

BOARD OF STUDIES  
NEW SOUTH WALES

1995

HSC

EXAMINATION  
REPORT

## **Business Studies**

**Includes:**

- **Marking criteria**
- **Sample responses**
- **Examiners' comments**

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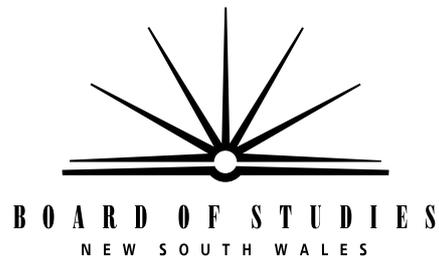
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**1995 Higher School Certificate**

**Business Studies  
Examination Report**

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# Business Studies Examination Report

## **WHO SETS THE EXAMINATION PAPERS?**

In 1995 the 2/3 Unit (Common) Paper and the 3 Unit (Additional) Paper were set by a six member panel. Each member of the panel brought to the first panel meeting: at least 20 multiple choice questions, two short answer questions and a number of 2 and 3 Unit extended response questions as assigned by the Chairperson prior to this meeting. The panel met for seven full day meetings in the Test Development section of the Office of the Board of Studies in North Sydney.

## **HOW ARE THE EXAMINATION PAPERS MARKED?**

The Supervisor of Marking submits a marking plan to the Board. This plan takes into account the available days of marking, the 1994 marking budget and the number of candidates sitting the examinations in 1995, to describe the resources required and the nature and length of the marking process. The approved plan allowed for 32 Senior Markers and 220 Markers. All country teachers who applied for marking and who met all the criteria were accepted. Preference was given to teachers who had taught the HSC course at least once recently.

Marking occurred in the International Pavilion at the Royal Agricultural Showground at Randwick. The 2/3 Unit (Common) Examination was held on Monday, November 13 and Senior Markers commenced work on Tuesday evening, November 14. Markers commenced work on Saturday, November 18 and the marking operation was completed on Thursday, December 7.

Section I on the 2/3 Unit (Common) Paper is machine scored while all other sections of this paper and the 3 Unit (Additional) Paper are double marked by teachers at the marking centre according to the principles set out below. Markers are grouped according to their experience and expertise in the options and there are generally eight markers assigned to each Senior Marker.

## PRINCIPLES OF MARKING HSC BUSINESS STUDIES

The ultimate aim is to be equally fair to all candidates. Therefore, the Business Studies marking process must ensure that:

- marking is **norm referenced**. The mark must reflect the quality of each response compared with the quality of all other responses. The full range of available marks must be used in each question.
- marking is **reliable**. Marking must be consistent between markers of the same question and between markers of different questions. The marking standard must also be consistently applied over the duration of the marking period.
- marking is **accurate**. The marking standard must ensure that marks are allocated accurately. The best responses must be the ones awarded the highest marks.

In applying these principles, markers

**1. use the full range of marks available.**

In 2 Unit Section II, the best responses are awarded 10, the worst score 0. In 2 Unit Section III and 3 Unit, the best responses are awarded 20, the worst score 1 (both of these will later be adjusted to a mark out of 25). This prescription enables the marks to be spread so that the better candidates receive the marks they deserve.

Note: a generalised marking scale is provided on the next page. Senior Markers on a particular question design specific marking guide sheets for the markers on their question.

**2. use the Marking Guide for each response they mark.**

Everyone marking the same question must mark at the same standard and so markers are instructed to allocate marks according to the marking guide and the criteria established by Senior Markers for each question. They are advised to work out the grade of the response (A, B, C, D or E) first before determining the specific mark within that grade.

While extended responses are marked to the specific criteria for each part of the question (where appropriate), they are marked holistically. Thus for Section II of the 2/3 Common Paper and for the 3 Unit Additional Paper, markers do not allocate marks to each section of the question as poor performance in one part of a response may be compensated by superior performance in another part. While most candidates will probably organise their responses according to the given guidelines, it is possible that some will choose an alternative, equally appropriate way of approaching the question.

**3. refer some responses to a Senior Marker**

Senior Markers make the final judgement about any response which:

- has not been accommodated by the criteria established for the question
- is obviously incomplete (it could have had part of the answer detached)
- seems quite irrelevant (it could be a response to another question)
- is peculiar (eg. abusive, incoherent, a possible non-serious attempt, possible cheating)

Note: **markers do not award zero marks** for any extended responses unless the response has been referred to a Senior Marker.

# MARKING GUIDE

| RANK     | MARK                       |                 | %  | GUIDELINES   |
|----------|----------------------------|-----------------|----|--|
| <b>A</b> | Extended Responses         | Short Responses | 10 | <p>Clear reasoning, explicit. Scholarly argument. Evidence of a variety of data sources. Illustrative examples to support argument</p> |
|          | 20<br>19<br>18             | 10<br>9         |    |  |
| <b>B</b> | 17<br>16<br>15             | 8<br>7          | 20 | <p>Consistent. Factually correct. Explanatory. Attempt to justify generalisations.</p>   |
|          | 14<br>13<br>12<br>11<br>10 | 6<br>5<br>4     | 40 | <p>Somewhat descriptive but relevant to the question. Some useful factual data. Conclusions consistent with argument presented.</p>    |
| <b>D</b> | 9<br>8<br>7<br>6           | 3<br>2          | 20 | <p>Little use of factual data to support generalisations. Conclusions inconsistent with data or argument or no conclusions given.</p>  |
|          | 5<br>4<br>3<br>2<br>1      | 1               | 10 | <p>Absence of factual data. Much irrelevant material. Incoherent or incomprehensible.</p>  |
| <b>E</b> | 0                          | 0               |    | <p>Restatement of question. No relevant facts.</p>   |

To ensure the reliability of the marking operation various checks and procedures are put into place. In Sections II and III in the 2/3 Unit Common Paper and the 3 Unit Additional Paper all responses are **double marked**. There is regular check marking by Senior Markers, control scripts are circulated regularly to all markers on a question and statistical checks are done on the tally cards handed in by each marker at the end of each session. Senior Markers take appropriate steps to ensure that each marker in their group is consistently applying the agreed marking criteria, and that the group's marking decisions are consistent with all other groups marking the same question. The statistical and sample monitoring enable each Senior Marker to give markers regular feedback and assistance.

## **THE NATURE OF MARKING HSC BUSINESS STUDIES**

The marking of scripts will proceed through three phases:

### **1. ESTABLISHING MARKING CRITERIA**

This phase involves the extensive reading of scripts in order to develop marking criteria which will achieve the principles set out above. It is essential for reliable marking that this session sets up realistic, useable criteria which can be confidently tested during the pilot marking phase.

The criteria for Section II in the 2 Unit paper is established with the view to achieving:

- a mean total mark of 5.5 and
- a standard deviation of 2.

The criteria for Section III in 2 Unit and for 3 Unit is established with the view to achieving:

- a mean total mark of 10.5 and
- a standard deviation of 4.

The criteria are negotiable during the briefing and pilot marking sessions (until formal marking begins) to ensure a broad range of responses contributed to its formulation and to ensure that all markers agree to them before they are applied.

### **2. PILOT MARKING**

This phase of marking allows markers to test the criteria Senior Markers have established and to compare the marking standard between groups. Markers keep tally cards to ensure the pilot marking process achieves its purpose. Adjustments to some criteria may be necessary.

Senior Markers discuss with markers the statistical analysis of their pilot marking. Formal marking commences when all markers in a group have agreed on the validity of the criteria and can demonstrate an appropriate level of reliability in applying them.

### **3. FORMAL MARKING**

This phase provides the marks for the examination component of each candidate's HSC result.

In this phase, Section 1 (Questions 1 to 20) will be single machine marked. All other questions will be double marked. The first and second mark must be awarded by different markers. Under no circumstance are markers to mark the same script twice. Tick each page as you read it and record your table number on the front of the script.

Board policy is that a script will only be marked for a third time if the two marks differ by 1/3 or more of the available marks. Differences of less than this are resolved by averaging the two

marks. Some discrepancies will occur as the normal outcome of different people exercising their equally professional judgement with equal competence.

## POPULARITY OF QUESTIONS

### 2/3 Unit (Common) Paper

**Total Candidature: 11 233**

| TOPIC                | QUESTION | % of Candidates | % of Candidates |
|----------------------|----------|-----------------|-----------------|
| Business Law         | 27       | 2.95            | 8.44            |
| Business Law         | 28       | 5.49            |                 |
| Industrial Relations | 29       | 11.90           | 15.72           |
| Industrial Relations | 30       | 3.82            |                 |
| Marketing            | 31       | 11.10           | 36.22           |
| Marketing            | 32       | 25.12           |                 |
| Small Business Mgt   | 33       | 24.77           | 39.62           |
| Small Business Mgt   | 34       | 14.85           |                 |

### 3 Unit (Additional) Paper

**Candidature: 2 891**

| TOPIC                  | QUESTION | % of Candidates | % of Candidates |
|------------------------|----------|-----------------|-----------------|
| Business and Tech      | 1        | 7.64            | 9.68            |
| Business and Tech      | 2        | 2.04            |                 |
| Financial Markets      | 3        | 3.26            | 7.5             |
| Financial Markets      | 4        | 4.24            |                 |
| Human Res Mgt          | 5        | 25.78           | 41.76           |
| Human Res Mgt          | 6        | 15.98           |                 |
| Prodn Management       | 7        | 2.98            | 8.52            |
| Prodn Management       | 8        | 5.54            |                 |
| International Business | 9        | 18.31           | 32.54           |
| International Business | 10       | 14.23           |                 |

# 2/3 UNIT (COMMON)

## SECTION 1 (20 marks)

### Multiple Choice Answers

This was the first year that the Business Studies examination had 20 multiple choice questions based on the HSC course. The mean was 11.41.

| Question | Answer | % Correct |
|----------|--------|-----------|
| 1        | A      | 26.92     |
| 2        | D      | 32.20     |
| 3        | C      | 55.49     |
| 4        | D      | 88.62     |
| 5        | A      | 43.71     |
| 6        | B      | 56.13     |
| 7        | A      | 26.97     |
| 8        | A      | 43.92     |
| 9        | C      | 69.13     |
| 10       | C      | 49.28     |
| 11       | D      | 78.11     |
| 12       | B      | 71.46     |
| 13       | C      | 72.64     |
| 14       | D      | 80.74     |
| 15       | B      | 62.03     |
| 16       | C      | 51.53     |
| 17       | B      | 62.03     |
| 18       | A      | 35.75     |
| 19       | B      | 76.77     |
| 20       | D      | 57.86     |

## **SECTION II**

### **(30 marks)**

Attempt ALL questions.

Answer the questions in the spaces provided in the paper.

#### **QUESTION 21**

Refer to the following advertisement.

(Note: Included here was an advertisement for bread runs which was omitted for copyright reasons. Please refer to 1995 HSC Examination Paper.)

List and describe four sources of change in the external environment that should be investigated before considering the purchase of this business.

#### **Topic outcomes which the question examined:**

- identify the nature and sources of change affecting business entities
- suggest possible future changes that could impact on a business

#### **Skill outcomes which the question examined:**

- analyse business data trends and issues

The majority of candidates were able to achieve outcomes relating to:

- analysing business data, trends and issues
- describing the effect of the external environment on a specific business ie. bread run

However, candidates were less clear about outcomes relating to:

- suggesting possible future changes that could impact on the bread run

#### **General comments**

Most candidates were able to identify sources of change that could impact on a business. Better candidates were able to identify relevant sources of change in the external environment and relate these directly to the bread run.

#### **Excellent responses**

Candidates were able to identify four sources of change in the external environment that should be investigated before purchasing the bread run. The sources of change were fully described and applied to the business eg. changes in economic conditions or more specifically interest rates; demand for bread via changing numbers of tourists.

Better candidates clearly indicated the potential effect on the bread run of each of the external factors considered. For example,

- economic changes - a change of interest rates could affect the bread run if borrowings were relied upon
- social change - demographic change such as an ageing population which would probably welcome the convenience of a bread run delivery service
- technological change - the use of home bread making machines would affect the demand for home deliveries of bread regulations that might affect the bread run business
- geographic changes - the tourist season may fluctuate because of changes in the weather and the long term viability of the towns may change

### **Sample Excellent Response**

1. **Competition** - Competition in the area must be investigated. This will give the purchaser insight into the threat the competition poses to the business, eg market share. Also the purchaser will be able to see the quality and service offered by competitors.
2. **General Economic Conditions** - Economic conditions affect people spending habits. This bread run delivers to resort towns, and in a recession, for example, which is characterised by low consumer spending and high levels of unemployment, consumers are less likely to be going on holidays at resorts and therefore the demand of the resorts will decrease meaning less demand for the bread.
3. **Changing Technology** - Technology is constantly changing and increasing efficiency of many businesses and industries. The technology used to manufacture the bread may be dated or becoming obsolete, which would mean competitors with upgraded machinery could offer quicker, more efficient service. The vehicles would also need to be inspected to see if they were sufficiently capable of meeting demands, eg good working order.
4. **Government Regulations** - There are many government regulations that affect business today. This business would have to follow regulations such as Occupational Health and Safety and there would be many hygiene restrictions imposed on both the production and delivery of the bread. These regulations would have to be investigated before purchasing such a business.

A Situation Analysis, or Environmental Analysis would inform a potential purchaser of the environment in which the business operated, and would help identify sources of change that would affect it.

### **Above average responses**

Candidates usually described four external factors but in less detail. Some candidates failed to clearly outline the potential effects of external sources of change on the bread run.

### **Average responses**

Candidates provided minimal description of four or less external factors, described them briefly and their responses were often not related to the bread run business. Both external and internal factors were included in their responses.

## QUESTION 22

- (a) Define 'working capital'.
- (b) List FOUR sources of working-capital finance.
- (c) Describe TWO ways in which management can improve working capital.

### Topic outcomes which the question examined:

- describe the role of finance and cash flow in the operation of a business
- explain the role and importance of working capital management

### Skill outcomes which the question examined:

- suggest alternative solutions to business problems
- demonstrate effective written and oral use of common business language including financial information, graphs and diagrams

The majority of candidates were able to achieve outcomes relating to:

- describing the role of finance and cash flow in the operation of a business
- explaining the role and importance of working capital management
- suggesting alternative solutions for businesses with working capital problems

However, candidates were less clear about outcomes relating to:

- demonstrating effective use of common business language

### General comments

Candidates demonstrated a good understanding of working capital and its importance to a business. Many candidates were able to identify some ways in which working capital could be improved. However, some candidates were unable to distinguish between types of working capital and sources of working capital.

### Excellent responses

Candidates answered all parts of the question in detail and demonstrated a knowledge and understanding of working capital, sources of working-capital finance and ways in which management can improve working capital.

### Part (a): Define working capital

In order to gain full marks candidates were expected to define working capital from either:

- \* the accounting point of view (current assets minus current liabilities), or
- \* the financial management point of view (working capital particularly in relationship to the business's investment in such things as its inventory, receivables and cash).

Better candidates discussed both definitions.

### Part (b): List four sources of working-capital finance

The source refers to the places from which the working capital is obtained. Sources included:

- banks
- merchant banks
- finance companies
- general public (source of either debt or equity)
- companies (as in inter-company loans)
- credit unions
- building societies
- family and friends

### **Part (c): Describe two ways in which management can improve working capital**

Candidates were able to use appropriate terminology and fully explain the way in which these management strategies are implemented to improve working capital of the business. Examples are:

- inventory policy, often including an appropriate explanation of Just-In-Time Accounts receivable or debtors policy (adherence to set credit limits, repayment time)
- cash policy (possibly refusing credit so there are no bad debts or funds tied up)
- accounts payable policy (effective use of trade credit)
- leasing rather than purchasing non-current assets thereby freeing up funds for use as working capital
- factoring through the sale of customers' debts or receivables

### **Sample Excellent Response**

(a) Define 'working capital'.

Working capital is the management of the inventory and credit of the business ie the short term assets and short term liabilities which generates the cash flow of the business.

(b) List FOUR sources of working-capital finance.

- (i) Merchant Banks
- (ii) Credit unions
- (iii) Sale of non-productive assets
- (iv) Finance companies

(c) Describe TWO ways in which management can improve working capital.

(i) Credit policy = introduce tighter terms of credit, reduce the number of days a creditor can pay in and bring in a debt collection agency so that funds can be retrieved for use so that cash increases.

(ii) Inventory policy = use the system of Just In Time inventory control procedures concerned with the total elimination of waste throughout the business.

### **Above average responses**

Candidates were able to clearly define working capital but some candidates were confused between types and sources in Part (b). Most candidates were able to demonstrate an understanding of ways management could improve working capital but descriptions were less precise.

### **Average responses**

Candidates provided a basic definition of working capital but often confused types of working capital with sources of working capital. Candidates provided a limited description of the ways in which management could improve working capital.

## QUESTION 23

Aussie Lobsters won an Australian Export Award in 1994. Over 99% of its earnings is derived from exports.

|         |                |
|---------|----------------|
| 1992-93 | \$4.5 million  |
| 1993-94 | \$11.0 million |
| 1994-95 | \$22.0 million |

The company was established three years ago. It attributes much of its sales success to market analysis and a close examination of the lobster industry prior to beginning operations.

Describe TWO planning tools that Aussie Lobsters may have used in its market and industry analysis prior to beginning operations.

### **Knowledge and understanding outcomes which the question examined:**

- identify and describe the techniques used by business managers in planning, organising, leading and controlling

### **Skill outcomes which the question examined:**

- examine trends in a business
- interpret appropriate data
- make inferences from data

The majority of candidates were able to achieve outcomes relating to:

- identifying and describing the planning techniques used by business managers of Aussie Lobsters
- examining trends in the business eg. the increased export earnings over time
- interpreting appropriate data

However, candidates were less clear about outcomes relating to:

- making inferences from the data

### **General comments**

Most candidates were able to identify SWOT analysis and market research as appropriate planning tools. However, candidates often failed to describe these tools in relation to Aussie Lobsters *prior to the commencement of business*.

Better candidates described how the planning tools were used in market and industry analysis and inferred how their use would have increased export earnings.

However, some candidates found it difficult to correctly make use of the stimulus material in their responses.

### **Excellent responses**

Candidates used relevant business language in their responses and often included financial information, graphs, diagrams and tables. They identified and fully described various planning tools appropriate to the period *prior to the commencement of business*. Planning tools included financial modelling, break-even analysis, budgets and decision-making techniques including SWOT analysis, decision trees, schedules, critical path analysis and the use of outside consultants. Candidates demonstrated a good understanding of the purpose of planning tools in initiating and responding to change.

## Sample Excellent Response

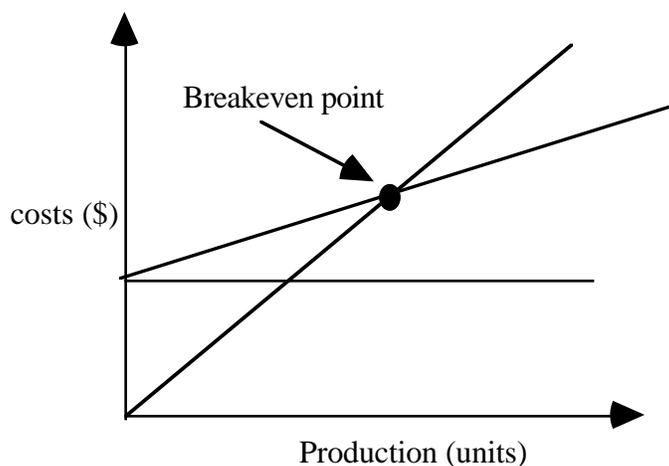
A planning tool that "Aussie Lobsters" might have used in its market and industry analysis prior to beginning operations would be SWOT ANALYSIS. "Swot analysis" involves identify strengths, weaknesses, opportunities and threats. Strengths and weaknesses involves internal analysis, ie looking at sources of finance, employees and managers. Opportunities and threats involves an external analysis, ie involves analysing competitors, the state of the economy and any types of barriers that may present or hinder the lobster industry.

SWOT analysis in the lobster industry plays a very large part in the business success, because such threats as water pollution and environmental damages may hinder the success of *Aussie Lobsters*

Another planning tool that "Aussie Lobsters" might have used and should have used would be a break - even analysis. A break even analysis involves the use of data and information to determine/predict how many units must be sold in order to break even. For example "Aussie Lobsters" might have had to sell 10,000 lobsters as a result of the break even analysis. The break even analysis that "Aussie Lobsters" used would be somehow similar to this:

$$\text{Break even point} = \frac{\text{total revenue}}{\text{price per unit} - \text{variable costs}}$$

The Breakeven analysis that "Aussie Lobsters" used can also be graphically illustrated.



Hence, "Aussie Lobsters" would have used Break-even and SWOT analysis in its market and industry analysis.

### Above average responses

Candidates identified and described various planning tools appropriate to the commencement of business but in less detail than excellent responses. They demonstrated a good understanding of the purpose of planning tools in initiating and responding to change.

### Average responses

Candidates identified and described two planning tools, however, these tools were sometimes inappropriate to the commencement stage of Aussie Lobsters. Other candidates identified two planning tools but with an imbalance in the depth of analysis. Candidates provided minimal analysis of the importance of planning tools in initiating and responding to change.

## QUESTION 24

Abraham Marsh, the owner of a sports store, is concerned that his business consistently shows good earnings but is often short of cash. Knowing that many of his sales are cash transactions, he has implemented internal-control procedures. One employee is responsible for keeping the accounting records, collecting the cash, and banking deposits. Another employee is responsible for ordering merchandise, receiving and counting the goods when they arrive, and writing cheques to pay for the merchandise.

- (a) Evaluate the internal-control procedures.
- (b) Suggest an alternative internal-control procedure that could be adopted by Abraham Marsh. Explain the benefits to the business.

### **Topic outcome which the question examined:**

- evaluate various management planning, organising, leading and controlling techniques

### **Skill outcomes which the question examined:**

- interpret appropriate data
- make inferences from data

The majority of candidates were able to achieve outcomes relating to:

- identifying various management planning, organising, leading and controlling techniques
- interpreting appropriate data

However, they were less clear about outcomes relating to:

- evaluating various management planning, organising, leading and controlling techniques
- making inferences from data

### **General comments**

Candidates were able to identify the internal control procedures but only the excellent candidates were able to judge their effectiveness and achieve the higher order outcomes of making the correct inferences from the data.

### **Excellent responses**

In Part (a) responses evaluated the business procedures of the sports store. By recognising that the division of work between employees reflected a flawed control mechanism, the excellent candidates inferred that there was a potential for fraud or theft.

In Part (b) responses were able to demonstrate a clear understanding of control procedures. As well, candidates were able to suggest appropriate alternatives including

- reorganisation of work to facilitate cross checking
- job rotation
- a computerised system to control stock and cash

The benefits of these systems to the business were clearly explained.

## Sample Excellent Response

- (a) Evaluate the internal-control procedures.

Abraham Marsh's inter-control procedures have several faults. They are the dependability of staff - if staff are dishonest they could steal from the business. For this system to work effectively the two employees would have to spend time communicating with each other. If the second employee was late giving the other their information then the first would not be able to complete the banking records or accounting records.

Specialisation of tasks which are so interdependent can create problems if one employee takes leave or is sick etc.

- (b) Suggest an alternative internal-control procedure that could be adopted by Abraham Marsh. Explain the benefits to the business.

Computerisation of inventory controls. This method would allow access to Abraham and the other employees to information such as - current stock levels, ordering of goods and funds needed on a day to day basis to cover incoming stock.

An account with the supplier is also a suitable way to relieve the employee of handling cheques.

This system allows complete control of stock both in and out as well as accounting for the amount of cash received for amount of goods sold. Ideally this system would include scanning of products at point of sale therefore keeping complete control of all gross profit, stock control, cheques payable.

### Above Average Responses

In Part (a) candidates recognised the flawed controls in operation but evaluation was less detailed.

In Part (b) candidates suggested simpler alternate control procedures such as

- installation of security cameras
- the owner taking absolute control of the processes

Responses were less clear about the benefits of the new controls to the business.

### Average Responses

In Part (a) candidates described the flawed control procedures but with little evaluation of the current procedures.

In Part (b) candidates suggested less appropriate controls such as

- stocktaking
- Just-In-Time
- Profit and Loss Accounts
- the Balance Sheet
- Mr Marsh should do it all

## QUESTION 25

The following information has been taken from the published financial reports of *Corinna Thomas Ltd.*

|  | 30 June 1994     | 30 June 1995     |
|--|------------------|------------------|
| Sales  | \$100 000        | \$115 000        |
| Rate of stock turnover<br>$\left( \frac{\text{Cost of goods sold}}{\text{Average stock}} \right)$    | 6 times per year | 5 times per year |
| Gross profit ratio<br>$\left( \frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1} \right)$ | 35%              | 30%              |
| Net profit ratio<br>$\left( \frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1} \right)$     | 8%               | 5%               |

- (a) Identify ONE possible cause for the decline in the:
- gross profit ratio;
  - net profit ratio.
- (b) Propose ONE strategy that could reverse the trend in the:
- rate of stock turnover;
  - gross profit ratio;
  - net profit ratio.

### **Skill outcomes which the question examined:**

- critically analyse published financial reports
- examine trends in business
- interpret appropriate data
- make inferences from data
- suggest alternative solutions to business problems

The majority of candidates were able to achieve outcomes relating to:

- the critical analysis of published financial reports
- examining trends in business
- the interpretation of appropriate data

However, candidates were less clear about outcomes relating to:

- making inferences from data
- suggesting alternative solutions to business problems

### **General comments**

Candidates were able to analyse financial reports and to recognise trends in business. However, some candidates were less able to make appropriate inferences from the data and so found it more difficult to recommend alternative solutions to business problems.

## Excellent responses

### **PART (a) (i) Identify one possible cause for the decline in the gross profit ratio**

Most candidates identified increases in the cost of goods sold from 1994 to 1995 as a possible cause. Other responses suggested that inefficient stock control or stolen stock was responsible for the decline.

### **PART (a) (ii) Identify one possible cause for the decline in the net profit ratio**

Candidates clearly outlined the relationship between the gross profit ratio and the net profit ratio by inferring that any strategy to increase the gross profit ratio such as finding a supplier who provides cheaper stock could increase the net profit ratio.

Other candidates suggested a possible decline in net profit ratio was due to the increases in selling, administrative and financial expenses.

Candidates related the answers in Part (a) (i) and (ii) to Part (b) (ii) and (iii).

### **PART (b) (i) Propose one strategy that could reverse the trend in the rate of stock turnover**

Responses clearly stated alternative solutions to the business's declining ratios. Improved stock control, Just-In-Time inventory control, introduction of faster moving lines, elimination of slow lines, specific methods to increase sales, more effective advertising, decrease in price and overall better marketing strategies were suggested as ways to reverse the decline in the stock turnover rate.

### **PART (b) (ii) Propose one strategy that could reverse the trend in the gross profit ratio**

Strategies to reverse the trend in the gross profit ratio included:

- efficient stock control
- any strategy to increase sales

### **PART (b) (iii) Propose one strategy that could reverse the trend in the net profit ratio**

Strategies to reverse the trend in the net profit ratio included:

- increased productivity
- establishing cost-cutting methods
- an increase in other income
- any strategies to increase sales

## Sample Excellent Response

- (a) Identify ONE possible cause for the decline in the:
- (i) gross profit ratio;  
The gross profit may decline due to an increase in the cost of goods sold while average stock remains the same.
- (ii) net profit ratio.  
Average stock may increase which leads to an increase in other expenses such as warehousing which costs extra money to house more products and therefore decreasing the amount of Net Profit.
- (b) Propose ONE strategy that could reverse the trend in the:
- (i) rate of stock turnover;  
Do greater promotions therefore allowing less average stock in turn increasing the rate of stock turnover.
- (ii) gross profit ratio;  
Change suppliers to decrease the price of goods sold to entail a greater gross profit.
- (iii) net profit ratio.  
Decrease the number of other expenses by buying your own showroom to display the goods instead of paying rent each week. You would only need to pay electricity, water, telephone and council rates.

### Above average responses

Responses were clear about the components of gross profit and net profit ratio. However, candidates tended to be less precise about strategies relating to stock turnover, gross profit and net profit ratio. Many of the responses assumed (mistakenly) that a decrease in the stock turnover rate necessarily meant that less stock was sold.

### Average responses

Candidates were aware of the components of gross and net profit but they provided limited strategic inferences from the data and had difficulty interpreting the ratios. Similar answers were often given for each part of the question.

## QUESTION 26

### TERMINATOR TWO BALANCE-SHEET AS AT 30 JUNE 1995

|  | \$            | \$                    |                                  | \$            | \$                    |
|--|---------------|-----------------------|----------------------------------|---------------|-----------------------|
| <b>CURRENT ASSETS</b>                  |               |                       | <b>CURRENT LIABILITIES</b>       |               |                       |
| Investments                            | 13 800        |                       | Bank                             | 9 200         |                       |
| Debtors                                | 30 000        |                       | Creditors                        | 4 500         |                       |
| Inventory                              | <u>22 900</u> | 66 700                | Accrued expenses                 | <u>900</u>    | 14 600                |
| <b>NON-CURRENT ASSETS</b>              |               |                       | <b>NON-CURRENT LIABILITIES</b>   |               |                       |
| Plant and equipment                    | 57 300        |                       | Loans                            | 12 500        |                       |
| <i>less</i> Provision for depreciation | <u>2 500</u>  | 54 800                | Provision for long service leave | <u>1 200</u>  | 13 700                |
|  |               |                       | <b>OWNERS' EQUITY</b>            |               |                       |
|  |               |                       | Capital                          | 68 900        |                       |
|  |               |                       | Net profit                       | <u>24 300</u> | 93 200                |
| <b>TOTAL</b>                           |               | <u><u>121 500</u></u> | <b>TOTAL</b>                     |               | <u><u>121 500</u></u> |

- (a) Explain why the item 'Bank' is shown as a current liability.
- (b) Terminator Two has been operating for only one year. Comment on the liquidity of the business.
- (c) Comment on the profitability of the business.

#### **Skill outcomes which the question examined:**

- read and interpret a range of accounting and financial reports used by business managers
- demonstrate the use of business methods and computational techniques
- apply these methods and techniques in business decision-making and problem-solving processes
- interpret appropriate data
- make inferences from data

The majority of candidates were able to achieve outcomes relating to:

- reading the Balance Sheet of Terminator Two
- undertaking basic computations associated with liquidity and profitability

However, candidates were less clear about outcomes relating to:

- the higher order skills associated with interpreting and making inferences from the data

#### **General comments:**

It was pleasing to see that the majority of candidates were able to gain full marks in part a) of the question. While reading and computational skills were generally adequate, analysis and interpretation of the data are skills that many candidates still need to practise.

#### **Excellent responses**

These candidates answered all three parts of the question well, demonstrating a knowledge and understanding of the Balance Sheet and displaying the skills required to interpret data and comment on the business' financial position.

**Part a):** Here, candidates were required to:

- i) show that since the Bank is listed as a current liability, the \$9200 is owed by the firm to the bank.
- ii) note that as a current liability, it is a short term loan, possibly an overdraft.

**Part b):** Excellent response candidates showed a clear understanding of the concept of liquidity as it relates to this business. These candidates compared current assets to current liabilities either as a ratio or as a calculation of the level of working capital.

Using these calculations they concluded that the firm is liquid. The two most commonly used ratios were the current ratio and the quick ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{66\,700}{14\,600} = 4.56:1$$

Candidates were then able to comment that this firm had \$4.56 of current assets to pay for each \$1 of current liabilities and is, therefore, quite liquid.

In calculating the quick ratio (acid test), candidates recognised that Bank was quite possibly an overdraft and so subtracted this from current liabilities.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities} - \text{Bank}} = \frac{66\,700 - 22\,900}{14\,600 - 9\,200} = 8.1:1$$

Candidates who did not subtract 'Bank' were not penalised.

**Part c):** Excellent responses showed a clear understanding of the concept of profitability in relation to the business. Calculations were less common in this section as many candidates had possibly learned the formula for the net profit ratio, but in the absence of a Profit and Loss Statement were unable to find a sales figure to complete the calculation.

Many excellent responses calculated a return on owner's equity and went on to comment that this \$24 300 represented a very good return on the owner's investment, particularly in the first year of operation of Terminator Two.

$$\text{Return of owner's equity} = \frac{24\,300}{68\,900} \times \frac{100}{1} = 35\%$$

This is clearly an excellent return on owner's equity.

## Sample Excellent Response

- (a) Explain why the item 'Bank' is shown as a current liability.

The term 'Bank' refers to any money owed to the bank in the short term including overdraft or payment on loan.

- (b) Terminator Two has been operating for only one year. Comment on the liquidity of the business.

$$\text{quick ratio} = \frac{\text{quick asset}}{\text{quick debts}} = \frac{43\,800}{5\,400} = 811\%$$

Assuming that the business has no problems with collecting debts from their debtors, the business passes the 'acid test' very well. Its liquidity (how quickly it can turn, its assets into cash) is very good considering that it has been operating for only one year.

- (c) Comment on the profitability of the business

Considering that it is in its first year of operation, the net profit is fairly reasonable. Taking into account the investment and capital (under owners equity), the net profit is

$$\frac{24\,300}{13\,800 + 68\,900} = 29.4\%$$

The profitability of the business is fairly high as it gives a high return of the owner's investment, when most businesses in their first year of operation usually experience some loss.

### Above average responses

Most of these responses were able to recognise the two important features about the item 'Bank'.

In Part b) they demonstrated an awareness that the concept of liquidity relates to the business' ability to repay short-term debt, but were often less concise in their explanations than candidates in the excellent range. There were often errors in calculations. However, these responses tended to concentrate on a discussion of profitability often ignoring calculations but they recognised the profit figure and commented that it represented a good return.

### Average responses

In Part a), these responses tended to recognise that the \$9 200 was owed to the bank, and ignored the fact that the debt is current ie payable in the short term. In Part b) average responses showed a lack of understanding of the short term nature of liquidity and often included non-current assets and non-current liabilities in their response. In commenting on profitability, there was a tendency to invent Sales figures. A number of candidates confused total owner's equity (\$93 200) with net profit.

## SECTION III

Attempt TWO questions, each from a different option.  
Answer each question in a separate Writing Booklet.

### BUSINESS LAW

#### QUESTION 27. (25 marks)

(Note: Included here was a news release by the Trade Practices Commission, 28 March 1995, which was omitted for copyright reasons. Please refer to 1995 HSC Examination Paper.)

- (a) Outline the sources of business law in Australia.
- (b) Using the above merger as an example, explain the purpose of trade-practices legislation.
- (c) Identify and explain other legislation controlling the operation of business entities in Australia.

#### Outcomes which the question examined:

- understand the nature and role of law in contemporary business life.
- locate and select relevant business law.
- communicate effectively about legal aspects of the business.
- analyse the legal implications of business decision making.

The majority of candidates were able to achieve the outcomes relating to:

- understanding the nature and role of law in contemporary business life, the sources of law and the importance of law in controlling the operation of business entities in Australia.
- locating and selecting relevant business legislation, including Trade Practices legislation and its relevance to business decision making.
- communicating effectively about legislation controlling the operation of business.

However, candidates were less clear about outcomes relating to analysing the legal implication of business decision making in particular and unable to demonstrate a clear understanding of the purpose of TP legislation and the relevance of the Act to the proposed merger as in the example.

#### General Comments

The question gave candidates the opportunity to discuss the Statutory and Common Law framework of Business law and to discuss legislation influencing the operation of the business. Many students understood the principles behind Statutory and Common Law and could identify and discuss a minimum range of Statutes important in any business operation. However, many candidates failed to identify any relevant statutes.

### **Excellent Responses**

Candidates answered all three sections of the question in considerable depth. They were able to give a comprehensive outline of Business Law sources and the Statutory and Common Law framework. Many of the candidates also discussed the principles of delegated legislation and made supplementary comments on legislative change eg. the modern legal approach to enforcement of Business Law through test, authorisation and negotiation as practised by the Trade Practices Commission.

Candidates integrated the merger example into an in-depth discussion of the competitive purposes of TP legislation. They also noted the matters included in Sections 45-50 which are Restrictive Trade Practices (such as Agreements and Covenants affecting competition, Secondary Boycotts, Misuse of market power, Exclusive Dealing, Resale Price Maintenance, Price Discrimination and Acquisitions Substantially Lessening Competition). Some candidates also noted the 1992 Amendment to the TPC Act which altered the Mergers provision and affected the way the TPC enforced the Act - and the way the TPC authorises and rules on proposed mergers.

Candidates discussed a wide variety of legislation (Statutes) that control the operation of business entities. For example they discussed the Sale of Goods Act, Fair Trading Act, Occupational Health and Safety Act, Environmental Legislation, Anti-Discrimination Act, Worker Compensation Act, Credit Act and so on. Students were well acquainted with these Acts.

### **Above Average Responses**

Candidates answered all parts of the question in detail. They gave a well developed outline of Business Law sources, with a discussion of Statutes and Common Law. They also discussed the merger example in the context of the overall competitive promotion purposes of the TPC. These candidates identified and gave extended explanations of a smaller range of relevant legislation.

### **Average Responses**

Candidates attempted all parts of the questions. They gave an outline of Business Law sources with a limited discussion of the Statutory and Common Law framework. They concentrated on the merger example with relation to the TPC's purpose of promoting competition. They also gave a more limited explanation of a small number of Statutes.

### **QUESTION 28. (25 marks)**

Joseph is the sole owner and operator of a bread shop trading from 7.00 am. to 6.00 pm. At 6.00 am. on 15 November 1994, Megan, a family friend, entered the shop to purchase some bread.

As she approached the counter, she slipped on the freshly mopped floor. She was taken to hospital, suffering spinal damage and a broken leg, and was discharged two months later.

Today she walks with a permanent limp and is unable to participate in any sport. Megan has instigated legal proceedings to recover damages.

- (a) Outline the legal structures, processes, and institutions that might be used in settling the dispute.
- (b) Identify the legal grounds for the dispute, and the possible resolutions of this dispute.
- (c) Recommend and justify alternative business structures that would give Joseph better financial protection.

### **Topic outcomes which the question examined:**

- understand the nature and role of law in contemporary business life
- describe the legal structures, processes and institutions used in settling business disputes
- identify business situations having legal implications
- locate and select relevant business law
- understand and apply appropriate legal principles to new and everyday business situations
- communicate effectively about the legal aspects of business situations
- reach conclusions in business law based on logical reasoning
- analyse the legal implications of business decision making

The majority of candidates were able to achieve outcomes relating to:

- understanding the nature and role of law in contemporary business life, specifically the nature and role of civil liability in the case
- describing the legal structures, processes and institutions used in settling a broad range of business disputes
- identifying the legal implications of the case scenario situation
- locating and selecting business law applicable to this case
- understanding and applying the legal principles relating to the tort of negligence
- communicating effectively about the legal aspects of the business situation
- reaching conclusions in business law based on logical reasoning relating to the case and the relevant legal consequences and possible resolutions
- analysing the legal implications of business decisions relating to appropriate alternative business structures

However, candidates were less clear about outcomes relating to

- describing the legal structures, processes and institutions used in settling this particular case.

### **General Comments**

It was pleasing to see that almost all students were able to suggest alternate business structures to offer better financial protection for Joseph. However, students were less able to apply their knowledge and understandings of business law to the case, particularly in relation to the mechanism for dispute resolution.

### **Excellent Responses**

Candidates answered all three sections of the question in depth using appropriate legal terminology eg. tort, negligence, damages, litigation, mediation, mitigation. Candidates showed a clear understanding of the relevant legal structures, processes and institutions used to settle this dispute. The candidates were able to identify and discuss the tort of negligence arising from the business relationship between Megan and Joseph.

In particular, candidates clearly identified the civil liability arising from the case and recommended Megan instigate legal proceedings caused by Joseph's negligence in failing to provide a safe business environment. Candidates suggested that Megan pursue her claim through mediation involving the Law Society of New South Wales and/or litigation through the Court system. The candidates also discussed the methods of instigating legal proceedings and the relevant court structures. Once legal proceedings commenced some students then discussed the option of resolving the dispute through direct negotiation between the parties (Megan and Joseph) and/or their legal representatives.

Candidates justified the legal grounds for dispute and noted that the friendship between the two was inconsequential and focussed on the issues of Joseph's obligations to provide a safe business environment irrespective of the hours of trade. Some students made explicit their assumptions in justifying their choice of possible resolutions to the dispute eg. that it may have been customary for Joseph to trade out of hours and that Megan may have been a regular out of trading hours customer.

Other students argued that Megan was an uninvited customer and therefore her act of trespass mitigated Joseph's legal responsibilities. As a result of their assumptions about the dispute, candidates recommended appropriate damages as a resolution of their case.

Most candidates recommended and justified alternative business structures that would give Joseph better financial protection and discussed the implications of limited and unlimited liability. Some students extended their responses beyond the syllabus to discuss the importance of appropriate insurance as better financial protection reflecting the dynamic nature of the business environment.

### **Above Average Responses**

Candidates answered all sections of the question using appropriate legal terminology but in less detail than the excellent responses. They demonstrated an understanding of most relevant legal structures, processes and institutions that could be used in resolving this case eg. litigation through the Court system.

Responses provided a good analysis of the nature of the business relationship between Megan and Joseph, identified the legal grounds for the dispute and made appropriate recommendations as to possible resolutions to the dispute.

Candidates justified alternate business structures that would give Joseph better financial protection.

Generally, when compared to the excellent responses, the above average responses provided a less complete analysis and understanding of the relevant legal structures, processes and institutions used to settle this dispute.

### **Average Responses**

Candidates answered most sections of the question with little reference to appropriate legal terminology and sometimes there was an imbalance in the depth of discussion in each section. Candidates demonstrated an understanding of some relevant legal structures, processes and institutions although some candidates were less able to relate the structures, processes and institutions to the case. Some responses offered inappropriate dispute resolution procedures.

Candidates provided some analysis of the nature of the business relationship between Megan and Joseph but some students were distracted by the friendship between Megan and Joseph. There was limited analysis of the legal grounds for the dispute and possible resolutions.

Generally, candidates offered appropriate alternative business structures to give financial protection, such as partnerships and companies, but did not explain the full implications of limited and unlimited liability.

# INDUSTRIAL RELATIONS

## QUESTION 29. (25 marks)

Refer to an industrial dispute you have studied.

- (a) Identify the parties to the dispute.
- (b) Describe the causes and consequences of the dispute.
- (c) Explain the processes used to resolve the dispute.
- (d) Analyse the impact of the dispute on the business and its workforce.

### Outcomes which the question examined:

- understand the nature and role of trade unions and employer groups in the industrial relations process
- understand the causes of industrial conflict and types of industrial action
- appreciate the way the political, economic, social and other environmental influences affect industrial relations
- explain the dynamic nature of industrial relations

The majority of candidates were able to achieve outcomes relating to:

- understanding the nature and role of trade unions and employer groups in the industrial relations process
- understanding the causes of industrial conflict and types of industrial action
- appreciating the way the political, economic, social and other environmental influences affect industrial relations

However, candidates were less clear about outcomes relating to:

- explaining the dynamic nature of industrial relations

### General Comments

Most students answered the question using an appropriate industrial dispute. Disputes which were more complex and were studied in greater depth gave candidates more opportunity to demonstrate their knowledge of a broad range of industrial relations processes and issues. Most candidates used contemporary disputes which could be related to the current industrial relations framework.

### Excellent Responses

Candidates answered all parts of the question and described a relevant dispute in depth using appropriate terminology eg. arbitration, award, pickets, lockouts, strikes, mediation, grievance procedures, Industrial Relations Commission. They clearly identified all the relevant parties to the dispute and provided the chronological order to their dispute.

Commonly used disputes by candidates were the Mt Isa Mines salary dispute and the Australian Pulp and Paper Manufacturers (APPM) award agreement dispute.

Candidates provided detailed analysis of the causes of the dispute and assessed the role played by a range of the parties to the dispute eg. employee, union, employer, government, ACTU. Candidates could also distinguish between the immediate consequences of the dispute and its longer term impacts. The immediate consequences included loss of wages, loss of production and loss of profits. The longer term impacts included loss of market share, changed industrial relations processes and improved human resource management processes.

In the record of their dispute candidates identified types of industrial action including stop work meetings, lockouts, pickets and strikes. They discussed the importance of direct negotiation, conciliation and arbitration according to their case study. Many candidates incorporated throughout their response the way in which political, economic, social and environmental factors influenced the causes of the dispute and the resolution process eg. government pressure because of the economic importance of the dispute.

Through their discussion of the impact of the dispute on the business and its workforce, the best candidates were able to discuss the dynamic nature of industrial relations.

### **Above Average Responses**

Candidates answered all parts of the question using relevant terminology. They identified the relevant parties to their dispute and provided good analysis of the causes of the dispute and parties involved in the dispute. They went on to identify different types of industrial action and the processes used in resolving the dispute.

These candidates were less able to identify a range of external factors and internal processes impacting on the dynamic nature of industrial relations.

### **Average Responses**

Average responses fell into two clear categories. Firstly, candidates who knew a relevant dispute but were descriptive and anecdotal in their treatment of the dispute. In general, they knew the causes and immediate consequences and could briefly describe the sequence of dispute resolution processes. Candidates often presented confused descriptions of the impacts of the dispute and were more limited in their use of terminology relating to industrial relations.

Secondly, candidates who presented a general set of notes under the headings in the question. They made occasional reference to a relevant case study or to a number of case studies. Some of the responses demonstrated that the candidates had a good knowledge of the topic but they were unable to respond appropriately to the question. Some of these responses were clearly "prepared".

## **QUESTION 30. (25 marks)**

The chief executive officers (CEOs) of a number of business firms meet regularly to discuss a range of issues. Their firms operate in highly competitive markets and each CEO is keen to achieve a competitive advantage.

Prepare a report to the CEOs to:

- (a) explain how the dynamic nature of industrial relations can affect a business;
- (b) identify and evaluate THREE industrial relations practices that could be used to increase business productivity, profitability, and capacity to innovate.

### **Topic outcomes which the question examined:**

- appreciate the way the political, economic, social and other environmental influences affect industrial relations
- assess the influence of beliefs and values on industrial relations by individuals, trade unions, business firms and governments
- explain the dynamic nature of industrial relations.

### **Skill outcome which the question examined:**

- design business reports.

The majority of candidates were able to achieve outcomes relating to:

- appreciating the way the political, economic, social and other environmental influences affect industrial relations
- assessing the influence of beliefs and values on industrial relations by individuals, trade unions, business firms and governments.

However candidates were less clear about outcomes relating to:

- explaining the dynamic nature of industrial relations
- designing business reports.

### **General Comments**

Many students prepared a report as directed in the question. Generally Part (b) was the better answered as many candidates experienced difficulty with the concept of the dynamic nature of industrial relations and its effect on business.

Most candidates, however, were able to recognise three industrial relations practices which could increase business productivity and profitability. They were less able to link the practices to the capacity to innovate.

### **Excellent Responses**

Candidates answered both parts of the question in depth. They were able to link changes in the external environment (political, economic, social, legal, historical and technological) to changes in industrial relations.

Some of these changes were:

- the Accord and the move to a more decentralised wage-fixing system
- the changing nature of the workforce, eg part-time and casual workers
- changes in legislation, eg the Industrial Relations Reform Act, Affirmative Action
- problems with the Current Account deficit and the need to be internationally competitive
- introduction of new technology.

Many candidates also discussed the importance of beliefs and values of participants in the industrial relations process and the subsequent effects on business.

In Part (b) candidates clearly identified three industrial relations practices that could increase productivity and profitability, eg

- increased employee participation via profit sharing schemes, quality circles and staff team
- enterprise bargaining
- award restructuring - multi skilling and broadbanding
- grievance procedures.

Candidates were generally able to evaluate the range of positive and negative outcomes which resulted from the introduction of these practices in relation to productivity, profitability and the capacity to innovate.

Rather than evaluating negative outcomes, candidates emphasised positive outcomes of industrial relations practices and how the involvement of workers makes for a more 'harmonious' working environment.

### **Above Average Responses**

Candidates were less able to explain the dynamic nature of industrial relations and its impact on the business. They were able to identify changes in the external business environment but they were less able to relate these changes to the dynamic nature of industrial relations can affect the business.

Candidates were able to identify and evaluate three industrial relations practices that could be used to increase business productivity and profitability. However, they had difficulty relating industrial relations practices to the capacity to innovate.

### **Average Responses**

Candidates were able to identify some general changes in the external business environment that may affect a business. However, they limited their discussion of the dynamic nature of business to the impact of conflict on the business.

Candidates generally identified three industrial relations practices that could affect productivity and profitability but provided little evaluation of practices and failed to address the issue of capacity to innovate.

# MARKETING

## QUESTION 31. (25 marks)

Over the Edge Pty Ltd, a small computer-research company, has invented a revolutionary virtual-reality system that will operate when attached to a personal computer. This new generation of computer game only requires the computer user to link the new Over the Edge MEGATRON\* to their computer and to wear the exclusive MEGATRON headset. When launched in this mode, any existing computer game becomes an amazing virtual-reality experience.

Current costings suggest that the MEGATRON and headset will, when mass-produced, sell for approximately US \$100.

Brad Wizard and Kim Nguyen, directors of Over the Edge, see the enormous worldwide potential of their new product, but lack the skills and business experience to market it.

They are considering alternative marketing strategies. The first is a 'full-on market blitz'. The other is a more socially conscious approach, because they are concerned about the effect their product may have on the millions of computer-game enthusiasts worldwide.

\* MEGATRON is a registered trade name of the Over the Edge corporation.

Prepare the following TWO marketing plans for the MEGATRON.

- (a) A 'full-on market blitz'.
- (b) A socially conscious approach.

### Topic outcomes which the question examined:

- understand the role of marketing in business
- describe the steps in successfully marketing a product (a good or service)
- devise a marketing plan
- critically assess the implementation and management of a marketing plan

### Knowledge and skill outcomes which the question examined:

- examine the relative merits of solutions to business problems
- predict probable consequences of a course of action taken by management, to the business, society and the environment

The majority of candidates were able to address outcomes relating to:

- understanding the role of marketing in business by describing the need for Megatron, as a new product, to be promoted in the market place
- describing the steps in successfully marketing a product, by discussing, at the very least, that Over the Edge should attempt to target their market and that they would then use a variety of marketing strategies to reach that target market
- devising a marketing plan
- suggesting alternative solutions to business problems, by suggesting alternate strategies that Over the Edge could use to spread the Megatron message

However, candidates were less clear about outcomes relating to:

- critically assessing the implementation and management of a marketing plan
- predicting probable consequences of a course of action taken by management, to the business, society and the environment

## **General Comments**

Most candidates were able to present some important components of a marketing plan for Over the Edge Pty Ltd. However, only excellent candidates were able to present two complete marketing plans incorporating financial forecasts and to critically assess the implementation and management of the plans.

Many candidates used a business report style format in presenting their marketing plans.

## **Excellent Responses**

Excellent responses contained two separate and comprehensive marketing plans and candidates demonstrated a good understanding of structure and content parts of marketing plans. Responses recognised that marketing planning is a sequenced process of management planning, organising, leading and controlling rather than just the 4 P's.

Candidates were able to differentiate between the 'full-on market blitz' approach and the 'socially conscious' approach and explain why differentiation would occur. An example of a 'full-on market blitz' approach which students used was Windows 95 where every media was used, every market segment was saturated and Windows 95 was available in every conceivable outlet.

Some common elements included in 'socially conscious' plans included caution to warn consumers of detrimental health effects, testing the market to ensure that product is not over used and that there are no negative health outcomes, developing a marketing strategy more slowly and targeting selected niches of the total market.

Excellent marketing plan formats included reference to, and discussion of, a selection of the following:

- vision and mission statements, executive summaries, broad objectives, specific marketing objectives, broad strategies, organisational goals, market research, target markets
- a variety of analyses eg. market analysis, situational analysis, cost benefit analysis, environmental analysis, competitive analysis, SWOT analysis, financial analysis
- planning eg. strategic plans, action plans, test marketing plans, sales forecasting plans and budgeting, methods to monitor and control plans
- strategies eg. implementation strategies, skimming, branding, segmenting and niche market strategies, in depth discussion of how they would design the marketing mix - 4Ps
- control measures eg. monitoring techniques, testing procedures, evaluation and modification tools

Candidates often included an outline or diagram as an overview of the proposed framework for their two plans before beginning their actual response.

Excellent responses discussed the relationship between the marketing plan and the overall business plan.

## **Above Average Responses**

Candidates completed two marketing plans but with less depth of analysis than excellent responses. Both completed plans contained significantly different details and fewer strategies applicable to the Over the Edge business situation. Candidates demonstrated a general knowledge of marketing planning tools and concentrated on one or two aspects of the total marketing process only. Responses included a discussion of the 4Ps of the marketing mix.

## **Average Responses**

Candidates demonstrated a basic knowledge and understanding of the marketing plan, including information about marketing in general. Responses tended to focus on the 4 Ps of the marketing mix. Responses were descriptive and often restated much of the stimulus material. Candidates often did not include marketing objectives, financial information or managing/evaluation data and used fewer practical examples of strategies that Over the Edge could use in this business situation.

## QUESTION 32. (25 marks)

Refer to a business you have studied.

- (a) Describe the marketing strategies that have been used.
- (b) Identify and explain the internal and external influences that resulted in the choice of these marketing strategies.
- (c) Outline how the marketing plan of the business has been managed.

### Topic outcomes which the question examined:

- understand the role of marketing in business
- describe the steps in successfully marketing a product (good or service)
- critically assess the management of a marketing plan.

Knowledge and understandings outcomes which the question examined:

- recognise the implications of change for business and society.

The majority of candidates were able to achieve outcomes relating to:

- understanding the role of marketing in business
- describing marketing strategies used by the business to successfully market its product
- identifying the changes in society that influence the marketing strategies of the business
- identifying one or more influences on the choice of marketing strategies used.

However, candidates were less clear about outcomes relating to:

- critically assessing the management of the marketing plan
- recognising the implications of change for business and society
- identifying internal or external influences on choice of marketing strategy.

### General Comments

A large number of candidates answered the question in appropriate report style making each section distinctive while showing the relationship between Parts (a), (b) and (c). A tabular presentation was used by some students in answering Part (b) which added to the clarity of their response. Some candidates used relevant diagrams to enhance their response.

Part (a) was generally well answered with the better candidates making specific reference to the 4Ps. Many candidates however, spent an disproportionate amount of time on this part at the expense of Parts (b) and (c).

Part (b) was answered by most candidates with the better candidates being able to identify certain types of both internal and external influences clearly linking these to the choice of particular marketing strategies. Some candidates only referred to SWOT and analysis for this section.

Part (c) was generally not as well answered as Parts (a) or (b). Many candidates simply stated that the marketing plan was good or managed well, or outlined the process of developing a marketing plan. Better candidates however, were able to identify specific management tools of analysis such as variances on sale (by territory, product) follow up market research and secondary sources, eg publications such as Brandscan.

### Excellent Responses

Candidates addressed all parts of the question in appropriate depth and referred to a business and its products/services. Many candidates made specific reference to marketing strategies in relation to the 4Ps of the marketing mix. Although it was not necessary to answer the question this way, such an approach enabled candidates to present their answers in a logical and systematic manner. Other candidates discussed broader strategies such as increased market

share, geographic expansion, market penetration and price advantage supported by specific strategies not necessarily using the 4Ps.

Candidates were able to clearly differentiate between strategies and objectives, and had a good understanding of the purpose for such strategies.

In Part (b) candidates clearly identified and distinguished between internal and external influences and related these influences to specific strategies or the decision to implement specific strategies. The SWOT analysis was often used as a starting point with candidates giving a thorough explanation of the direct link between the influences and choice of strategies.

Candidates understood the concept of management and answered Part (c) in relation to monitoring, evaluating and modifying the marketing plan. They identified specific monitoring tools such as sales analysis, market research, meetings and other means of providing feedback, and discussed how this information was used to modify the plan in relation to the marketing mix, new product development, discontinuance and/or resource allocation.

### **Above Average Responses**

All parts of the question were attempted with at least two parts answered well. Candidates discussed fewer strategies and generally gave less detailed description of these strategies. Candidates were able to identify some internal and external influences but were less confident in relating these back to the marketing strategies.

Candidates were less clear on the role of management but they were able to provide some evidence of how a marketing plan was managed.

### **Average Responses**

Most candidates attempted all parts of the question although some candidates only attempted two parts. A few responses did not distinguish between the business and its products or relate the strategies specifically to a business. Generally candidates referred to a limited range of ungrouped strategies although some referred to elements of the 4Ps. Promotion was usually discussed well but little understanding was shown of Product or Price.

Although candidates referred to some influences they failed to distinguish clearly between internal and external influences. Little explanation was given linking these influences to the actual marketing strategies. Some candidates only used the SWOT analysis to discuss the internal and external influences on the business or were unsure whether it should appear in the marketing plan.

Candidates referred to the management of the marketing plan but made little reference to the specific tools used to monitor or modify the marketing plan. Some students confused production controls with marketing controls. It was common for candidates to just outline a marketing plan or the structure of a marketing plan to answer Part (c).

# SMALL BUSINESS MANAGEMENT

## QUESTION 33. (25 marks)

- (a) Explain what is generally understood by the term 'small business'.
- (b) Refer to a business you have studied.
  - (i) Outline the critical factors in its establishment.
  - (ii) Analyse the critical success factors in its management.
- (c) Evaluate the importance of the small business sector to the national economy.

### Topic outcomes which the question examined:

- recognise the importance of the small business sector in the national economy
- understand the factors contributing to a successful business
- recognise why there is a high failure rate in small business
- recognise the factors to be considered in establishing a small business

The majority of candidates were able to achieve outcomes relating to:

- recognising the importance of the small business sector to the national economy
- identifying the critical factors to be considered in establishing a small business

However, they were less clear about outcomes relating to:

- explaining why there is a high failure rate in small business (critical success factors)
- identifying the critical success factors to be considered in managing a small business

### General Comments

This question provided students with the opportunity to demonstrate both an understanding of business theory and the practical application of this theory through the use of a case study. The question focused on both skill and knowledge outcomes of the syllabus linking them with the Small Business Option.

Some students experienced difficulty with applying terms such as explain, outline, analyse and evaluate. This resulted in problems for these students in determining the correct depth of information required in parts of the question.

The need for a properly researched case study was appreciated by many students who consequently identified the features of the case study that were relevant to this question. They also clearly identified the business as a Small Business.

The majority of students used a retail business as their case study and it is pleasing to see an increasing number of students used small manufacturing and agricultural businesses with equal success.

Better students appreciated the linkages between sections of the course eg. critical success factors were drawn from the Management in Action Topic and to a lesser extent the Business in Action Topic.

### Excellent Responses

These responses fully explained the term small business using a number of definitions eg. the ABS Employment Criteria and the Wiltshire Definitions and they were able to list and outline general features. Statistics used by these students were accurate and many students introduced their case study at this point, clearly naming and locating the business.

Critical factors in the establishment of the case study business outlined by these candidates included location, product, client satisfaction, availability of capital, competition in the market, personal motivation and qualifications, government regulations and the need to conduct market research. Examples of critical success in the management of Small Business which students discussed included the need to appropriately manage production, marketing, customer relations, staffing, finance and financial records and risk as well as the need to develop and modify a business plan. These candidates were clearly able to show how and why these factors were significant to the business.

The importance of the Small Business sector was evaluated by these candidates in both quantitative terms (eg. employment and contribution to GDP) and in qualitative terms (eg. source of competition, supplying niche markets, increasing consumer choice, innovation, source of entrepreneurs and economic shock absorbers).

### **Above Average Responses**

These responses demonstrated all of the aspects of an excellent response but in lesser detail. They tended to describe rather than analyse critical success factors and explain the importance of Small Business rather than evaluate it. These responses effectively used the case study in their answers.

### **Average Responses**

These responses used an accurate but brief definition of small business. They understood the requirements of the second section of the question but concentrated on a few factors which were only explained. There was limited if any analysis used. The importance of small business was outlined but often in very general terms. Some candidates related their case study to the national economy rather than the importance of the small business sector to the national economy.

## **QUESTION 34. (25 marks)**

Raewyn Daudè has invented a new high-powered battery for electric cars that can be recharged in one hour. This invention is exceptional because of its environmental attraction and its application to passenger vehicles for standard transport needs.

The NSW Government has announced the establishment of a grant scheme for new businesses located at least 100 km from Sydney. Selection will be based on the provision of a suitable business plan. Raewyn wants to start a new business and take advantage of the availability of funds under the Government grant scheme.

- (a) Outline the factors that should be taken into consideration in selecting a suitable location for the new business.
- (b) Explain the essential features to be included in the business plan.
- (c) Discuss the factors that Raewyn will need to consider in the management of the business. In your answer address such issues as administration, marketing, and customer relations.

### **Topic outcomes which the question examined:**

- recognise the factors to be considered in establishing a small business
- understand the techniques of small business management
- develop a detailed business plan for a small business

### **Knowledge and Understandings outcomes which the question examined:**

- explain the role and responsibilities of management in business performance

The majority of candidates were able to achieve outcomes relating to:

- recognising the factors to be considered in establishing a small business

However, they were less clear about outcomes relating to:

- understanding the techniques of small business management
- developing a detailed business plan for a small business

### **Excellent Responses**

Excellent responses were able to address all three parts of the question with particular reference to the business in the stimulus material. Accepting that the owner wanted to take advantage of the government grant, these candidates outlined locational factors relevant to the business and the 100 km restriction.

Issues such as accessibility to both customers (such as car manufacturers), suppliers and a good labour force; availability of good transport links; government regulations and incentives and locating to minimise costs and maximise competitive advantage were outlined and discussed.

These candidates explained the essential features of the business plan, again with reference to Raewyn Daude's business. The essential features that these candidates commonly explained included mission statement; situational analysis (internal and external factors); goals and objectives; strategies for marketing, finance, administration, production, and human resources. Many of these responses included a brief description of each feature and then applied it specifically to the business, creating a business plan for Daude's.

In the final part of the question, excellent responses discussed the importance of the three management areas mentioned in the question as well as other key factors such as production, staffing, finance, control and evaluation, and risk management. The candidates outlined the issues involved within these areas of concern and discussed the importance of effective management of these factors for the success of the business.

### **Above Average Responses**

Above average responses displayed an understanding of the stimulus material and used this information throughout their responses. They outlined a range of locational factors with some relevance to the business. While some of these factors may have been applied to businesses in general, the discussion referred to Daude's business.

These candidates answered part b of the question well with an outline of the essential features of the business plan, including an overview of each part of the plan with some specific reference to the business.

Above average responses provided a good description of the management areas of administration, marketing, and customer relations. Other management factors were raised, however, discussion of these areas was limited.

### **Average Responses**

Average responses normally addressed each part of the question with limited reference to the specific business. General locational factors were briefly outlined, some of which applied to the business.

These responses could accurately identify the essential features of a business plan. Explanations, however, were general in nature and had little reference to Daude's business. These candidates understood the general features of a business plan, but did not relate it to the stimulus material.

The discussion of management factors was restricted to the issues identified in the question. The candidates made general references to some of the issues in each area, but did not discuss the importance of effective management for the success of the business.

# 3 UNIT (ADDITIONAL)

## BUSINESS AND TECHNOLOGY

### QUESTION 1. (25 marks)

The impact of technology has profoundly and fundamentally changed the way we organize industry and do business.

- (a) Refer to a business you have studied. Analyse and evaluate the impact of technology on the:
- (i) production of goods and/or services;
  - (ii) management of human resources.
- (b) Explain why some businesses have adopted the use of technology more rapidly than others.

#### **Outcomes which the question examined:**

- analyse and evaluate the evolving nature of technology and its relationship to productivity, efficiency and effectiveness
- appraise the application of technology to various facets of business activities.

Extent to which students achieved these outcomes:

Most candidates were able to discuss the application of technology to the business activities; especially for production and sometimes for the management of human resources. Most students illustrated that they had studied the impact of technology in a specific business in detail by discussing a case study. However, only the better candidates could demonstrate the higher order skills of analysing and evaluating the relationship between technology, production and the management of human resources.

#### **Excellent Responses**

These candidates answered all three sections of the question in considerable depth. They often referred to the stimulus in a preamble that described how technology changes and alters business and then industry organisation. These responses clearly identified a business they had studied and referred to it in an analytic detail. The excellent candidates discussed the impact of technology in the business and attempted to analyse its impact. This evaluation often included discussion of the imperatives of technological change; costs and benefits of technology adoption; strategic technological planning (eg TA audits) in the businesses context; and productivity and production improvements.

Excellent responses also discussed the structural changes occurring in human resource management in the businesses they had studied. These changes included analysis of education and training needs, evolving organisation and management structures, new production management designs, employment recruitment and attrition and other human resource management needs. Often this discussion referred to the changing management cultures in a business innovating and assessed the role of technological change in the business studied.

Excellent responses answered all parts of the question. They explained differential technology adoption both from an inter and intra industry perspective. They utilised a range of explanatory criteria to explain differential technology adoption from diffusion models to competitive and positional advantage. Often these were referenced to the business case studies that the students identified.

### **Above Average Responses**

Above average responses also answered all parts of the question. They referred to a business studied in depth and discussed the application of technology, especially new technology adopted by the business. These responses also provided a detailed description of the impact on HRM of technological change and could identify a range of HRM issues such as multiskilling, education and training vital for effective HRM. These responses also discussed why businesses adopt new technology. However, this discussion was mostly in relation to the business studied rather than from an industry perspective.

### **Average Responses**

Average responses usually concentrated on describing the technology in the business that the students had studied. Although some average responses referred to the stimulus and could discuss the impact of technological change in the business, many responses did not examine the impact of technology on the management of human resources in the business. As well, average responses usually discussed the adoption of technology only in the business they had studied.

### **QUESTION 2. (25 marks)**

ABC Williams Pty Ltd supplies paper-clips on contract to the Federal Government. In 1990, the company purchased a desktop computer and an accounting software package. This has been its only investment in computer technology. The managing director, Cheryl Williams, was alarmed to read the following article in the financial press.

(Note: Included here was an excerpt from *Business Review Weekly*, January 1995, which was omitted for copyright reasons. Please refer to 1995 HSC Examination Paper.)

Prepare a briefing paper analysing the effect of the Government's decision on the strategic plan of ABC Williams Pty Ltd. In your paper, discuss the company's:

- (a) present and future investment in technology;
- (b) employment and staff-training policies;
- (c) productivity, efficiency, and effectiveness in both the short term and long term.

### **Outcomes which the question examined:**

- analyse and evaluate the evolving nature of technology and its relationship to productivity, efficiency and effectiveness.
- identify social, personal and business issues arising from changes in technology.

However, they were less clear about outcomes relating to:

- appraising the application of technology to various facets of business activities.
- judging the effectiveness of management practices in dealing with technological change.

### **General Comments**

This question was answered by a very small proportion of 3 Unit candidates. It was perhaps answered by those students who did not have a specific case study with which to answer Question 1. Generally, few students wrote in the style of a business report or briefing paper and few referred to the impact that the proposed changes would have on A.B.C. Williams Pty. Ltd.'s strategic plan. Some students discussed the actual components of E.D.I, ie modems and networked computers. Many students did realise the possible impact on employment and training and most were able to distinguish between the short-term and long-term consequences on productivity, efficiency and effectiveness.

### **Excellent Responses**

Candidates answered all three sections of the question well. They discussed the current investment level in technology and then explained the new technology that A.B.C. Williams Pty. Ltd would have to buy in order to accommodate EDI transactions with the Federal Government. The better students also discussed the costs of this new technology and how its purchase would result in changes in the Strategic Plan. Most students were able to discuss the probable short-term disruptions to productivity, efficiency and effectiveness while the new technology was being introduced and the eventual long-term increase in productivity, efficiency and effectiveness.

### **Above Average Responses**

These candidates answered all parts of the question though not in detail. They discussed the need to change the technology within the business, but did not give the specific requirements of EDI technology. They discussed possible decreases in the number employed and the need for training, without being specific about these.

### **Average Responses**

These candidates gave descriptive outlines of the present and future technologies. They mentioned the possible need to retrain employees, and many discussed the inevitable dismissal of some employees. Quite a few of these students discussed the changes that the business might make at the production level, not realising that EDI technology would mainly affect the office and administration activities of ABC Williams Pty. Ltd.

# FINANCIAL MARKETS

## QUESTION 3. (25 marks)

You are employed as a financial adviser to an investment trust. The trustees are considering an investment in AGC and have referred you to the following advertisement. AGC, a subsidiary of Westpac Banking Corporation, is a major participant in financial markets.

(Note: Included here was an advertisement for AGC investment rates, which was omitted for copyright reasons. Please refer to 1995 HSC Examination Paper.)

- (a) Write a report for the trustees, explaining:
- (i) the difference between the types of securities offered by AGC;
  - (ii) why the advertised rates of interest vary between debentures and unsecured notes, and why the rates vary over time.
- (b) The trustees wish to adopt a conservative investment strategy. Advise them on the risks of investing in listed shares, unlisted shares, and fixed interest securities.

### Outcomes which the question examined:

- identify participants in financial markets
- describe the types and characteristics of instruments traded
- analyse and interpret the results of trading in various instruments
- apply the risk/return relationship to business decisions.

The majority of candidates were able to achieve outcomes relating to:

- identifying the participants in financial markets
- describing the types and characteristics of instruments traded.

However, they were less clear in many cases about outcomes relating to:

- analysing and interpreting the results of trading in various instruments (overtime, variations in return)
- applying the risk/return relationship to business or investment decisions in the case of trustees wishing to adopt a conservative investment strategy.

### General Comments

This question provided students with the opportunity to demonstrate both an understanding of financial markets theory and the practical application of this theory through interpreting an advertisement from the financial pages of a daily newspaper. The question focused on both skill and knowledge outcomes of the Syllabus linking them with the Financial Markets Option.

Some students were confused by the advertisement (intended more for business investors than small time investors). Having the 2 tables labelled as Debentures and Unsecured Notes may have helped. It proved to be a very sophisticated advertisement for most candidates. Students expected the Short Term, Unsecured Notes to pay substantially more than the 12 months Debenture (annual interest option). This resulted in many students confusing the two.

Most students were able to explain some of the risks associated with investing in listed shares, unlisted shares and fixed interest securities.

Some better students were confused by some of the details listed in the advertisement such as lack of details about the Unsecured Notes being discounted to Face Value. The word Debentures was also used in the advertisement for section (a) (i), although it is not strictly in the Syllabus.

### **Excellent Responses**

These responses displayed a very good understanding of what Debentures and Unsecured Notes were. These responses considered the differences between the two in the key areas of security/risk, interest rates paid and marketability plus the minimum amount of deposit, suggesting different target marks. These responses also demonstrated a good understanding of the reasons for the variations in interest rates. The responses considered differences in terms and interest payment frequency for Debentures as well as risk or security. The responses of the excellent candidates also were able to demonstrate differences in interest rates in the Unsecured Notes due to the terms (24 hours notice and short term 1-11 months), the amount of the investment and the risk/security involved.

The excellent responses also outlined the different types of risk such as financial and interest rate. The candidates were then able to apply this knowledge to provide advice on the risk of investing in listed shares, unlisted shares plus fixed interest securities. They understood what was meant by a conservative investment strategy and many responses suggested a portfolio or gave suitable examples of listed shares and fixed interest securities.

Some responses made good use of tables to compare the characteristics of Debentures and Unsecured Notes which was acceptable.

### **Above Average Responses**

These responses demonstrated all of the aspects of an excellent response but in lesser detail. Responses demonstrated a good knowledge of the differences between Debentures and Unsecured Notes as well the risks involved in investing in listed shares, unlisted shares and fixed interest securities. However, the explanation of the reasons for variations between Debentures and Unsecured Notes in the area of interest rates was usually done briefly when compared to the Excellent Responses. Section (a) (ii) proved to be the main discriminator in this question.

### **Average Responses**

These responses demonstrated a more general understanding of the differences between Debentures and Unsecured Notes. Several explanations of a general nature were offered to account for interest rate variation were offered. An adequate understanding of some of the risks involved in investing in shares and fixed interest rates was usually demonstrated. Many saw Bonds as being different from Debentures.

### **QUESTION 4. (25 marks)**

(Note: Included here was an excerpt from the *Daily Telegraph Mirror*, February 1995, which was omitted for copyright reasons. Please refer to 1995 HSC Examination Paper.)

- (a) Describe the characteristics of AT LEAST TWO types of derivatives and their role in financial markets.
- (b) Explain how derivatives differ from the more traditional securities such as shares and debentures, and why investors need to be cautious about derivatives.
- (c) Describe the possible effects of a major financial collapse on world financial markets.

### **Topic outcomes which the question examined:**

- describe the types and characteristics of instruments traded;
- analyse and interpret the results of trading in various instruments;
- apply the risk/return relationship to business decisions;
- analyse the interrelationships and impacts of the dynamic forces within financial markets.

### **General knowledge and skills outcomes which the question examined:**

- identify the relationship between changes in the business environment and business growth and profitability;
- identify the responses of business to changes in the external business environment;
- recognise the outcomes of particular management decisions;
- identify the alternative business strategies available to decision makers;
- recognise the effectiveness of different business strategies;
- identify a variety of business procedures and practices and their underpinning theories.

Extent to which candidates were able to address these outcomes.

- Most candidates evidenced a reasonable understanding of the types and characteristics of their selected derivative instruments;
- Many recognised the differences in derivative use and the effects of taking management decisions in the trading of the various derivative instruments;
- Most recognised the effects of changes in the external environment (financial markets) and the impact of such changes on derivative instruments especially related to the effects of a major financial collapse.

Candidates were less clear on some outcomes.

- The definition and explanation of what certain derivative instruments do is confusing to some;
- The overall role of derivatives in financial markets does require more study and analysis for improving their understanding and many were making erroneous claims;
- The effects of a financial collapse in many responses assumed the ultimate in financial disasters. There is more work required to understand the checks and balances nations and business put into place to mitigate the effects of a financial collapse.
- Where trading usually occurs for some different derivatives, eg Over the Counter, in the Australian Stock Exchange (ASX) or the Sydney Futures Exchange (SFE).

### **General Comments**

#### **(a) A definition of derivatives may be a logical start to the question.**

"Contracts or instruments whose value stems from some underlying assets such as commodities, equities, reference rates, index or currencies. Derivative products include swaps, options (put and call) forwards, futures and a growing list of other new types, eg swaptions, caps, collars etc."

#### **Major derivatives:**

##### **Futures**

Characteristics:

- Based on a commodity (wool, cotton, gold etc) or financial (currencies, interest rates on bank bills, bonds, share price indices).
- Is a binding contract requiring delivery of a specific quantity of a specific type of good, at an agreed price, place and time. Every contract has a buyer and a seller.
- The contract can be terminated at any time before delivery by a trader selling a bought contract or by a trader buying a sold contract.
- They are usually standardised and traded on an exchange.
- Are traded on futures exchanges, eg Sydney Futures Exchange (SFE) and contracts tied to calendar quarters.
- Risks are borne by the clearing houses.

##### **Forwards**

Characteristics:

- One party commits to buy and another to sell a specific item at an agreed price and can involve. More usually relates to financial assets, interest rates.
- Forward rate agreements (FRAs) are usually negotiated between two parties.

- It is common for banks to negotiate forward contracts with exporters and importers against currency fluctuations.
- Credit risk remains till contracts mature.
- Tailored to suit each parties time needs.
- Not traded on exchanges.
- Higher credit risk than futures due to locked in position.

## **Swaps**

Characteristics:

- Also a contract between two parties each agreeing to exchange their respective obligations.
- There is an active broker market in finding the best deals.
- May be for commodities and financial assets.
- Used to reduce the cost of funds or to increase returns by changing the interest stream of the asset or eliminate the risk in a fixed rate long term assets by swapping for a variable rate or short term funds.
- Parties may still hedge against any swap risk.
- Usually involve, banks, investment houses and funds managers.

## **Options**

Characteristics:

- May be Over The Counter (OTC) and tailored by banks and investment houses to suit their clients or exchange traded through the ASX option market.
- May be a "put option". gives the buyer for a premium, the right but not the obligation to sell at a specific rate or price.
- May be a "call option". Gives the buyer, for a premium, the right but not the obligation to buy at the specific rate or price.
- Usually longer periods mean greater risks.
- Many external factors influence prices, ie strike price, the underlying asset, time to expiry, market movements, interest rates and expectations.
- OTC options are usually privately negotiated.
- Apply most usually to equities, interest rates, currencies and commodities.

## **Hedges**

Characteristics:

- Involves taking an opposite and equal position in the physical and futures market with the object of compensating in one market for potential losses in another.

The above characteristics are more unique features. Many candidates also covered more specific characteristics relating to liquidity, security, negotiability, yield (which has little application), term and pricing.

## **Role of Derivatives**

They are used by business for risk management, ie to reduce any underlying risk in a position, or to protect assesses against changes in price and or capital value. Profits are the aim but speculators may take more exposed positions and thus risk losses. There are traders, speculators and hedgers in the derivatives market.

There are a number of other exotic derivatives now being promoted. Some candidates mentioned these.

### **(b) How derivatives differ from traditional securities**

Traditional securities are financial assets such as:

- Ordinary shares which give holders ownership in a company. These may be traded on the ASX and fluctuate according to the market conditions and the performance of the company in which the shares are held.

- Debentures which are fixed interest securities and which also may be traded on the ASX or through stockbrokers. The returns are usually fixed.

Traditional securities are usually traded through the ASX whereas derivatives other than options are traded through the futures markets which are specific, ie SFE.

The futures markets which trade derivatives will assist in ensuring the coverage of positions through the security of margins and deposits. OTC trades however are open ended as to risk.

### **Need for Caution**

- Newer derivatives have left accounting, audit, legal, system and procedural standards world wide lagging the need.
- Managements have been inadequately knowledgeable and junior staff have been allowed too much freedom. Failures are evident and known in this derivatives market.
- The general risks can be stated as
  - Counterparty
  - Market or Price
  - Liquidity
  - Valuation
  - Operational
  - Settlement
  - Legal/Regulatory
  - Sovereign
  - Systemic
- Vast and growing array of newer derivatives will demand care in understanding.

### **(c) Possible effects of a major financial collapse.**

- pricing of new and existing contracts changing;
- cross over effect on currency and share markets;
- investors may lose money or become bankrupt;
- the reduction in company share values can influence the market and possibly see the failure of companies;
- interest rates and currencies will become volatile. Higher interest rates may effect business profitability;
- costs will generally rise thus influencing a trend to recession in some markets;
- borrowers will find it more difficult to borrow funds or meet more stringent lending requirements of lending institutions;
- need for some country and central banks to introduce remedial policies;
- the overall effect will have serious implications on such aspects as certainty in the markets, stability, credibility etc.
- new technologies in computer software, communications can trip financial markets into responding immediately thus affecting all capital market trading, prices, interest rates etc.

### **Excellent Responses**

These candidates addressed all sections of the question well. The best included a comprehensive description of their selected derivatives with characteristics which not only included aspects of liquidity, negotiability and security but also gave specific examples of how the derivative operated.

Financial terminology was used to best effect and was appropriate. Whilst not essential to the content the best candidates made good use of tabulations, bullet points and good report layouts which are more demanded by business in these modern times. Essay type responses whilst not penalised for content are being discouraged more in the business world unless the topic so demands it.

The understanding of derivative volatility and higher risk was reasoned with considerable clarity. The role and use of derivatives by various types of business was fully understood and some examples were offered.

Most covered the differences between hedgers and speculators and thus explained the need for caution in derivative use depending upon the user. A good knowledge of traditional securities was indicated when drawing comparisons with derivatives which are more risky, less marketable, of lesser volumes and less secure.

### **Above Average Responses**

These candidates answered 2 sections well of 3. Often confused use of some derivatives, eg warrants and hedges which are essentially capital market instruments and an action - hedging one's position .

They showed reasonable understanding of how traditional securities and derivatives differ. The need for caution was covered but not enough to indicate a full understanding. These candidates gave a reasonable coverage of effects of a financial collapse.

### **Average Responses**

These candidates usually mentioned 2 derivatives but gave inaccurate explanations of them or their role. They covered some differences between traditional securities and derivatives but tended to either overlook some key issues or covered them only generally. They mentioned some general but valid results of a financial collapse.

# HUMAN RESOURCES MANAGEMENT

## QUESTION 5. (25 marks)

Perry Hacker, the Managing Director of Fit Magazine, is concerned about staff absences and staff turnover. He has obtained the following information from his Human Resource Manager for the month of March 1995.

| <b>Fit Magazine</b>  |                   |                   |
|--|-------------------|-------------------|
| <i>Employee Performance Statistics<br/>for the month of March 1995</i> |                   |                   |
| <b>No. of staff</b>  | 86                |                   |
| <b>Composition of staff</b>  | 64 full-time      |                   |
|  | 15 part-time      |                   |
|  | 7 casual          |                   |
| <b>Unplanned absences</b>  |                   |                   |
| full-time  | 28 half-days      |                   |
| part-time  | 2 half-days       |                   |
| casual   | 1 half-day        |                   |
| <b>Resignations</b>  |                   |                   |
| full-time  | 10                |                   |
| part-time  | 2                 |                   |
| casual   | 0                 |                   |
| <b>New hirings</b>   |                   |                   |
| full-time  | 14                |                   |
| <b>Direct costs</b>  |                   |                   |
| staff payouts  | \$74 000          |                   |
| staff recruitments   | \$26 000          |                   |
| <b>Productivity per employee</b>                                       | <b>March 1995</b> | <b>March 1994</b> |
| Sales per employee   | \$450             | \$490             |
| Profit per employee  | 000               | 000               |
| Average hours per week per employee                                    | \$22 528          | \$39 000          |
|  | 46 hours          | 38 hours          |

- From the information provided, assess the effectiveness of current human resource management at Fit Magazine.
- Suggest strategies that could be adopted to improve employee performance at Fit Magazine.
- Outline the benefits of an improvement in employee performance.

**General syllabus outcomes which the question examined:**

- analyse business data, trends and issues in order to identify relevant issues and relationships, examine trends in business, interpret appropriate data, make inferences from data
- explain the role and responsibilities of management in business performance
- identify and describe the techniques used by business managers in planning, organising, leading and controlling
- read and interpret a range of accounting and financial reports used by business managers
- identify and describe the ways that business may initiate and respond to change through the planning, leading and controlling functions of management
- recognise the implications of change for business and society
- suggest alternative solutions to business problems
- examine the relative merits of solutions to business problems
- demonstrate effective written and oral use of common business language including financial information, graphs-diagrams.

**Topic outcomes which the question examined:**

- outline the function and role of human resource
- management including recruitment, selection, induction and training
- outline the relationship between the strategic plan and human resource management
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resource management policies
- evaluate methods used for maintenance and attrition of human resources within the legal and organisational constraints of a firm.

The majority of candidates were able to achieve outcomes related to:

- outlining the function and role of human resource management
- describing the components and effects of motivation
- describing the ways that business may initiate and respond to change
- recognising the implications of change for business
- examining the relative merits of solutions to business problems.

Many were unable to effectively analyse the business data due to the vague nature of the information provided, and the lack of time available to analyse the data.

**Excellent Responses**

Candidates answered and linked all parts of the question well. They used the statistics at FIT to identify and analyse possible weaknesses of HRM at FIT. These included:

- a high resignation rate linked to excessive overtime and/or lack of work continuity
- possible high levels of stress or low morale linked to relatively high half day absentee rates
- high turnover rates due to poor HR acquisition processes or lack of effective induction and training
- a decline in productivity per employee, particularly in profit per employee (more than sales per employee) suggesting higher costs, eg through recruitment, training and resignation.

Candidates recognised the adverse nature and impacts of these problems upon the business and its employees and tended to offer a range of explanations for them such as poor Human Resource planning and maintenance.

A wide range of relevant strategies were then suggested to overcome the weaknesses at Fit, including:

- appropriate use of Performance Appraisals and exit interviews
- improved recruitment, selection, induction and training programs
- job analysis to review job design with a view to improving job descriptions, providing job enrichment, enlargement or rotation
- a flatter management structure to improve communication and employee participation
- improved intrinsic-extrinsic rewards and the use of career planning and even a management by objectives approach

- more flexible working conditions
- use of Human Resource Benchmarking to evaluate and improve on performance at FIT magazine.

A significant number of candidates referred to various management theories to support the strategies suggested, and often linked these to the benefits of improved employee performance.

Better candidates outlined a range of benefits, including improved morale and job satisfaction, reduced absenteeism, reduced turnover rates, and a better relationship between employees and employers. The relationship between such improvements and higher sales productivity and profits and an overall reduction in costs to FIT was also demonstrated in excellent responses.

### **Above Average Responses**

Candidates answered all parts of the question, but tended to be more limited in both their analysis of the statistics and the interrelationships between the figures provided. Many recognised FIT's need to investigate and identify the causes of the problems at FIT.

A range of strategies were suggested to improve employee performance, but these were more generalised and not always linked to FIT's specific problems. Management theories were frequently used as a basis for understanding the strategies suggested. Benefits were frequently listed but were not as clearly linked to each of the strategies suggested in (b).

Generally, when compared to the excellent responses, the above average responses provided more limited interpretation and analysis of the problems at FIT and the strategies required to overcome the problems. They did however demonstrate knowledge of the strategies required to maintain staff and improve employee performance and use appropriate terminology in their responses.

### **Average Responses**

Candidates answered at least two parts of the question reasonably well. The FIT statistics were often regurgitated or analysed very simply, with some inaccuracies occurring, eg incorrect interpretation of the 1994 and 1995 productivity figures.

More generalised and limited strategies for improvement were suggested, eg simple monetary rewards or a pat on the back for productive employees. Candidates often focused on specific motivational strategies unlike the better candidates who suggested a range of additional human resource strategies incorporating HR planning, recruitment, selection, training.

Benefits resulting from these strategies were limited in number and descriptions

Overall average candidates provided a generalised and more limited response, but used relevant business terminology to suggest strategies for improvement at FIT and their benefits.

## QUESTION 6. (25 marks)

In the depressed economic environment of the early 1990s, many businesses were forced to undertake major internal reorganizations.

Workers were laid off. Retained workers were subjected to ongoing performance assessments.

- (a) Discuss the impact on staff of changing organizational structures.
- (b) Analyse the different ways in which a business may downsize its workforce under current employment legislation.
- (c) Explain how an effective employee-appraisal program can benefit both the business and the employees.

### Outcomes which the question examined:

- outline the relationship between the strategic plan and human resource management
- explain the way legislation influences human resource activities
- evaluate methods used for maintenance and attrition of human resources within the legal and organisational constraints of a firm
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resource management.

The majority of candidates were able to achieve outcomes relating to:

- explaining the way legislation influences the way in which a business may downsize its workforce
- evaluating methods used for maintenance and attrition of human resource within the legal and organisational constraints of a business in terms of the way in which they downsize
- describing the components and effects of motivation and its relationship with job satisfaction, performance and human resource management policies in terms of the ways that employee-appraisal programs can benefit both the business and employees.

However, they were less clear about the outcome relating to:

- outlining the relationship between the strategic plan and human resource management.

### General Comments

Very few students discussed the concept of changing organisational structures as an element of the strategic plan. However because strategic planning was not specifically requested in the question, students were not penalised for omitting this as an aspect of their response.

The remaining outcomes were well treated in terms of the legislative influences on downsizing and the benefited of employee-appraisal programs for business and employees.

### Excellent Responses

These responses clearly described and defined the meaning of changing organisational structures. They also clearly enunciated the impacts on staff of these changes in terms of the devolution of authority. Excellent responses gave a clear analysis of the different methods of downsizing such as the various types of redundancy (voluntary and involuntary), retirement, retrenchment and dismissal. Many excellent responses distinguished between downsizing and dismissal. They were able to cite relevant legislation in detail including the Employment Protection Act 1982, various social justice legislation and the various Industrial Relations Acts.

Excellent responses gave detailed explanations of how employee-appraisal programs were able to benefit business and employees. These responses discussed the various types of performance appraisal such as Ratings Scale method, Behaviourally Anchored Rating Scales (BARS), Management By Objectives (MBO), and Checklist method. Benefits to business were a happier, more productive workforce and benefits to employees included greater job satisfaction, improved

promotion opportunities and pay. Many linked appraisal programs to the concept of changing organisational structures as a way of avoiding being forcibly downsized. Many excellent responses used detailed case studies to enhance their responses.

### **Above Average Responses**

These candidates defined and described the meaning of changing organisational structures and the impacts on staff well, but in less detail than the excellent responses. As opposed to the excellent responses, they analysed and sometimes listed with reasonable detail, the ways a business may downsize and listed and discussed some relevant legislation.

Above average responses gave a good explanation of how an effective employee-appraisal system can benefit business and employees. They did this by either listing, with reasonable detail various employee-appraisal methods or detailing well, only a few. Terminology used was generally appropriate. Case studies used in the above average responses were good but less detailed than in the excellent responses.

### **Average Responses**

Average responses discussed in general terms changing organisational structures and their impact on staff. These responses often used simple, case study examples of the way in which a particular business changed its structure. There was a general discussion or list of the methods of downsizing, with only brief reference to employment legislation. Many average responses referred simply to dismissal, redundancy, retirement and retrenchment in brief terms.

Employee-based appraisal programs and how they can benefit business were only treated briefly. The terminology used in excellent and above average responses was often lacking in the average responses. These responses tended to refer to benefits such as increased job satisfaction, motivation, pay and productivity in broad terms only.

Case studies used in the average responses were often simplistic and therefore limiting.

# PRODUCTION MANAGEMENT

## QUESTION 7. (25 marks)

Buzzuti Bearings Limited has manufactured industrial and automotive ball and roller bearings, bushes for machinery, and oil seals for over 50 years. Oscar Buzzuti, the founder of the business, was proud of the quality of the products, but his son, Rudi, was concerned about the amount of waste. When Oscar died, Rudi and his wife, Yana, took control of the business and were committed to the notion of 'right first time'. However, they were not sure how to achieve this objective.

- (a) Explain the difference between:
  - (i) quality assurance;
  - (ii) quality control.
- (b) Discuss the benefits to Buzzuti Bearings of a successful quality-improvement program.
- (c) Identify the steps that would be required to implement a total quality management program in the business. How could this program be evaluated?

### Outcomes which the question examined:

- understand and apply the steps in quality assurance and quality control, and recognise the benefits of quality production
- predict probable consequences of a course of action taken by management, to the business, society and the environment
- identify and describe the techniques used by business managers in planning, organising, leading and controlling.

Extent to which students achieved these outcomes

- While most students were able to explain the difference between quality assurance and quality control many students recognised the benefits of quality production but the better ones related the benefits to Buzzuti Bearing Ltd of a right the first time zero defects wastage problem.
- Some better students predicted the consequences/benefits that would impact not only on Buzzuti Bearing Ltd but also their customers and the environment in better management of resources and waste reduction.
- While most students displayed a knowledge of relevant methods to evaluate the Total Quality Management program some omitted this.

### General Comments

The standard of responses to this question was very good. Students displayed a lot of content based knowledge and used relevant business terms. Many students however looked carefully at parts a, b and c but failed to refer back to the stem of questions which contained the essential discriminators.

### Excellent Responses

Answered all three sections of the question. A clear and usually concise explanation was given showing they understood the difference between Quality Assurance and Quality control. The benefits of a successful quality improvement were related to Buzzuti Bearings Limited problems with the amount of waste. (they were proud of the quality of their products).

In answering Part c these candidates concentrated their suggested steps to implement a total quality management program relevant to the notion of right first time. The evaluation of this program was incorporated into the steps by many students or answered well at the end.

### **Above Average Responses**

These candidates gave less able responses in one section. In Part a they talked about Quality Assurance and Quality Control but they failed to differentiate. Part b was related to Buzzuti Bearings Ltd, however, the evaluation of the total quality management program was weak.

### **Average Responses**

These candidates answered all parts of the question however part b was a general list of all the benefits of a successful quality - improvement program rather than the benefits to Buzzuti Bearings Ltd. Part c tended to be a list of Crosbys 14 points.

Students frequently gave a lot of information however lacked the ability to select that relevant to the question.

### **QUESTION 8. (25 marks)**

The design of a product and its presentation can determine the success or failure of a business in an ever-changing and competitive marketplace. Good design can assist a business or a country seeking to improve its performance.

- (a) Identify and explain the major considerations that must be taken into account in product design.
- (b) Refer to a business you have studied.
  - (i) Describe the processes and procedures involved in designing one of its products.
  - (ii) Evaluate the role of the Production Manager in improving the performance of the business.

### **Topic Outcomes which the question examined:**

- evaluate the features of acceptable product design
- identify, plan and simulate the steps involved in bringing together the resources needed to produce goods efficiently.

### **Knowledge and Understandings Outcomes which the question examined:**

- specialised nature of different areas of business (in this case, manufacturing)
- impact of various external influences on business operations
- role of management in different business areas
- complex nature of business decision making.

The majority of candidates were able to achieve the general outcomes and were able to explain the features of acceptable product design.

However, they were less clear about being able to identify, plan and simulate the steps involved in bringing together the resources needed to produce goods efficiently

### **Excellent Responses**

These candidates answered all three parts of the question very well.

#### **Part (a)**

They were able to identify and explain the major considerations with product design such as:

**Internal** - pricing, usefulness/practicality, packaging, aesthetic appeal. Some candidates also identified other factors such as the length of the product's life-cycle, the position of

the business' other products in their life-cycles, costing, break-even analysis and product development teams.

**External** - legal requirements and industry standards. Some candidates also recognised other external factors such as customer needs, availability of suppliers, technology, competitors, economic and social/cultural influences as important.

**Part (b) (i)**

The better candidates described the processes and procedures involved in designing one of its products, with reference to a manufacturer. These processes include innovation or idea generation, product design, prototype manufacture, market testing, production feasibility and product launch.

**Part (b) (ii)**

These candidates were able to evaluate the role of the production manager in their case study. They were able to evaluate the manager's planning which includes forecasting, the type of production, operations layouts, evaluating capacity and scheduling of human resources. The organising, leading and controlling functions, including combining inputs, production, assembly, packaging, dispatch and quality control, were also evaluated.

**Above Average Responses**

These candidates had a good understanding of the Syllabus outcomes but displayed less knowledge, particularly in part (b) (ii).

**Average Responses**

These candidates generally limited their response to part (b) (ii) by referring only to a single function of a production manager, such as quality control or human resource management.

# INTERNATIONAL BUSINESS

## QUESTION 9. (25 marks)

Refer to an international business you have studied.

- (a) Explain the relationship between its strategic plan and its decision to expand into a Pacific Rim market.
- (b) Analyse the main factors in the external environment that have influenced the expansion of this business.
- (c) Evaluate the responses of the business to the above factors.

### Topic Outcomes which the question examined:

- explain the economic, financial, social, political, cultural and legal factors influencing the expansion of a particular business into a Pacific Rim market
- analyse how specific economic, financial, cultural, legal and business practices of overseas markets affect business success when expanding internationally
- recognise that differences in business culture and practice exist on an international scale and analyse how they impact on business
- explain how diversification and investment into overseas markets increases competitiveness of the business and the economy.

### Knowledge and understanding outcomes which the question examined:

- recognise the impact of changes in the business environment on different areas of business
- identify the responses of business to changes in the external business environment
- recognise the effectiveness of different business strategies
- examine the relative merits of solutions to business problems.

The majority of candidates were able to achieve outcomes relating to:

- explaining the influence of a variety of economic, financial, social, political, cultural and legal factors on the expansion of a particular business into a Pacific Rim Market
- recognising that changes in the business environment do impact on different aspects of business activity.

However, there were less clear about outcomes relating to:

- recognising the nature and purpose of strategic planning
- explaining how expansion into Pacific Rim markets increased the competitiveness of the chosen business
- identifying the need to respond to changes in the external business environment by monitoring and modifying the strategies plan where appropriate
- examining the relative merits of solutions (responses) to business problems resulting from the external environment.

### General Comments

An increasing number of candidates answered the question in report style, making each section distinctive while showing the relationship between Parts (a), (b) and (c).

Responses tended to be shorter in length than in previous years, reflecting the reduction in examination time from 2 to 1 1/2 hours.

Students referred to a variety of case studies involving, for example, resources, manufactured goods and services. However, it was apparent that many students experienced difficulty applying prepared material to Parts (a) and (c), given the directives to explain and evaluate, respectively.

In Part (a), most students identified a specific business and could outline the reasons for expansion into a specific Pacific Rim market. The better students displayed a sound understanding the concept of *strategic planning*.

Part (b) was generally the section with which candidates felt most comfortable. The vast majority correctly identified influences from the external business environment. Providing a clear and specific link between these influences and the decision to expand into the nominated market proved to be a greater challenge for the candidates.

Part (c) tended to be the less well answered section. Better responses could identify specific responses, though few successfully evaluated the effectiveness of the responses and/or their impact on the business and its management strategies.

### **Excellent Responses**

Candidates referred to the expansion of a specific business into a specific Pacific Rim market. The chosen case study afforded them the opportunity to address all parts of the question in appropriate depth and to *explain, analyse and evaluate* as directed. Whether the example was taken from businesses involved in resources, manufacturing or services, the candidates displayed an understanding of the role of strategic planning and the resultant objectives and strategies of the business in Part (a).

In Part (b) candidates were able to detail specific influences from the external environment. These included *push factors*, such as the limitations of the domestic market, stringent environmental constraints, the finite nature of natural resources and the need to generate a return on shareholders' funds and *pull factors* including target market opportunities such as large populations, increasing disposable incomes, competitive wage rates, host government tax incentives and other initiatives along with a range of socio-cultural factors.

Influences on the expansion of the business were described as causal (ie, contributing to the decision to expand) or consequential (ie factors that needed to be considered when expanding). The latter category of factors provided a good link to Part (c)

In Part (c) candidates understood that the decision to expand involved the business in determining strategies designed to cater for the *demands* of the target market/country. Further, many realised that there were implications for the internal environment of the selected business.

As a result, responses discussed a number of options such as the form of expansion (eg joint ventures, direct exporting) financing options, appropriate organisational structures, human resource policies, compliance with regulatory requirements, product adaptations to suit the target market and the establishment of appropriate *controls* to monitor the outcomes of the expansion process. However, few candidates made a genuine attempt to evaluate the effectiveness of these responses.

Overall, candidates in this category of responses presented logical, sequential answers and used appropriate terminology.

### **Above Average Responses**

Candidates answered all sections of the question using appropriate terminology but in less detail than the excellent responses. Some candidates answered two parts of the question very well with the third part addressed more by implication than by specific reference.

Generally they were less comfortable with the concept of strategic planning or specific responses of the business to the relevant influences from the external environment. The amount of detail (depth and breadth) available to the students on their chosen case study may have been a limiting factor. Responses tended to be more descriptive as opposed to addressing the directive term in each part.

### Average Responses

Candidates attempted at least two parts of the question though terminology was often inappropriately used. Responses were descriptive rather than addressing the specific requirements of the question.

Though the reasons for expansion were usually outlined, most candidates could not clearly relate these to the strategic plan of the business. Many candidates referred to the Pacific Rim as one market, not recognising the diversity of economies and cultures involved and the subsequent need for specific strategies for each separate market.

Alternatively, students referred to a number of Pacific Rim markets to illustrate influences on the external environment. This resulted in rather disjointed responses lacking in integration and sequential development.

Candidates generally found Part (c) to be challenging. Responses tended to describe a limited number of business responses to the challenges presented by the decision to expand into a particular market. Others presented a list of outcomes/results of the expansion, such as increased sales revenue. Attempts to evaluate the effectiveness of the responses were generally beyond the scope of these candidates.

### QUESTION 10. (25 marks)

In 1993, Joy and Mike Wess invented a new bicycle headlight with worldwide market potential. In 1994, they formed a private company Sarfi Wess Pty Ltd. Their initial business plan involved the establishment of a production plant in Sydney and consolidation in the Australian market, before undertaking international expansion in 1995. Recently, however, domestic production costs have been increasing and local sales have levelled out.

Sarfi Wess Pty Ltd is now considering two new strategies to meet domestic and international demand for their headlights:

- increasing domestic production;
- producing overseas.

- (a) Prepare a report for Sarfi Wess Pty Ltd, identifying the influences that would be considered in evaluating the above strategies.
- (b) Choose ONE of the strategies and argue a case for its adoption.

### Outcomes which the question examined:

- analyse how specific financial, cultural, legal and business practices of overseas markets affect business success when expanding internationally
- explain the economic financial, social, political, cultural and legal factors influencing the expansion of a particular business into a Pacific Rim market
- identify the alternative business strategies available to decision makers
- suggest alternative solutions to business problems
- explain how diversification and investment into overseas markets increases competitiveness of the business and the economy
- recognise that differences in business culture and practice exist on an international scale and analyse how they impact on business.

The majority of candidates were able to achieve outs relating to:

- the recognition of a wide range of specific features of overseas markets that would affect business such as Sarfi Wess that intend operating in these overseas markets
- the identification and explanation of the economic, social, political, cultural and legal factors of influencing the expansion of businesses such as Sarfi Wess into overseas markets

- the identification of alternative business strategies
- the selection of an appropriate alternative solution to a business problem, ie should Sarfi Wess increase domestic production or produce overseas in order to satisfy domestic demand for their headlights.

However they were less clear about outcomes relating to:

- analysing of specific influences relating to overseas markets and how these would affect the success of businesses expanding internationally
- evaluating the relative impact of the various factors influencing the expansion of a business such as Sarfi Wess
- logically arguing and supporting a case for the adoption of a particular solution to a business problem
- explaining how diversification and investment into overseas markets increases competitiveness for a business.

### **General Comments**

Most candidates were able to recognise that a wide range of specific influences and factors existed and they could describe these. However, many candidates were not able to identify the ones that would be particularly relevant to Sarfi Wess Pty Ltd and bicycle headlights. Many candidates failed to evaluate effectively the relative importance of these as they influences and factors as they relate to the expansion of Sarfi Wess Pty Ltd.

Almost all candidates were able to select one of the two alternative strategies facing Sarfi Wess. Most suggested that it would be best for the company to produce overseas. Only the better candidates, however, were able to present logical well reasoned arguments that were based on the specific influences listed in Part (a) of the question.

Unfortunately many candidates were not sure what the first alternative strategy meant (increasing domestic production). Many believed that it simply meant producing domestically for the domestic market rather than increasing domestic production with a view to exporting much of this production.

It is pleasing to see that the general level of knowledge and understanding relating to International Business continues to improve.

### **Excellent Responses**

Excellent responses clearly addressed both parts of the question in depth and in a logical manner, linking the selected strategy with the evaluation of the influences affecting the position and potential international expansion of Sarfi Wess Pty Ltd.

Candidates in this category were able to succinctly identify the relevant influences such as expanding market potential, characterisation of labour, availability of capital and technology, particular government policies, issues relating to finance and currency, establishment costs, transport concerns, existing and potential risks and appropriate laws and customs. Excellent candidates, as well as identifying these influences and other relevant factors, evaluated these in terms of how they would impact upon the business plans of Sarfi Wess. These candidates showed a high level of understanding of the significance of international and domestic influences on the successful operation of particular businesses.

Excellent responses showed a clear appreciation of the background situation of the business and its product. They were able to understand the features of the two strategies being considered by the company and select a preferred option.

Answers of excellent standard contained well argued cases in support of the selected option. Such answers were presented in a logical way with a clear understanding of and competency with the appropriate issues and terminology.

The arguments contained in excellent responses were based on the particular influences that were identified, explained and evaluated in Part (a) of the question.

A great many excellent responses were presented in report format, and although this is not the only method of presentation, this question certainly lent itself to the report method.

### **Above Average Responses**

Above average answers were well presented and covered both aspects of the question. Linkages between the two parts were well evident but not as strongly shown.

Relevant influences were identified and explained but the level of evaluation was not as high. Some above average answers deal with many influences that were not particularly relevant to Sarfi Wess Pty Ltd.

Responses in this category were aware of the management decisions facing the business and they selected one of the alternative strategies and presented arguments for its adoption. However, the level of argument and its relevance to the business were not as solid as in the Excellent Responses.

Above average answers in general provide a less complete analysis of the influences, often deal with less relevant influences and do not to the same extent tie Part (c) in with Part (a).

### **Average Responses**

Candidates in this category tended to produce more descriptive answers. Many influences were identified, many however, were not particularly relevant. The evaluation of the impact of these influences was usually quite limited.

There was often an attempt to link both parts of the question but often this link was not clear.

The selected option was argued for but this argument was not entirely based on relevant material. References to the business were not always strong and many answers were far too general. In many cases both parts of the question were not dealt with in sufficient detail