the outcome. Both radical and incremental changes require strong leadership as careful preparation, empathy, energy and good communication all assist with the end objective being achieved. Without good leadership, it can be difficult to get all stakeholders on the same page and resistance will arise and make it difficult to implement the change successfully.

> **Exam Tip:** it's important not to look at leadership in isolation. Throughout the rest of this chapter we speak about change management. Leadership can be brought into each one of the other concepts. Every strategy addressed in this chapter will require strong leadership. Ensure that you are ready for questions linking leadership to other aspects of change management.

> **Exam Tip:** the study design states that students need to understand the "importance" of leadership during change, not just what leadership during change involves. Ensure you can express why leadership is important during times of change.

## *Strategies to respond to key performance indicators*

Key performance indicators (KPIs) provide management with information that helps them make decisions. For example, a manager may look at the number of sales of a particular product. This information can help the manager to decide if he or she wishes to alter the price, introduce a new marketing campaign, train sales staff, remove the product from the market or any other number of strategies. Managers respond to the information KPIs provide them. How they respond will depend on the manager and the information provided by the KPI. Below are some strategies managers can use to respond to key performance indicators.

### Staff Training

Training is the process of improving an employee's skills and knowledge so they are able to perform their job to a higher level. It emphasises immediate improvements in job performance by enhancing specific knowledge and skills of the employee. Evaluating a business's performance through the use of KPIs can lead to managers implementing staff training programs to improve the immediate performance of employees. If a KPI reveals a poor result, then a manager may decide to use staff training to try and improve the result. For example, a manager might notice a rise in the number of customer complaints. After looking into the types of complaints, it is discovered that customers have been disappointed with the level of customer service they have received. In response, the manager might decide to introduce a customer service training program that employees need to go through in order to improve the service they provide to customers. In contrast, for those circumstances where a manager is presented with a positive KPI, he or she might decide to implement staff training to further advance the skills and abilities of staff to gain a greater competitive advantage.

### Staff Motivation

Employee motivation is the level of energy, commitment and creativity that employees bring to their jobs. If KPIs are not meeting benchmarks, then a manager might decide that they need to motivate their employees to improve performance. Often the indicators of staff turnover, absenteeism or productivity can indicate that employees are not showing energy or commitment to their jobs. The human resource manager can implement a number of strategies (many of which we have discussed in earlier sections) to motivate employees. If successful, a motivated workforce can achieve outstanding results as they are more inclined to work harder to achieve objectives. Human resource managers need to decide what strategies they will use in order to motivate employees. They might decide to provide extrinsic motivators, such as more money, or better working conditions. On the other hand, they might decide to provide intrinsic factors to motivate employees, such as interesting work or greater responsibility.

## Change in Management Styles or Management Skills

Management styles can have a large impact on the way a business performs. After evaluating business performance, it might be necessary to alter the way a manager makes decisions and communicates with staff. For example, if productivity is low, the business might discover that employees have no say in how tasks should be completed, which slows down production. A new consultative management style will allow employees to express their ideas, which will in a new way of doing things and may result in an improvement in productivity. A change in management skills is also a strategy that can be used to improve performance. Changing from one-way to two-way communication may improve morale of the employees. Managers that delegate more, rather than trying to complete all tasks themselves, will help to spread the load of work and get the most out of employees, which should improve performance.

> **Exam Tip:** When using this strategy, students should ensure that they refer to a CHANGE in management style or skills. Question 3c in the 2018 exam asked students to explain how a change in management style could be used to respond to KPIs that were provided in some case material. Many students referred to a the manager using a consultative style. This was a great style to refer to as it worked well with the situation in the business. However, many of these students did not refer to the management style <u>changing</u> to a consultative style.

## Investment in Technology

Increasing investment in technology is a strategy that can be used to improve the performance of a business. Technologies can be implemented to improve workplace safety, boost productivity or enhance quality within a business. More broadly, the effective use of technology will help a business to make better use of its time, improving efficiency and enabling more output to be produced over any given period of time. This makes technology one of the key drivers behind productivity growth and it has had a significant impact on the performance of Australian businesses for many decades. While an investment in new or improved technology can be expensive, the benefits will typically outweigh the initial and ongoing costs, resulting in a boost to the business's 'bottom line'. Importantly, if managers evaluate a business and determine that performance indicators are not reaching set benchmarks, they can decide to invest in new or improved technologies to improve business performance.

## Improve Quality in Production

Improving the quality of production is where the business looks to enhance its processes so that the products are produced to a higher standard. If a business has experienced a drop in sales or a rise in customer complaints, it can decide to improve the quality of its products by introducing quality systems into its operations system (e.g. quality control, quality assurance or total quality management). Interestingly, not all indicators need to be negative to introduce a quality strategy. Positive results from a KPI can also lead a manager to use this strategy. For example, a business may have exceeded its overall profit target and management might decide to improve the quality of its production to further gain a competitive advantage. Improving quality is a way for a business to set itself apart from its competitors. In this way, the business is embracing the concept of continuous improvement. Although it has enjoyed a good result, it is still deciding to continually improve its quality which helps it to maintain its competitive advantage (i.e. 'stay ahead of the pack').
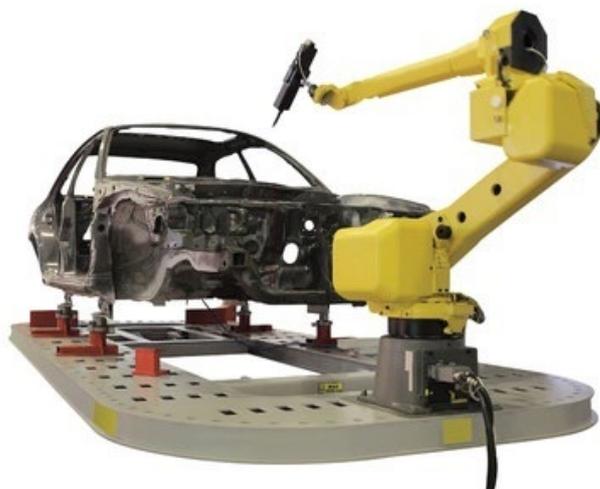
## Cost Cutting

Poor results from KPIs can show the business is having difficulty in one or a number of areas. One common strategy is to cut business costs. Costs have a major impact on the survival of a business and need to be monitored closely. There are various ways a business can cut costs, including downsizing to reduce wage costs, negotiating with suppliers for better deals, outsourcing part of the business, as well as a host of other options. The business can also look to remove any costs that are deemed to be unnecessary. For example, reducing any non-core spending such as expenditure on staff social events or gifts and donations provided to charities. However, the business will need to be confident that any cost cutting activities will not impact on the quality of the good or service they are delivering. For example, throughout 2020 many businesses were forced to cut costs as a result of the COVID-19 pandemic. With the closure of international and often state borders, most of the population's travel plans were forced to be abandoned. Travel company, Flight Centre was had lost close to 95% of its sales. To respond to this they implemented cost cutting. They reduced their monthly spending from approximately $227 million per month to under $65 million per month. This helped preserve cash during the pandemic.

## Initiating Lean Production

Lean production is a management philosophy which looks at reducing wastage throughout all areas of the business and improving quality. Lean production looks to reduce wastage, while producing a high quality good or service for the consumer. This strategy can greatly reduce costs and improve quality of the good or service being produced. During lean production, the business looks for what 'adds value' to the product and aims to eliminate everything else. This helps to deliver both a high quality product and a production system that is based on continuous improvement. Generally speaking, wastage can be found in seven key areas of production:

- Transport: unnecessary movement of products
- Inventory: excess products and materials not being processed
- Motion: people of products moving further than they need to
- Waiting: wasting time or being held up while waiting for the next step in the production process
- Overproduction: producing in excess of what is demanded
- Over-processing: more work or higher quality than is required by the consumer
- Defects: faulty products or wrong information

A poor result in KPIs such as net profit, productivity, customer complaints, number of sales and level of wastage can lead to the strategy of lean production. As waste is reduced, quality is enhanced, speed of production increases and costs are reduced. This can form a basis of a major competitive advantage for a business.

## Redeployment of Resources

Redeployment is the transfer of resources from one area of the business to another so they can be used more effectively and efficiently. The main types of resources that are redeployed are natural, human and capital resources. A business will redeploy its resources in order to make better use of them, which ultimately means that a business is able to extract more value or output from these resources. If a business never considers the redeployment of its resources over time, it will invariably lead to some resources becoming underutilised or going to waste. We will now examine how each of these three resources can be redeployed in a business.

- *Natural*

    Sometimes poor decisions are made which causes a business to hold too much stock or produce too many finished goods relative to demand. If these resources cannot be sold and remain idle, it can be costly for the business, as money is tied up in these resources and cannot be used elsewhere. Moving these materials or finished goods on is important if the business is to receive an adequate return on their investment in these resources.

- *Labour*

    The business will want to keep high value employees even though the area they are working in is being phased out or minimised. If the business was not to redeploy these employees they may become redundant and the business loses talent from their employee group. Redeployment of labour can also help to improve motivation amongst employees. If the employees are unmotivated (e.g. because they are fearing job security or are not stimulated in their current role), being redeployed to a different area may improve their motivation.

- *Capital*

    machinery and equipment to sit idle and take up valuable space, the business can move the capital to a new area in order to perform other tasks. Changing how capital is employed will help to increase efficiency boost the return on investing in these resources. For example, during the COVID-19 pandemic, Flight Centre stopped an $18 million per month marketing campaign as they had very little services to sell. They moved this money into other areas of the business to help the travel company survive.

## *Management Strategies to Seek New Business Opportunities (Domestically & Globally)*

Establishing a business can be a difficult process but it doesn't stop there. Businesses of all sizes are constantly looking for ways to grow their business and gain a competitive advantage. If a business isn't looking to grow it is likely be left behind and lose any competitive edge it might have had in the market. Businesses of all sizes will look to use a variety of strategies to help them entice customers, boost sales or seek new business. We call this **business development**, which is about how a business can gain more customers and how it can get more out of its current customer base. In this section we will look at some common strategies that businesses can use to seek new business opportunities domestically or globally.

**Diversify products**: Diversifying the range of products a business sells is a growth strategy that allows a business to have multiple streams of income. Imagine if Nike still only sold footwear. Although footwear still generates the largest amount of revenue for Nike, its other product lines generate over 35% of the business' revenue. Businesses can diversify by offering complementary products or services, participating in new markets/industries or even finding multiple uses for its products. If we look again at Nike, who began selling shoes way back in the 1960s, it later made a strategic decision to sell complementary products. Nike understood that when people run, they run in sportswear. Accordingly, the company's clothing line complements its main product (footwear) and allows it to generate new streams of income.

Diversifying products is not only relevant for large businesses. This can be illustrated with reference to Kelly, who is a small sole trader making and selling candles. Selling candles is a highly competitive business, so to generate new income Kelly can diversify her products. But how does she do this with something as simple as a candle? The brand of the candles are the core business, however Kelly can create products such as lotions, soaps and room sprays which complement candles to varying degrees. Although each of these products have a different use, they can have the same label and same fragrance as the candle. This allows them to be packaged together as a kit or sold individually. This is called **kitting** and is a way Kelly can diversify her products and increase revenue very quickly.

Diversifying products can, therefore, help a business seek new business opportunities both domestically or globally.

**Partnerships or alliances** are where two or more businesses come together to help each other increase sales and gain new customers. Businesses often complement each other with the goods or services they sell and they can make use of each other's client bases. For example, a person that gets their hair done at a hairdresser may also like to get a facial or their nails done at a beauty salon. While these two businesses are different, they could form a

partnership and recommend each other's service(s). Let's say the beauty salon is looking to seek new business. The owner may approach a well-known hairdresser nearby and offer the hairdresser's clients a heavily discounted facial. The hairdresser can send out the gift to their client base (with the beauty salon paying for postage). This can be a win/win partnership. The hairdresser is offering a gift to their clients which can improve its reputation (at no cost to the hairdresser), while the beauty salon is able to attract more business as people come in to redeem their discounted offer. If the new customers are happy with the service they are likely to return and potentially become a life-long customer. This can help a business seek new business domestically, like in the above example, or even globally by establishing a global partnership.

> **Exam Tip:** The use of the term partnership in this context should be contrasted with the use of the term partnership as a type of business. When a business forms a partnership (or alliance) with another business as part of its business development strategy, it does not mean that there is a change to the ownership of the businesses.

**Franchising** is a business relationship where the franchisor (the owner of the business) assigns others (franchisees) the right to market, sell and distribute the goods or service of the franchisor. For the right to sell the franchisor's products and use their company name and image, the franchisee pays a fee. Franchises are a way for the business to expand quickly. When franchising, it is important that the business has good systems in place that are proven to sell the products. This allows the person(s) purchasing the franchise to have a system in place that will generate sales and make money. The franchisor is able to receive an ongoing fee for selling the rights to the business name and products. The more franchises that are sold, the more revenue that is generated for the franchisor. The franchisor will usually provide ongoing support to the franchisee and often control the marketing and advertising of the overall business. McDonalds, Subway, Domino's and KFC are well-known franchises where the head company has been able to rapidly expand using other people's money. A strong franchise system allows both the head company (franchisor) and those that own the individual franchises (franchisee) to make money. One of the issues with franchising is that there is some loss of control from the head company. While there are normally strong contracts in place, the franchisor can often come into conflict with the franchisees when they look to make changes. It can also be difficult to monitor standards across a large franchisee group, which can impact the image of the entire company.

**Open new location(s):** a business that is well established and has good systems in place might decide that it is time to expand by establishing operations in a new location either domestically or in another country. This strategy can help a business to gain more revenue as they attract new customers in a geographical area not previously serviced by the business. It is important that this strategy is well researched to ensure that the clientele in the new location will be receptive to the goods or services that are on offer. This strategy has been well utilised by Cotton On, which has grown from just two stores in 1991 to 760 Australian stores and over 1400 stores across 20 countries by 2021. This is an extreme example as Cotton On goes through very fast growth. However, growth was not always this fast. When it started out, it slowly opened new stores which gradually allowed it to seek new business in different areas. The strategy allowed the business to build on its reputation for providing high value products and resulted in greater awareness and acceptance of the Cotton On 'brand' both locally and overseas. One of the major drawbacks of this strategy is the high initial cost to set up a new location. Different markets also have different needs and tastes, making it difficult for the business to understand the new market.

**Government assistance** provides businesses with access to funding and advice on how to grow. There are many different opportunities that businesses are able to take advantage of to help them seek new business opportunities. Both federal and state levels of government provide Australian businesses with opportunities for grants or advice on how to grow their business domestically (and globally). These programs change regularly due to funding and political objectives. Information on grants and assistance can be found on the relevant government business websites. One of the issues with this type of assistance is that, due to changes in government or new political objectives, funding can stop at any time.

Government organisations, such as **Austrade,** offer assistance when it comes to new global business opportunities. Austrade provides guidance and assistance to businesses that are looking to invest offshore. Whether they plan to open an office, establish a joint venture, or establish an investment through foreign direct investment, using Austrade can be a strategy that Australian businesses use to help them grow and develop their business. Austrade also offers ongoing support by helping businesses to identify ongoing market opportunities.

**Developing a web presence** is a strategy that allows a business to seek new opportunities either domestically or globally. Websites and ecommerce allow a business to reach new customers form different locations. The business then needs to ensure that it can distribute its goods or services to customers in these locations. Websites have allowed businesses of all sizes to increase the amount of business they receive. Small and medium sized businesses have benefitted greatly from ecommerce. In order to deliver good customer service via websites, call centres may need to be set up or people employed within the business to be able to answer any customer queries. This is an important aspect of this strategy that is often overlooked by businesses. If the development of a web presence is done well, it can dramatically increase sales and market share. However, there is often a high set up cost for a secure e-commerce site. Another issue is that if the business is going to sell into new (interstate or global) locations, it needs to be able to distribute the products to these locations. This requires a new distribution channel which can be costly to establish. The business may also need to set up a customer support network as customers may require assistance 24/7.

**Exporting** is a function of international trade where goods or services from one country are shipped to another country for sale or trade. This can only be used as a global strategy because exporting allows an Australian business to sell their products into new global markets which increases the amount of business they receive. This may occur if the product is not available in the country or if the Australian business is able to provide the good or service at more competitive rates (e.g. at lower prices or higher quality). Exported goods need to go through customs, which results in added costs (e.g. government charges and taxes) that ultimately increase the price paid by the end customer.

The effectiveness of this strategy will not only depend on a positive relationship between the Australian exporter and importer(s) who purchase their products, but also on the regulatory environment existing in the importing countries. Australian exporting businesses will need to ensure that they are aware of the laws impacting on the export of goods into various countries. This includes the existence of tariffs and/or other charges that inflate the final price of the product, as well as other laws which might negatively impact on the ability of the export to achieve a market presence, such as laws relating to product safety.

**Foreign direct investment** is a strategy where a business based in one country makes an investment within another country by either acquiring a foreign business, or establishing operations independently in another country. This is a strategy that can help grow a business across the globe. If we go back to our Cotton On example, Cotton On have directly invested overseas by setting up retail stores in foreign countries. Foreign direct investment helps a business to grow its customer base as it enters new markets.

**Exam Tip:** Before selecting a strategy to use, it is important think about any case material you are provided with. The 2019 exam asked students how a particular business could seek new business opportunities globally. Many students went with a simple strategy such as developing a web presence. However, this strategy was difficult to justify because the case study was a courier business. Simply having a website will not allow a courier business to seek customers overseas. The business needs far more than that becuase they would need locations or infrastructure in that country to be able to pick up parcels etc. This isn't to say this strategy couldn't be used, but it was more complex than students considered because of the type of business they were faced with. A far more appropriate (and simple) strategy to use was to open up a location in a new country. This would allow them to attract new customers, they could pick up parcels and deliver the parcels where they needed to go. So ensure you think about the case study and the most appropropriate strategy for them.

# *Learning Organisation*

Peter Senge coined the concept of the 'learning organisation' in his 1990 book *The Fifth Discipline*. Senge found that during times of rapid change, only those that are flexible, adaptive and productive will excel. For this to occur, businesses need to discover how to tap into the capacity and ability of people to learn. While all people have the ability to learn, the right structures of a business are not always in place to allow this to happen. According to Senge, the **learning organisation is one that facilitates the learning of its employees and looks to continuously transform.** The business is not looking to transform for the sake of transforming. They are always looking to grow and find improved ways of doing things. He found that real learning gets to the core of what it is to be human and people are able to recreate themselves as they learn. There are five disciplines of a learning organisation and each of the five disciplines is necessary if a business is to be a learning organisation. We will now examine each of the five disciplines.

**Personal mastery** is the discipline where the business will only learn through individuals that learn. A business that is able to have a workforce that learns faster than its competitors is able to gain a competitive advantage. Individual learning does not necessarily mean the organisation learns, however organisational learning cannot exist without it. Personal mastery can be acquired through employee training and development, however, it is more than simply learning new skills. Importantly, it is about continually clarifying and deepening an individual's vision. Senge states that personal mastery is not something people possess, but rather a process of lifelong discipline. People with a high level of personal mastery are very much aware of their strengths as well as the areas that they need to improve, and will continually work towards improving those areas. There is both a clear understanding of their personal vision, as well as the reality of where the individual actually sits in relation to the fulfilment of their vision.

**Shared vision** is where all the people within a business are inspired to achieve its future goals. It is important that the vision is actually shared and not one that is dictated to the employees. Even if the vision is a heartfelt one, it is imperative that the vision empowers employees and fosters a genuine commitment rather than simple compliance to the cause. This helps to create a workforce of individuals that are all 'pulling in the same direction'. This can result in an environment where people learn and excel because they want to, not because they are told to. A vision that everyone believes in can be inspiring and uplifting for a business.

**Team learning** is the process of building and developing the capacity of a team so they share their experiences and knowledge and therefore learn from each other. It builds on the previous two disciplines of personal mastery and shared vision. As individuals learn and grow through personal mastery, the team begins to learn from each other. Team learning creates an environment where problem solving is enhanced because knowledge and experience is shared amongst the team. Team learning requires talented individuals to have open dialogue and discussion which requires open communication. This allows the group to discover insights that are difficult or impossible to attain individually.

**Mental models** are the deeply ingrained assumptions and generalisations that influence how we understand the world and how we respond to it. For a business, this is reflected in its culture. To become a learning organisation, these models need to be challenged. In a learning organisation, it is important to remove and replace any confrontational values and attitudes with more open ones. By removing any assumptions/generalisations held by management and employees, it will help them to discover new ways of doing things. If they are unable to remove their mental models, they will find it difficult to innovate or drive new improvements in the business.

**Systems thinking** is a concept that integrates the other core disciplines. Systems thinking is where the business has information systems that evaluate the business as a whole, rather than as separate parts. Systems thinking allows individuals to understand the interrelationships between different parts of the business. For example, the marketing team might decide that they are going to run an advertising campaign designed to achieve a significant increase in sales. In isolation, this seems like a fantastic idea. However, this campaign affects other areas of the business. One such area is operations. If sales are to increase significantly, operations must be able to keep up with demand. If not, stocks will be depleted and unhappy customers will be the result. Interestingly, systems thinking does not only look internally. Let's assume that operations is able to increase production in line with the higher demand. The question then becomes: will suppliers be able to keep up with the increased demand? If the suppliers are unable to supply the business in appropriate quantities, again the business will eventually be unable to meet consumer demand, thereby losing sales and experiencing unhappy customers. An individual that can use systems thinking will understand the entire system and the interrelationships between these parts. This will enable them to make better decisions that will have a positive impact on the business.

## Leading the learning organisation

Senge argues that learning organisations require a new view of leadership. He believes that traditional leaders are those that set the direction, centralise the decision-making and then energise employees. He sees this as an individualistic approach and feels that the leaders of a learning organisation enable people to continually expand their understanding and capabilities. Below are three key aspects of leadership that Senge identifies:

1. **Leader as designer**: Key areas of design in the business are policies, strategies and systems and Senge argues that no one has more influence than the designer of these elements. For example, designing the mission, vision and core values can give the business direction and purpose. The leader's task is to design the learning process that allows the people in the business to deal with the critical issues they face.

2. **Leader as steward**: Senge found that leaders learn to see their own vision as part of something larger. Like a plane steward looks after passengers, the leader becomes a steward of the vision and their task is to manage it for the benefit of others.

3. **Leader as teacher**: this concept is about creating an environment for everyone to learn. Leaders focus on the purpose of the business which allows them to see the big picture. This allows them to understand what the business and its people are wanting to become. Understanding this fosters an environment where the people learn from each other with the overall picture of the business in mind.

> **Exam Tip:** It is important that students can not only describe the theory and the 5 disciplines, but they must try and understand the theory. The 2019 exam asked about how managers could apply Senge's learning organisation to effectively manage employees, influence corporate culture, and ensure change is implemented successfully. This type of question required some depth of understanding. Simply being able to describe each of the disciplines is not enough in these questions. Remember that the learning organisation is a business that creates an environment where the people are driven to learn and will always be looking to grow and improve. If you can bring the disciplines back to this, it can help you understand the theory and cope with these difficult questions.

# *Overcoming Employee Resistance (LOW RISK)*

Change can be a difficult time for employees as they fear how the change will affect their work and even their job security. This can cause anxiety among employees, which can create resistance to the change. This makes it difficult for leaders of the change to move away from the status quo and towards the new desired state. Resistance to change can be defined as, 'an attitude or behaviour that reflects a person's unwillingness to support a desired change'. Resistance can take many different forms, including:

- an increase in the number of people that opt out or request a transfer
- a persistent reduction in output from the employees
- hostility towards managers or leaders of the change
- strike or other industrial action
- the constant expression of why the change will not work in the business.

However, change is often critical to a business' success, because a business needs to be dynamic in adapting to market conditions. It is therefore essential that managers are able to reduce this resistance and help employees to move towards the change.

There are a variety of strategies on how to reduce employee resistance and these fall into two major categories, low-risk and high-risk. The following strategies for reducing resistance to change are referred to as low-risk strategies because they have a lower risk of backfiring and causing large amounts of resistance. Common **low-risk strategies include**:

**Communication:** the transfer of information from sender to receiver. Being open an honest with employees can help to reduce the anxiety of the employees and help them see the reasons for the change and the impact it will have on them, helping reduce resistance. Communication is also about education, where the change agent demonstrates the benefits of the change. This helps employees to appreciate the logic behind the change and can potentially result in their support for the change. Communication should be two-way so that employees can express concerns and have their questions answered.

**Empowerment:** where the employees are given the power or authority to be involved in the change process. This means employees can help to design and implement the changes. This can greatly reduce any resistance as the employees are less likely to go against decisions they have been involved in making. Empowering employees allows a greater 'buy in' and they can become a powerful driving force for the change.

**Support:** the provision of emotional and functional assistance/support to employees that are facing hardships due to the change. Change may alter an employee's job or even force some jobs to be terminated. Appropriate support should be provided for these employees, either through training, redeployment or outplacement services to assist them in finding new employment. For those who will remain with the business, yet still find the change difficult to deal with, need to be listened to and given time to adjust. Employees that need to undertake new processes or change positions should be given support through training, which helps them to overcome any performance pressures. Support can be in the form of time away from normal duties, so the employees are able to implement the changes. While this type of support costs the business money, it can help to overcome employee resistance.

**Incentives:** benefits that are provided to employees as a way of gaining support for the change. This could involve offering trade-offs that provide special benefits in exchange for the reassurance that the change will not be blocked. The types of incentives or benefits that can be used can vary greatly. Incentives could include the promise of improved working conditions (such as longer breaks or better staff facilities) or financial incentives (such as higher wages or performance bonuses).

> **Exam Tip:** The skills section of this area of study asks students to evaluate the advantages and disadvantages of change strategies. It is therefore important students can express the benefits and drawbacks of each of these strategies. Below we will look at some possible drawbacks of a business using low-risk strategies and later a summary table for each specific strategy.

*Possible Drawbacks of Low Risk Strategies*

While there are many benefits to the adoption of low-risk strategies, they are not always perfect. The low-risk strategies can often take more time to implement which can increase the time it takes to implement change. For example, communicating or empowering employees with respect to a change, listening to their concerns, and/or providing support is time consuming. This not only includes the time it takes to communicate, but the time taken to make decisions is often also increased. Incentivising employees can also be costly for the business. This must also be done in a way that the employees do not feel they are being manipulated into accepting the change.

## *Overcoming Employee Resistance (HIGH RISK)*

The following strategies are referred to as high-risk strategies because there is a greater chance that they will generate negative outcomes. That isn't to say they won't work in certain situations. However, they can cause the relationships between management and employees to break down and cause conflict within the business. The benefit of using high risk-strategies is that they can be quick in getting employees to accept the change. **Some common high-risk strategies include**:

**Manipulation:** where the business or change agent will use covert tactics to influence employees by, for example, exposing them to a selective set of facts. Management might secretly leak information to employees, or provide only some of the facts, so that the change is able to gain support. To illustrate, a business that is going to implement a new technology may inform employees of how the technology will make their jobs easier and safer. However, they might also omit any reference to information that relates to the likely redundancy of many employees. Some businesses may even 'buy off' some of the leaders of the resistors in order to gain support (e.g. promise of a promotion). These leaders can then influence other employees to support the changes. Manipulation is a high-risk strategy because if employees discover that they have been manipulated, it can both cause resistance to change, as well as damage their relationships with management to the detriment of the culture and performance of the business in the longer term.



**Threat:** where the manager will use force to get employees to accept the change by enforcing negative consequences for resisting the change. Employees can be threatened with a number of undesirable consequences, such as loss of promotion, transfer or loss of benefits that have not been written into the workplace agreement. While this can allow a change to happen relatively quickly, it can erode any positive relationships that have previously been formed. In addition, employees might accept the change 'on the surface', but genuinely be unhappy and resentful. Once again, this can have a negative impact on morale, work ethic and the performance of the business over time.

Each of the above strategies (both low-risk and high-risk) can be used in certain scenarios and each have their advantages and disadvantages. It is clearly safer for a business to use the low-risk strategies, however if the change needs to be implemented quickly, then high-risk strategies may be appropriate.

*Possible Drawbacks of High Risk Strategies*

The main problem with the high risk strategies is that they have the potential to harm the relationships between the managers and the employees. This can have a negative impact on the culture of the business, making it an unpleasant place to work. While the strategies may help to overcome resistance quickly, they do have the potential to cause increased resistance if employees are unhappy with the way they have been treated. This can make it difficult to implement the changes successfully.

> **Exam Tip:** the 2014 exam asked students to discuss both a high risk and low risk strategy for reducing resistance to change and then recommend which would be the most appropriate. Most students only looked at the positives of using a low risk strategy and the negatives of using a high risk strategy. However, it was expected that students address both sides of each strategy. Many students fail to recognise that high risk strategies can also have advantages.

> **Exam Tip:** the 2018 exam asked students to desribe one high-risk strategy and one low-risk strategy that a manager could use to overcome employee resistance in the situation provided. In these types of questions, it is crucial that responses address how the strategy will overcome employee resistance. Many students will state why the low-risk strategy is good and why the high-risk strategy is bad. This does not address a question like this. Ensure you are able to express haow all strategies will overcome resistance to change from employees.

# Lewin's Three Step Change Model

Kurt Lewin is a psychologist that developed a three step model for planned change. He found that the success of a change was determined by two sets of forces, driving forces and restraining forces. We covered these forces in more depth earlier in Chapter 4. In order to implement change, Lewin viewed the change process as consisting of three steps:

1. **Unfreezing**: Getting people and resources ready for change
2. **Changing**: Implementing the change
3. **Refreezing**: Ensuring the change remains for the long term

| Stage 1: Unfreezing | Stage 2: Changing | Stage 3: Refreezing |
|---|---|---|
| • Creating a need for the change<br>• Working to reduce resistance to the change | • Implementing the change<br>• Ensuring people are trained, resources are in place, obstacles removed | • Embed into the culture<br>• Reinforce the changes<br>• Evaluate the results of the change<br>• Adjust if necessary |

## Unfreezing

is to create energy around the change. This can be done by communicating both the benefits of the change to employees and a compelling message on the impacts of continuing the current system. Lewin found that this was an important step as many changes are implemented without first preparing the business for the change, which can result in strong resistance to the change and making its implementation difficult in the long term. The unfreezing stage is often the most difficult as management is challenging the way things have been done. Often employees will be in a routine and altering this routine can be difficult to initiate. Given that change can challenge beliefs, values and attitudes, it is important that employees are well prepared and appreciate where the business is heading and why. Unless the status quo is challenged, it can be difficult to carry out the next two stages as the people within the business will be comfortable in their current state.

## Changing

to be done as well as continued commitment and sustained energy being directed towards the achievement of the end goal. Implementing planned change can take time as people adjust to the new way of doing things. Communication and support are important here to help keep employees working towards a common goal. Empowering employees to take action and embrace the change can help the change to be implemented successfully. Employees can also be negatively affected by the change. Some may lose their jobs, others can find it difficult to use new equipment and some will simply struggle adjusting to new routines or ways of doing things. These issues need to be addressed by the leaders and support provided where necessary. It is important that the managers provide enough resources to implement the change during this phase. This will allow the employees to implement the required changes.

## Refreezing

as they arise. It is important that the change is evaluated during this stage to ensure that it is meeting expectations and modifications can be made where necessary. The aim of this phase is to institutionalise the changes so that they become part of the culture within the business. This way, the change becomes a way of life within the business and any new employees will be trained in the new way of doing things. Without the refreezing stage there is an increased risk that some employees will revert back to the old way of doing things. Accordingly, refreezing is an important step in a successful change process.

> **Exam Tip:** Question 3 in Section B of the 2020 exam asked students to explain how Manitta Mining could apply each of Lewin's 3 steps to reduce their number of workplace accidents. To receive high marks for this type of question, students need to ensure their response is focused on reducing the number of workplace accidents. It is common for students to write general responses that focus on each stage, yet fail to apply each step to what the question is asking (in this case, making it clear how each step plays a role in reducing the number of workpalce accidents).

> **Exam Tip:** Students need to be prepared to explain the theory of Lewin's change model as well as apply it to a scenario. In both the 2017 & 2019 exams, students were asked to apply Lewin's change model to case material. It was expected that students still outlined or described the theory in the required steps of the change model. Many students either failed to outline the theory adequately or failed to apply each step in enough depth.

# *Effect of Change on Stakeholders*

Change can be a difficult process to go through for many different stakeholders. Fear of the unknown can cause anxiety as the status quo is challenged and new procedures are put in place. While changes should result in positive outcomes for the business and its people, there is no doubt that some stakeholders are impacted negatively by change. We will now examine how change can affect some of the key stakeholders in a business.

## Managers

Change can cause stress for managers as they are often the ones that need to deal with any resistance to the change. It is often the manager who employees will turn to when they have questions or concerns with the change. Managers need to lead by example and work to create an environment where employees feel positive about the change.



Senior managers will often need to respond to other stakeholders such as shareholders. Shareholders may have concerns about their return on investment due to the changes. They can place pressure on senior managers and give their advice on how the changes should be implemented or altered. If the change is not successful, or there are short term expenses that reduce shareholder value, the shareholders can place pressure on the Board of Directors to replace senior managers.

It is often the senior managers that need to respond to media attention, which can put pressure on their own position. If the business is going through radical changes, where employees are being made redundant, there is likely to be significant attention from around the community. Senior managers will need to spend time responding to this attention.

During times of radical change middle managers can be affected. If a business is to implement cost cutting methods by making some positions redundant, it is common for middle management positions to be made redundant. Those that remain will often become responsible for more employees.

## Employees

Change has a major effect on employees as they are the ones that will carry out the new processes. As previously discussed, change can cause stress and anxiety on employees due to the fear of the unknown. Some employees may fear their job security and others may fear their ability to carry out the changes. Employees can become comfortable in a routine and change often threatens to disrupt the routine and create discomfort. For example, new technologies may be brought in and some employees may not be tech savvy and worry that they won't be as effective in their role. Some employees may be forced to change roles which can result in difficult adjustment.



During times of a restructure, some roles will be made redundant while new roles will be created. Being made redundant affects employees as they lose their job and their main source of income to support their families. While others that are instead placed into new roles might become disillusioned with the business as they struggle to understand their place within the business. This is particularly unsettling if they were passionate about their original position in the business

There is however, the possibility that some employees will embrace changes in the belief that they will be positively affected. Employees may become more productive or more effective in their role as processes are

"We look for people who can quickly adapt to changes in the workplace."

altered. They may embrace a new role or responsibilities which can boost their morale. Some employees may be given an opportunity to move to a new location which may be exciting for them.

It is important for the business to appreciate that change is very impactful on employees. While many employees will be impacted positively through change, others will also be hurt by the change and this needs to be managed well if the change is going to be successful in the long term.

**Customers**

Businesses make decisions to change because they feel it will have a positive impact on the business in the long term. If this turns out to be the case, then customers are likely to see the results in the form of better quality products and/or lower prices. Importantly, businesses can change products to keep up with customer needs and wants. By listening to customers, businesses are able to implement changes over time to meet their customer's desires. A preparedness to innovate and embrace the use of new technologies can help to improve the customer experience. For example, when the banking industry innovated by embracing advances in internet technology and introduced internet banking, it allowed customers to complete most of their banking at any time of the day from the convenience of their own homes. This change had a positive impact on customers as they were able to use a bank's service quickly and conveniently.

Conversely, some changes can have a negative effect on customers. Managers sometimes make decisions that create less customer satisfaction. An example of this related to the change that occurred within Carlton & United Breweries (CUB) in 2009. CUB decided to change the recipe of its popular brand of beer, Victoria Bitter (VB), in order to decrease the amount of excise tax (which was related to the alcohol content of the beer) and keep the price affordable for consumers. CUB figured that consumers wouldn't mind the minor change in recipe if it meant that the price of VB remained relatively low and affordable. However, sales began to decline immediately and this continued until CUB reverted back to the original recipe in 2013.



Another example relates to Arnott's. After extensive market research, Arnott's decided to change its recipe for its BBQ Shapes in 2016. This caused mass backlash from consumers who did not like the new recipe and caused Arnott's to revert to the original recipe. In many respects, customers are similar to employees in that they often resist change to the products that they have grown to love.

Accordingly, any changes that will impact on consumers will need to be well thought out. Extensive market research should be conducted and an analysis undertaken to ensure that, on balance, any change that is implemented by a business will impact favourably on customers. It is indeed possible, and even likely, that some customers will not be happy with the change(s) to product recipes, branding, styles, etc. However, so long as these 'unhappy customers' represent a clear minority of the customer base, with the vast majority of customers embracing the change(s), then the change is more likely to be successful over time.

**Suppliers**

The relationship between a business and it suppliers is an important one. They both rely on each other for success. The business relies on its supplier to provide it with quality resources that arrive on time for a competitive price. While the supplier relies on the business to improve sales so that it continues to require a large amount of supplies. Both parties keep each other thriving and/or sustainable. In short, the business cannot survive without suppliers and suppliers cannot survive without the business.

Change within a business can affect suppliers in many different ways. For example, a business that has introduced technology into its operations system is likely to experience improved speed of production and therefore enhanced efficiency. As a result, it will require supplies at a faster rate, which impacts on suppliers who now need to keep up with the increased demand. Increased demand can also come from a change in marketing campaigns, pricing strategies or breaking into new markets. A business may decide to implement lean management in order to reduce wastage. This reduction in wastage may result in the business needing less supplies, reducing the revenue of the supplier. Overall, when a business implements change that results in an increase or decrease in demand, it will have a direct impact on suppliers who need to make adjustments in order to accommodate the changes in demand.

**Community**

Businesses operate in local areas and therefore are part of the community. They employ local people and spend money on local products and services, such as expenditure on local cleaning contractors, printing services, council rates, etc., all of which have a significant impact on the local economy. Accordingly, changes made by businesses can have a major impact on a community. For example, if a business decides to outsource parts of it business to overseas contractors, it can result in local job losses which has a negative impact on the local economy. The unemployment rate in the community is likely to increase and less money will flow through to local businesses. However, change can also stimulate local communities. For example, businesses that expand and move into new locations can impact positively on the local community. This can attract other local businesses to open up which can improve the goods and services available in local areas. To illustrate, online retailer Zappos, was looking for a new location for its large business. It has always operated in Las Vegas and wanted to continue this. After viewing large complexes such as Google and Apple, Zappos CEO, Tony Hsieh (pronounced Shay) decided that he wanted the business to have a large impact on the community. Google and Apple have almost everything provided within their own facility, so there is very little additional stimulus provided to the local economy.



The Zappos downtown project which included the Zappos headquarters and Container Park had a positive impact on the community

Employees have all of the food, drink, washing etc. taken care of and there is little need for employees to make use of other local businesses. In contrast, Zappos decided to develop a facility in Las Vegas that created an excellent work environment for employees, but didn't have everything an employee required 'in house'. If employees wanted food or coffee, they would need to venture out of the building to local businesses. Zappos even provided funding for other small businesses to open in nearby locations so that employees had places to shop. This had a major impact on this section of the Las Vegas community as local, small and medium businesses began to thrive. Employees and other locals now had high quality restaurants, cafes, bars and the like to take advantage of. This increased the amount of people that moved into the area which made for a very vibrant community.

> **Exam Tip:** questions that have asked students to explain the impacts of change on stakeholders have normally been well handled. What students have done well is clearly express the impact of the given change on the stakeholder. One issue that has come up in this area is identifying stakeholders that aren't impacted directly by the change. Ensure you identify stakeholders that are undoubtedly impacted by the change and you can express the impact clearly.

## _Corporate Social Responsibility When Implementing Change_

When implementing change, it is important for businesses to consider issues surrounding corporate social responsibility (CSR). Many businesses value CSR and have embedded it into their culture. During times of change it is important that these values remain and serve as a compass for the business to remain on track with their key values even when radical change occurs. A small sample of CSR issues that businesses need to consider when implementing change are included below.

**Honesty**

We have spoken throughout this chapter about open two-way communication, where the leader of the change is honest about the change and its impacts. Although it is important to express the benefits of the change in order to help gather momentum and gain support from stakeholders, it is also important to be honest about any negative impacts that may arise. For example, if employees will be forced to change roles or face the prospect of redundancy, these issues need to be raised and discussed in an open manner. Similarly, if the community is likely to experience an adverse impact from some business functions being sourced overseas, then the business will be best served by honest communication with community stakeholders which helps to manage and/or minimise any possible community backlash.

**Support**

Stakeholders that will be negatively impacted by the change should be provided support to help them through a stressful time. Managers should demonstrate emotional intelligence by being sympathetic to the needs of the relevant stakeholder during times of change. Support can come in many ways. Employees may need to be trained to help them perform any new systems or new roles they will be required to perform. In addition, those employees being made redundant should be supported through this transition. This might involve support with resume writing (e.g.

paying professionals to write resumes for redundant employees), time off to attend interviews, or career counselling can all help employees with the transition into alternative avenues of employment. Employee Assistance Programs, where employees who are struggling to cope with the change can access confidential counselling from trained professionals, is another way to support employees.

**Sustainability**

In the past, change has been about improving a business' prosperity. While this remains the overriding goal of businesses when implementing change, the new change agenda should also consider the impact that its processes and products are having on customers, employees, shareholders and wider society. A business should also consider the impact that change will have on resource depletion (e.g. does it accelerate the depletion of non-renewable resources) or unethical practices (e.g. does it contribute to the support of business practices that are considered unethical, such as the use or exploitation of child labour). Similarly, does the change contribute to the build-up of greenhouse gas emissions that is resulting in climate change? The fact remains that businesses produce greenhouse gases directly though their production processes or indirectly through their products. For example, a motor vehicle manufacturer will directly contribute greenhouse gases (or carbon emissions) during the manufacturing of a vehicle. It will also contribute indirectly as the vehicle it produces emits carbon emissions when it is driven. These are CSR issues that businesses need to consider during the management of change. A car manufacturer can look to a sustainable future and implement changes to its design processes and work on designing a vehicle that is environmentally friendly. They could source sustainable materials that have less impact on the environment. The finance team could move all financial reports and communication with shareholders to digital rather than paper. Focusing on sustainability is a fundamental shift in change management. Rather than simply focusing on the bottom line of the business, managers should be considering the triple-bottom line and changing to improve in this area.

> **Exam Tip:** How you apply CSR issues to change when answering exam or SAC questions will depend on the change that is occurring in the case study that is typically provided in the question. It is important not to write about CSR issues in a theoretical setting. Instead, you should tailor your response to the case study/situation and ensure that you have adequately addressed how CSR considerations impacts on the implementation of the change that is outlined in the case study.

## *Reviewing Effectiveness of Transformation*

In the previous chapter we spoke about how a business can use key performance indicators (KPIs) to evaluate its performance and strategies to transform the business. This chapter looked at how a business can implement and manage the change. However, implementing change is not enough. It is an important step to evaluate once again to see if the change has been effective. To do so the business can again turn to KPIs. If the information provided by a KPI was one of the factors that initiated a change (e.g. a high number of customer complaints), then it should be used again to see if the change has generated a better result (e.g. are customers now happier since the change has been implemented?). Without evaluating the effectiveness of the change, a business will not know if the change has been successful. Reviewing the KPIs after the business has transformed, is important to determine what the business may need to change in the future to meet its desired objectives.

It is important that managers decide how they will measure the effectiveness of a change when deciding on what the change will be. If this is unclear from the start, it can be difficult to determine if the change was effective, even if the business' performance has improved. It can be easy for a business to implement changes and then at the end look to see if profitability has improved. While the change might be the main reason for higher profits, it could also be a result of factors totally unrelated to the changes that were implemented by a business. For example, the increased profitability might be attributable to an improvement in consumer demand that is driven by other factors such as an increase in consumer confidence, lower personal tax rates or stronger global rates of economic growth. However, if a business can identify some KPIs that they are expecting the change to influence at the beginning of the change, they can evaluate these constantly during and after the implementation. This can give a clearer indication if the change has had a direct impact on the result. For example, if a business maintains scrutiny on the level of customer satisfaction (via the number of customer complaints), then any improvement in profitability is more likely to be a result of the change, rather than a result of greater consumer confidence or lower personal tax rates.

It is important that any evaluation of the change is reported back to key stakeholders, including employees. If the results of the evaluation are positive, it can help to maintain momentum for the change as employees and other stakeholders are seeing that the hard work is paying off. It is also important to evaluate the effectiveness of the

change in case it highlights that the change is proving to be ineffective. In this case, provided it is identified early, modifications can be made to turn things in a more positive direction.

To illustrate the importance of reviewing the effectiveness of change, let's assume that a business has had an increase in the number of workplace accidents. After looking into the types and causes of the accidents, the human resource manager and operations manager decide that employees are not properly trained to use the equipment. They decide to use the strategy of staff training by introducing a training program that all machine technicians need to successfully complete and pass in order to use the equipment. This takes some time to implement and eventually ensures that all technicians are successfully trained. However, once this change has been implemented, it is important that the success of the change is measured. In order to measure the effectiveness of the new training program, the managers could again look at the number of workplace accidents. If the number has reduced significantly, the training program may be deemed a success. However, if the KPI shows that the number of accidents has remained the same, or even increased, then the issue needs to be further investigated. It could be that the type of training needs to be altered. It may be more effective to conduct on the job training rather than off the job training. Alternatively, the trainer might be ineffective and needs to be replaced, or a new strategy may need to be implemented. Accordingly, without going back and using KPIs to evaluate the effectiveness of the change strategy, the managers would not know how effective the changes were and, by the time they realised it was ineffective, there could be many more accidents occurring in the workplace, to the detriment of the business.

## REVIEW QUESTIONS 7: Implementing Change

1. **Explain the importance of leadership when implementing change**
2. **Outline the impact on a business if leadership is poor during times of change**
3. *Elaine owns a medium sized meat packing business. The business packages meats for supermarkets in Victoria and New South Wales. Below     some recent     data.*

| Key Performance Indicator | Recent Data |
|---|---|
| Level of wastage | ↑ |
| Net profits | ↓ |

   **Justify one strategy that would help Elaine respond to the above KPIs**
4. **Describe the three areas of redeployment**
5. *Matthew has been appointed the new business development manager at a medium*
   **Explain two strategies he could use to seek new business opportunities globally**
6. *Julie is the business development manager at a large manufacturer of kitchenware*
   **strategies she could use to seek new domestic business opportunities**
7. **Identify the five disciplines of Senge's learning organisation**
8. *Nikki is the owner of a medium*
   *monitors high quality security systems in domestic homes throughout the Ballarat region. Nikki          she has a strong competitive advantage but is concerned about rising competition in the area*
   **disciplines of the learning organisation. Explain how these could help Nikki remain a market leader.**
9. **Evaluate the use of one low-risk strategy and one-high risk strategy when trying to overcome resistance to change**
10. **Make a list of the advantages and disadvantages of the following strategies to dealing with resistance to change**
a. **Communication**
b. **Empowerment**
c. **Threats**
d. **Manipulation**
11. **List the three phases in Lewin's change model**
12. **Describe Lewin's three step change model and explain how it can be used to implement change in a business you have studied this year**
13. **Explain why leadership is important in each stage of Lewin's change model**
14. **Outline the impact change has on the following stakeholders**
a. **Managers**
b. **Employees**
c. **Customers**
d. **Suppliers**
e. **Community**
15. **Explain two corporate social responsibility (CSR) issues business should consider during times of change**
16. **Discuss the impact of implementing CSR practices into the change process**
17. **Explain how a business you have studied this year implemented CSR into its change process**
18. **Outline the importance of reviewing KPIs to evaluate the effectiveness of a business's transformation**
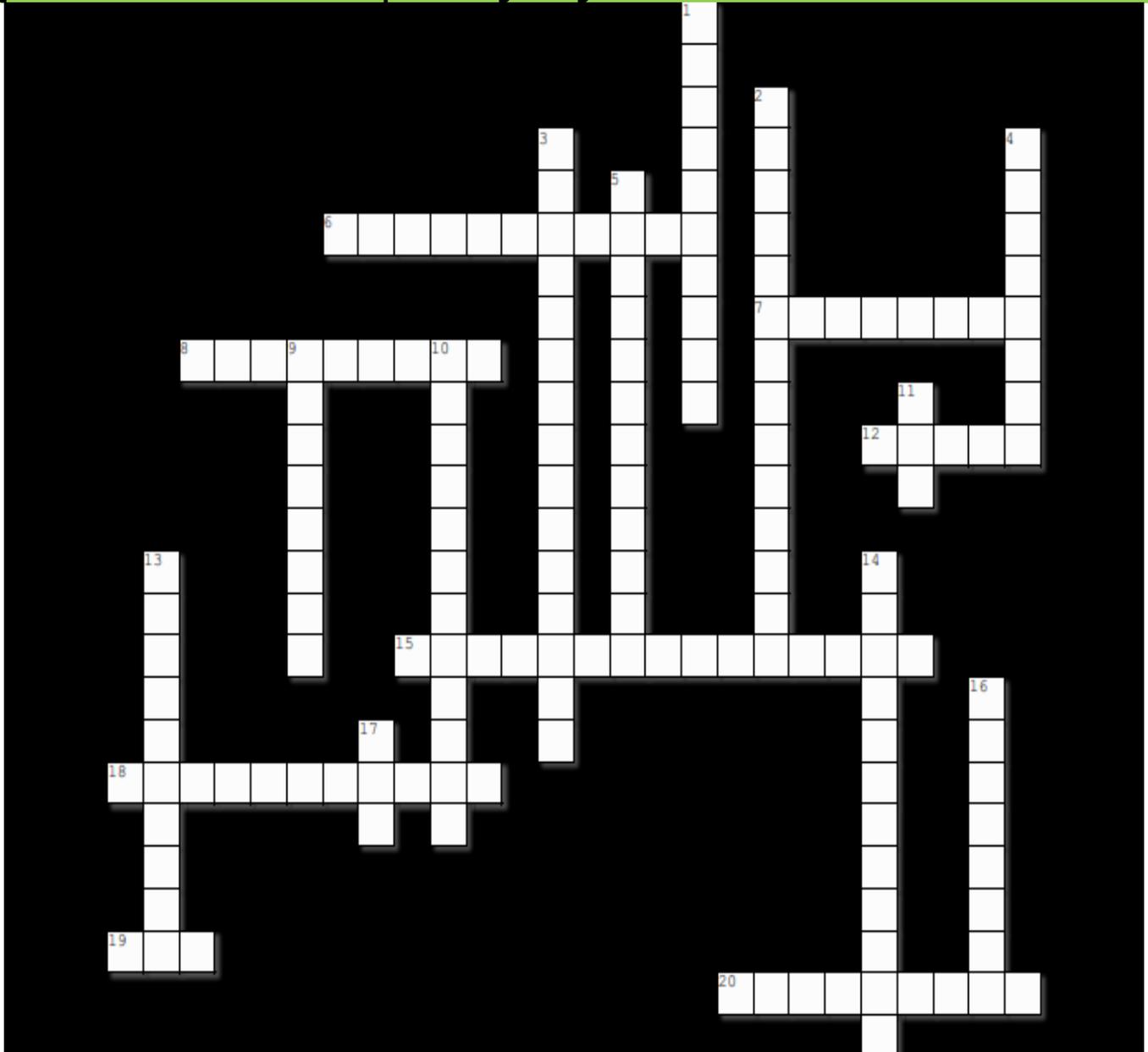
**Across**

**6.** A low-risk strategy that includes employees

**7.** The last stage of Lewin's change model

**8.** Those that purchase goods/services

**12.** The creator of the learning organisation
**15.** Seeing the big picture rather than things in isolation

**18.** Selling the rights to use the businesses name and products
**19.** It is important to review this after change has been implemented
**20.** A stakeholder often affected by change

**Down**

**1.** Managers need to be careful that this low-risk strategy doesn't come across as a bribe
**2.** Looking to minimise waste while maintaining or improving quality
**3.** Where employees create a vision of themselves and are driven to learn
**4.** The first stage in Lewin's change model
**5.** Preconceived ideas that influence the way people think and behave
**9.** Improving an employee's skills and knowledge

**10.** Moving resources from one area of the business to another
**11.** Businesses often develop this type of presence to seek new business opportunities
**13.** Helps inspire and motivate others towards the change
**14.** A high-risk strategy that provides selective information to employees
**16.** A Government body that creates connections for businesses overseas
**17.** Going above and beyond legal obligations in relation to change

# MINI EXAM NO 4: UNIT 4 AREA OF STUDY 2 (Total marks = 45)

**SECTION A**

1. Define 'empowerment'. **(2 marks)**

2. Explain how the principles of the learning organisation can help a business to implement change successfully. **(4 marks)**

3. Link Group is a financial services company that offers accounting and financial planning services to clients along the east coast of Australia. A year ago, the company launched a website to attract new business opportunities globally. However, the website failed to gain any traction.

   Justify one strategy that Link Group could implement to seek new business opportunities globally. **(4 marks)**

4. Distinguish between manipulation and threats. **(3 marks)**

5. Below is recent key performance indicator data from shampoo manufacturer Fruitier.

| Key Performance Indicator | Previous Year | Current Year |
|---|---|---|
| Level of wastage | 6% | 14% |
| Net profit | 128,000 | -$15,000 |
| Staff turnover | 5% | 25% |

   Describe strategies that will respond to the above key performance indicator data. Explain one corporate social responsibility consideration for Fruitier when implementing each of your chosen strategies. **(10 marks)**

**SECTION B**
**CASE MATERIAL: Vue**
Vue is the manufacturer of entertainment products such as televisions and sound systems. The company has three facilities that manufacture a large range of entertainment products. Vue is the owner of a number of brands, some competing in the high end of the market, while other brands of the business compete on the cheaper end of the market. This enables Vue to have a large range of televisions and sound systems in the major retail outlets. However, the company has performed poorly over the past 24 months. Just last week, it announced a full year loss of $3.1 million, doubling the loss it had recorded 12 months earlier.

Shares in the public listed company plunged 42 per cent on Thursday after news broke of the losses. Heavy discounting from rival businesses and rising customer complaints hurt Vue's revenue, which fell to $612.3 million for the 12 months to June 30. This is a drop of 6.2 per cent compared to a year ago.

In response, CEO of the struggling manufacturer, Wilma Hubbard, has put together options to turn the company around. Wilma will meet with her leadership team to decide on the most appropriate option before announcing the plan via a conference call with the shareholders in the next 24 hours. Below are the major strategies that her leadership team will consider:

- Cost Cutting – Closing two of the manufacturing facilities and consolidating all manufacturing into one facility. This will result in a number of poor performing products being removed from the product line that will no longer be manufactured.
- Improve quality – improve quality of the products produced by introducing stringent quality control checks.
- Investment in technology – develop an online presence and sell products directly to customers rather than only selling to retail stores.

**STRUCTURED QUESTIONS**

6. Evaluate two of the strategies up for consideration. Recommend and justify the most appropriate strategy for Wilma to implement. **(6 marks)**

7. Define leadership and explain why leadership would be important when implementing your recommended strategy from Question 6. **(3 marks)**

8. Wilma is concerned with resistance from employees if she was to implement the cost cutting. Discuss one low risk strategy that Wilma could use to overcome any employee resistance. **(4 marks)**

9. Explain how Wilma could use Lewin's change model to implement the proposed changes. **(6 marks)**

10. Explain why it would be important for Wilma to review key performance indicators after implementing one of the strategies. In your response, refer to one key performance indicator that should be reviewed. **(3 marks)**

In this section, you are required to assess the responses presented for each of the questions.  You should award the responses a score and justify your decision. Once complete, compare your assessment to that of the author (provided at the rear of the Study Guide)

**Question 1**
**Referring to a contemporary business you have studied this year, explain the importance of leadership during times of change**                                                                                              **6 marks**

**Sample answer 1**
Leadership is the ability of a manager to inspire and motivate others towards the achievement of business objectives. This is vital during times of change because employees often find change difficult and will resist it as a result. Effective leadership will demonstrate understanding for those that are impacted by change. A leader will be able to inspire the employees so they believe in the change that is occurring. This helps get them on board with the change which builds momentum, making it more likely the change will be successful. This was seen when Telstra announced a large restructure in 2018. CEO, Andy Penn, was able to communicate the reasons for the restructure to employees to help them get excited about the future of the company.
Effective leadership is also important because the leader will help support employees that are negatively impacted by the change. Leaders will communicate with employees and answer their questions so they are well informed. The leader will support those employees that are made redundant as part of the change. This was seen with Mr Penn introducing two forms of support for employees. For those leaving Telstra, Mr Penn brought in outplacement services to help them find new employment. For those remaining with the company, Mr Penn ensured there was training available to help upskill the employees during the restructure. This helped gain support from employees and motivated them towards the new direction. These effective leadership qualities are important to help drive a change to ensure it is implemented successfully with minimal resistance.

Score out of 6 _____

Justification_____

_____

_____

**Sample answer 2**
A business I studied this year was Telstra. Telstra announced a major restructure to help it become more successful in a highly competitive market. This will result in a net loss of 8,000 employees over a three year period. The reduction in employees is aimed at improving profitability of the telecommunications company in the long term. Leadership is the ability of a manager to inspire and motivate others to achieve business objectives. During times of change, leadership is vital if the change is going to be implemented successfully. Change usually impacts the employees the most which can cause fear and anxiety amongst them. This can result in employee resistance to change which works as a restraining force. Leadership is important to try and prevent this fear and anxiety from arising. To prevent this, a good leader will communicate clearly with the employees to demonstrate the need for the change. If the employees understand the reasons behind the change and the benefits it will bring, they are more likely to be supportive of the change. This was apparent at Telstra when the senior leadership team, lead by Mr Andy Penn communicated clearly to all employees. Mr Penn personally addressed employees to express the reasons behind the change. While there were some disheartened employees, it helped bring many employees on board with the change. This made it more likely that many of them were more accepting of the restructure.
Strong leadership is also important to help support employees during the change. The restructure at Telstra, caused 8,000 redundancies and Mr Penn ensured these employees were supported. Rather than simply leaving these retrenched employees with a simple redundancy package, Mr Penn introduced a transition program which included the availability of outplacement services. This service allowed these employees to be supported during the restructure to help them find new employment. A good leader will also support those employees that remain in the business. This helps motivate the employees while the change is being implemented. Mr Penn introduced training programs to help upskill employees on how to work in an environment with fewer employees.
Using strong leadership, has helped create momentum towards this change because the employees are inspired by the new direction. This is vital so that the changes at Telstra can a success, leading to a more competitive telecommunications company.

Score out of 6 _____

Justification_____

_____

_____

## Question 2

Squizzy's Ltd. Is the manufacturer of tapware at its Victorian facility. The company sells a range of tapware that meets the lower end of the price range, while it also has ranges that meet the luxury end of the market. Squizzy's is a market leader in the luxury category and has won many awards for its luxury range. Increased competition in the lower end of the market has resulted in reduced profit margins. CEO Mark Tap has decided to eliminate the lower end range and focus solely on the luxury tapware. Some employees are resisting the change.

**Describe one high-risk strategy and one low-risk strategy that Mark could use to overcome employee resistance at Squizzy's** **4 marks**

**Sample answer 1**

Mark could use the low-risk strategy of communication. Communicating with employees would help them understand the change that is occurring and why it needs to be implemented. This will prevent any rumours or misinformation throughout the business. Using communication helps improve the relationship between the employees and Mark which can help them be more accepting of the change.

A high risk strategy that Mark could use is threats. This could be by threatening employees with job loss. This has the potential to backfire however, because the employees may not like being threatened. This can actually harm the relationship between the employees and Mark which can have a negative impact on the culture of the company.

Score out of 4 _____

Justification_____

_____

**Sample answer 2**

Mark could use the high-risk strategy of threats. Threats are where Mark forces employees to embrace the change or face negative consequences such as loss of promotions or other benefits. While this strategy has the potential to harm relationships, it can help get the employees on board with the change quickly. Employees will fear the negative consequences which will prevent them from resisting Mark's proposed changes.

Mark could use the low-risk strategy of communication. Communication is the ability of the manager to transfer information to the employees, with the provision for feedback. Mark could express that he is removing the low end range along with the reasons why. Mark could express the benefits of the change to help gain support from employees. Using two-way communication would allow employees to ask questions and provide feedback so that Mark could ensure that any fears or concerns were addressed. Ensuring employees are well informed of the changes which helps get employees on board with the change and reduce any resistance. Score out of 4 _____

Justification_____

_____

## Question 3

**Describe two stakeholders and explain the impact change can have on them. In your response, refer to a business you have studied this.** **4 marks**

**Sample answer 1**

One stakeholder that is can be impacted by change is customers. Customers are those that purchase goods and services from the business and they expect good quality at fair prices. Customers can be impacted by business change as they can be offered superior services due to increased competition. As competition enters the market it can force rival businesses to improve the service they offer customers. This occurred when Uber entered the market. Not only did Uber offer a high quality service that was convenient for consumers but it forced the traditional taxi service to improve their service in order to compete with Uber.

Another stakeholder is employees. Employees are those that work in the business in exchange for a wage. Employees can be impacted by change as they are often the ones that need to carry out the change. Changes in technology can result in employees' jobs being replaced and being made redundant. This occurred at Fairfax as the business moved more of their media to an online space which causes major redundancies for journalists and those employed in the printing presses.

Score out of 4 _____

Justification_____

_____

**Sample answer 2**

One business I studied this year was Uber. Uber has revolutionised the taxi industry as it has used technology to offer a superior service to customers. The customers now have more choice and are offered competitive prices with the use of a smart phone app that is based on location and customer reviews. This system helps improve the service and has become a major threat to the taxi industry. Uber was recently granted permission by the State Government to enter into the Victorian market which has made it difficult for traditional taxi licence owners. These licence owners have paid a large fee which is now become worth much less and has impacted their investment and made it difficult for them to survive.

Score out of 4 _____

Justification_____

_____

## Question 4

**Explain how redeployment of resources can help a business improve a business's key performance indicators. In your response, refer to one KPI**                                                                           **2 marks**

**Sample response 1**

Redeployment of resources is where a business moves its human, labour or capital resources to another area of the business with the aim of making better use of these resources. Businesses can redeploy their human resources by moving employees from one area of the business to another area. This will help reduce level of staff turnover because employees will be happier working in an area of the business that is thriving, improving their motivation, resulting in them wanting to stay with the business.

Score out of 2 _____

Justification_____

_____

**Sample response 2**

A business can use redeployment to improve the quality of the business which will reduce the number of customer complaints. By being able to purchase materials from a higher quality supplier, the business will be able to produce a higher quality product that will ensure that customers are happier with what they are purchasing from the business.

Score out of 2 _____

Justification_____

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## Question 5

**Explain two corporate social responsibility issues a business needs to consider when implementing change**                                                                                                                              **4 marks**

**Sample answer 1**

Corporate social responsibility (CSR) is the continuing commitment of a business to operate in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. One CSR issue a business needs to consider when implementing change is the impact the change will have on employees. They should consider the needs of employees while implementing change.
Another CSR issue that should be considered is the impact the change will have on the environment. The business should try and go above and beyond their legal obligation to minimise the impact the change will have on the environment. This is seen to be socially responsible as it is helping the environment.

Score out of 4 _____

Justification_____

_____

**Sample answer 2**
Corporate social responsibility (CSR) is the continuing commitment of a business to operate in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. One CSR issue a business needs to consider when implementing change is the impact the change will have on employees. Change will usually impact on employees the most and can cause fear and anxiety amongst the employees. The business can minimise this impact by considering the welfare of employees and providing support for them during this time. Giving employees time to adjust to the changes and offering extra training to help them embrace the change can demonstrate corporate social responsibility during the time of change.

Another CSR issue that should be considered is the impact change can have on the environment. When implementing change, the managers need to ensure they are going above their legal obligations to minimise the impact on the environment. For example, implementing technology has the potential to increase the carbon footprint of the business. To minimise this impact on the environment, the business should look to purchase state of the art equipment that is energy efficient. They should also maintain the technology regularly to ensure it is minimising its impact on the environment.

Score out of 4 _____

Justification_____

_____

### Question 6
**Quirky is the manufacturer of various board games. As a result of poor productivity growth, the business has recently implemented new technology into the operations system.**
**Explain the importance of Quirky reviewing its KPIs when evaluating the effectiveness of the change.**

**4 marks**

**Sample answer 1**
It is important for Quirky to review their KPIs after implementing the new technology to see if the strategy has been a success. The impact of the new technology should have improved the business's operations but it may have also impacted other areas of the business. For example, it may have impacted the morale of employees as their jobs may be more mundane than they were previously. Implementing the new technology may have come at a large financial cost so it is important to see if the investment has been worthwhile for Quirky. The business can see if the new technology has worthwhile and had a positive impact.

Score out of 4 _____

Justification_____

_____

**Sample answer 1**
It is important for Quirky to measure their KPIs after the implementation of the new technology to see if it has achieved the set objectives. Quirky has implemented the new technology to improve their rate of productivity growth. It would be important to measure their productivity growth after its implementation to see if it has improved. This will show if the technology has been effective and achieved the set objectives and determined if the capital investment has been worthwhile. Once they have measured their KPIs, Quirky can determine if they need to make further changes, maintain their current course of action or wait for future data. For example, it may take time for employees to become efficient at using the new technology so the rate of productivity growth may need to be measured over a longer period before making a decision on how to move forward in the future.

# THE EXAMINATION

**Description**
Examination time – 15 minutes reading time and 2 hours writing time
There are a total of 75 marks
Contribution to study score – 50%
All areas of study from both Units 3 and 4 are examinable.

The examination will be in the form of a question and answer book. The examination will consist of two sections.

**Section A** will consist of short-answer and extended-answer questions, including questions with multiple parts. One of the extended-answer questions will be worth 10 marks and will not have multiple parts. Section A will be worth a total of 50 marks.
**Section B** will consist of short-answer and extended-answer questions, including questions with multiple parts. Questions will be based on a case study. Section B will be worth a total of 25 marks.

The number of questions in both sections may vary from year to year. The examination may include questions that refer to visual and/or written material, including scenarios.

*Source: http://www.vcaa.vic.edu.au/Documents/exams/busmngmnt/busman-specs-w.pdf*

## *EXAMINATION PREPARATION STRATEGY*

### Plan and Plan Early

When preparing for the exam it is important to set a plan on how you are going to approach your revision throughout the year. Students often leave revision to the last minute, which can make it difficult to achieve a high study score in the subject.  So starting early can be a big advantage.

If you start revising early in Term 3, it will help to consolidate your knowledge and assist with your preparation for both the examination and SACs. The Business Management course builds on itself, and the information you learn in Unit 3 is very relevant to the information you learn in Unit 4. Therefore, beginning revision in Term 3 can help you to understand the links between Units 3 and 4, which puts you in a better position

Unless you are completing Units 3 and 4 Business Management in year 11, you will have many subjects to prepare for leading into your examinations. If you wait until you have finished all of your content at the end of Term 3 (like many students do) you will only have approximately 5-6 weeks to prepare for all of these exams. While it might seem like plenty of time, if you break that down by 4-6 subjects that you may be studying, it only equates to approximately one week per subject. Keep in mind that you will still be attending school for some of those weeks, and will have other commitments. So ask yourself the following question: 'Could I revise an entire year's course in one week?' The answer is likely to be NO.  So starting your preparation early becomes extremely important.

However, starting early does not need to be an overwhelming process. Throughout this study guide you will have learned how businesses can make small adjustments to create large results. The same goes for your revision. By simply spending 20 minutes three times a week adds up very quickly. By the time you get to the end of the course, this could mean you have spent an extra 10 hours or more revising for your exam.

When planning for the examination it can be useful to use a planner. Every Sunday plan out your week and each night, plan out your day. While this can take 5-10 minutes to complete each night, it can save you hours each day as you know exactly what you need to achieve. With a clear plan, you will spend less time procrastinating and thinking of things you need to do. Having a clear plan can also relieve stress because you are clear on what needs to be achieved.

It is important that you block out other commitments such as work, sport or appointments so you can be realistic about what it is you can achieve each day. While this study guide is not a guide to time management, this skill is crucial to your success this year. When planning, it can be a good idea to set out your goals each day. This helps give you purpose and direction.

Once you have finished your final SACs and begin focussing 100 per cent on exam preparation, it can be a good idea to plan when you will study each subject. Again block out any times you are unavailable in your diary so you can plan enough time for each subject. It is common for students to begin revision on their first exam, then once it is

over focus on the next one. However, I believe it is important to focus on all your subjects and give yourself enough time with each to best prepare yourself for ALL of your exams.

To ensure that you can correctly plan your exam revision, it is important to check with your school for the following:

- Term dates
- Mid-term holidays (these can be a great time to get ahead)
- Trial exam dates
- SAC dates if available
- Final day of classes and beginning of SWOT VAC
- Your individual exam timetable (this will likely be provided to you in Term 3)

*What should early revision look like?*

When beginning early revision, it can be difficult to complete all types of revision as you haven't completed all of the content. For example, when preparing for the exam it can be a good strategy to complete practice exams. However, early in Term 3 this may not be the best strategy as there will be many parts of the exam you are unable to complete as you have not covered the content. As a result, here are some good strategies you can use early on in your study:

- ✓ **Prepare a glossary** in an exercise book to ensure you have covered all of your key terms.

- ✓ **Complete flash cards** for definitions. In many of your examination questions you are expected to define or describe key terms. Having flash cards with a key term on one side and the definition on the other can help you to memorise these definitions. Look at the term on the card and verbalise the definition. Turn the card over to see if you are correct. 15-20 minutes of this can go a long way towards helping you remember a content heavy course such as Business Management.

- ✓ **Compare topic summaries** with friends. Throughout the year it can be easy to miss small pieces of information. Comparing your summary notes with a friend or multiple friends can ensure you have all the information.

- ✓ **Make note of mistakes made in SACs**. As you work through each SAC it is likely you will make some mistakes along the way. It is too easy to simply look at your mark and move on. You should be reviewing each SAC to see what you are doing well and what you need to improve on. It could be that you haven't grasped a concept 100%, you are being too general with your application, or you could be making mistakes with task words (e.g. not addressing both sides with 'discuss' questions). Taking the time to reflect and improve is what effective study is all about. This should form part of your early revision sessions.

- ✓ **Revise each night**. Once you have learned something in class and taken notes, it is important to go over these notes again within 24 hours. The amount of information you retain increases dramatically if you can do this. With so much going on in VCE, it can be easy to take notes on a topic and only refer back to them when required. However, if you can spend 5-10 minutes going over the content the following night, it helps you to retain that information for longer.

## Engage in constant revision

Now that you have set out a plan for your revision it is important to engage in constant revision for Business Management. Leaving all of your study to the end places you under significant pressure. While it is never too late to improve your knowledge and understanding of the course, a balanced approach (with constant revision) can contribute to a better score in both SACs and the exam.

Revision is a very personal thing. One strategy will work perfect for one person while another will work for someone else. It is important that you figure out what works best for you early on. If you aren't sure on what to do, here are **some** techniques that have worked for high achieving students in the past.

### Read & Summarise

Many students try and copy out all of their notes. This can be incredibly time consuming and won't always give a good indication of how well you know the content. It is more effective to read your notes, or section

from your text book, and then summarise that content in your own words without referring back to your text. This is more likely to help you remember and recall the content in your own words, which is what is replicated in the exam. The closer you get to the exam, the easier it should be for you to summarise the content. Leading into the final weeks before the exam you will be able to see a section of the study design, e.g. Management Styles, and then summarise the key content of the five management styles. Along the way, you might feel as though you have summarised everything. In these situations it might be worth re-summarising the course before moving on to the other techniques described below.

### Teach

Nothing helps you retain information like teaching does. When you are studying a topic, see if you can teach the topic to someone else. If you are struggling to explain it, or the person you are teaching is confused, then you probably have some more work to do. Conversation and discussion about the concepts with your peers can help you to consolidate your understanding of the content.

### Flash cards

As discussed earlier, flash cards can help with simple recall information. Often in the exam you will have to answer questions that ask you to define or describe. This is where you need to simply repeat the theory you have learned. With so many definitions throughout the course, some students have found flash cards a real asset. Try not to leave this to the end as it can be a big task preparing your flash cards for the entire course. It helps to build on them throughout the year. Test yourself on your own or with a friend to help you learn the definitions.

### Mind Maps

Mind maps are a very powerful tool that can not only help you remember information but also help link the information together. Business management is very much a course that builds on itself and mind mapping can help you understand the links between the information. Starting with a central concept and linking the content to this concept will help you understand the connections between the course content. Once completed, put them up on your wall so you can look over them regularly. By the time of the exam you may even be able to visualise the mind map!

### Practice Questions/Exams

Answering questions will help you to consolidate information, but more importantly it will give you practice applying your knowledge to answering exam questions. Using past exams from the VCAA can help you to practice for the real exam in terms of content difficulty and structure.

Following this, you should access as many practice exams as you can and attempt them under strict time constraints. Your teacher should have access to practice exams from various sources, including 'Compak', 'Insight' and the 'CPAP' Practice Exams (www.commpap.com). Using various practice exams from reliable sources will help to expose you to a wide range of questions. When completing practice exams, it is important to use them as practice, and not regurgitate your response on the real exam. In Business Management exams, students are typically provided with case material and questions. While the theory is the same, the application is likely to be different. So even if a question does surface on the real exam that you have seen before, it is likely that the application will be different given the uniqueness of the case material provided in the question. In this context, it is important not to regurgitate a response that you have previously written without attempting to tailor the response to case material provided.

In summary, practice exams are excellent for:

- **Preparing for exam questions**. Being able to apply questions to case material. Practice reading the exam questions carefully so that all parts are answered and applied correctly.
- **Practicing timing**. Students that want to do well often write lots in their answers. This can put them under time pressure. Practicing your timing so that you can complete the exam in two hours is an important aspect that is often overlooked.
- **Getting feedback**. Once you have completed an exam or question, you should act on the feedback provided by your teacher. This feedback is invaluable as you can see where you are making mistakes and attempt to rectify them before the exam.

Earlier on in your revision, it can be difficult to complete practice exams until you have a good grasp of the content. Accordingly, you may want to complete some questions while referring to your notes. However, you should increasingly use your notes less and less until you reach the point where you can attempt the exam questions without recourse to your notes.

## Sitting the examination

*Reading Time*

Reading time lasts for 15 minutes, and is often underutilised by students. You should be making great use of this time. Here are some ideas on how you can make effective use of reading time:

- Take a look through the exam and read the question. At the beginning you may be a little nervous so it can be good to see some questions you are familiar with and confident you can answer. Once you have read the questions, go back to the beginning and read the case material and questions again. Start to plan out some ideas on how you would approach some of the questions.

- Check the task words – define, explain, discuss etc. Begin thinking about what each of these task word require you to do. E.g. discuss questions expect you to address benefits and limitations

*Writing time*

Writing time lasts for two hours. It is important to:

- **Read the question carefully** so you know exactly what is required of you. Although you may feel under time pressure, it is important to take the time to read the question.
- **Understand the task words**. Circle or highlight the task words so you know what is expected of you. For example, if you need to discuss, ensure that you address both sides (e.g. strengths and weaknesses or costs and benefits) rather than simply 'tell a story'. If you are asked to distinguish, ensure that you highlight the key points of difference between the two terms instead of simply defining each term. These are common mistakes made by students that can easily be avoided.
- **Monitor time**. Many students can get carried away with some larger questions. For example, some students spend too long on the 10 mark question, which places them under pressure for the rest of the paper.
- **Follow the exam instructions**. For example, you are not allowed to write in pencil. Ensure you have the right equipment for the exam.
- **Write within the allowed space**. The exam clearly shows you where you are able to write on the booklet. Make sure you stay within this area so the entirety of your answer is assessed. If you need more space, you can use extra space at the back of the booklet.

*A 10 mark question?*

The 10 mark question can come from Unit 3 or Unit 4 of the course, or a combination of the two. Students can often get overwhelmed with the 10 mark question. It is important to remember that if you have revised the entire course, you WILL know the answer to the question. Often it is a good idea to break the question down into smaller pieces, which makes it much more manageable. The structure of your response is important. While you are not assessed on how you structure the response, those students with a well structured response are more likely to address the question fully.

To illustrate how you could structure a response to a 10 mark question, we will take a look at the 10 mark question from the 2020 exam. Keep in mind that the structure outlined below is only one example of a number of possible structures that could be employed when answering this question. However, if you were to follow this structure, and fill in the gaps, the answer to the question appears much more manageable and less daunting.

*Question:*
*Evaluate two different motivation strategies. Id*

*(10 marks)*

**Source: VCAA examination 2020**

**Possible Structure**

1. Outline one motivation strategy
2. Explain the benefits of this strategy and how it can motivate employees
3. Explain the drawbacks of the motivation strategy
4. Outline a second motivation strategy
5. Explain the benefits of this strategy and how it can motivate employees
6. Explain the drawbacks of the motivation strategy
7. Identify which strategy is most appropriate for short-term motivation
8. Justify why this is appropriate for short-term motivation
9. Identify which is strategy is most appropriate for long-term motivation
10. Justify why this is appropriate for long-term motivation

There is lots of repetition in this structure because the question has been broken down into smaller parts. Remember, that this is just one example of how to approach the question, where a breaking down of its component parts helps to ensure that a student's response will cover all parts of the question. Always remember that hard work is normally rewarded. All anyone can ask (including yourself) is to do your best.

It is also important to note that not all 10 mark questions will be as specific as the one above. The 10 mark question in the 2017 exam was very open and many students found it difficult to structure their response. Those that performed well, still provided a strong structure to their responses. These students decided on a way to approach the question and went for it. It is therefore encouraged to practice a range of different questions. However, the 10 mark question in the 2019 exam provided three key points that students needed to cover. The structure was virtually laid out for students and the key was to answer all of the question. This doesn't mean you need to get carried away and write page after page. Use the lines provided as a guide. Just ensure you answer every part of the question whether the question is very open, or very structured. If you are prepared well, have faith that you will know the answer and give it your best shot!

I wish you the best of luck in this year's exam!

**SAMPLE RESPONSES: MINI EXAM NO.1 (Unit 3 AOS 1)**

**1. Define the following terms (6 marks)**
**a. Partnership**
A partnership is a business that is owned by between 2 and 20 people

**b. Business objective**
A business objective is a set goal that the business is aiming to achieve in the future

**c. Shareholders**
Shareholders are the people or groups that own a portion of a company

**2. Sebastian is the operations manager of Baker Plus, a commercial bakery in Epping. More than 65% of the operations team have been with the business for more than 7 years. Sebastian has just been instructed by senior leadership to reduce the level of wastage produced during production.**

**a. Discuss the most appropriate management style for Sebastian to use to achieve the set objective (6 Marks)**
Sebastian should use the consultative style. This is where the manager seeks feedback from employees before making the final decision themselves. It is characterised by two-way communication and centralised decision-making. Although Sebastian has some good ideas on how to reduce the wastage at Baker Plus, many of the employees at the business are experienced. Sebastian can ask these experienced employees for ideas on how the business can reduce the wastage. These employees may come up with quality ideas on how to reduce wastage that Sebastian had not thought of previously. Sebastian can use the information gathered from employees to make a more informed decision on how to reduce the overall wastage within the bakery. Using this style will also help get the employees on board with the final decision that is made as they have had serious input into the decision, enabling an effective transition, resulting in less wastage. However using the consultative style can be very time consuming. It can take time to consult with all staff, delaying any decision being made. There will also be some inexperienced staff that may feel uncomfortable putting ideas forward, possibly leading to a division between the experienced and inexperienced employees.

**b. Explain the impact the management style used in Question 2a can have on the real corporate culture at Baker Plus (4 marks)**

Using the consultative style can have a positive impact on the real corporate culture at Baker Plus. The real corporate culture is the actual shared values and beliefs demonstrated by the people within the business. It is seen in how management and employees communicate with each other along with the overriding management style used. Using the consultative style will demonstrate that the business values the input and ideas of their employees. It shows that management are willing to include the employees in the decision making process by seeking their opinions before a final decision is made by the manager. This can create a positive culture where the employees feel valued. It also creates an environment where collaboration and sharing of ideas is valued, helping improve the real corporate culture within Baker Plus.

**3. Distinguish between real corporate culture and official corporate culture (3 marks)**

The official corporate culture is the shared values and beliefs that the business wishes the people within the business to have. This can be seen in official documents such as the business's mission statement or values statement. The real corporate culture is what the actual shared values and beliefs of the business are. The real corporate culture can be seen in the overriding management style or in how employees treat customers. The key difference is that the official culture is often set by senior management and is what they want their culture to be, whereas the real culture does not necessarily align with the official culture and is displayed in the actual behaviours of the employees.

**4. Other than making a profit, outline one objective of a Government Business Enterprise (1 mark)**

An objective of a Government Business Enterprise is to carry out government policies. For example Australia Post ensures an effective mail service is offered to all Australians.

**5. Luggage manufacturer and retailer, Adventurer has performed poorly over the past two years. Sales have declined by over 20% in this time. CEO, Amanda Kiss has decided to close down all but two of the retail outlets with the aim of selling the luggage products in major department stores such as Myer and Target.**

**a. Justify two skills that Amanda will require when implementing this change (6 marks)**

One skill is communication which is the transfer of information from sender to receiver, with the ability to listen to feedback. This will be needed by Amanda as she will need to communicate with employees about the stores that will be closing, along with the timeframe in which this will occur. Amanda will need to use two-way communication to listen to the concerns of employees and respond accordingly so that all employees are aware of the changes and their role in implementing the changes. Amanda will also need to communicate with the department stores to try to come up with an effective contract for both parties.

Another skill is planning, which is the ability to set objectives and detail ways to achieve them. Amanda will need to set out objectives on when she will close each store and the tasks required to ensure this happens lawfully. Amanda will also need to set sales targets within each department store and detail things such as promotions that will enable this to occur. Setting targets on what needs to be achieved and deadlines on when each needs to be achieved, will help Amanda implement the closure of the stores, and movement of stock into department stores occurs in a timely manner. This will ensure that there is minimal disruption to customers and sales as the change in implemented.

**b. Identify two areas of management responsibility. Explain how each area can be used be used to help Adventurer in their current situation. (8 marks)**

One area is human resources. This is the area that manages the relationship between the employees and the business. This area will be needed to help in the closure of the retail stores. Many employees will likely lose their jobs at Adventurer as most of the retail stores are closing down. The human resources manager will be needed to ensure this happens in a way that minimises the negative impact on the business. Employees will need to be informed about the closure and the when it will be occurring. The human resource manager will need to ensure that employees receive all of their entitlements as a result of losing their jobs. The human resource manager may be able to help find new employment for the employees or create new jobs within Adventurer to help keep as many employees employed as possible.

Another area is sales and marketing. This is the area that promotes the business and its products. Because of the poor sales in recent times, the sales and marketing team can implement an advertising campaign to help increase the sales of the luggage products. The marketing team will also need to let customers know that although many of the stores are closing, they can still purchase the luggage products from the department stores. To do so, they may offer some form of sales promotion to help improve the sales ad Adventurer.

**c. Outline the interest of one of Adventurer's stakeholders. Explain one corporate social responsibility consideration in relation to the interest of this stakeholder (3 marks)**

One stakeholder is the employees. The interest of employees is to receive fair pay, good working conditions and ongoing employment. Because of the store closures, there is a chance that the some employees will lose their jobs. To be socially responsible for the employees to help ensure they have ongoing employment, Adventurer can work to find other employment opportunities for

these employees. This goes above the legal obligations of the business but helps ensure that their employees have opportunities for future employment. Adventurer could even offer training opportunities for their outgoing employees to improve their skills and qualifications, making the employees more employable.

**6. Outline the relationship between the management skill of communication and the consultative management style** **(3 marks)**

Communication is the transfer of information from a sender to receiver and the ability to listen to feedback. The consultative management style is where managers seek out the opinions and advice from employees before making decisions. The relationship between the two is that the consultative management style makes use of communication in the form of two-way communication. The consultative management style relies on the manager communicating with employees regarding an issue and asks for them to communicate their ideas. The manager uses these ideas to help make a final decision, which is then communicated back to the employees.

**SAMPLE RESPONSES: MINI EXAM NO.2 (Unit 3 AOS 2)**

**SECTION A**

**1. Describe the Four Drive Theory and explain how it could be used to motivate the employees in a business you have studied this year** **(4 marks)**

The four drive theory stipulates that every human is motivated by four main drives. The drives are the drive to acquire, the drive to bond, the drive to learn and the drive to defend. It was found that all of these drives come from our evolutionary past and can all occur at the same time, however the drive to defend is more latent. To motivate employees, it is important that the business provides opportunities to allow individuals to achieve each of the drives.

This theory could help motivate the employees at Cotton On by providing them with a range of strategies that will satisfy each drive. To satisfy the drive to acquire for example, Cotton On could ensure that all employees have satisfactory pay so they can purchase material items, but also provide opportunities for career advancement so the employees have the opportunity to acquire status within the business. If they felt the employees were strongly driven by the drive to learn, they would need to ensure that all employees had access to ongoing training. Cotton On has the online learning portal called YOU learning. It would be important that all employees had access to this training opportunity in order to satisfy the drive to learn, leading to improved motivation in the employees.

**2. Explain one entitlement and one transition issue that may result from retirement** **(4 marks)**

During retirement, one entitlement is that the retiree is entitled to any accrued benefits such as pay for work completed and their long service leave. The employee is able to take their long service leave as they head into retirement and leave the workforce. One transition issue is allowing the retiree to gradually reduce their working hours as they consider retirement. Retirement can be a difficult time in a person's life as they can find it difficult to manage the transition out of the workforce. To assist this, the employer may allow them to go part time in the years leading into their retirement year, and gradually reduce their hours to enable them to become accustomed to the extra time available in their non-working life.

**3.** Cindy Bloomberg is the Human Resource Manager at Ultimate Security, a large commercial security firm in Victoria. Ultimate Security currently has five major locations throughout Victoria. To minimise costs and improve efficiency, Ultimate Security has decided to consolidate its operations and run one head office in Melbourne only. The other four offices will be closed, resulting in a reduction of office staff required. Cindy has been left in charge to ensure a successful closure with minimal disruption to customers.

**a. Explain the role of both Cindy and the employer association when dealing with the redundancies at Ultimate Security** **(4 marks)**

Cindy's role is to represent the business and communicate clearly with the employees that are being made redundant. Ultimate Security may first offer voluntary redundancy for their office staff and Cindy would need to be clear about this offering and what would be in each redundancy package. Cindy would also need to ensure that the appropriate package was available for each employee taking redundancy.

The role of the employer association is offer advice to Ultimate Security about their obligations during the closure of the offices. The employer association would help Ultimate Security ensure that they are following the rules stipulated in both the Fair Work Act and in the employment agreement so that everything is handled lawfully. If there were any disputes because of the redundancies, the employer association could offer advice on how to resolve the dispute or may even act on behalf of Ultimate Security to help resolve the dispute.

**b. Evaluate both awards and enterprise agreements. Justify the most appropriate method for Ultimate Security** **(6 marks)**

Awards set out the minimum wages and working conditions for all the employees in a particular industry. One of the benefits of introducing an award is that the business only needs to offer the industry minimums in wages and employment conditions. This can reduce the overall wage costs within the business. However, by only offering the industry minimum, it can make it difficult to attract and retain quality employees as these people may take on better offers from competing businesses.

Enterprise agreements set out the wages and conditions for a group of employees at a particular workplace. These are negotiated through enterprise bargaining. One benefit of introducing an enterprise agreement is that they often result in higher wages and improved conditions than those set out in the industry award. This can help attract and retain high quality employees. They also offer flexibility for the business to negotiate with their employees. This can allow any productivity gains to be rewarded with improved wages and/or conditions. However, because they are negotiated at enterprise level, the negotiation period can be time consuming and disputes can arise during this time, impacting negatively on the relationships within the business.

Ultimate Security should use an enterprise agreement to help them attract high quality employees. The employees that remain after the closure of the offices can then be rewarded with improved wages and employment conditions. It can also help them gain a competitive advantage as they can attract higher quality security people as a result of the ability to negotiate higher wages than competitors that are using the industry award.

**4. Mining company, Dig It, is currently in negotiations for a new enterprise agreement. Negotiations have broken down and the workers union is threatening strike action.**
**Analyse the most appropriate dispute resolution process to resolve this dispute.** **(5 marks)**

The most appropriate process would be mediation. Mediation is a dispute resolution method where an independent third party facilitates the conversation between the two disputing parties. This can help if wage negotiations have broken down because it can ensure that both parties are able to present their points of view. Without an independent third party, the representatives for Dig It and the employees may be constantly arguing and unwilling to back down. However, having a mediator calm the situation and facilitating conversation, it can ensure that negotiations can continue without the need to take industrial action. Although there is no guarantee that a resolution will result because of the mediation process, it will delay any potential strike that may occur, as it will bring both parties back to the negotiation table with the aid of a mediator.

**5. Distinguish between a performance appraisal and self-evaluation (2 marks)**

A performance appraisal is the process of evaluating an employee's performance over a period of time and providing them with feedback. Whereas self-evaluation is where the employee analyses their own work performance and provides this information to their supervisor who will also give feedback. The key difference between the two methods is that the manager in a performance appraisal primarily conducts the evaluation, whereas the employee primarily conducts the evaluation in self-evaluation.

## SECTION B
## CASE MATERIAL: Taragon

Human Resource Manager at Taragon, Jim Cook has just presented the latest employee satisfaction data to a senior leadership meeting. The data from the most recent staff survey shows that employee motivation is at an all-time low. CEO, Shona Filipe is shocked at the findings. Shona has lead the advertising firm for the past 8 years and prides herself on creating an environment that her employees are excited to turn up to each day. However, the data shows that staff are averaging more than 8 sick days each for the year. This has increased from an average of only 3 days just two years ago. Shona has ensured that employees are well remunerated for their work. This has enabled Taragon to attract high quality employees and helped the advertising agency develop a competitive advantage. However, Shona was shocked that while employees felt they had good job security, they also felt they weren't provided ongoing training opportunities. More than 50 per cent of employees also expressed they felt their work wasn't valued by senior management. Shona has called for another senior leadership meeting in seven days' time to discuss solutions to the issues raised.

**6. Define the following terms (4 marks)**
**a. Management by objectives**

Management by objectives is a performance management strategy where specific goals are set for the business and indivduals and employees are assessed against the level of achievement of the set goals.

**b. Performance related pay**

Performance related pay is where an employee's pay is tied to the level of their performance within the business.

**7. Explain how the effective management of employees can help Taragon achieve the objective of increasing profits (2 marks)**

As the human resource manager, Jim needs to ensure he is effectively managing the employees so they have the right skills and knowledge to perform their jobs to a high level. Providing ongoing training and giving employees clear objectives to achieve can help the advertising team create high quality advertisements for their clients, which will increase the level of repeat business, leading to increased profits.

**8. Heading into the next leadership meeting, Jim is going to propose Taragon implements a motivation theory. Describe Maslow's motivation theory and explain how Jim could use this theory to motivate the employees at Taragon. (5 marks)**

Maslow's motivation theory is based on a hierarchy of human needs. There are the lower order needs of physiological and the safety needs. There are then the higher order needs of belongingness and love, self-esteem and finally self-actualisation. Maslow found that all humans have these needs and that the lower need will be a motivating factor until it is satisfied. Only when it is satisfied, will the employee be motivated by the next level in the hierarchy.

Taragon has already satisfied the lower needs of physiological and safety needs. In order to motivate the employees at Taragon, Jim would firstly need to ensure that the relationships were strong within the business. He could do this by introducing regular social gatherings to help build relationships and satisfying the belongingness level of the hierarchy. He would then need to focus on the self-esteem level. He could do this by implementing ongoing training to improve the skills and esteem of the employees. He could

also implement recognition and rewards programs to demonstrate that Taragon values the work of the employees which was seen as a concern in the latest data. This will help to satisfy the self-esteem level of Maslow's hierarchy, leading to improved motivation levels.

**9. Discuss one motivation strategy that could be implemented to reduce the amount of days off employees at Taragon are taking. (4 marks)**

Taragon could implement career advancement which is providing opportunities for employees to be promoted within the business. This will improve the motivation of employees as they will be driven to work towards a promotion within the business which will improve their self esteem and also shows that the business values the work they have been doing. This will lead to a reduction in the amount of days employees take off because they will be motivated and excited to work hard knowing that they may be promoted. It could also reduce the days taken off as employees will want to be seen as working hard so that they will be chosen for a promotion over their colleagues. However, one issue with this strategy is that it is difficult to promote everyone within the business. There are only so many promotion opportunities within Taragon, making it impossible to satisfy all the desires for promotion. This can lead to some employees missing these opportunities despite them applying and possibly interviewing for the promotion. Thus, this can lead to poor satisfaction in employees that miss the opportunities.

**10. Justify an appropriate performance management strategy that Jim could use to improve the performance of the employees at Taragon. Describe one training option that could improve the level of employee satisfaction. Explain the relationship between your chosen performance management strategy and training option. (10 marks)**

Jim should implement a performance appraisal. This is a strategy that assesses an employee's performance over a period of time and provides feedback on areas they have done well and areas they need to improve. It can also identify any training needs for the employee and helps set new goals for the future. This would be an effective strategy to improve the performance of the employees at Taragon as Jim will be able to provide feedback on a regular basis to his employees. Jim could provide feedback on how the employees deal with clients and how well they are working in the advertising team. He could also provide feedback on the effectiveness of any advertisements they created for clients. This will help the employees understand what they are doing well and the areas they need to improve. Focusing on areas for improvement will allow the employees to improve their performance.

To help improve the level of employee satisfaction, Jim could implement off-the-job training. This is the process of an employee improving their skills and knowledge away from the workplace. This is appropriate for the employees at Taragon as they may be able to complete courses that demonstrate new consumer behaviour ideas that are constantly changing in a digital environment. This will improve the level of employee satisfaction as they will be able to perform their jobs to a higher level. It also shows that the business values them as they are investing in their skills, leading to improved satisfaction. It will also help the employees take time away from the workplace to learn the new skills and knowledge which will reduce the level of workplace distractions and stress that on-the-job training can have.

There is a strong relationship between a performance appraisal and off-the-job training. The performance appraisal identifies areas an employee needs to improve, which can identify the types of training needs required to close the gap between preferred and actual performance. At Taragon, the performance appraisal may identify that some employees need to improve their design skills, and so the manager and employee can plan to implement off-the-job training. This could be a course outside the business that will teach the employee new design skills, improving their performance in this area.

**SAMPLE RESPONSES: MINI EXAM NO.3 (Unit 3 AOS 3)**

**SECTION A**
**1.  Define the following terms            (4 marks)**

**a.  Supply chain management**
Supply chain management is the flow of supplies from the supplier, through the operations system and to the end consumer.

**b.  Lean management**
Lean management is a management philosophy that aims to reduce wastage throughout all areas of the business while improving value for customers.

**2.  Explain how operations can help a business increase their market share            (3 marks)**

Operations is the area that produces the good or service for a business. This allows a business to gain market share because it produces something to be sold in the marketplace. It can help to increase market share because the area of operations can determine the quality of a product, its cost and how fast it can get to the consumer. If the operations can produce a quality product at the right cost, it provides value for money for customers. Customers will be attracted to this value and choose to purchase from the business over its competitors, leading to increased market share.

**3.  David owns a furniture manufacturing business. Evaluate two technology strategies that David could use to improve the efficiency of his operations. Justify the most appropriate strategy for David to implement.            (5 marks)**

One technology strategy is an automated production line. This is where processes are automated in sequence with very little human involvement. This can be beneficial as it can allow the business to produce their products far more efficiently as there are less wages costs. Automated production lines are often effective for mass-producing as they can produce large quantities in the same amount of time compared to other production methods, greatly improving the efficiency of the operations. However, there is a significant set up cost with automated production lines. This can put the business under financial stress and it can take a long time to make the money back from the investment.

Another technology strategy is computer aided design (CAD). CAD is where software is used to aid the creation, modification and analysis of a design. CAD can help a business improve its efficiency as it reduces the time it takes to design a product. There are fewer resources involved in the design process as modifications can easily be made without needing to build prototypes from the beginning. However, the employees need to be trained in how to use the software, which can be costly to the business. There is also a high cost to the business to purchase and subscribe to the software.

The most appropriate strategy for David is the automated production line. Although it is a significant cost, it will greatly improve his efficiency. It will also allow David to produce in large quantities of furniture, enabling him to achieve economies of scale. This will help improve the profit margins of David's furniture.

**4.  Compare quality control and total quality management            (4 marks)**
Both quality control and total quality management are strategies businesses can implement to improve the quality of a good or service. They both ensure that only the products that meet the business's desired quality make it to the end consumer. One of the key differences between the two is that quality control has a set standard that the business is aiming to achieve when producing their goods or services. However, total quality management is looking to constantly evolve and improve the quality standard. It is a moving standard that is based on continuous improvement. The role of the employees is often different between the two strategies. With quality control, the employees are often checking the quality of the product and taking corrective action where necessary. However, in total quality management, the employees are more empowered in the business to try to discover new ways of improving the quality of what is being produced.

**5.  Identify one similarity and two differences between the operations of a manufacturing business and a service business.            (3 marks)**

One similarity is that both use an operations system to produce goods or services. This operations system involves inputs, processes and outputs.

One difference is that a manufacturing businesses produce tangible outputs whereas a service business produces intangible outputs.

Another difference is that a manufacturing business can store their goods whereas services cannot be stored.

**6.  Outline one advantage and one disadvantage of a business implementing overseas manufacturing.            (2 marks)**

One advantage is that the business may be able to make use of cheaper manufacturing labour. This may enable a business to produce their product for less, reducing expenses.

A disadvantage is that if the business is to open up a new facility in another country, the costs of establishment can be high. This type of investment can place the business under financial pressure in the short to medium term.

**7.  RM & Sons is a medium-sized business that manufactures blinds and curtains. The company is owned by Roger Mason. Roger's son, Philip, is in charge operations. Philip is considering global strategies to help improve the business's operations. Roger has told Philip that he is open to any changes, but he will never approve overseas manufacturing.**

**Other than overseas manufacturing, discuss one global consideration that could improve the operations at RM & Sons.            (4 marks)**

RM & Sons could introduce global sourcing of inputs. This is where a business sources their inputs from a country other than their own. This may help RM & Sons by increasing the range of suppliers they can choose from. This could improve their operations because a particular country has higher quality fabrics for the blinds and curtains. This may help them to improve the quality of their products. Another benefit is that it could help reduce the costs of their supplies. Purchasing materials from overseas may be cheaper than purchasing from local suppliers. This may enable them to sell their curtains and blinds at a cheaper rate or help them to increase their profit margins. However, purchasing from overseas suppliers can increase the lead time. This can reduce their flexibility. Because of the extra time it will take from placing an order to receiving their supplies, it may make it difficult to increase production quickly in the case that demand for their curtains & blinds increases suddenly.

**SECTION B**
**CASE MATERIAL: Leura Sound**

Leura Sound is a music events company owned by Tiffany Parks. The company was founded 15 years ago when it began hosting small music events at Leura Gardens along the peninsula. It has grown significantly over that time and now hosts 8 major music events across the country. Last year, more than 300,000 music fans attended Leura Sounds' events. Leura Sound is unique in that it runs all operations itself without outsourcing anything. This means it runs all catering, both food and beverage at all its events. The food is produced at a different facility and delivered to each event, where it is sold. Over the past 3 events, the company has received more customer complaints than ever. The majority of the complaints have been about the quality of the food. Tiffany has called for a review of all food manufacturing processes.

**8. Describe the operations system as it would apply to Leura Sound.** **(6 marks)**

The operations system consists of inputs, processes and outputs. Inputs are the resources used in producing a good or service. Resources include raw materials, time, information, labour, along with facilities and equipment. The inputs for Leura Sound's catering side of the business would include the food supplies, labour and facilities used to produce the food.

Processes are the activities used to transform the inputs into the final output. Businesses will look to have processes that are both efficient and effective. The processes for the catering side of Leura Sound would be producing the food such as cutting, cooking and packaging the food to be transported to the music event.

The outputs are the final good or service. The quality of the outputs are a direct reflection of the quality of the inputs and processes. The output for the catering section at Leura Sound is the completed food packages that are ready to be sold at the music events.

**9. Discuss one quality strategy that Leura Sound could implement to reduce the number of customer complaints.** **(4 marks)**

Leura Sound could implement quality control. Quality control is where the products are checked at regular intervals against a set of predetermined quality standards and corrective action is taken where necessary. Leura Sound could implement this into the catering area so that the food is regularly checked against stringent quality standards. This will ensure that only the food that meets these tough standards will make it through to the customers at the music events, keeping customers happy and reducing customer complaints. Quality control helps identify errors early. This will allow any faults with the food to be rectified quickly to ensure that the customers are receiving high quality food at their concert, reducing the number of complaints. However, one issue is that performing quality checks will slow down production. This harms productivity and the business will need to account for this so they can get fresh food to the customers in a timely manner.

**10. Tiffany is confident that the food production can reduce the level of wastage currently generated during production. Explain how the principles of lean management could help reduce the level of wastage in the food production at Leura Sound** **(5 marks)**

The pull principle is where the customer demand pulls the product through the operations system. This means that customer demand determines how much the business will produce, preventing overproduction. This is an important principle for Leura Sound because they are producing a perishable item. Using the pull principle will allow Leura Sound to only produce enough food for the demand at each music event. This will reduce the amount of food that is discarded, reducing wastage.

Another principle is zero defects. This is where the business looks to reduce the amount of defects they produce. When producing their food, Leura Sound can aim to have no defects. This will mean less food product goes back through the operations system to be re-worked and less food will be thrown out, reducing wastage.

Another principle is takt. This is the speed in which the product is produced. Having a constant speed when producing the food can help reduce bottle-necks and wait times during food production. It is important that any significant speed ups or slow downs are reduced and takt can help prevent these. This ensures there is a continuous flow in production which can greatly reduce the time it takes to produce the food, reducing waste.

**11. Justify one materials management strategy Leura Sound could implement to improve efficiency** **(4 marks)**

Leura Sound can introduce just-in-time (JIT). JIT is where supplies arrive just as they are needed for production. This can reduce the need for large amounts of storage because very little stock is kept on hand and often goes straight into production. This reduces costs for Leura Sound, improving efficiency. JIT is important for Leura Sound because of the nature of the food. Food is perishable, and therefore should not be stored for long periods of time. Using the JIT strategy will ensure the food is fresh, resulting in less wastage from perished food items, improving the efficiency of Leura Sound's food production.

**12. Explain one corporate social responsibility consideration from each element of Leura Sound's operations system** **(6 marks)**

One CSR consideration from the inputs is to use local suppliers. When producing the food, Leura Sound can use local ingredients. This will help support the local economy. For the suppliers for the music events, Leura Sound can support local bands rather than only bringing in international acts. This will help benefit the local music industry.

For the processes, Leura sound can look to minimise wastage. During the production of the food, they can introduce lean management principles to reduce the amount of food waste created, minimising the impact on the environment. During the music events, they can reduce wastage by having bins for waste but also for recycling. This will allow them to reduce the amount of hard plastic and glass that will end up in landfill, helping the environment.

For the outputs, Leura could ensure that the food is of the highest quality. Having a large range of foods available for all music goers will improve their value for money. For the music event part of the business, Leura Sound could go above their legal obligations to ensure customers are safe. Providing extra shade areas and even extra security helps improve the quality of the experience for customers and keeps them safe.

**SAMPLE RESPONSES: MINI EXAM NO.4 (Unit 4 AOS 1)**

**1. Define the following terms** **(4 marks)**
**a. Business change**
Business change is a business' planned or unplanned response to both the internal and external pressures where the business transforms in some way.

**b. Organisational inertia**
Organisational inertia is the tendency of a business to continue along its current trajectory due to the unenthusiastic response to change from the people within the business.

**2. Outline the key principles of a force-field analysis and explain how Alice and Jen could use it to see if the changes are worth implementing.** **(6 marks)**

The force-field analysis is a decision-making tool that is used during times of change for a business. It was developed by Kurt Lewin and analyses the driving forces for the change and the restraining forces against the change. To determine if the changes are worth implementing, Alice and Jen would need to identify the driving and restraining forces. Driving forces are those that help the business work towards the change and restraining forces are those that work against the change. A driving force for the changes could be that they will bring in higher profits, whereas a restraining force could be the high initial cost of the changes. The next step is to analyse each force to determine how powerful it is. Jen and Alice may decide to give each a weighting out of 5 (5 being very powerful whereas one being least powerful). Once each force is analysed, Jen and Alice would need to develop an action plan. This action plan would look at how they can reduce the power of the restraining forces so the change is able to get enough momentum to allow the changes to be successful. If the driving forces outweigh the restraining forces, Alice and Jen can determine that the changes are worth investing in.

3. **Describe two possible driving forces for change at Jen's Jeans Bar.** **(4 marks)**

Driving forces are those that initiate and support a change. One driving force for Jen's Jeans Bar to make change is the pursuit of profits. Profits is the amount of money left over after expenses have been deducted from revenue. The change to remove the bar and increase the product range should attract more customers as many customers may not have wanted to shop in a bar environment. This will help push the business towards the new change.

Another driving force could be the employees. The employees are those that work for the business in exchange for a wage. Currently the employees are concerned about their job security as Jen is considering closing the store. The new changes are looking to give the company a chance to survive and possibly thrive. The employees are likely excited about these changes as it helps provide them with some form of job security into the future.

4. **Outline two possible restraining forces against the proposed changes at Jen's Jeans Bar.** **(4 marks)**

Restraining forces are those that work against the change and are in favour of the business staying in its current state. A restraining force is the financial considerations. This is considering the expenses incurred during the implementation of the change. The costs of implementing the changes at Jen's Jeans Bar are expensive. Implementing a new inventory control system, along with purchasing new stock for the new clothing range will be costly which can make it difficult to implement successfully because despite the new investment, the business does not have lots of disposable income.

Another restraining force is time. This is where the business is under time pressure to implement the changes. Jen's Jeans Bar is under time pressure to implement these changes because they are already losing money. While the investment from Alice will help maintain things in the short term, the company cannot afford to take a long time to implement these changes or they are likely to run out of money. This time pressure can work against the changes, as it can make it difficult to implement the changes effectively.

5. **Describe three of the key performance indicators that could be used to determine if the changes were successful** **(6 marks)**

One key performance indicator is number of sales. Number of sales is the amount of products sold over a specified period of time. Alice and Jen would need to monitor the number of sales over time. For the changes to be successful, the number of sales would be increasing. If the sales were the same or even dropped it would show the changes have been unsuccessful as it shows that customers are not attracted to the new retail concept.

Another KPI is the net profit figures. Net profit is the amount of money left over after expenses have been deducted from revenues. One of the primary objectives of the business is to make a profit. With net profit at -$12,000 last year, it is important that the business can turn a profit or it will likely need to close. If the business can begin making profits higher than it has in previous years, it shows that the decision to remove the bar and implement the new inventory and inventory tracking system have been successful. However if profits remain low, it will show that the changes have not had a positive impact on the business.

Another key performance indicator is the number of customer complaints. The number of customer complaints is the amount of customers that are dissatisfied with the business and/or its products and have officially expressed their concerns to the business. To measure the success of the changes, Jens Jean's Bar would need to determine if customers are happy with the alterations to the business. If the number of customer complaints has dropped, it shows that the customers are preferring the changes and are not concerned with the removal of the bar from the store.

6. **Jen and Alice are discussing how they can gain a sustainable competitive advantage so the business can make a significant profit. They are debating using one of Porter's generic strategies. Evaluate the 'lower cost' and 'differentiation' strategies as they would apply to Jen's Jeans Bar. Recommend which key approach would be appropriate for Jen's Jeans Bar and justify your recommendation.** **(6 marks)**

Michael Porter's theory states that there are two generic strategies in which a business can gain a competitive advantage. The first is for the lower cost strategy (also known as cost advantage). The lower cost strategy is where a business aims to be the low cost producer in its industry. Jen's Jeans Bar can then gain a competitive advantage by lowering their prices in the market and being more attractive to price sensitive consumers helping the business to increase sales. However, if the business continues to lower costs by purchasing cheaper inventory it could harm the quality of the clothing that Jen's Jeans Bar is selling.

The other way to gain a competitive advantage is through differentiation. Differentiation is where the business will gain a competitive advantage by offering something unique that is valued by its customers. The business is rewarded by being able to charge a premium price for the product. Jen's Jeans Bar might be able to offer a wide range of clothing brands or offer customer service that is unrivalled in the area. This can help the business stand out from competitors, helping them attract more customers and being rewarded by charging a premium price for their clothes. However, charging a premium price can limit the market they can sell to, as some customers will not be able to afford the higher price point.

Jen's Jeans Bar should implement the differentiation strategy. By offering high quality brands in their store, they will be able to attract more customers as they will become the 'store to go to' for designer brands. This will help them gain a sustainable competitive advantage, leading to improved profits. They will then be able to charge a premium price for their clothing, which may help them increase their profit margins.

7. **Analyse the driving forces and restraining forces that have caused change in a business you have studied this year.** **(10 marks)**

Change refers to the alteration to a business' workplace or environment due to pressures from the internal or external environments. A business I studied this year was Netflix. Netflix is a video streaming service that has recently entered the Australian market. Not only has it expanded into new markets, but one of the major changes it has implemented is the blocking of virtual private networks (VPN) for its customers. This prevents its Australian customers from accessing its content libraries from other countries. This has had a major impact on many customers as the Australian content library is relatively small compared to the US.

A driving force is one that initiates or supports a change from occurring. One driving force in the case of Netflix was its suppliers. Suppliers are those businesses that provide inputs for the business. In this case the TV and movie production companies that supply the content for Netflix put pressure on Netflix to stop Australian customers accessing their content as it was contracted to other networks such as Foxtel or Showtime. This placed pressure on Netflix to change, because if they didn't it would make negotiations for future contracts more difficult. Another driving force was management. Management are people that make decisions within a business and can support change if they can manage it well. Management at Netflix was supportive of these changes because it saw the potential conflicts that could arise with Netflix suppliers if changes were not implemented. Management was able to support the technology department by allowing the department access to the key resources it would need to implement the changes.

Restraining forces are those that work against a change from occurring and are in favour of the status quo or current state. One driving force is customers. Customers are those that purchase goods and/or services from the business. In the case of Netflix, customers were a major restraining force for the changes. Customers can place pressure on a business to not implement changes, which is what happened at Netflix. When Netflix announced it would be

implementing these changes to prevent customers from accessing overseas content, the customers told Netflix they would leave and purchase their content elsewhere. This made it difficult to implement the changes because Netflix was only new to the Australian market and was in the early stages of building market share. Another restraining force was shareholders. Shareholders are those that own a share in the company and want a return on their investment. Shareholders can place pressure on a business because of their desire to increase profits. The shareholders were not keen to see the business lose customers as a result of the new changes.

It is important for Netflix to be aware of the driving and restraining forces so the managers can work on increasing the driving forces and reducing the restraining forces. Netflix is working hard to keep its content suppliers happy while still satisfying the needs and wants of customers. For this change to be a success, Netflix must ensure that it decreases the restraining forces by satisfying customers and increases the driving forces.

**SAMPLE RESPONSES: MINI EXAM NO.5 (Unit 4 AOS 2)**

**SECTION A**

**1. Define 'empowerment'. (2 marks)**

Empowerment is a low-risk strategy for reducing employee resistance where employees are given an amount of autonomy and responsibility for decision-making within a business during times of change.

**2. Explain how the principles of the learning organisation can help a business to implement change successfully. (4 marks)**

The concept of the learning organisation states that there are five disciplines that if implemented, will create an environment where individuals are encouraged to learn and the business looks to constantly transform itself for the better. The five disciplines are personal mastery, shared vision, mental models, team learning and systems thinking. Creating this environment can help implement change successfully because the employees are constantly looking to drive change. For example, shared vision is where the business develops a long-term goal that everyone in the business believes in. This can help implement change successfully because the changes will be aligned with the vision. Because employees believe in the vision they will be more accepting of the changes, creating commitment towards the new changes.

Another principle is mental models. Mental models are the deeply ingrained assumptions and beliefs that people have. Senge states that individuals should look to understand their mental models and challenge how they believe things work. This can help them become more understanding of any change that is being implemented because they will be more open minded about the change and therefore more supportive. This can lead to a successful change process.

**3. Justify one strategy that Link Group could implement to seek new business opportunities globally. (4 marks)**

One strategy is to open up a new location in another country. This is where the business actually sets up an office in a country such as Japan. This will help Link Group establish a physical footprint in a foreign country, helping them gain new customers. By having a physical office, it will allow Link Group to market their services to the people in the new country. This will build trust with the new clients as they will be more comfortable discussing their finances with real people they can communicate with face to face than they would be on a website. This will help Link Group seek new customers and will help them to grow their business.

**4. Distinguish between manipulation and threats. (3 marks)**

Threats are where the manager forces employees to embrace the change or face negative consequences. Whereas manipulation is where the manager is more discreet by convincing employees the change is positive by providing a selective use of facts. The main difference is that threats are upfront about the change but more threatening to the employees. Whereas manipulation is not as upfront about the change because the employees are not fully aware of the changes that will occur.

**5. Below is recent key performance indicator data from shampoo manufacturer Fruitier.**

| Key Performance Indicator | Previous Year | Current Year |
| --- | --- | --- |
| Level of wastage | 6% | 14% |
| Net profit | 128,000 | -$15,000 |
| Staff turnover | 5% | 25% |

**Describe strategies that will respond to the above key performance indicator data. Explain one corporate social responsibility consideration for Fruitier when implementing each of your chosen strategies. (10 marks)**

To overcome the rise in wastage, Fruitier can implement lean production. This is where the business looks to reduce the amount of wastage generated throughout the business while maintaining or improving customer value. Fruitier could do this by implementing the pull principle, where the customer pulls the product through the operations system. This means that Fruitier will only produce the amount of shampoo that is demanded by customers. This prevents over producing the shampoo and therefore reduces wastage as less shampoo will be discarded. When implementing lean management, businesses need to consider the impact it will have on employees. Lean production can sometimes reduce the amount of workers in the business when they look to reduce areas of inefficiency. Fruitier would need to try to maintain high levels of employment when implementing lean production.

To overcome the significant drop in net profit, Fruitier could look to introduce cost cutting. This is where the business looks to reduce their expenses. Fruitier could do this by sourcing cheaper materials from new suppliers. This will help to reduce the production costs when producing the shampoo, leading to improved profits. One CSR consideration with implementing cost cutting is with the suppliers they select. Fruitier would need to consider using local suppliers to help support the local economy and local employment. Fruitier may be able to find a cheaper supplier overseas, but this would impact on the local economy, so they would need to consider finding a cheaper supplier in Australia.

To overcome the rise in staff turnover, Fruiter could implement ongoing training. This could help to motivate the employees as it will help them improve their skills. This will enable them to perform their jobs at a higher level, which can improve job satisfaction and motivation. Employees that are motivated are more likely to stay at the business, reducing staff turnover. One CSR consideration is the availability of ongoing training for all employees. Fruitier would need to ensure that all employees had access to ongoing training, not just a select few. While this comes as a large cost to the business, it shows the employees that all have the opportunity to enhance their skills and are valued by the business.

## SECTION B

**6. Evaluate two of the strategies up for consideration. Recommend and justify the most appropriate strategy for Wilma to implement.** **(6 marks)**

Cost cutting will allow Vue to reduce their expenses and minimise their losses quickly. Running one factory compared to three factories will have a significant impact on profits over the long term. This will help improve the financial position of Vue and help reduce the losses they have been receiving. However, one issue is that some customers may be disappointed with the reduced product range. It could also have an impact on the space at the one factory where all continued product lines will need to be manufactured in the one location.

Developing an online presence will help Vue increase their sales. With more demand for online sales, Vue will be able to take advantage of a customer trend and improve the access that customers have to the products they manufacture. This may lead to increased sales and help increase profits over the long term. However developing and maintaining a website can be expensive. Vue would need to hire more employees to help manage the sales and distribution for the TVs and sound systems they sold. This would be an added cost to them, which they likely cannot afford at this stage with such hefty financial losses over the past two years.

The most appropriate strategy for Wilma to implement is cost cutting. While some customers may be disappointed, it will allow Vue to focus on the products that are most popular. There may be some rising costs in the short term to close the factories, but minimising the costs in the long term will help Vue improve their profits and enable them to survive in the future. Once making a profit, they may be able to invest in other strategies.

**7. Define leadership and explain why leadership would be important when implementing your recommended strategy from Question 6.** **(3 marks)**

Leadership is the ability of a manager to motivate and inspire employees to achieve business objectives. Change can cause uncertainty for employees where they are more concerned with themselves than the overall business objectives. Good leadership is important when implementing the cost cutting. Wilma will need to communicate effectively with employees and be transparent about the two factory closures will have. Without the clear communication, the employees will be unaware of the impact the closures will have on them. This will cause anxiety and rumours throughout the business, making it difficult to implement the changes successfully. Having clear communication will prevent this from occurring, as all employees will be clear about the impact on them. Wilma will need to support employees this time to help inspire them towards the new vision. Some employees may become redundant and Wilma can support these employees by helping them find other employment. Others may be given the opportunity to be redeployed, and Wilma will need to support these employees and motivate them about the great opportunities that are ahead for them in their new setting. This strong leadership will help the closures be implemented successfully.

**8. Wilma is concerned with resistance from employees if she was to implement the investment of technology. Discuss one low risk strategy that Wilma could use to overcome any employee resistance.** **(4 marks)**

Wilma can use empowerment. Empowerment is where employees are given an amount of autonomy and responsibility for decision-making within a business during times of change. Wilma can include the employees in the decision making about how best to implement the new website and how to set up the infrastructure to enable sales to occur. Wilma could set a team of people a challenge to implement the change successfully. This type of empowerment and responsibility will help get the employees on board with the change, because they will be excited to take on the challenge. While Wilma may lose some control over the project and how it is implemented, it will help reduce any resistance from these employees. Another drawback is that it will be difficult to empower all employees when implementing the change. Including all employees in all decisions

around the change can be difficult to implement, which could result in some dissatisfaction from some employees.

**9. Explain how Wilma could use Lewin's change model to implement the proposed changes.** **(6 marks)**

Kurt Lewin developed a model for effective change and is a three step model. The first step in the process is unfreezing. This is creating a need for change and creating urgency towards the change. Wilma needs to communicate the changes to the employees and work to overcome resistance to the change. They need to make sure everything is in place and ready for the strategy she is going to implement. Clear communication should be used to ensure everyone is clear. Wilma could also demonstrate the benefits of the changes (e.g. the new online presence) so that employees will get excited and enthusiastic about the changes.

The next step is to implement the changes. Successful change requires clear goals to be set and it is important that all stakeholders are clear on what the goals will be. Wilma needs to be able to ensure there are enough resources available to implement the changes. For example, if she decides to implement the new technology, she would need to ensure there are enough funds and coding expertise to develop the website. She would also need to provide time for employees to help implement the changes. If any resistance to the changes occur, Wilma will need to act swiftly to overcome the resistance.

The final stage is refreezing. This is ensuring that the changes are reinforced into the culture of the business so that it remains for the long term. Training and support will need to continue with the new website so employees have the skills to continue the changes. If they do develop a website, the will need to constantly update it and keep up to date with the latest website technology. Constant reinforcement to employees that they are both a manufacturing business and an online retailer will help embed the change into the culture. If any issues arise with the new technology, Wilma will need to take corrective action.

**10. Explain why it would be important for Wilma to review key performance indicators after implementing one of the strategies. In your response refer to one key performance indicator that should be reviewed.** **(3 marks)**

If Wilma was to implement the quality strategy, it would be important for her to measure the number of customer complaints. Improving quality of the products is aimed to improve the level of customer satisfaction to try and attract new customers. It would be important to monitor this KPI and compare it to the number of customer complaints before the strategy was implemented. This is important to see if the quality strategy has been successful. Without reviewing this KPI, Wilma will not know if they investment was worth it.

# BONUS EXAMINATION

**[Answers are downloadable from www.commpap.com]**

## SECTION A (50 MARKS)
### Question 1
James Wolf began his graphic design business with his partner Sally Moloney eight years ago. The business is called J&S Design and was built on a culture where relationships are highly valued. The business has gone through rapid growth over the past three years and now employs 35 people. James and Sally have grown the business by purchasing two small graphic design businesses. Since the acquisitions, Sally has noticed more conflict between many of the employees, especially the designers, which has resulted in a high level of staff absenteeism. The number of complaints from clients has increased significantly and some larger clients are threatening to take their business elsewhere.

a. Define staff absenteeism. (1 mark)
b. Discuss an appropriate management style James could use to overcome the rise in customer complaints. (4 marks)
c. Distinguish between real and official corporate culture. In your answer, make reference to J&S Design. (3 marks)
d. James is looking to improve the motivation of his staff. Describe the Four Drive Theory and explain how James could use it to improve the motivation of his employees and reduce staff absenteeism. (4 marks)
e. With the rapid growth of the business, James and Sally are undecided if they should maintain a partnership model or move to a private limited company. Evaluate these two types of businesses. Make a recommendation on which type of business James & Sally should use and justify your choice. (5 marks)

### Question 2
Thread It is a clothing brand that specialises in women's fashion. It has 26 retail stores across Victoria, New South Wales and South Australia and owns a manufacturing facility located overseas. Due to an ongoing decline in sales, CEO Ms Jean has called in an independent reviewer to evaluate the company's processes. The review came back with the following findings:

- Poor inventory management, where the business now has approximately three years' worth of idle stock
- Customers are leaving stores without purchasing due to lack of sizes available in desired products
- Many staff are slow to assist customers and are often rude when dealing with customers
- Costs involved in the supply chain are high resulting in profit margins on most items being far less than global competitors

a. Describe two materials management strategies that Thread It could use to improve its inventory management. (4 marks)
b. Explain how manufacturing businesses such as Thread It can use 'lean management' to improve their efficiency. (3 marks)
c. Describe Porter's Generic Strategies and explain how Thread It could use this concept to gain a competitive advantage. (4 marks)

### Question 3
Spick & Span Cleaning Services is a private company that offers commercial cleaning services to organisations throughout Melbourne & Sydney. The company was founded in 1996 and now has 40 employees. While the commercial cleaning industry is growing, there has been increased competition in the market and

Spick & Span has found it difficult to develop new business opportunities. Spick & Span has also found it difficult to retain its employees as larger businesses are offering higher wages than the industry award. General Manager, Victor Lopez, has put it to the shareholders that they implement a collective agreement to help the business improve its employee retention. Below is the recent key performance data for the past 12 months.

|  | Previous year | Current year |
| --- | --- | --- |
| Revenue | $4.4 million | $4.2 million |
| Net profit | $400,000 | $320,000 |
| Market share | 6% | 5.9% |
| Staff turnover | 12% | 13% |

a. Discuss two strategies Spick & Span Cleaning Services can use to seek new business opportunities domestically. Recommend which strategy you believe Spick & Span should use and justify your choice. (8 marks)
b. Distinguish between industry awards and enterprise agreements as a way of determining wages and conditions of employment at Spick & Span Cleaning Services. (4 marks)

### Question 4
Analyse the impact that change can have on stakeholders of a business you have studied this year. Discuss the use of a high risk strategy or a low risk strategy when managing this impact. (10 marks)

## SECTION B (25 MARKS)
East West Bank (EWB) has been involved in the banking sector since 1995. EWB currently has 3.2 per cent market share. While this market share has steadily grown over the past 5 years, EWB has found it difficult to compete with the big four banks in Australia and profits have slumped in recent times.

CEO Mark Genua has recently announced that there will be a restructure and a large investment into the technology side of the business. Mr Genua announced there will be a $300 million investment to automate the systems of the business. This will allow many of the processes such as money transfers and customer credit analysis to be automated. "This will greatly improve our productivity growth and enable us to be the first bank that has same day money transfers," Mr Genua said. "Unfortunately, this will result in job losses of 1200 in certain areas of the business. However, we feel this will give us a competitive advantage and allow us to attract new customers."

### Question 1
Define rate of productivity growth (1 mark)
### Question 2
Explain the effect the changes at EWB will one two stakeholders (4 marks)
### Question 3
Describe Lewin's change model and explain how EWB could implement this model (6 marks)
### Question 4
Justify two management skills that Mr Genua will need during this situation (4 marks)
### Question 5
Distinguish between the operations of a service business like EWB and a manufacturing business you have studied this year (4 marks)
### Question 6
Outline one termination method that is appropriate for EWB in this scenario (2 marks)
### Question 7
Explain one driving force and one restraining force that is impacting EWB (4 marks)

**Question 1**
**Outline one reason why a business may choose to operate as a private limited company rather than a sole trader.**
**2 marks**

**Sample answer 1**
*One reason clearly identified*

One reason is because a private limited company would allow the owner to have limited liability whereas the sole trader has unlimited liability. Limited liability is where the owner's liability is limited by the amount of their investment. This would give them some legal protection for their personal assets which they would not receive if they were a sole trader.

**Sample answer 2**
*Expanding on the one reason*

A private limited company is an incorporated business where the owner has limited liability. A sole trader is a business where there is one owner. A business may choose to become a private limited company because it gives the owner limited liability and they are allowed to have more than one owner. This will allow them to gather investment from others and possibly even share the workload between the owners which will make the daily running of the business much easier.

*Two reasons identified*

*Expanding on the 2nd reason*

**Analysis [Sample 1 full marks]**
Sample 1 gives a clear and concise reason as to why a business may decide to operate as a private limited company rather than a sole trader. Stating the reason (limited liability) is where the students receives the first mark. The second mark is for the expansion where it talks about protection of personal assets. While everything the student writes in sample 2 is correct, it cannot receive full marks. The reason is that it firstly states one clear reason (limited liability) but then goes on to outline a second reason. There is no expansion on the limited liability. While the second reason addressed is fine to use and is even expanded on, it is not taken into consideration because the question only asks for one reason. In these situations, the students first reason is the only one that is considered.

**Question 2**
**Explain the interests of two stakeholders at Sleep Well Doggy and outline how these interests may conflict**
**5 marks**

**Sample answer 1**
*Shareholders not accepted for a partnership*

A stakeholder is a person with a vested interest in the business. One stakeholder of Sleep Well Doggy are the shareholders (Jane, Alex & Martin). Shareholders are those that own the shares in a business for which they have paid. They have unlimited liability which means they are personally responsible for any debts incurred by the business which can place their personal assets at risk if the business is unable to pay its liabilities.
Another stakeholder is the customers. Customers are those that purchase goods and services from the business. In the scenario of Sleep Well Doggy, the customers are those that bring their dogs into the business to look after.
These two stakeholders can conflict because the customers want to bring the prices down for the service, but the shareholders want to force the price up.

*Description, but no explanation of their interests*

**Sample answer 2**
*Interests explained*

One stakeholder is the owners (Jane, Alex and Miriam). The owners are the ones that have invested their money into the business and expect to make a return on their investment. They expect the business to make profits so they can share in these profits.
Another stakeholder is the twenty employees that work for Sleep Well Doggy. Employees are those that work for the business in exchange for a wage. The employees are interested in receiving fair pay, good working conditions and ongoing employment.
These two stakeholders can conflict because if the employees demand higher wages or improved working conditions, it can increase the costs of the business. This may result in less profits for the business which conflicts with the interest of the owners who want higher profits.

*Conflict clearly addressed*

**Analysis [Sample 2 full marks]**
There are a few issues with sample 1 that need to be addressed because they are quite common. Firstly, there is no need to define what a stakeholder is. You don't lose marks for doing this, but it doesn't get you any marks because it doesn't address what the question is asking.
The next issue is a major one because the response addresses shareholders as one of the stakeholders, however the case material clearly states that the business is a partnership, not a company. Companies are owned by shareholders, not partners. Each stakeholder is worth 2 marks and shareholders are not accepted. The second response refers to "owners" which is much more appropriate in this situation.
The first response then addresses the customers which is an acceptable stakeholder to use. The issue is that while the response outlines what a customer is, it doesn't really address the interest of the customers. Unfortunately this deems this part of the response weak.

Finally, the conflict in sample 1 is weak at best. While it is on the right track, to simply say that shareholders want prices to go up, is not entirely accurate.

The second response is not as long as the first response, but it addresses the question clearly. It demonstrates a clear understanding of each stakeholder and their interest in Sleep Well Doggy. Each interest is clear which allows it to receive 4 marks for this section. Finally the conflict is clearly stated and is an acceptable conflict and therefore receives the mark for this section (4 + 1 = Full marks!)

## Question 3
**Explain two skills that Jenny will require during the closure of the Perth facility** 4 marks

*Application to how Jenny would use the skill during the closure*

**Sample answer 1**
One skill is communication which is the transfer of information from a sender to receiver with the ability to listen to feedback. Communication can be one-way or two-way. Jenny will need use communication with the employees in the Perth factory as they will likely be losing their jobs. Jenny will need to be clear in when the closure will take place and any support that is available to the employees as they look for new employment opportunities.

*Explanations worth 1 mark each*

Jenny will also need to use planning, which is the ability of a manager to set objectives and detail the ways to achieve them. In terms of the closure of the Perth factory, Jenny would be involved in both short-term and medium-term planning. This type of planning will be important for Jenny to set deadlines as to when the Perth closure will take place. She will then need to implement a plan on how to close the factory in a timely manner. Jenny would also need to set out a plan on how the business will be able to consolidate the manufacturing of all the business's cereals into only two factories.

*Applied specifically to case material*

*No explanation for communication*

**Sample answer 2**
Jenny could use two-way communication with her employees from the Perth factory. This will allow Jenny to not only provide the information about the closure of the Perth factory to employees, but it will also allow Jenny to listen to the concerns of the employees. This will help demonstrate that Jenny values the employees despite the closure of the factory.

*Applied specifically to case material*

Jenny will also need to use delegation. Delegation is where the manager hands over authority of tasks to an employee. Jenny can delegate many of her normal daily tasks to another senior manager to allow her to focus on the closure. This will give Jenny the time she needs to support staff and manage the closure of the factory without being interrupted with her normal tasks. This will help the factory close successfully.

### Analysis [Sample 1 full marks]
The first thing to note here is that there is no explanation of communication in sample answer 2. This is a simple mistake in this response. The application for communication is OK and worthy of the one mark because it has been applied specifically to the case study. Surprisingly, the response does give a brief explanation of the second skill, delegation. Time pressure during a SAC or an exam can sometimes bring about these simple mistakes. Be sure to tick every box and complete every task that the question ask you to complete. There could be some argument around how much information needs to be provided for an explanation. In sample two there are only definitions provided. These could still be accepted because the explanations are only worth 1 mark each. You will notice that more information is provided in sample 1 with each skill, but this isn't entirely necessary in this case, but does show that the student is clearly explaining rather than simply defining.

The application for each skill in both responses is targeted well to the case material. This is important in a question such as this. The question clearly asks about the CEO, Jenny, and the closure of the Perth facility. Responses around how the skill is used needs to address this concept.

## Question 4
**Justify an appropriate management style that Mindy could use to overcome the rise in customer complaints at the company** 4 marks

*Sound description*

**Sample answer 1**
Mindy should use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the final decision themselves. This style is characterised by two-way communication and centralised decision-making. The employees at Mindy's Curtains & Blinds (MCB) are highly skilled and knowledgeable which would provide a great opportunity for Mindy to seek feedback from them. These employees may have information on why the customer complaints have been rising and may even come up with new ideas on how to overcome them. This would allow Mindy to make a more informed decision as she will have the required details. With the employees making suggestions on how to overcome the customer complaints, Mindy will receive a larger pool of ideas which will help her make a stronger decision, helping MCB overcome the rise in customer complaints.

*Strong application*

**Sample answer 2**

Mindy could use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the decision themselves. This is characterised by two-way communication and centralised decision-making. The consultative style will help Mindy because it uses two-way communication. This allows employees to put forward their ideas which makes them feel more valued. Using two-way communication encourages teamwork amongst the employees which improves morale and will help build a strong culture at Mindy's Curtains & Blinds.

One issue with the consultative style is that it is more time consuming to seek feedback from all employees. Despite this drawback, the consultative style will help Mindy as she will be able to gather a larger pool of ideas which can help her make a more informed decision.

*Theory is OK, but far too general. Not enough about the customer complaints*

**Analysis [Sample 1 Full Marks]**

Both responses use a consultative management style and they both start off by describing the style. This helps obtain marks early and shows that the student knows some theory regarding the style. The major difference between these two responses is with the application. While there is nothing incorrect with sample 2, it is far too general and it doesn't address the rise in customer complaints. While theory is part of what you need to know for the examination, you need to be able to apply the theory to various situations.

## Question 5

**Many businesses are committed to environmentally sustainable practices as they look to be good corporate citizens.**
**Identify one area of management responsibility and explain how this area can help a business deliver in its commitment to environmentally sustainable.** **3 marks**

*Not an area of management responsibility*

**Sample answer 1**

One area of responsibility is corporate social responsibility. Corporate social responsibility is a business's commitment to go above and beyond their legal obligations to operate in an economically, socially and environmentally sustainable manner. A business that implements corporate social responsibility will go above and beyond their legal obligations to find new environmentally sustainable practices. This may occur by bringing in materials that are environmentally friendly or using renewable energy such as solar power to power the business's facilities. This will help them deliver in their commitment to be environmentally sustainable.

*Identified acceptable area*  *Explaining how*

**Sample answer 2**

An area of responsibility is the finance area. Finance is the area that manages the money and the budgets within the business. The finance manager will need to set budgets for the business that allow it to purchase environmentally sustainable equipment. For example, if the business is looking to implement solar power to provide energy to the facility, the finance manager needs to allocate funds to enable this to be purchased and installed, allowing the business to deliver in their commitment to environmental sustainability.

**Analysis [Sample 2 Full Marks]**

This one should be very simple to answer, but student responses over the years highlight a very common issue. Corporate social responsibility is not a specified area of management responsibility in the study design. Students are able to use areas of management responsibility other than those listed in the study design, but CSR is not an area or management responsibility and students should avoid using CSR in this context. It is advisable to use the areas of management responsibility listed in the study design when responding to a question such as this.

## Question 6

**Identify two strategies to develop corporate culture and describe how Frank could use these to develop his desired corporate culture** **6 marks**

*Describes the strategies. Not necessary*

**Sample answer 1**

One strategy that Frank could use is training in line with the desired culture. Training is the process of improving the skills and knowledge of individuals so they can perform their job to a higher level. Training can come in two main forms, on-the-job and off-the-job. It would be best for Frank to use on-the-job training, where he trains his staff in the workplace. Frank would implement customer service training and collaboration exercises to ensure the employees had these skills. Another strategy would be to use communication to communicate the desired values of the personal training studio. Communication is the ability to transfer information from sender to receiver and the ability to listen to feedback. Frank could use communication to communicate the desired values of customer service and collaboration to his employees to ensure they are aware of the expectations when working in the business.

*Hinting at why, but not clear enough*

*Clearly describes how each strategy will develop the culture*

**Sample answer 2**

One strategy is to develop a set of core values. Frank could work with his team to write up a core value statement that clearly outlines the values that Frank wants displayed in the business. This value statement would include exceptional customer service and collaboration, along with any other values the employees believe to be vital to the business. By involving employees in the process, it will help get buy-in from them which will help them work towards developing these behaviours. It also ensures that all employees are aware of the desired values which helps ensure they demonstrate these values in their work.

Another strategy is to train employees in line with the desired culture. Frank can train his staff in the core values that he wants displayed in the business. This would include customer service training so that employees develop the skills to deliver exceptional customer service. Providing employees with the skills they require to carry out the desired values, helps develop Franks desired culture. This also helps to reinforce the values that Frank desires which will help develop the behaviours that he wants displayed in his studio.

**Analysis [Sample 2 Full Marks]**

Do you need to describe the strategies here? While it is OK to do so, it is not required. The question uses the term 'describe' but it asks students to "describe how…" This means you need to make it clear how the strategies will develop the culture at Frank's personal training studio. While it is ok to describe the strategies in the way that sample 1 has done, you don't receive any marks for this because it is not a requirement of the question. Sample 1 hints at how each strategy will develop the culture, but does not do so in any depth or clarity to obtain the two marks allocated to each description. Take away the description of the strategies and there isn't much left. Sample 2 does not describe the strategies, but it describes how the strategies will develop the culture at Frank's studio. Hence it receives full marks.

# Unit 3 AOS2

**Question 1**

**Outline one form of training that management could consider to ensure that employees have the required skills.**                                                          **2 marks**

**Sample answer 1**

One form of training is on-the-job training. On-the-job training is where the employee learns while they are at work performing their job. The employee is often trained by an experience team member of the business. On-the-job training ensures employees have the required skills as they are learning from an experienced team member who will show them how to perform tasks. The employee also gets to practice the new skills while they are performing their job which can enhance the employee's skills that are required to perform in their job.

*Form of training is outlined*

*On-the-job training is referred to employees having the required skills*

**Sample answer 2**

One form of training is on-the-job training. This is an important type of training because the employee is able to perform their job while they are being trained while helps improve the business remain productive. The employee can be taught by an external trainer or an experience team member of the business.

*Form of training is identified but not outlined. No reference to ensuring employees have the required skills*

**Analysis [Sample 1 full marks]**

Sample 2 does not address the question. While the response identifies a legitimate form of training (on-the-job training) it does not outline what it is. You could argue that the second and third sentences are somehow outlining the form of training. However, it could also be seen as the student simply stating the benefits. Notice that Sample 1 is superior in that immediately after identifying the form of training, it outlines what is meant by on-the-job training. Secondly, Sample 2 does not address the end part of the question. The question asks students to address the form of training which ensures that employees have the required skills. Sample 1 clearly does this.

**Question 2**
**Explain, with reference to Maslow's hierarchy of needs, why the high salaries at Future do not appear to be motivating staff.**                                                    **4 marks**

*Strong description of Maslow's theory*

**Sample answer 1**
Maslow's theory is based on a hierarchy of five human needs that include the low level needs of physiological and safety, as well as the higher level needs of social, self-esteem and self-actualisation. Maslow stated that employees will be motivated by the lower need until it has been satisfied. Once the need has been satisfied, the employee will be motivated by the next level in the hierarchy. Future are currently giving employees high salaries which is only satisfying the physiological level in Maslow's hierarchy. Because this level is being satisfied, it is no longer a motivating factor for the employees. The employees will now be motivated by a higher level in the hierarchy such as safety or social. In order to motivate employees, Future need to implement strategies that will satisfy these higher levels of Maslow's hierarchy. For example, Future could provide ongoing contracts and implement social gatherings to satisfy the safety needs and then the belongingness & love needs.

*Good depth provided on why employees aren't motivated by the high salaries.*

*Brief outline of Maslow's theory.*

**Sample answer 2**
Maslow's theory is based on a hierarchy of five human needs that include the lower level needs of physiological and safety, as well as the higher level needs of social, self-esteem and self-actualisation. The managers at Future need to ensure they are satisfying each of the levels in the hierarchy and pay is already being satisfied. There will be employees on different levels of the hierarchy which is why employees are not motivated.

*Brief mention of the salaries being satisfied. This needs to be explored in more depth.*

**Analysis [Sample 1 full marks]**
Notice the difference between the descriptions of Maslow's theory. The first answer simply states what Maslow's theory is, which the second answer states what it is but also how it works. This concept helps you write strong descriptions for the motivation theories list in this course. Although this question did not necessarily require you to give a strong description of Maslow's theory, many of the best students still did so and it help compliment their application on why the employees at Future are not motivated. They key issue with the first answer is that it is not applied well. While it gives brief mention of the pay already being satisfied, it must be explored further. The stronger answer uses the strong description to help demonstrate clearly why the employees are not motivated despite having high salaries.

**Question 3**
DK is a jewellery manufacturer in Melbourne. The business employs 80 workers and uses the industry award to determine the wages and conditions for its employees.
**Explain the role of the human resource manager and the union at DK.**                                **4 marks**

*All of the content is about negotiating wages and conditions. However, the employees are on the award and therefore no negotiation is allowed.*

**Sample answer 1**
The human resource manager will represent the employer during negotiations around a new wage agreement. The HRM will take into consideration the wants of the employees to try and negotiate a deal that is beneficial for both the employees and DK. Once an agreement has been approved by the Fair Work Commission, the HRM would then need to ensure the wages and conditions are implemented in a timely manner.
The role of the union is to represent the employees when it comes to industrial relations issues. They will try and fight for higher wages in a negotiation to get the best deal possible for employees. If the union is not happy with how negotiations are going, they may decide to take industrial action such as a strike. They would need to ensure that they apply to the FWC to get the action approved to avoid any litigation.

*Shows an understanding that the employees are on the industry award. Specific to the short case study.*

**Sample answer 2**
The role of the human resource manager is to manage the relationship between the employees and DK. Because DK uses the industry award, the human resource manager will be involved in ensuring that employees receive all of their entitlements stipulated in the industry award. If a dispute arises between the workers, the human resource manager would be involved in helping resolve the dispute. The HRM would follow the steps outlined in the grievance procedure to ensure that the dispute is resolved in a fair manner.
The union's role is to represent the workers at DK to offer any advice or representation if required. If the DK workers believe the business is not providing any of the entitlements stipulated in the industry award, they can ask the union for their advice or to represent them, ensuring the matter is resolved. The union can also be called upon by their members to place pressure on DK to offer an enterprise agreement in a fight for higher wages or improved working conditions. The union will also represent the employees if they are ever involved in a dispute with DK.

*About roles other than negotiating agreements because the employees are on the industry award*

**Analysis [Sample 2 full marks]**

All of the information in sample 1 is correct in that it outlines the roles of both the HRM and the Unions. However, it has not taken into consideration that DK uses the industry award to determine the wages and working conditions for its employees. Because they use the award, neither the HRM nor union will be involved in any negotiation about the wages or conditions. The award is set by the FWC and therefore negotiation at enterprise level does not occur.

In sample 2, the response is focused on other roles apart from the negotiation of wages and conditions. This response does recognise that DK uses the industry award to determine wages and conditions and therefore avoids the common mistake of mentioning negotiation. It brings other roles such as dispute resolution or ensuring that all entitlements stipulated in the award are being provided to employees. It is common for students to make the mistakes in sample 1. So much time is spent on remembering the roles of all the participants. However, it is those that can comprehend the case material and provide responses that apply well that give themselves the best chance for success.

**Question 4**
**Distinguish between arbitration and mediation.** **3 marks**

**Sample answer 1**

Mediation is where an independent third party helps two disputing parties come to an agreement by making suggestions on how to best resolve the conflict. While the mediator helps resolve the conflict, the final decision is made between the two disputing parties themselves. Whereas arbitration is where an independent third party listens to each side and makes a final decision about the dispute. One difference is that mediation is less formal than arbitration.

*Outlined conciliation rather than mediation*

*Difference is incorrect*

**Sample answer 2**

*Outline mediation and arbitration correctly*

Mediation is where an independent third party helps facilitate an agreement between two disputing parties. The mediator is not involved in any decision making and does not make suggestions, however will facilitate the conversation between the two disputing parties. Whereas, arbitration is where an independent third party will listen to the two disputing parties and make a final decision about how to resolve the conflict. One difference is that in mediation, the two disputing parties come to their own agreement whereas in arbitration, the independent third party makes a decision on the resolution.

*Good difference outlined*

**Analysis [Sample 2 full marks]**

It is very common for students to mix up mediation and conciliation in their explanations, which is exactly what the student did in Sample 1. Conciliation is not part of the BM course but many students do learn it. If asked about mediation, it is important to be clear about what it is. The third party does not make suggestions. They are simply there to help facilitate the conversation so that hopefully those in dispute can reach an agreement. It is also important to note that the difference in Sample 1 is not acceptable. Mediation can also be very formal so it is not a clear difference. There is nothing special about the response in Sample 2 however, it correctly outlines both mediation and arbitration and then gives a clear difference.

**Question 5**
**Describe one employee entitlement and one transition issue associated with the closure of the locations.** **4 marks**

*Strong description provided*

**Sample answer 1**

During the redundancies that will occur as a result of the closures, the employees are entitled to a redundancy package. A redundancy package is a payment based on how long the employee has been with JB Memorabilia that helps them during the severance until they find new employment. The amount of severance pay provided is stipulated in the employment agreement.

One transition issue is that many of the employees will be left without employment as a result of the closures. This may place the employees under financial stress as they have lost their source of income for their families.

*Applied to JB*

*Not a legitimate transition issue*

**Strong descriptions provided**

## Sample answer 2

Due the redundancies, one entitlement is that employees are entitled to a redundancy package. A redundancy package is a payment to the employee based on how long the employee has worked at JB Memorabilia. This payment is to help the employees during the transition from being employed to unemployed and provides some short term financial security until they find new employment.

One transition issue could be the use of outplacement services. Outplacement services are external organisations that manage the transition for the business during times of redundancy to help find new employment opportunities for their redundant employees. This can help the employees that have been terminated due to the closures because the outplacement service can help prepare the employees by providing career advice, help writing resumes and assistance in finding new employment opportunities.

**Application**

**Appropriate entitlement and transition issue**

## Analysis [Sample 2 full marks]

The main issue here is with the transition issue used in sample answer 1. While the transition is difficult for the employees that have been made redundant because of the closures, the issue that needs to be addressed is what JB Memorabilia can do about it. In sample answer 2, the concept of outplacement services is addressed which is an appropriate way for a business to manage the transition. Another important thing to note is that both the entitlement (redundancy package) and the transition issue (outplacement services) are described. Both answers actually do this reasonably well in this case however, it is a common mistake that many students will make. Many will simply list the entitlement/transition issue without actually describing them. When a question asks you to describe, it is important to actually do it.

## Question 6
**Discuss the use of a motivation strategy that could be implemented at Bingham Finance to improve employee performance** **4 marks**

## Sample answer 1

One motivation strategy that Bingham Finance could implement is career advancement. Career advancement is where employees receive opportunities to be promoted and move up the corporate ladder. This can motivate employees as they see Bingham Finance is investing in them and sees potential in them. This can improve motivation as the employee takes on greater responsibility. This improved motivation will improve employee performance as the employee are motivated to work hard and be rewarded with promotions and increased responsibilities. However, it can be difficult to provide career advancement to all employees and if only some employees receive promotions it can cause resentment from others.

**Limitations of the strategy addressed**

**Linking benefits of strategy to improved employee performance**

**Not an acceptable strategy in this case as the employees are already being paid high wages**

## Sample answer 2

One motivation strategy is performance related pay. Performance related pay is where an employee's wage is tied to how well they perform at work and meet targets. The more targets the employee meets the higher their wage will be. This can be a good way to motivate the employees at Bingham Finance as they will be motivated to achieve even more money than they are receiving. Attaching an increased wage to the employee meeting extended target will motivate them to work hard to achieve them. However this can cause an unhealthy rivalry between some of the employees at Bingham Finance as they work against each other to fight for clients and extra pay. This can harm the culture of the business.

Another motivation strategy investing in training. Training is where the employees learn to improve their skills so they are able to perform better in their job. Being trained in the latest financial products may help the employees perform better in their job as they are more knowledgeable about the latest product. This helps them provide an improved service to their clients and they are motivated as they are gaining confidence in their job. Employees may also feel valued as the see Bingham Finance is investing in them which can lead to improved motivation.

**The question asks for 'a' strategy, not 2 strategies. Therefore, this section is not considered for marking**

## Analysis [Sample 1 full marks]

With respect to Sample 2, the answer addresses two legitimate motivation strategies and both are listed in the study design. However, the response does not take into account the case material that was provided. The use of performance based pay as the first motivation strategy would not be accepted because the case material outlines the employees are already receiving high wages yet are still not motivated. Providing employees with even more money is not likely to further motivate employees and is therefore not an acceptable strategy to use in this instance. A second problem with Sample 2 is that, while the second strategy is acceptable, the question only asks for **a motivation strategy**. There is no need for a second strategy and is therefore not taken into consideration for marking. Sample 1 achieves full marks because it accurately addresses the key components of the question.

# Unit 3 AOS 3

**Question 1**

**Explain a management of quality strategy that Damko could use to ensure its quality remains high**

4 marks

*Very brief explanation of quality control*

## Sample answer 1

One quality strategy that Damko could use is quality control. Quality control is where the business performs quality checks. This strategy will help check for defects in the operations system and ensure that the customer receives the best quality white goods. Another quality strategy is Quality Assurance. This is where the business meets a set of independent quality standards and receives a certificate to show they have met the quality standards. One common set of standards is the ISO9001:2015 series. This will help Damko improve their quality as the alter processes to meet the international standards.

*2nd strategy used, not necessary so not considered for marking*

*Brief outline of how it will improve Damko*

## Sample answer 2

One quality strategy that Damko could implement is quality control. Quality control is where the business performs quality checks at regular intervals. During these checks, the product is assessed against a benchmark and corrective action is taken if necessary. This strategy will help Damko improve its overall quality as only those white goods that meet the set standard will make it through to the consumer. This helps to reduce wastage as faults are detected early. Using quality control will ensure that any quality issues that arise as a result of the new overseas supplies, will be identified and rectified before production is completed. This will ensure that the level of quality remains high or even improves despite the change in suppliers. This can improve productivity of the operations system as less time is spent remaking solar panels that have been sent back from disgruntled customers.

*Stronger explanation*

*Applied to the case material*

*Addresses the issue of maintaining high quality*

## Analysis [Sample 2 full marks]

Sample 1 is the inferior response and is illustrative of the types of common mistakes made by students in exams. Firstly, the explanation of the quality strategy is very brief. The quality control strategy is much more than just quality checks. In contrast, Sample 2 states that the checks are performed at regular intervals. It then goes on to give another sentence regarding benchmarks. This is a much stronger explanation of quality control. While Sample 1 briefly addresses how the strategy will help improve quality at Damko, it does not do so in any significant depth. The application is also quite general in nature and does not bring in the issue of the new overseas supplier. Sample 2 does this much better as it gives good depth around how quality control will ensure the quality of the white goods remains high. It also brings in the issue of the new supplier which is far stronger than sample 1. Finally, Sample 1 gives a second quality strategy. This was not necessary and is not taken into consideration for marks.

**Question 2**

**Evaluate one global consideration that Ms Crisp should implement to improve the operations at Carrie**

6 marks

*Lack of application*

## Sample answer 1

One global consideration is global sourcing of inputs. Global sourcing of inputs is where the business receives resources from a foreign country to use as part of their operations. Global sourcing of inputs comes with many benefits. One benefit is that the business can often receive inputs that are cheaper than in Australia. Some countries use cheaper labour which enables them to sell their resources far cheaper than the suppliers in Australia. Another benefit is that some resources are higher quality in other countries than they are in Australia. This can help Australian businesses improve the quality for their products which can improve the overall customer satisfaction.

However, global sourcing of inputs also has some drawbacks. One of the drawbacks is that because the resources such as materials need to travel a long way, it increases the lead time of the business which means it will take longer to receive their materials and therefore produce their products. This also reduces the flexibility of the business because changes to the materials used will be far slower due to the increased transportation time.

Despite these drawbacks, businesses can improve their overall efficiency and effectiveness by sourcing their inputs from overseas suppliers.

*Theory is OK, but too general*

**Sample answer 2**

One global consideration that Carries can use is global sourcing of inputs. Global sourcing of inputs is where the business receives resources such as materials from overseas suppliers. This can help Carrie improve her operations because she may be able to receive materials such as bran, wheat and fruits that are much cheaper than Australia. This can help reduce her production costs which can improve her profit margins. Using overseas suppliers can also improve the overall quality of her cereals. She may be able to make use of countries with higher quality food materials to improve the quality of her products which will improve the customer satisfaction of the business.

However, sourcing inputs globally will increase the time it takes Carrie to receive her materials. This can slow production because the overall lead time is increased due to the increased transportation. If Ms Crisp finds that an order from her overseas suppliers does not meet the desired quality, it will take a long time to return them and receive a new order. This greatly reduces the flexibility of her business which can harm the overall operations at Carrie.

Despite the possible advantages of sourcing global inputs, Carrie should continue to use local suppliers for her cereals. This will enable Carrie to reduce the lead time for their cereals which will enable the business to get their products to the market quicker.

**Analysis [Sample 2 Full Marks]**

The issue with sample 1 is that it is far too general. While all the information in this response is fine, there is no reference to the case material. The question clearly states that the response must refer to Carrie. The responses MUST therefore refer to Carrie and the cereals they are producing. Sample 2 is very similar to sample 1 in terms of the theory it is using. However it applies the theory to Carrie and the cereals they are producing. Traditionally, there is lots of application in business management exams, and this is an area that students often find difficult. While you will likely not be able to prepare for every scenario, you should be preparing yourself to apply the content from the BM course.

**Question 3**

**Describe one corporate social responsibility issue that Alice may consider from each of the three elements of the operations system.** **6 marks**

**Sample answer 1**

Corporate social responsibility is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

The first element of the operations system is inputs. To implement corporate social responsibility in the inputs, Alice could source her materials from suppliers that are also deemed to be socially responsible.

The second element is processes. Alice could ensure she is investing in staff by training them and ensuring they have the correct skills to complete tasks.

The final element is the outputs. Alice should ensure her product is fit for purpose and offers the customers good value.

**Sample answer 2**

Corporate social responsibility is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

The first element of the operations system is inputs. Inputs are the resources used to create a good or service. To ensure Traveller's Helpmate is implementing CSR into the inputs, Alice could source her materials from suppliers that are also socially responsible. This means that the supplier is not exploiting labour or harming the environment. For example, the paper supplier should be conducting ethical practices around logging.

The next element is the processes, which are all the activities involved in transforming inputs into outputs. A corporate social responsibility issue with the processes is to ensure employees are well trained and have the opportunity to be upskilled. This demonstrates corporate social responsibility because Alice is investing in her employees to ensure they have the skills to enhance their careers.

The final element is the outputs, which are the final good or service. A CSR issue involved with the outputs is that the travel guides are fit for purpose and of excellent quality. This will involve keeping information in the guides relevant and up to date. This is socially responsible as it is ensuring the quality of the product for the end consumer.

**Analysis [Sample 2 full marks]**

One of the major issues with questions relating to corporate social responsibility is that students often don't explain why it might be an issue or describe the issue. In Sample 1, while it states what the issue is, it doesn't give any explanation around the issue. In contrast, Sample 2 gives more depth around the issue and outlines why it is socially responsible. A less important point is that Sample 2 briefly outlines what each element is. While this may not be necessary, it adds value to the response and demonstrates an understanding of the elements of the operations system (which is referred to in the question).

## Question 4
**Compare the characteristics of a service business's operations and a manufacturing business's operations** **4 marks**

**Sample answer 1**

Both manufacturing and service businesses go through the three phases of an operations system which includes the inputs, processes and outputs. Both types of businesses will use resources for their inputs and look to transfer these inputs into a final output. The final output in both service and manufacturing businesses are sold for money. However, there are some key differences between the operations of a service and manufacturing businesses. A manufacturing business produces a tangible output, meaning it can be touched or handled. Where as a service business produces an intangible output, meaning it is unable to be touched or handled. Another difference is that a manufacturing business is often more capital intensive where machinery and equipment is used, often to automate processes. Whereas service businesses are often more labour intensive where employees are the ones delivering the service.

*Gives both similarities and differences.*

*Gives some depth behind each point. Not just a list*

**Sample answer 2**

A manufacturing business produces tangible outputs whereas a service business produces intangible outputs. Manufacturing businesses can store their products because they are tangible. Service businesses cannot store their products because they are intangible. Manufacturing businesses are more capital intensive, whereas service businesses are more labour intensive. Consumption will normally occur separately from production in manufacturing. But in services the consumption and production often occur at the same time. There is very little customer involvement during production for a manufacturing business. Customers are often heavily involved during the production of a service. An example of a manufactured good is a guitar. But a service could be guitar lessons.

*Simply a list.*

*No similarities*

**Analysis [Sample 1 full marks]**

When asked to compare, it is important to give both similarities and differences. There doesn't normally need to be equal weighting between the similarities and the differences, but both need to be addressed in order to receive full marks. A question very similar to this came up in the 2019 exam. Most students weren't prepared to actually compare this area as most had only prepared to distinguish between manufacturing and service businesses. Who knows if this type of question comes up again. However, it demonstrates the importance of being able to answer questions you haven't necessarily prepared for. It is also important that when comparing, simply listing similarities or differences is not enough. While students will likely still receive marks for these types of responses, it is important to give some information about what the similarity or difference is. This is one of the key differences between the two responses.

## Question 5
Soothing Sound is the manufacturer of audio equipment, specialising in home audio systems and speakers. Soothing Sound is committed to delivering high quality audio equipment aiming to achieve this with tough quality standards and performs regular quality checks to ensure it meets its standards. Operations manager, Hailey, has implemented many improvements over the past 3 years since being in the role. One major change has been the automation of the production of some of the major products. Seventy percent of the business's products are now produced using automated production. However, Hailey is driven for new ways to improve Soothing Sounds operations.

**Describe and justify one technology strategy and one quality strategy that Hailey could implement to improve the operations at Soothing Sound** **6 marks**

*Good strategy to use and sound description*

**Sample answer 1**

One technology strategy that could be implemented is computer aided design (CAD). Computer aided design is the use of computer software to aid in the creation, analysis and optimisation of a design for a product. CAD could be used by Hailey as the design team could use it to create new audio equipment ideas. This would improve the effectiveness of the design process as the team at Soothing Sound would be able to view the new audio products and make suggestions on modifications without the need to create a physical prototype, speeding up the design process, helping Soothing Sound get their products to the market quicker. *Justification is applied to Soothing Sound. Mentions the types of products being produced to assist the*

One quality strategy would be total quality management which is a whole organisation approach to quality that is based on continuous improvement. Using TQM would raise the level of quality for Soothing Sound's audio products as employees would use quality circles to find new ways of improving the level of quality. This would improve the level of quality of the speakers and other audio products, helping increasing the level of customer satisfaction. It would also improve the overall operations system as the employees are more empowered to find new ways of operating.

*Solid application to improving operations*

*TQM is a good strategy to use and sound description*

**Sample answer 2**

Soothing Sound could implement computer aided design. Computer aided design will allow Hailey to improve the operations as they will be able to design new products without building prototypes. Being able to view the new audio products, such as speakers, one a computer will allow them to gather feedback from others before they go into production. This will improve the overall design process of any new products. This will improve the effectiveness of the operations as the feedback can be used to ensure that desirable products are made. This will also allow Hailey to design the operations system around the new products so that any new processes can be implemented effectively.

*Application is quite good and justifies how CAD will improve operations*

A quality strategy that Hailey should implement is quality control. Quality control would help the operations team identify errors early. Identifying these errors will allow them to rectify these problems so that only the audio products that meet the highest of standards will make it to the end consumer. This will improve the overall reputation of Soothing Sound and allow them to increase their percentage of market share.

*QC is a poor strategy to use as Soothing Sound is already using this strategy, therefore not an accepted strategy. (Questions asks what Hailey could implement, yet this strategy is already implemented.*

**Analysis [Sample 1 full marks]**

This is an example of comprehending what is occurring in the case study. It is common for students to simply see the question and forget about the content in the case material. Although the strategies are not specifically named, it is clear that Hailey has already introduced an automated production line and quality control. Because the question asks for strategies that Hailey can implement to improve the operations at Soothing Sound, quality control and an automated production line are not accepted. Because only 70% of Soothing Sounds' products are being produced via automation, students could argue that Hailey should implement this strategy on the remaining products and this would likely be acceptable. You will notice that in sample 1, there are clear descriptions of the chosen strategies. The question specifically asks for a description and therefore one needs to be provided as marks will be allocated to them. The application in both responses is relatively sound as each addresses how it will improve the operations for the situation at Soothing Sound.

**Question 6**

**A4 is a paper manufacturer that is looking to improve its operations. Explain a strategy that A4 could use to improve the efficiency and effectiveness of its operations in relation to materials.                4 marks**

*Basic outline of JIT*

**Sample answer 1**

One materials strategy is the Just-In-Time (JIT) strategy. JIT is where materials arrive just as they are needed for production. This reduces the need for storage costs because materials are being delivered more often and do not need to be stored. A4 could use the JIT system to ensure materials are delivered at the time they are needed for production. This will allow them to make better use of their facilities and will ensure that production continues.

*Basic application, yet no mention of effectiveness or efficiency*

**Sample answer 2**

One materials strategy is the Just-In-Time (JIT) strategy. JIT is where materials arrive just as they are needed for production. This reduces the need for storage costs because materials are being delivered more often and do not need to be stored. This can improve the efficiency at A4 because they are using less resources by spending less money on storage. The JIT system will improve efficiency at A4 because it helps reduce wastage because raw materials can often be lost, damaged or become obsolete while being stored for long periods. A4 will also improve their effectiveness because the reduction in storage costs and wastage will lead to greater profits because the JIT system allows them to produce each batch of paper at a cheaper rate.

*Specifically addresses how JIT will improve efficiency and effectiveness*

**Analysis [Sample 2 full marks]**

The main issue with sample 1 is that it doesn't address the question fully. There is a clear understanding of the JIT system, however there is no mention as to how JIT will lead to improved efficiency and effectiveness. The second response uses much of the same theory, however it clearly outlines how JIT will improve the efficiency at A4 and how it will improve effectiveness at A4.

# Unit 4 AOS1

**Question 1**

**Define the following performance indicators.**

    **a) Percentage of market share**

    **b) Number of customer complaints**                                 **4 marks**

## Sample answer 1

    a) Percentage of market share is the portion customers who buy a product from a business out of the total number of sales in the industry, expressed as a percentage.

    b) The amount of people that are dissatisfied with the business and have notified the business of their issue.

## Sample answer 2

    a) Percentage of market share is the percentage of the market that a business owns

    b) The amount of people that are dissatisfied with the business.

## Analysis [Sample 1 full marks]

It is common for students to write definitions by simply altering the order of the term. It is very important not to do this. If possible, try to avoid use of the term within the definition. Many students make the mistake of outlining a customer complaint as those that simply are dissatisfied with the business. While it is true that the customer has some form of dissatisfaction, in order for it to be a complaint, the customer must notify the business in some form (i.e. verbally, written complaint etc). Sample 1 is clearly the superior response as it avoids these problems, unlike Sample 2 which cannot achieve full marks.

## Question 2

**Justify two key performance indicators that Melanie could use to measure the success of the new technology**

                                                            **4 marks**

*No descriptions. Straight into application*

## Sample answer 1

One key performance indicator that Melanie could use is the number of customer complaints. The VR technology has been introduced to improve the customer experience, so if the technology is successful in achieving this, it would be expected that the number of customer complaints would be reduced. The technology should allow customers to be more informed regarding their purchasing decisions which will improve their level of satisfaction and reduce the number of customer complaints.

Another key performance indicator is the level of staff turnover. The VR technology may replace the jobs of some employees, which will lead to an increase in staff turnover because more employees are being made redundant. This will reduce the wage costs if the business but it significantly increases the level of staff turnover which shows that the VR technology has not been a total success.

*KPI not relevant to the case study*

*Descriptions of each indicator*

## Sample answer 2

Melanie could use the number of customer complaints. The number of customer complaints measures the amount of people that are dissatisfied with the business or its products and have notified the business of their dissatisfaction. For the technology to be a success it would be expected that the number of customer complaints would reduce because customers are happier with the business. The VR technology should improve the level of customer service that Soft Furniture delivers and allow the staff to guide customers to the furniture that is best for them. This will improve the level of customer satisfaction and reduce the number of customer complaints, resulting in the technology being a success.

Melanie could also use the number of sales indicator. Number of sales measure the amount of products sold over a specified period of time. With Soft Furniture being at the cutting edge of technology in the retail sector, more customers are likely to shop at their stores rather than competitors. This would improve the number of sales that Soft Furniture has which would demonstrate that the VR technology has been a successful investment.

*Both indicators are relevant and clearly justified*

## Analysis [Sample 2 Full Marks]

There are two main issues with sample 1. The first is that there is no descriptions of the KPIs. When justifying, it is important to describe the concept firstly. The justification for the customer complaints is sound and would likely receive marks. There is a major issue with the second KPI used in sample 1. The KPI of staff turnover is not really relevant in this situation, and it is even explained poorly in this response. Employees being made redundant is not classed as staff turnover because these employees do not need to be replaced. This shows a poor understanding of staff turnover.

Sample 2 is much stronger because it firstly describes both KPIs. These are easy marks that should not be missed out on. For the second KPI, the response uses a much more relevant one. The use of number of sales is far more relevant to an improvement in the level of customer service which is what the VR technology is designed for. For each KPI, the response clearly justifies how it will measure the success of the VR technology.

**Question 3**
**Referring to the above data, analyse the extent to which the quality control strategy has been a success at BubbaBoo (6 marks)**

**Sample answer 1**
Introducing quality control has had mixed results at BubbaBoo. By introducing the quality strategy, the number of customer complaints has dropped dramatically. Quality control results in the business checking the quality of their prams at regular intervals during the production process. This ensures that only the prams that meet BubbaBoo's quality standards actually make it to the end consumer. The number of customer complaints has dropped because the quality control strategy has resulted in a higher level of quality for their prams which is improving the level of customer satisfaction, showing the strategy has been successful in improving this area.
The number of sales has also increased significantly, from $122,000 per month to $155,000 per month. This may be a result of the improved quality prams. This improves the image of BubbaBoo's brand and will likely result in improved word of mouth and online reviews. As customers hear about the improved quality, it has resulted in more sales of their prams.
However, not all of the results are positive. The level of productivity growth has decreased since the introduction of quality control, resulting in less prams being produced per day. Quality control can slow down production because it takes time to perform the quality checks throughout the production process. This is likely the reason why productivity growth is negative over the past 6 months. The introduction of the strategy will also take time for employees to become accustomed which will impact the productivity growth in the short term.

<span style="color:green">Clear analysis as to possible reasons why the KPI data is the way it is</span>

**Sample answer 2**
Quality control is a strategy that checks the product against predetermined quality standards at regular intervals. This helps to improve the quality of the end product. At BubbaBoo, the quality control strategy has had mixed results. Firstly, the number of customer complaints has reduced since the introduction of the quality control system. The number of complaints has dropped from 45 per month to only 10 per month which is a significant decrease which shows the strategy is successful.
Another area that has been improved is in the number of sales. BubbaBoo previously had $122,000 worth of sales per month. Since the introduction of the quality control system, the number of sales have improved dramatically in 6 months, where the business now has $155,00 per month.
However, not all the results have been positive, which show mixed results in terms of the success of the strategy. The productivity levels have dropped by a significant number. Before quality control had been implemented, BubbaBoo was producing 90 prams per day. However, 6 months after the introduction of quality control, BubbaBoo is only producing 70 prams per day. This shows that while the strategy has been positive in some areas, it has had a negative impact on other areas.

<span style="color:green">Simply stating what has happened with the data. No analysis as to why</span>

**Analysis [Sample 1 Full Marks]**
The difference between the two responses is that sample 1 provides analysis, whereas sample 2 does not. Sample 2 clearly outlines what has occurred, showing that they are able to interpret the data. However, sample 1 goes much further and states some possible reasons why the data is the way it is. This shows a clear ability to interpret the data, along with a clear understanding of the quality control strategy.

**Question 4**
Bridal retailer Bindi, opened their original Melbourne location in 2014 and in the past month have established an additional location in Sydney. The business began as a partnership between best friends Jodi and Mikayla. Both Jodi and Mikayla have a large vision for the business and are looking to expand again by opening a new location in Brisbane within the next 2 months.
**Outline how TWO restraining forces might impact on Bindi expanding into Brisbane.** **4 marks**

<span style="color:green">Good theory as to how the restraining force can work against change.</span>

**Sample answer 1**
One restraining force is the financial considerations. Businesses need to consider the costs associated with the proposed changes as it can place the business under financial stress if they spend money on a change that they cannot afford. This would place pressure on Bindi as the business may not be able to afford the change which could place them under financial pressure and make it difficult to survive. They should wait until they have enough funds to be able to expand into Brisbane.
Another restraining force is managers. Managers that lack the experience or skills to implement a change can act as a restraining force as they are unable to drive the business towards the new desired state. Jodi and Mikayla may not have the skills and experience to drive the new change within the business. This may make it difficult for them to implement the change successfully.

<span style="color:green">Application is far too general. Stating 'the change' rather than what the change is</span>

**Sample answer 2**

One restraining force is financial considerations. Change can come at a high financial costs making it difficult for the business to implement changes if they are not in a strong financial position. The costs of opening a new store location in Brisbane will come at a significant cost to Bindi. The cost of the new shop fit out, purchasing new bridal stock and releasing a new marketing campaign will be high, making it difficult to implement successfully. With Bindi only recently opening a new location in Sydney, Bindi may not have the available funds to open the new location in Brisbane without placing the business under financial stress.

Another restraining force is managers. Managers that do not have the skills to implement the desired change can find it difficult to break the status quo and work towards the new desired state. Both Jodi and Mikayla have only expanded in the past month and will be very busy establishing the new store in Sydney. They may not have the capacity to open a new location in another state so quickly. While they have shown the ability to run a successful Melbourne location, it is too early to tell if they have the ability to successfully run stores across multiple states. If they lack this ability it could make it difficult to run the new Brisbane store successfully.

Application is specific to Bindi and their
current plans for expansion

## Analysis [Sample 2 full marks]

Sample 1 provides good theory on how the specific restraining force can work against change in a business. However the application is poor. This is very common in SACs and exams. Mentioning 'the change' rather than what the actual change is likely going to result in a poorly applied response. Sample 2 provides clear and specific application on how the restraining force will impact Bindi and their efforts to expand into Brisbane. When addressing financial costs, the response provides some examples of what the possible high costs may be to help provide a response that is specific to what Jodi and Mikayla need to consider. These are only small differences to the responses, however they demonstrate the student's understanding of how the content learned in the course can apply to business scenarios.

**Question 5**
**Explain how Jimmy could apply the principles of the force field analysis theory during this change**
**5 marks**

Specific example of forces

**Sample answer 1**

The force field analysis is a tool that managers can use to analyse the force for and against the change. The first step when using a force field analysis would be for Jimmy to identify the driving forces. Driving forces are those that support the change and help push it towards the new desired state. A driving force for Jimmy could be the pursuit of greater profits, where he is looking to expand to increase the net profits of the company. Next, Jimmy would identify the restraining forces, which work against the change and try to keep it in its current state. A possible restraining force for this change could be the high level of capital investment required to establish the physical stores.

Once the forces have been identified, Jimmy would need to analyse each one to determine their weighting. He might allocate a number out of 5 to each force, with 1 being the least powerful and 5 being the highest value. The aim of the analysis is to have the value of the driving forces be higher than the value of the restraining forces.

Once the analysis is done, Jimmy would create an action plan on ways to reduce the restraining forces and increase the driving forces. This will enable Jimmy to make an informed decision about whether the change was worth investing in as well as an action plan to move forward, helping increase the chance of success.

Value of forces, not number of forces

Works through multiple steps, including an action plan
to reduce restraining forces

**Sample answer 2**

The force field analysis is a tool that analyses the forces for and against a change. Jimmy would need to firstly identify the driving forces for the change. Driving forces are those that help initiate or support the business through the change. These are important if the business is going to move towards its new desired state. Once this is completed, Jimmy would need to identify the restraining force. Restraining forces are those that work against the change and try to keep the business where it currently is.

Once each force has been identified, they need to be analysed. Each force is analysed to see how powerful it is in regards to the change and will give Jimmy a clear indication of what he is facing as he moves forward. The aim of the business is to have more driving forces than restraining forces. This will ensure there is enough force to push the business towards the new state and it will help the expansion into new physical retail stores.

Incorrect

No specific forces, or mention of an action plan. Not
valuing forces. Poor response

## Analysis [Sample 1 Full Marks]

There are two thing that sample 1 does that sample 2 doesn't do and both are very simple. The first is that sample 1 provides specific examples of driving and restraining forces. This helps with the application requirement of the question. The second is that it mentions all steps in the force field analysis. Identifying and analysing the forces, is important. But so too is the action plan or some form of way to overcome the restraining forces.

Other than the issues mentioned above, sample 2 states that the aim is to have more driving forces than restraining force. This is 100% incorrect. The number of driving and restraining forces is not that important. What is important is the value or the power of each force. There could be 4 driving forces, but only 2 very powerful restraining forces, that simply cannot be overcome, rendering the change likely unsuccessful.

**Question 6**
**Compare Porter's generic strategies** 4 marks

### Sample answer 1

The lower cost strategy is where the business aims to be the low cost producer in the industry. Businesses are able to lower their costs in a number of ways. This can include the business looking at all areas of the business to reduce expenses. Many businesses will look to source cheaper materials in order to lower their costs, while other businesses will look to minimise waste within the business. Once the business has lowered their costs, they can lower their prices and become more attractive to the price sensitive consumer. This can help them gain a competitive advantage and possibly increase their market share.

On the other hand, the differentiation strategy is where a business looks to gain a competitive advantage by being unique in some way that is valued by customers. A business can achieve this in a number of ways. One way is to have unique features that customers desire. Another way is to have a higher quality product. Being unique is often more costly for the business however, they are rewarded by being able to charge a premium price. Customers are often more loyal to a business that has implemented differentiation as they are more attracted to the uniqueness and willing to pay a premium to receive it.

*While mostly correct, this is all description. No attempt to compare the two strategies. The beginning of the 2nd paragraph "On the other hand", is not enough to demonstrate an understanding of the differences between the strategies.*

*Begins nicely with a similarity*    *Another good similarity provided*

### Sample answer 2

Both the lower cost and differentiation strategies are ways a business is able to gain a competitive advantage in the market place. The lower cost strategy is able to achieve this by becoming the low cost producer in the industry and can then lower their prices. This helps the business attract price sensitive consumers. Whereas the differentiation strategy achieves the competitive advantage by being unique in some way that is valued by customers. Another similarity is that both strategies look to maintain or even increase the profit margins within the business. Another difference is that the lower cost strategy often results in lower prices for the customer, however when a business implements the differentiation strategy, he business is often rewarded by being able to charge a premium price. The unique offering during differentiation can often result in stronger brand loyalty from customers, while the lower cost strategy will usually not result in the same level of brand loyalty as the customers are more price sensitive.

*Two strong differences are outline (not just stated)*

### Analysis [Sample 2 full marks]

Sample 1 is an example of a response that is commonly seen by assessors. The answer demonstrates a good understanding of both strategies, however it does not answer the question as it does not address the similarities and differences between the two strategies. Some students will provide good descriptions of the strategies and attempt to give some similarities and/or differences, yet take up half to three quarters of the page with description. You can see that sample 2 is able to still demonstrate a strong understanding of both generic strategies, but it is able to do so by explaining the similarities and differences between the two strategies.

# Unit 4 AOS2

**Question 1**

**Referring to a contemporary business you have studied this year, explain the importance of leadership during times of change**                                                                                    **6 marks**

**Sample answer 1**

Leadership is the ability of a manager to inspire and motivate others towards the achievement of business objectives. This is vital during times of change because employees often find change difficult and will resist it as a result. Effective leadership will demonstrate understanding for those that are impacted by change. A leader will be able to inspire the employees so they believe in the change that is occurring. This helps get them on board with the change which builds momentum, making it more likely the change will be successful. This was seen when Telstra announced a large restructure in 2018. CEO, Andy Penn, was able to communicate the reasons for the restructure to employees to help them get excited about the future of the company.

Effective leadership is also important because the leader will help support employees that are negatively impacted by the change. Leaders will communicate with employees and answer their questions so they are well informed. The leader will support those employees that are made redundant as part of the change. This was seen with Mr Penn introducing two forms of support for employees. For those leaving Telstra, Mr Penn brought in outplacement services to help them find new employment. For those remaining with the company, Mr Penn ensured there was training available to help upskill the employees during the restructure. This helped gain support from employees and motivated them towards the new direction. These effective leadership qualities are important to help drive a change to ensure it is implemented successfully with minimal resistance.

*Good concise theory on why leadership is important during change*

*Application shows that a business has been studied well*

**Sample answer 2**

A business I studied this year was Telstra. Telstra announced a major restructure to help it become more successful in a highly competitive market. This will result in a net loss of 8,000 employees over a three year period. The reduction in employees is aimed at improving profitability of the telecommunications company in the long term. Leadership is the ability of a manager to inspire and motivate others to achieve business objectives. During times of change, leadership is vital if the change is going to be implemented successfully. Change usually impacts the employees the most which can cause fear and anxiety amongst them. This can result in employee resistance to change which works as a restraining force. Leadership is important to try and prevent this fear and anxiety from arising. To prevent this, a good leader will communicate clearly with the employees to demonstrate the need for the change. If the employees understand the reasons behind the change and the benefits it will bring, they are more likely to be supportive of the change. This was apparent at Telstra when the senior leadership team, lead by Mr Andy Penn communicated clearly to all employees. Mr Penn personally addressed employees to express the reasons behind the change. While there were some disheartened employees, it helped bring many employees on board with the change. This made it more likely that many of them were more accepting of the restructure.

Strong leadership is also important to help support employees during the change. The restructure at Telstra, caused 8,000 redundancies and Mr Penn ensured these employees were supported. Rather than simply leaving these retrenched employees with a simple redundancy package, Mr Penn introduced a transition program which included the availability of outplacement services. This service allowed these employees to be supported during the restructure to help them find new employment. A good leader will also support those employees that remain in the business. This helps motivate the employees while the change is being implemented. Mr Penn introduced training programs to help upskill employees on how to work in an environment with fewer employees.

Using strong leadership, has helped create momentum towards this change because the employees are inspired by the new direction. This is vital so that the changes at Telstra can a success, leading to a more competitive telecommunications company.

*This response is great, but goes on for too long, with excessive detail! While this depth still gets full marks, the excessive amount of depth means that the student might experience difficulty completing the remainder of the paper.*

**Analysis [Both answers Full Marks]**

Both responses focus on the same areas of leadership and use the same contemporary case study. As you can clearly see, sample 2 is far longer than sample 1. Many students simply think that to receive full marks, they need to write as much as possible. Depth is important, especially in a 6 mark question, however you do not need to get carried away like the student has in sample 2. Responses that answer the question in a clear and concise way will still receive full marks.

**Question 2**
**Describe one high-risk strategy and one low-risk strategy that Mark could use to overcome employee resistance at Squizzy's** **4 marks**

*Does not answer the question. No need for these statements*

**Sample answer 1**
Mark could use the low-risk strategy of communication. Communicating with employees would help them understand the change that is occurring and why it needs to be implemented. This will prevent any rumours or misinformation throughout the business. Using communication helps improve the relationship between the employees and Mark which can help them be more accepting of the change.
A high risk strategy that Mark could use is threats. This could be by threatening employees with job loss. This has the potential to backfire however, because the employees may not like being threatened. This can actually harm the relationship between the employees and Mark which can have a negative impact on the culture of the company.

*Sound descriptions for 1 mark*

**Sample answer 2**
Mark could use the high-risk strategy of threats. Threats are where Mark forces employees to embrace the change or face negative consequences such as loss of promotions or other benefits. While this strategy has the potential to harm relationships, it can help get the employees on board with the change quickly. Employees will fear the negative consequences which will prevent them from resisting Mark's proposed changes.
Mark could use the low-risk strategy of communication. Communication is the ability of the manager to transfer information to the employees, with the provision for feedback. Mark could express that he is removing the low end range along with the reasons why. Mark could express the benefits of the change to help gain support from employees. Using two-way communication would allow employees to ask questions and provide feedback so that Mark could ensure that any fears or concerns were addressed. Ensuring employees are well informed of the changes which helps get employees on board with the change and reduce any resistance.

*Addresses how each will overcome employee resistance*

**Analysis [Sample 2 Full Marks]**
The issue with sample 1 is that there are no descriptions of the strategies. This prevents the student from receiving the two marks allocated to the descriptions. Sample 2 gives straight forward descriptions which immediately puts them ahead. The next issue with sample 1 is that the response does not clearly state how the strategy will overcome any resistance to the changes at Squizzy's. It says why the low-risk strategy is good and the issues with the high-risk strategy, but this is not a requirement of the question. Sample 2, clearly states how each strategy will overcome the employee resistance.

**Question 3**
**Describe two stakeholders and explain the impact change can have on them. In your response, refer to a business you have studied this.** **4 marks**

*Descriptions of each stakeholder*

**Sample answer 1**
One stakeholder that is can be impacted by change is customers. Customers are those that purchase goods and services from the business and they expect good quality at fair prices. Customers can be impacted by business change as they can be offered superior services due to increased competition. As competition enters the market it can force rival businesses to improve the service they offer customers. This occurred when Uber entered the market. Not only did Uber offer a high quality service that was convenient for consumers but it forced the traditional taxi service to improve their service in order to compete with Uber.
Another stakeholder is employees. Employees are those that work in the business in exchange for a wage. Employees can be impacted by change as they are often the ones that need to carry out the change. Changes in technology can result in employees' jobs being replaced and being made redundant. This occurred at Fairfax as the business moved more of their media to an online space which causes major redundancies for journalists and those employed in the printing presses.

*Outlining how the stakeholder can be impacted by change. This is done before using the case study as an example*

**Sample answer 2**
One business I studied this year was Uber. Uber has revolutionised the taxi industry as it has used technology to offer a superior service to customers. The customers now have more choice and are offered competitive prices with the use of a smart phone app that is based on location and customer reviews. This system helps improve the service and has become a major threat to the taxi industry. Uber was recently granted permission by the State Government to enter into the Victorian market which has made it difficult for traditional taxi licence owners. These licence owners have paid a large fee which is now become worth much less and has impacted their investment and made it difficult for them to survive.

*This answer begins with the student's case study and finishes with it. There is very little reference to theory. Too much about Uber and not enough theory. No descriptions of stakeholders*

## Analysis [Sample 1 full marks]

When students are asked for a business they have studied, it is common for them to forget the theory they have learned throughout the year and write lots about the business in question, without addressing the requirements of the question. The business is included to provide students with a platform from which they can demonstrate their understanding of the course content and apply it to the real world. Sample 1 identifies a stakeholder, describes the stakeholder, then explains how the stakeholder can be impacted (all theory) and then uses the studied business as an example. Again, it is important in these types of questions to still focus on the theory but to use the business to help you demonstrate an understanding of the theory.

## Question 4

**Explain how redeployment of resources can help a business improve a business's key performance indicators. In your response, refer to one KPI** **2 marks**

*Gives a brief definition to demonstrate understanding. Not 100% necessary but helps build the response in this situation*

### Sample response 1

Redeployment of resources is where a business moves its human, labour or capital resources to another area of the business with the aim of making better use of these resources. Businesses can redeploy their human resources by moving employees from one area of the business to another area. This will help reduce level of staff turnover because employees will be happier working in an area of the business that is thriving, improving their motivation, resulting in them wanting to stay with the business.

*Introduces the KPI*          *States how redeployment will improve KPI*

### Sample response 2

A business can use redeployment to improve the quality of the business which will reduce the number of customer complaints. By being able to purchase materials from a higher quality supplier, the business will be able to produce a higher quality product that will ensure that customers are happier with what they are purchasing from the business.

*Student has demonstrated no understanding of redeployment (of resources), which is quite common*

## Analysis [Sample 1 Full Marks]

It is very common for student to think that redeployment of resources is about obtaining supplies from a different supplier. This is completely incorrect. In the past, students have not spent enough time to understand what redeployment of resources are. It is about moving resources from one area of the business to another area, so they can make better use of these resources.

## Question 5

**Explain two corporate social responsibility issues a business needs to consider when implementing change** **4 marks**

*Stated a CSR issue during times of change. Very brief, this idea needs to be explored further*

### Sample answer 1

Corporate social responsibility (CSR) is the continuing commitment of a business to operate in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. One CSR issue a business needs to consider when implementing change is the impact the change will have on employees. They should consider the needs of employees while implementing change.

Another CSR issue that should be considered is the impact the change will have on the environment. The business should try and go above and beyond their legal obligation to minimise the impact the change will have on the environment. This is seen to be socially responsible as it is helping the environment.

*Environmental impact is a good issue, however simply stating above & beyond legal obligations is not enough.*

*Three good points about what the business can do to help the impact of change on employees*

**Sample answer 2**

Corporate social responsibility (CSR) is the continuing commitment of a business to operate in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. One CSR issue a business needs to consider when implementing change is the impact the change will have on employees. Change will usually impact on employees the most and can cause fear and anxiety amongst the employees. The business can minimise this impact by considering the welfare of employees and providing support for them during this time. Giving employees time to adjust to the changes and offering extra training to help them embrace the change can demonstrate corporate social responsibility during the time of change.

Another CSR issue that should be considered is the impact change can have on the environment. When implementing change, the managers need to ensure they are going above their legal obligations to minimise the impact on the environment. For example, implementing technology has the potential to increase the carbon footprint of the business. To minimise this impact on the environment, the business should look to purchase state of the art equipment that is energy efficient. They should also maintain the technology regularly to ensure it is minimising its impact on the environment.

*Showing how the business can be socially responsible by minimising impact on the environments.*

**Analysis [Sample 2 full marks]**

Sample 1 gives a strong definition for CSR which help sets up the answer well. It then proceeds to identify a legitimate CSR issue during times of change. However, the explanation is very brief and requires more depth for full marks. While the second issue is ok (minimising impact that change has on the environment), it is too simplistic to simply state that going above and beyond legal obligations to look after the environment. This section could easily be given a 0 as there is little substance behind it other than simply identifying a CSR issue that requires consideration. In contrast, Sample 2 begins with the same strong definition, but then gives more depth about why each issue is a CSR consideration. Students should always remember that the task word is 'explain', which means that students need to provide more depth and do more than 'identify', list or even outline the issue.

**Question 6**

**Quirky is the manufacturer of various board games. As a result of poor productivity growth, the business has recently implemented new technology into the operations system.**

**Explain the importance of Quirky reviewing its KPIs when evaluating the effectiveness of the change.**

*Begins with the basic concept of the importance of reviewing KPIs*           **4 marks**

**Sample answer 1**

It is important for Quirky to review their KPIs after implementing the new technology to see if the strategy has been a success. The impact of the new technology should have improved the business's operations but it may have also impacted other areas of the business. For example it may have impacted the morale of employees as their jobs may be more mundane than they were previously. Implementing the new technology may have come at a large financial cost so it is important to see if the investment has been worthwhile for Quirky. The business can see if the new technology has worthwhile and had a positive impact.

*Sound application about the new technology*

*Mentioned effectiveness. Crucial! This is what the question is asking for*

*Begins with the basic concept of the importance of reviewing KPIs*

**Sample answer 1**

It is important for Quirky to measure their KPIs after the implementation of the new technology to see if it has achieved the set objectives. Quirky has implemented the new technology to improve their rate of productivity growth. It would be important to measure their productivity growth after its implementation to see if it has improved. This will show if the technology has been effective and achieved the set objectives and determined if the capital investment has been worthwhile. Once they have measured their KPIs, Quirky can determine if they need to make further changes, maintain their current course of action or wait for future data. For example, it may take time for employees to become efficient at using the new technology so the rate of productivity growth may need to be measured over a longer period before making a decision on how to move forward in the future.

*Mentions the specific KPI that should be measured. Good application*

*Reference to what the KPI data can be used for i.e. what happens next*

**Analysis [Sample 2 full marks]**

While sample 1 is a good response, it is not as strong as sample 2 and would not receive full marks. Sample 2 provides more clarification as to what KPIs should be measured (rate of productivity growth). This shows that there has been some comprehension from the case material. Importantly, sample 2 states that it will measure how effective the new technology has been. It also mentions what the business or managers should then do with the data. This shows a stronger understanding of the importance of measuring KPI data after transformation has occurred.

**INDEX OF TERMS**

# CPAP RESOURCES 2021

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