

BOARD OF STUDIES
NEW SOUTH WALES

1996 HSC

EXAMINATION REPORT

Business Studies

Including:

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

© Board of Studies 1997

Published by
Board of Studies NSW
PO Box 460
North Sydney NSW 2059
Australia

Schools, colleges or tertiary institutions may reproduce
this document, either in part or full, for bona fide study
purposes within the school or college.

ISBN 0 7310 7575 7

Business Studies Examination Report

INTRODUCTION

WHO SETS THE EXAMINATION PAPERS?

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 1995 marking budget and the number of candidates sitting the examinations in 1996, to describe the resources required and the nature and length of the marking process. The approved plan allowed for 34 Senior Markers and 267 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 at the Royal Agricultural Showground at Randwick. The 2/3 Unit (Common) Examination was held on Tuesday, October 29 and Senior Markers commenced work on Wednesday evening, October 30. Markers commenced work on Saturday, November 2 and the marking operation was completed on Thursday, November 21.

Section I in 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 (the marks will later be adjusted to a mark out of 5). In 2 Unit Section III and 3 Unit, the best responses are awarded 20, the worst score 0 (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 III 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.

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.

MARKING GUIDE

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

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 I (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 permitted to mark the scripts from their school, of family members or the same script twice.

Board policy is that a script will only be marked for a third time if the two marks differ by $\frac{1}{3}$ 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

Candidature: 12 481

TOPIC	QUESTION	% of Scripts	% of Candidates*
Business Law	27	1.76	15.76
Business Law	28	6.12	
Industrial Relations	29	3.91	25.70
Industrial Relations	30	8.94	
Marketing	31	28.86	77.04
Marketing	32	9.66	
Small Business Mgt	33	12.79	81.50
Small Business Mgt	34	27.97	

3 Unit (Additional) Paper

Candidature: 2946

TOPIC	QUESTION	% of Scripts	% of Candidates*
Business and Tech	1		19.25
Business and Tech	2		
Financial Markets	3		13.72
Financial Markets	4		
Human Res Mgt	5		86.83
Human Res Mgt	6		
Prodn Management	7		18.09
Prodn Management	8		
International Business	9		62.11
International Business	10		

* **Note:** because each student completes two extended responses, the percentage of candidates adds up to 200%. The figures in this column in the 1995 Examination Report should be doubled.

2/3 UNIT (COMMON)

SECTION 1 (20 marks)

Multiple Choice Answers

The mean was 12.35.

Question	Answer	% Correct
1	D	92
2	B	79
3	C	31
4	A	61
5	A	62
6	D	77
7	B	66
8	C	52
9	A	74
10	C	76
11	B	56
12	A	54
13	D	64
14	A	45
15	C	20
16	C	80
17	B	83
18	C	42
19	D	55
20	B	66

SECTION II

(30 marks)

Attempt ALL questions.
Answer the questions in the spaces provided in the paper.

QUESTION 21 (5 marks)

Refer to the following advertisement.

FOR SALE
TIMBER RETAIL OUTLET

- Sole trader
- Owner-managed for 22 years
- Turnover \$1.25 million
- Gross profit 16%
- No outstanding leases or borrowings

*** TERMS NEGOTIABLE ***

Phone (xx) xxxx

- (a) List TWO different stakeholders in this business.
- (b) Describe TWO key external factors that should be considered before purchasing this business.
- (c) Explain TWO key functions of management that would apply to a business such as that advertised.

Topic outcomes which the question examined:

- explain the key functions of management (Management in Action)
- identify the nature and sources of change affecting business entities (Business in Action).

Knowledge and understandings outcomes which the question examined:

- describe the impact of the external environment on a range of businesses
- identify and describe the techniques used by business managers in planning, organising, leading and controlling
- recognise the impact of changing economic, social, political, technological and legal influences on business.

The majority of candidates were able to demonstrate achievement of the knowledge and understanding outcomes, however, few demonstrated achievement of the topic outcomes.

General Comments

Candidates were able to list two different stakeholders in the business.

Better candidates were able to identify and describe two external factors and apply them to the business described in the stimulus. They were then able to identify two functions of management and describe applications of these.

Some candidates had difficulty in distinguishing between internal and external factors and were not clear as to what constituted a management function.

Excellent Responses

Candidates listed two appropriate stakeholders including: customers, suppliers, owner/manager, employees, government, trade creditors, loggers, distributors, creditors, debtors, environment, society and community.

They identified and described two key external factors and made a link between these factors and this business. Factors included the impact of community attitudes towards the forest environment, the impact of government legislation, competition in the timber retail industry, the state of the economy in relation to building, the demand for timber products in general and changes in the demographics of an area.

The key functions of management (planning, organising, leading, controlling) were identified and, for example, the process of planning including planning tools was explained. Control techniques, particularly inventory control in a retail business, were identified as significant to this type of business. Candidates either explained these techniques in theoretical terms or applied them to a business such as that advertised.

Sample Excellent Response

- (a) List TWO different stakeholders in this business.
- (i) *Manager - Owner*
 - (ii) *Customers*
- (b) Describe TWO key external factors that should be considered before purchasing this business.
- (i) *Economic influences/conditions - if the economy is in a recession there will be a low demand for timber as consumption levels and consumer confidence will be low.*
 - (ii) *Competition - competition in the industry in the located region would need analysis. Also the actual market share of the present business in relation to its competitors and its present advantages over its competitors would need analysis. If it was a highly competitive market it is unlikely to have such advantages.*
- (c) Explain TWO key functions of management that would apply to a business such as that advertised.
- (i) *Planning - effective planning would need to take place with review of the mission statement and business plans (situational analysis). It would need to plan through the use of strategic, operational and tactical plans.*
 - (ii) *Control - effective control through the use of prevention, concurrent and feedback controls would need to be implemented. The manager would also take necessary corrective action for occurrences outside the plans.*

Above Average Responses

Candidates clearly listed two stakeholders. They were able to describe two external factors but were not as clear in linking these factors to this business. Management functions were either clearly identified or inferred from a general description of management practices.

Average Responses

Candidates usually listed two stakeholders. They were able to either describe one external factor in relation to the business or describe two external factors in general. Management functions were usually mentioned in general.

QUESTION 22 (5 marks)

Grant Ford is thinking of buying a business. He has narrowed his choice to two dress shops. His preference is for Muriel's Wedding Gowns but he is not quite sure. He has asked your advice and provided the following information.

	<i>Priscilla's Dress Shop</i>	<i>Muriel's Wedding Gowns</i>
	(\$)	(\$)
Sales	150 000	400 000
Cost of Sales	<u>50 000</u>	<u>200 000</u>
Gross Profit	100 000	200 000
Expenses	<u>70 000</u>	<u>170 000</u>
Net Profit	<u>30 000</u>	<u>30 000</u>

- Based upon the available information, *explain* which business Grant should buy.
- Identify FOUR examples of additional information Grant would need to assist him in this decision.
- List TWO non-financial considerations Grant should take into account when making his decision.

Topic outcomes which the question examined:

- critically analyse published financial reports (Management in Action).

Knowledge and understandings outcomes which the question examined:

- read and interpret a range of accounting and financial reports used by business managers.

Skills outcomes which the question examined:

- apply computational techniques in business decision-making
- interpret and make inferences from data.

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

- critically analysing published financial reports, and
- applying a computational techniques in business decision-making.

However, candidates were less clear about outcomes relating to:

- interpreting and making inferences from accounting and financial reports used by a business managers.

General Comments

Candidates attempted some analysis and offered some decisions as to which business to buy. Many candidates merely repeated a listing of additional financial considerations already listed in the stimulus but correctly identified some non-financial considerations. Better candidates clearly and exclusively listed financial and non-financial considerations not in the stimulus.

Excellent Responses

Candidates answered all parts of the question and demonstrated a knowledge of financial analysis and of financial and non-financial considerations to be taken into account when justifying a decision to purchase a business.

Candidates were expected to analyse ONE aspect of the financial data provided:

	<i>Priscilla's Dress Shop</i>	<i>Muriel's Wedding Gowns</i>
Cost of Sales	33.3% of Sales	50.0% of Sales
Gross Profit	66.7% of Sales	50.0% of Sales
Expenses	46.7% of Sales	42.5% of Sales
Net Profit	20.0% of Sales	7.5% of Sales

and explain which business Grant should buy, based on the correct analysis.

Candidates listed a range of financial information Grant would need to assist him in determining which business he should buy. Full marks were obtained by candidates who listed financial examples. Examples given were:

- prices sought for each business
- cash-flow statements
- bank statements
- trends in financial records
- financial ratios - current/quick or stock turnover
- detailed profit and loss account or a listing of some of their components.
 - eg amount of wages
 - rent for the premises
 - advertising/marketing costs
- leases.

Candidates listed a range of non-financial considerations Grant should take into account when making his decision. Examples given were:

- suitability of location
- extent of competition
- special suppliers
- demographics of the market base
- skills of employees
- social obligations to the community
- number of hours worked by the proprietor.

Sample Excellent Response

- (a) Based upon the available information, *explain* which business Grant should buy.

Grant should buy Priscilla's Dress Shop for a number of reasons. As far as profitability goes, the business is far ahead. Its Gross Profit ratio = 66.6% and its Net Profit ratio = 20%, compared to 50% and 7.5% respectively. Also Cost of Sales percentage is lower (33.3% compared to 50%) ie. Priscilla's Dress Shop provides a higher return on sales (profitability after expenses) than does Muriel's Wedding Gowns.

- (b) Identify FOUR examples of additional information Grant would need to assist him in this decision.

- (i) *Balance sheet - to work out liquidity ratio*
- (ii) *Cash-flow statement - to see how the flow of cash is going*
- (iii) *A detailed profit and loss statement - to see what expenses are being incurred*
- (iv) *Bank statements - to ensure Profit & Loss Statements and Balance Sheets are correct.*

- (c) List TWO non-financial considerations Grant should take into account when making his decision.

- (i) *Is there a market for this product and how many competitors are already out there.*
- (ii) *Does the business have a good reputation and established clientele ?
If not, why?*

Above Average Responses

Candidates were able to explain which business Grant should buy based on the analysis of at least one indicator. Many candidates listed additional financial information that were often overlapping, eg the Balance Sheet and Fixed Assets. Most candidates listed two non-financial considerations.

Average Responses

Candidates provided a superficial explanation of which business Grant should buy without any real analysis or reason other than provided in the stimulus data. Many candidates identified only two examples of additional information and often repeated information in the stimulus. Most candidates listed one non-financial consideration.

QUESTION 23 (5 marks)

Mrs Whoopee Ice-Cream Van has the following cash-flow statement.

	Jan	Feb	March	April	May	June
Receipts	1600	1000	800	600	500	300
Payments	1150	950	650	550	450	1400
Opening balance at Bank	100	550	600	750	800	850
<i>Additional information</i>						
Costs breakdown						
- ice-cream wholesale (100% mark-up)						
- petrol, \$50 per month						
- rent on equipment, \$100 per month						
- road tax, \$1000 per year						

- In which month did a cash-flow problem arise?
- Give TWO likely reasons for the cash-flow problem.
- Describe TWO strategies to overcome the cash-flow problem.

Topic outcomes which the question examined:

- describe the role of finance and cash-flow in the operation of a business.

Knowledge and understandings outcomes which the question examined:

- read and interpret a range of accounting and financial reports used by business managers.

Skills outcomes which the question examined:

- interpret appropriate data
- make inferences from data.

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

- describing the role of cash-flow management in Mrs Whoopee's Ice-cream business and reading and interpreting cash-flow statements and supporting information.

However, candidates were less clear about outcomes relating to:

- making inferences about the strategies used to overcome Mrs Whoopee's cash-flow problem.

General Comments

Most candidates used the stimulus material and identified Mrs Whoopee's business as a small, cash sale business with a seasonal trading pattern. Candidates concentrated on the importance of cash-flow. Some candidates made inappropriate responses and suggested working capital management strategies such as factoring or recovery of accounts receivable.

Excellent Responses

Candidates correctly identified June as the month in which the cash-flow problem arose. They identified the likely reasons for the cash-flow problem as the large road tax bill in June combined with the seasonal downturn in sales revenue. Some candidates successfully argued the possible effects of competition on sales.

Candidates described two strategies to overcome the cash-flow problem such as a better cash-flow, budgeting for large bills such as road tax, diversification into more winter oriented products such as hot dogs, the use of appropriate marketing strategies to increase sales in winter or the use of appropriate short term debt financing such as an overdraft facility.

Sample Excellent Response

(a) In which month did a cash-flow problem arise?

June.

(b) Give TWO likely reasons for the cash-flow problem.

(i) *The road tax (\$1,000) was due in June.*

(ii) *Increase in payments and decrease in receipts perhaps pointing at seasonal changes having an effect on the consumption of ice cream.*

(c) Describe TWO strategies to overcome the cash-flow problem.

(i) *Apply for a short term loan, possibly a bank overdraft.*

(ii) *Make payments in instalments. For instance, road tax in monthly payments rather than one big payment which adversely affects cash-flow.*

Above Average Responses

Candidates correctly identified June as the month in which the cash-flow problem arose. They identified that the cash-flow problem resulted from sales decreasing in the cooler months and that expenses in June were high, probably due to the road tax payment. Candidates identified two relevant strategies without reasons or without referring to the stimulus.

Average Responses

Candidates correctly identified June as the month in which the cash-flow problem arose. They related the cash-flow problem to declining sales and increasing expenses although with little clear reference to, and understanding of, the stimulus material, or referred to less relevant causes such as 'the recession'. Candidates identified but did not describe appropriate strategies, or referred to inappropriate strategies such as credit sales, accounts receivable and factoring.

Some candidates made inappropriate responses and suggested working capital management strategies such as factoring or management recovery of accounts receivable.

QUESTION 24 (5 marks)

The management of 'Babe Piggeries' released the following financial statement on 31 December 1995.

BABE PIGGERIES			
<i>Current Assets</i>	\$	<i>Current Liabilities</i>	\$
Cash	50	Overdraft	200
Accounts Receivable	700	Accounts Payable	1000
Inventories	250	<i>Non-current Liabilities</i>	4000
<i>Non-current Assets</i>	<u>5000</u>	<i>Owners' Equity</i>	<u>800</u>
	<u>6000</u>		<u>6000</u>

- Calculate the working capital in the business.
- You are one of the Babe Piggeries' suppliers. *Explain* whether you would continue to extend credit, and why.
- Outline TWO strategies the business could adopt to improve its working capital position.

Topic outcomes which the question examined:

- explain the role and importance of working capital management
- critically analyse published financial reports
- describe the role of finance and cash-flow in the operation of a business.

Skills outcomes which the question examined:

- demonstrate the use of business methods and computational techniques
- suggest alternative solutions to business problems.

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

- 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:

- the demonstration of computational techniques
- the distinction between working capital and cash-flow
- interpretation of the Financial Statement (Balance Sheet).

General Comments

Candidates demonstrated an understanding of accounting concepts and analysis and better candidates were able to relate accounting concepts and analysis to the question. Most candidates recognised that the business was experiencing financial difficulty in the form of Accounts Payable exceeding Accounts Receivable and a low cash figure. However, only the best candidates were able to analyse why and use relevant ratios. Many candidates confused working capital strategies with cash-flow and management strategies and some candidates were unable to recognise the financial report as a Balance Sheet.

Excellent Responses

Candidates answered all three parts of the question in detail and demonstrated a knowledge and understanding of how to calculate working capital, how to interpret working capital information and suggested ways in which management could improve working capital using the Balance Sheet provided.

Candidates calculated the working capital by using the formula:

Working capital = Current Assets - Current Liabilities

ie \$ 1000 - \$ 1200 = \$ - 200 (negative \$ 200).

Candidates argued that no they would not extend credit to Babe Piggeries and showed a good understanding of the liquidity problem by calculating the current ratio (0.83) and quick asset ratio (0.75). This information enabled candidates to identify the solvency and gearing problem.

Candidates outlined two strategies the business could adopt to improve its working capital position. The working capital strategies identified included increase long term borrowing, increase owners' equity, increase the price and sell off any non-productive current assets.

Sample Excellent Response

- (a) Calculate the working capital in the business.

Working capital = Current Assets - Current Liabilities

\$1,000 - \$1,200 = \$ - 200

- (b) You are one of the Babe Piggeries' suppliers. *Explain* whether you would continue to extend credit, and why.

No, as a supplier we would not be able to extend credit to Babe Piggeries. Working capital at \$ - 200 shows that the business is unable to meet its short term financial debts. As a supplier we would have to reassess our credit account with Babe Piggeries and see if it is just a short term problem.

- (c) Outline TWO strategies the business could adopt to improve its working capital position.

(i) *Inject greater amounts of owners' equity (either by the owner or investor, for example) to pay off bank overdraft, therefore reducing liabilities (current).*

(ii) *The business could take out a small loan to increase working capital especially cash.*

Above Average Responses

Candidates showed the working capital ratio or used the correct formula to calculate the correct answer. Candidates argued no to extending credit and demonstrated some understanding of the liquidity problem but with less clear explanations. Candidates outlined two strategies but one strategy related to working capital and the other a cash-flow strategy.

Average Responses

Candidates showed the working capital ratio and used the working capital formula but often had an incorrect working capital calculation. Candidates argued no to credit extension and explained this simply as current assets were less than current liabilities and that Babe Piggeries did not have enough cash to pay its debts.

QUESTION 25 (5 marks)

A cotton farm on the Gwydir River is owned by a large city business. John Smith, the Manager, has misused the water resources, causing the soil to become infertile, and the river polluted. John has requested more money from the owners to repair the damage that has been caused.

- (a) Explain the effects of John Smith's mismanagement on:
- ONE internal stakeholder of the business;
 - TWO external stakeholders of the business.
- (b) Outline TWO ways in which ecologically sustainable change can be promoted.

Topic outcomes which the question examined:

- analyse the responsibilities of management to the internal and external stakeholders
- value socially just and ecological sustainable changes in business function and operation.

Knowledge and understandings outcomes which the question examined:

- explain the role and responsibilities of management in business performance.

Skills outcomes which the question examined:

- predict probable consequences of a course of action to be taken by management to the business, society and the environment
- judge the effectiveness of business decisions in relation to its goals, social justice and ecological sustainability.

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

- explaining the role and responsibilities of management to the internal and external stakeholders
- valuing socially just and ecologically sustainable changes in business functions and operations.

However, fewer candidates demonstrated achievement of the skills outcomes.

General Comments

Candidates were familiar with business terminology such as stakeholders and ecological sustainability. Many students clearly identified two different stakeholders and two different effects of John Smith's mismanagement. Some candidates confused internal and external stakeholders.

Excellent Responses

Candidates named the internal stakeholder such as manager/owner, shareholder, employees and clearly explained the effects on that stakeholder such as reduced level of profitability through increased costs or the owner being required to put in money to improve profit.

Candidates identified two different external stakeholders, eg government, customers, suppliers, environment, society and explained two different effects, one for each stakeholder, eg environment affected adversely by chemicals and therefore less crop usage of river and decreased crop yields, and government being forced to introduce laws regulating water or chemical usage.

Candidates clearly outlined two different ways in which ecologically sustainable change could be promoted, eg changing farm practices, education and training, and research on better practices. The majority of candidates outlined proactive promotion strategies as actively

encouraging a practice, such as education of environmental awareness or public awareness of environmental practices. Candidates related changes to long term sustainable practices and in particular, preservation of the environment.

Sample Excellent Response

- (a) Explain the effects of John Smith's mismanagement on:
- (i) ONE internal stakeholder of the business;
Employees - this mismanagement will lower the employees' morale and their productivity as they feel management has ruined the environment.
 - (ii) TWO external stakeholders of the business.
 - 1. *Government - the Government will be concerned that the environment is polluted and damaged. It may also investigate to see if regulations are not met by the business.*
 - 2. *Local farmers - the pollution of rivers affects other local farmers. For example, the polluted river may have been their source of irrigation and water for their livestock but it is now ruined.*
- (b) Outline TWO ways in which ecologically sustainable change can be promoted.
- (i) *Recycling paper - there is a huge emphasis in this area in modern society. By recycling, businesses contribute to the environment and help promote this change.*
 - (ii) *Controlling waste - by eliminating waste or minimising it, businesses help by being environmentally friendly and thus promote ecologically sustainable change.*

Above Average Responses

Candidates identified one effect on an internal stakeholder. They identified one external stakeholder and two effects or gave essentially the same effect on two external stakeholders.

Candidates outlined two similar ways to promote ecological sustainability.

Average Responses

Candidates identified one effect on an internal stakeholder. They identified either one or two external stakeholders or gave one or two effects on one stakeholder.

Candidates outlined promotion of ecological sustainability as a short term response or gave an example such as cleaning up the river.

QUESTION 26 (5 marks)

Refer to the following financial information.

BATMOBILE CAR ASSEMBLIES				
<i>Management Report</i>				
<i>31 December 1995</i>				
	Budget		Actual	
	\$'000	\$'000	\$'000	\$'000
Sales		1000		2000
Cost of Sales		<u>800</u>		<u>1600</u>
Gross Profit		200		400
<i>Expenses</i>				
Wages	50		100	
Rent	10		10	
Transport	10		40	
Advertising	<u>30</u>	<u>100</u>	<u>150</u>	<u>300</u>
Net Profit		<u>100</u>		<u>100</u>

- (a) Identify ONE way in which managers could use this report.
- (b) Calculate the following ratios:
- actual gross profit ratio;
 - budgeted gross profit ratio;
 - actual net profit ratio;
 - budgeted net profit ratio.
- (c) Analyse the above ratios, and give possible reasons for the differences between actual and budget.

Topic outcomes which the question examined:

- critically analyse published financial reports.

Knowledge and understandings outcomes which the question examined:

- read and interpret a range of accounting and financial reports used by business managers
- interpret and apply accounting and finance principles.

Skill outcomes which the question examined:

- use business publications and various related materials to find, organise and present relevant business information
- demonstrate the use of business methods and computational techniques
- examine trends in business
- interpret appropriate data
- make inferences from data
- suggest alternative solutions to business problems
- judge the effectiveness of business decisions in relation to goals.

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

- the use made by managers of financial reports
- an examination of the trends evident in the figures
- an evaluation management response to change in a specific business.

However, candidates were less clear about outcomes relating to:

- interpretation of their results
- making inferences from their data (reasons for the differences between budget and actual)
- using computational techniques.

General Comments

Most candidates were able to identify a management use for this report. Many candidates, however, have difficulty in calculating the required ratios, analysing the ratios and giving reasons for differences between actual and budget.

Candidates who showed their calculation of the ratios were awarded marks despite errors in computation.

Excellent Responses

Candidates demonstrated a clear understanding of the use of this report as a management tool. They commented on how budgeting could be used as a *control* function and how variance analysis (actual to budget) is useful in the ongoing *planning* of the business. Candidates correctly calculated all ratios with responses showing the appropriate formulae and computations.

Answers were expressed in a variety of formats. These included:

- (i) $\frac{\text{Gross Profit}}{\text{Sales}} = \frac{400}{2000}$ expressed as 20% OR 1:5 OR ·2:1 OR 1/5 OR 20c in each \$1 earned
- (ii) $\frac{\text{Gross Profit}}{\text{Sales}} = \frac{200}{1000}$ expressed as 20% OR 1:5 OR ·2:1 OR 1/5 OR 20c in each \$1 earned
- (iii) $\frac{\text{Net Profit}}{\text{Sales}} = \frac{100}{2000}$ expressed as 5% OR 1:20 OR ·05:1 OR 1/20 OR 5c in each \$1 earned
- (iv) $\frac{\text{Net Profit}}{\text{Sales}} = \frac{100}{1000}$ expressed as 10% OR 1:10 OR ·1:1 OR 1/10 OR 10c in each \$1 earned

Candidates demonstrated a sound knowledge of ratio analysis and they were able to comment on the trends shown in their calculations. Candidates were able to show that while sales had doubled from the budgeted figure, so too had cost of sales which gave the same gross profit ratio.

Candidates nominated the increase in variable expenses such as wages (up 100%) and transport (up 400%), along with the increase in advertising (up 500%) as the reasons for the difference between the actual and budgeted net profit ratios.

Sample Excellent Response

- (a) Identify ONE way in which managers could use this report.

This report is an excellent way for managers to compare budgeted figures to actual figures. Budgeted figures are usually predictions based on a year before sales and so, therefore, allow a comparison to be made.

- (b) Calculate the following ratios:

- (i) actual gross profit ratio;

Gross Profit / Sales x 100

$$400,000 / 200,000 \times 100 = 20\%$$

- (ii) budgeted gross profit ratio;

$$200,000 / 100,000 \times 100 = 20\%$$

- (iii) actual net profit ratio;

Net Profit / Sales x 100

$$100,000 / 200,000 \times 100 = 5\%$$

- (iv) budgeted net profit ratio;

$$100,000 / 100,000 \times 100 = 10\%$$

- (c) Analyse the above ratios, and give possible reasons for the differences between actual and budget.

The more that you sell the more your costs go up. You make more Gross Profit so you pay more tax. Batmobile could have received a lot of orders, more than they expected. So they had to work longer and harder and had additional costs in transport. They have advertised a lot more than they had budgeted for.

Above Average Responses

Candidates were able to identify a management use for this report. However, candidates were less accurate in their calculations and made limited reference to the ratios in their analysis of the ratios. Candidates were able to nominate some reasons for the differences.

Average Responses

Candidates were generally able to correctly identify a management use for the report. Candidates showed limited knowledge of ratios and made only general statements about the differences.

SECTION III

(50 marks)

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

BUSINESS LAW

QUESTION 27 (25 marks)

Your neighbour is thinking of establishing a family business. He feels that the best form of organisation would be either a partnership or a trust. He has asked for your advice.

For BOTH types of organisation:

- (a) outline the relevant legal issues in their formation;
- (b) discuss the legal rights and duties of principals and agents;
- (c) analyse the legal issues affecting the cessation of activity in each.

Outcomes which the question examined:

- understand the nature and role of law in contemporary business law
- 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
- analyse the legal implications of business decision making.

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

- locating and selecting relevant business law to the formation and cessation of partnerships, and the role of principal and agent
- communicating effectively about the legal aspects
- controlling the formation and operation of these business structures.

However, the majority of candidates were less clear and/or inaccurate in discussing trusts.

General Comments

Most students had difficulty in discussing adequately the formation and cessation of trusts. Many students were confused by the positioning of the principal/agent section in part (b).

Noticeably fewer candidates this year answered the question in sections (a), (b) and (c). Some students discussed partnerships formation and cessation and then discussed trusts, leaving out principals and agents altogether. Students need to be encouraged to answer in sections, so as not to omit any parts of the question.

Excellent Responses

Candidates answered all three sections of the question in considerable depth. They were able to give a comprehensive outline of the relevant legal issues in the formation of Partnership and Trusts. Many of these candidates included a discussion of a limited partnership, their knowledge of trusts was considerable. They discussed the Partnership Act, the need for a Partnership Agreement and the components of the agreement.

Candidates discussed in detail principals and agents, and a few candidates related principals and agents to partnership and trusts. Few candidates explained the role of partners as agents and principals, and the role of settler as principal and trustee as agent.

Candidates offered a range of causes for the cessation of partnership and trusts. For example, they discussed the effects of bankruptcy on partners, the situations in which partners may not continue, such as being mentally ill, having engaged in illegal activity or the cessation of a trust when trustees breach his/her duty.

Sample Excellent Response

(a) **legal issues in their formation of:**

Partnerships

All partnerships within New South Wales are regulated by the Partnerships Act 1892 (NSW). However, a partnership deed between the partners can be formulated. When registered, the deed will override the State legislation.

A partnership is a business formed between two and twenty partners. Your partnership deed should outline how many partners are to be included in the business. It should also identify the names and addresses of the partners.

According to the Act, the business is jointly owned, and all partners must share duties, profits and losses equally. The partnership deed can contain details contrary to this, by outlining the distribution of profits and losses each partner will receive, and their contribution to the business.

A limited liability partnership could also be formed. This type of business contains general partners and limited partners. Limited partners have limited liability, whereas general partners have unlimited liability. However, limited partners have no participation in the day to day management of the business.

The only other legal requirement in the formation of a partnership is that the business name must be registered under the Business Names Act 1962 (NSW). This is only if it is different to the names of the owners.

Trusts

A trust is a type of business where a nominated person, known as a trustee, controls income-producing assets on behalf of a specified number of beneficiaries.

Trusts are regulated by the Trustee Act 1972 (NSW). This Act outlines the rules for formation of a trust, stating that a trust deed must be drawn up. A trust deed contains details such as the trustee's name and address, the name and address of any beneficiaries and the powers of the trustee.

There are two main legal rules that govern the formation of a trust:

1. that the person who set up the trust knew that a trust was to exist; and
2. the trustee acknowledges to be honest and fair in all their dealings.

(b) **legal rights and duties of principals and agents**

A principal-agent relationship is a legal contractual agreement where a principal nominates an agent to act on behalf of the principal in certain business dealings. For example, a company (the principal) can nominate directors (the agents) to act on behalf of the principal. This legal relationship also exists within trusts where the trustee is the agent and the trustor is the principal.

Legal Rights of the Agent

1. Right to remuneration - the right to be paid.
2. Right of lieu - this means the agent can hold the goods until they have been paid for them.
3. Right to stoppage in transit (the legal duties of the principal are defined by the legal rights of the agent).

Legal Duties of the Agent

1. To exercise skill and diligence in their work.

2. To act honestly and fairly - for example, the agent cannot commit fraud with the principal's funds.
3. to give full account of their actions to the principal. (The legal rights of the principal are defined by the legal duties of the agent.)

(c) **legal issues affecting the cessation of activity in:**

Partnerships

A partnership can cease to exist either voluntarily or through a court order. The partners may decide to wind up their partnership if:

- a partner dies
- a partner retires
- a partner becomes bankrupt - this is outlined under the Bankruptcy Act 1966 (Cth), and a partner can be made bankrupt if the debt owed is more than \$ 1500 and they are Australian or the business is run within Australia
- the business can only be carried on at a loss
- an illegal act is committed - for example, a partner is convicted of fraud or embezzlement.

Under the Partnership Act 1892 (NSW), the court can also order dissolution of the partnership. This is only in certain circumstances, such as:

- a partner is declared to be mentally of unsound mind
- the partnership deed has been breached - this normally occurs where the partners commence litigation against each other due to a breach
- the court decides that it is equitable and just to do so.

Other circumstances that might give rise to dissolution are that the business has fulfilled its purpose or completed its objectives as outlined in the mission statement.

Upon dissolution of the partnership, the assets of the partnership are converted to cash, and the liabilities of the business are settled (ie the creditors are paid). Where there are surplus funds, these are distributed among the partners subject to the partnership deed or Act. Where there are insufficient funds to ensure all creditors are paid, the partners are held liable and personal assets such as house and car may be sold to raise the necessary funds.

Trusts

The cessation of activity in a trust will occur upon liquidation. Liquidation is regulated by the Corporations Act 1989 (Cth). A liquidator is appointed, usually by the beneficiaries, to convert all assets to cash and then the funds are distributed among the beneficiaries. All secured provable debts must also be paid, then the costs of the liquidator, taxes and then unsecured provable debts.

The time at which cessation is to occur is usually outlined by the trust deed. For example, a trust can be set up for a child. Upon that person's 18th birthday, they will be able to seize control of the funds from the trust fund. A trust can also cease to exist as appointed by the Court. The trustee may have been found guilty of criminal offences such as embezzlements, or a tort such as negligence. The trustors (or beneficiaries) will then take the trustee to court and seek to have their funds repaid.

Above Average Responses

Candidates answered all parts of the question using appropriate legal terminology. They outlined the most relevant legal issues in the form of trusts and discussed the legal rights and duties of principal and agent. Most candidates failed to discuss the variety of reasons for the cessation of these businesses and concentrated on bankruptcy of partnerships, giving less detail on the cessation of a trust.

Average Responses

Candidates answered most sections of the question using some appropriate legal terminology. They outlined some relevant legal issues with a concentration on the formation of partnerships. Discussion of legal responsibilities and duties of principal and agent was limited. Candidates described the cessation of partnerships and gave limited and often inaccurate discussion of cessation of trusts.

QUESTION 28 (25 marks)

Your friend Alex is in the market for a used car. The car of his dreams was advertised in the local paper at a giveaway price. Alex called on Moose Motors Pty Ltd, and after some discussion with the salesperson, agreed on a price of \$6500. Alex then insisted on taking the car for a test drive. After checking that Alex had a valid driving licence, the salesperson agreed. As Alex was pulling away from the kerb, the car was involved in an accident with a passing car.

The salesperson claims that Alex did not look before pulling out from the kerb. She insists that Alex had purchased the car, and must therefore pay for the car and for the repairs. Alex refuses to accept the responsibility for the accident.

- (a) Discuss whether there is a valid contract between Moose Motors Pty Ltd and Alex.
- (b) Explain the current consumer-protection laws and whether they are relevant to this case.
- (c) Identify the possible resolution procedures for this dispute.

Outcomes which the question examined:

- describe the legal structures, processes and institutions used in settling business disputes
- 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
- analyse the legal implications of business decision making.

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

- describe the legal structures, processes and institutions used in settling business disputes
- locate and select relevant business law
- communicate effectively about the legal aspects of business situations.

However, candidates were less clear about outcomes relating to:

- understand and apply appropriate legal principles to new and everyday business situations
- analyse the legal implications of business decision making.

General Comments

The majority of students were able to discuss the relevance of some elements of a contract and draw appropriate conclusions as to whether there was a valid contract between Moose Motors Ltd and Alex. Most students were able to explain some current consumer protection laws but many students were unable to explain whether they were relevant to the case. Most students were able to identify several resolution procedures but again many students did not relate the dispute resolution procedures to the dispute.

Excellent Responses

Candidates answered all three sections of the question in depth using appropriate legal terminology. Candidates demonstrated a clear understanding of the six elements (intention, agreement (offer/acceptance), consideration, capacity, consent, legality) considered essential for the formation of a legally binding contract. Excellent responses provided detailed analysis relating to the case scenario, and consequently determined if a relevant contract existed. Many excellent responses, based on explicit assumptions from the stimulus material, concluded that there was not a legally enforceable contract between Moose Motors for a variety of reasons such as

- there was not an offer by Alex (rather there was negotiation on price)
- there was a condition precedent (that was the test driving of the car)
- there was no consideration exchange

- Alex lacked intention to enter into a contract.

Many excellent responses also assumed other elements of a contract were present, eg capacity, ie not insane or under age.

Typical excellent responses explained a range of consumer protection laws and discussed their relevance to the case. Such laws included the Sale of Goods Act (NSW), The Fair Trading Act (1987) NSW, Trade Practices Act (1974) and some candidates discussed Contract Review Act (1980) NSW and NSW Motor Dealers Act (1974). Most excellent responses indicated these Acts were *not* directly relevant to the dispute between Alex and Moose Motors Ltd.

Typical excellent responses identified a range of disputes that could exist and then discussed a range of relevant dispute procedures. Typical relevant dispute resolution procedures included

- negotiation to determine whether there was any real dispute and liability
- mediation to determine if there was a dispute and financial liability
- litigation whereby the court decides if there is a dispute and consequential liability.

Many excellent candidates discussed the problems associated with litigation (cost/time) and subsequently recommended the use of Alternative Dispute Resolution Procedures (eg Rent a Judge).

Some excellent responses indicated there were no grounds for a dispute as there was no unforeseeable contract between the two parties. Such responses did, however, discuss a series of relevant dispute procedures.

Sample Excellent Response

(a)

For a valid contract to occur there are several significant features that need to be present. These include offer, acceptance, consideration, intention to create legally binding agreements and a capacity to pay. A contract can also lapse if genuine consent and legality of the contract are absent.

In the case of Moose Motors Pty Ltd and Alex it must be distinguished whether or not an offer was made. Firstly an offer must be distinguished between an invitation to treat. The advertisement in the paper does not represent a valid offer. However, Alex calling Moose Motors Pty Ltd on the telephone to make an offer does constitute a valid offer. The offer was made to the particular person, a salesperson, who acts as an agent for his/her employers. It was direct and about a certain object. Since the offer was made to the salesperson this may raise doubt about the offer and its validity but since the employer-employee relationship is a principal/agent relationship the salesperson is therefore a representative of the company. Hence an offer was established.

Secondly acceptance must be established. It must be clear, unequivocal and absolute. A counter offer is not acceptance. Since Alex agreed on a price of \$6000 this constitutes that acceptance took place. The case 'Felthouse vs Bindley' set the rule that non-compliance does not constitute acceptance but this does not affect this case.

Intention to create a legally binding document must also be present if a contract is to be valid. Alex insisting on taking the car for a test drive would indicate that Alex had an intention. Generally, intention is implied in most contracts anyhow. The salesperson checking Alex's credentials, eg Drivers Licence also constitutes as an intention to create a legally binding document.

There is no reference that Alex is a minor or mentally handicapped so it is implied Alex had 'capacity to pay' in relation to the contract.

No duress like threats or undue influences were placed on Alex so it is clear Alex's actions were in genuine consent.

However there has been no CONSIDERATION. No money or other form of sufficient (in the eyes of the law) consideration has exchanged hands. Therefore since all aspects needed to constitute a valid contract are not present, the contract will be rendered VOID. The ORAL contract had no form either, no signatures, so it would be difficult to prove a contract existed.

(b)

To provide safety for consumers in situations like Alex's, special Consumer Protection Legislation has been devised. Currently Consumer Protection Legislation includes Sale of Goods Legislation, Consumer Credit Legislation and Trade Practices.

Sales of Goods Legislation basically implies certain terms in the Sale of Goods Contracts. The Sale of Goods Act 1923 is the relevant legislation. Implied terms are the goods will be of merchantable quality, meaning fitting the purpose of its intended manufactured use. If a consumer states the purpose they want to use a good for, Fitness of Purpose is also implied. The Description of the goods must fit the good and its use and if a good is sold by sample it must conform to the samples. A buyer has the right to check the samples. In specific cases where dangerous goods are sold the seller must give prior warning to the buyer about any dangers that may occur. Once a sale of goods contract has been established the seller has the right to remuneration, stop goods in transit or resell goods if payment is not made. The seller also has the right to sue the buyer for lack of payment or refusal of payment and acceptance. Since it was established that no contract had been established between Alex and the Moose Motors Pty Ltd, then Sale of Goods Legislation is irrelevant. If, however, it had been decided that the contract was valid then Moose Motors Pty Ltd would have grounds to pursue action against Alex on the basis of breach of contract and refusal for payment and acceptance of contractual goods.

Consumer Credit legislation is the legislation regarding the payment of goods and services by credit. Credit can take two forms. A promise and obligation to pay at a later date and borrowing money from a third party to finance the debt. The Consumer Credit Code which has been trialed in Queensland since September 1995 is due to become legislation in November 1996 Australia wide resulting in a uniform credit code. The code basically legislates over different ways of credit procession. They include:

- sale on credit
- continuous credit like credit cards
- sale in instalments
- leases, and
- overdraft payments.

In the case of Alex vs Moose Motors Pty Ltd there is no indication that Credit payments would be made so the laws do not relate to the case between Alex and the Moose Motors Pty Ltd.

Trade Practices Legislation is another area of consumer protection. It restricts certain behaviour that the government believes will reduce competition. These activities are laid out in the Trade Practices Act 1974. They include Collusive Activities like Price Fixing. Agreements in joint ventures between 50 or more parties are exempt (David Jones vs TPC being the relevant case legislation). Exclusive dealing, retail price maintenance (eg Hugo Boss), monopolisation and mergers all come in under this Act as does Third Line Forcing. Specifically, dealing with Alex vs Moose Motors Pty Ltd Trade Practices legislation would be irrelevant as no anti-competitive actions took place.

The Fair Trading Act and Motor Dealers Acts would be the most relevant legislation under the new Consumer Protection Laws. In the case of Alex vs Moose Motor Pty Ltd there is no sign of unfair trading, consumer manipulation, no harassment of intended buyers so this legislation would not affect the outcome of the situation.

Alex however could be found negligent on civil grounds. For negligence to be determined three aspects must be considered.

A duty of care must be owed, the duty was breached and loss or injury was caused due to this breach. It is recognised by law that motorists do have a duty of care to other motorists and passengers. So in the case Alex would be found to have a duty of care as a motorist. The salesman claimed Alex did not look before pulling around the corner. This would constitute a breach on the duty of care on Alex's behalf. The damage of the accident is obviously caused by the breach in Duty so Moose Motor Pty Ltd would have a case if they tried Alex for negligence. Moose Motors would have a responsibility of mitigation, keeping costs to a minimum.

(c)

There are many possible resolutions for the dispute between Alex and Moose Motors Pty Ltd. The most desirable would be Conciliation or Mediation. Usually litigation is the final straw as it is more costly, formal, legalistic, public and an inconvenience to both parties. Usually a win/lose outcome is the result.

If cooperation and discussions on a private scale, meaning negotiation, fails the first step would be mediation. Mediation involves neutral third party to help settle the dispute. The decision given is not legally binding and there is no commitment to adhere to the mediator's suggestions. Conciliation is actually a form of mediation but a conciliator acts as a go-between for the two parties. Conciliators often suggest their own ideas. Again conciliation is not a legally binding process.

Arbitration is the next step if the dispute is still not settled. An arbitrator is an independent third party, usually a professional in the field of the case being arbitrated. After hearing all of the facts the arbitrator makes a legally binding decision. This decision can however be appealed.

Litigation is the process of taking legal action against another person. It relies on a court to make an independent judgment. The court however does have the power to refer matters to Arbitration to speed up matters. In litigation there are many processes. Alex is called the accused as Moore Motors Pty Ltd has brought action against Alex. The first step is to obtain a solicitor and forward a Writ of Summons to the accused. Entry of appearance notices are filed and pleadings begin. Pleadings involve a claim and court order and they aim to establish the facts of the case. Interrogations are the next step. These are questions which are directed at the accused and prosecutor by the opposite party. The pre-trial hearing is the final step in establishing whether or not the case can be decided out of court and if not the court goes to trial. A local court would hear this case, ruled by a magistrate. Appeals can be made and the case would work up the state court hierarchy.

The dispute between Alex and Moose Motor Pty Ltd would however most probably be resolved by alternative dispute resolutions.

Above Average Responses

Candidates answered all parts of the questions using appropriate legal terminology. They discussed the elements of a contract in relation to the case and drew appropriate inferences as to the existence of a valid contract. They explained some current consumer protection laws and discussed their relevance to the case. Candidates were also able to identify resolution procedures and describe their relevance to the case.

Average Responses

Candidates answered all parts of the question with limited use of appropriate legal terminology. They discussed some of the elements of a contract in relation to the case. Average responses explained some of the current consumer protection laws but with limited or no reference to the case. Further, they identified only a few resolution procedures and with limited reference to the case.

INDUSTRIAL RELATIONS

QUESTION 29 (25 marks)

The introduction of employment contracts and enterprise bargaining has meant a change in the role and power of unions in industrial disputes.

- (a) Outline the differences between enterprise bargaining and centralised wage fixing.
- (b) Discuss the role of government in the development of industrial relations.
- (c) Analyse the changes in the role of trade unions following the introduction of enterprise bargaining.

Topic outcomes which the question examined:

- understand the nature and role of trade unions and employer groups in the industrial relations process
- 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 government
- 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, and
- assessing the influence of beliefs and values on industrial relations by individuals, trade unions, business firms and government.

However, candidates were less clear about outcomes relating to:

- appreciating the way the political, economic, social and other environmental influences affect industrial relations, and
- explaining the dynamic nature of industrial relations.

General Comments

Most candidates demonstrated a good understanding of the differences between enterprise bargaining and centralised wage fixing. Better candidates were able to identify a variety of roles for the government and emphasised its role in instigating the move from a centralised to a more decentralised system. The changing role of trade unions was generally perceived in terms of a decline in power and influence.

Excellent Responses

Candidates answered all three parts of the question in depth, using appropriate terminology. They were able to differentiate between centralised wage fixing and enterprise bargaining and they clearly explained how, under a centralised system, wages were set by an industrial tribunal (not the government) based upon submissions from the government, employers and unions. This was contrasted to enterprise bargaining where wages are determined by direct negotiation between employees and employers with or without the presence of a union.

Candidates discussed in detail the government's industrial relations role in terms of creating the industrial relations framework, initiating and promoting change towards a more decentralised system and, legislation in areas such as Occupational Health and Safety and Equal Employment Opportunities. The discussion was placed in a historical context.

Changes in the role of trade unions were considered from a number of perspectives. The most common change was seen as a declining role principally because of a loss of membership and influence as workers saw reduced relevance for trade unions. Some candidates considered that the role would increase as workers needed unions to negotiate for them in enterprise bargaining. Some candidates related the changing role to aspects such as the increased feminisation of the workforce, increased casual and part-time work and legislation which protects workers' rights

Sample Excellent Response

Industrial relations (IR) is the dynamic process which involves the behaviour of people in the workforce and how they deal with each other in a situation. IR draws from a number of academic backgrounds, including economics, politics, law and history. It essentially deals with the relationship between management and workers, but also includes the study of workers, unions, employer associations, and the institutions that exist to regulate the relationships between the two parties.

In the 1990s, Australia has had to respond to increased internationalisation and this has meant that all businesses must become competitive or face closure. Poor IR can result in lowered productivity, lost profits, lower wages and increased unemployment and therefore reduced international competitiveness.

Australia's present IR system is heavily based on issues and concerns that were critical over a hundred years ago. The economic depression of the 1890s, the bitter industrial conflicts that followed, and the Constitution that was developed to govern the Commonwealth of Australia after 1901, all contributed to a system that is central to Australia's social and economic well-being.

A centralised wage fixation system is one whereby a central governing body, such as the Industrial Relations Commission (IRC) sets wages and conditions for workers. It has a number of advantages in that it provides security for low-income workers, acting as a guarantee against exploitation. It is useful in controlling cost-push inflation resulting from continual chronic wage adjustment. A centralised system acts as a tool for economic management, so that the government has a greater control over price and wage stabilisation. A centralised system is also useful in that it promotes equity and industrial harmony in the economy, allowing for a relatively conflict-free workplace.

However, a centralised system also has many shortcomings. It is very inflexible, and this inflexibility can lead to a fall in international competitiveness. It leads to the formation of bureaucracy, with a lot of time and money spent on the rules and regulations rather than getting the job done. Irresponsibility can be fostered because of the apparent lack of accountability in the system. Inefficiency can also be fostered, because of the bureaucracy, and also because of the amount of unemployment present. It obviously takes more time to work through an independent third party rather than undertaking direct negotiation. That is another downfall - conciliation and arbitration are costly, time-consuming and potentially hostile.

Enterprise Bargaining (EB) is the champion of the decentralised wage system, where wages and working conditions are established directly between employers and employees at the industry level or actual workplace.

As with the centralised wage system, it too has its advantages and shortcomings. A decentralised wage system is very flexible, which can lead to a reduction in costs and thus an improvement in international competitiveness. There is a recognition of the capacity of the industry to pay - this was implicit in the Shepparton Preserving Company case (SA), where SPC successfully used EB to contract out of the award, with overwhelming employee support, because it could not afford to stay afloat otherwise. The contracts were successful and productivity rose 30% in the next year. With the decentralised system there is a saving of time as disputes can be settled quickly and efficiently without the need for outside tribunal

intervention. There is also a tendency to have fewer disputes overall because employees negotiate their agreements themselves rather than having terms and conditions thrust upon them.

However, a decentralised system could lead to an inequitable distribution of income as low-income earners are unable to achieve wage increases at the same rate as under the centralised system. Union power may be used by strong and militant groups to force wage rises above productivity increases. An abuse of business power could occur where firms use the bargaining process to change conditions established under awards and thus exploit workers. In addition to this, the government's role is reduced, as it loses a tool for economic management - with the end of the Accord, Prices and Incomes policy as a macroeconomic tool is virtually non-existent.

In the debate about Enterprise Bargaining, a number of arguments have arisen for and against EB. Advocates of EB claim it will replace the centralised and cumbersome two-tiered system with awards that would recognise the capacity to pay. Productivity will rise as a result of greater recognition of individual performance - 'pay the worker' rather than 'pay the job'. Industrial disputes would be settled more efficiently, and greater trust and co-operation would replace the 'us and them' philosophy. And of course, international competitiveness would rise, an inevitable result of any deregulation in the economy.

However, the parties against EB, such as the unions, Labor Party and Democrats, claim differently. They see wage differentials widening and believe working conditions and forms of employment will deteriorate as the influence of unions falls (Kelty and George use this argument). They also believe that employers will bitterly oppose it, leading to a fall in trust and a rise in opposition to employment. Another argument used is that employer-funded training will fall.

The changes the economy has seen have been, in part, the result of the need to drive a closer connection between the pay and conditions of workers and the circumstances of enterprises in the context of an increasingly competitive, globalised economy. The factors that have placed Australian producers under pressure for workplace reform are: Financial and trade deregulation; export-oriented production and competition with global markets; customer focus with emphasis on quality, variety, speed of delivery and cost competitiveness; and the use of benchmarking and best practices.

In the last 13 years, there have been a number of developments in Industrial Relations that the government has implemented. In 1983, the Hawke government implemented the first Prices and Incomes Accord, a centralised accord with full indexation as the wage fixation principle. In 1984, Accord Mark II was introduced, with partial indexation as the principle. In 1987, Mark III was introduced, and this was the advent of the two-tiered system - both centralised and decentralised systems in the economy. Accord Mark IV in 1988 focused on structural efficiency whilst Mark V in 1989 looked at award restructuring. Mk VI in 1991 was when EB was introduced, whilst Mk VII and VIII in 1993 and 1995 dealt with EB and the safety net of minimum wages and conditions.

This year, the Liberal government brought in the Workplace Relations Bill 1996, signalling the end of the Accord. It aims to reduce awards to 18 key principles, phase down the role of the unions and the IRC and introduce new enterprise agreements - Australian workplace agreements. Whilst it is not a significantly large change (and getting smaller as October 96 proceed!), it still drew a large reaction from unions:

'Awards will be gutted, the umpire nobbled, and a blind eye turned to exploitation and discrimination in the workforce' Tim Pollos ACTU.

Howard's legislation is more of an evolutionary step forward than a revolution. Whatever its final shape, it represents another step on Australia's journey to a more deregulated labour market.

The union movement is currently made up of 13 mega-unions, with membership in the hundreds of thousands, possessing millions of dollars in assets, and have themselves become relatively large employers of white-collar workers. However, instead of boosting membership, a dramatic fall has occurred. This has happened for a number of reasons. There has been a structural change in the economy where the number of jobs in traditional union areas have declined. There has been a growth in contracting, self-employment and outsourcing. Also, further feminisation of the workforce has ensured declining numbers (females are less inclined to unionism). Finally, there has been a worldwide shift in community attitudes away from regulation and collective consciousness to individual responsibility.

The move to EB has definitely produced a fall in membership, leading to Paul Keating saying in 1995 - 'Unions will die, simply wither on the vine, unless they get directly involved in workplace enterprise bargaining'.

However, the Howard government is not making this an easy task. In the Workplace Relations Bill 1996, unions will have no uninvited role in workplace negotiations, and compulsory union membership has been ended with the abolition of 'closed shop' agreements. The 'conveniently belong' provision for unions has also been abolished in the legislation, which will lead to an increase in competition among unions.

Indeed, militant companies such as CRA have embraced enterprise bargaining, determined to get the unions out of their business. Further threats to unions include the results of the Hilmer National Competition Policy, which will lead to cutting costs (including unions) and then the further feminisation of the workforce.

There has been a definite trend in recent years away from unions, centralised wage fixation, and collective consciousness. The move to a more deregulated labour market is still nowhere near our neighbours in the APEC region, but it does help us along that path. Enterprise bargaining is the way of the future - it allows the labour market to reject the Marxist approach of direct and hostile conflict between two intrinsically opposed sides, to move through a pluralist approach of the recognition of differing needs, and to move to a more unitary approach where management and workers work together to achieve the common goal of greater efficiency.

Above Average Responses

Candidates correctly outlined the differences between enterprise bargaining and centralised wage fixing. They provided an historical discussion of the government's role in promoting a more decentralised system of wage fixation.

Analysis of the role of trade unions was principally done by focusing on declining union membership and power, with the resultant reduction in ability to secure improvements for their members.

Average Responses

Candidates outlined the differences between enterprise bargaining and centralised wage fixing in general terms. The discussion of the role of government was generally confined to recent changes and analysis of the changing role of trade unions was limited to discussion of the reduced role of trade unions.

QUESTION 30 (25 marks)

The ideal industrial relations structure would reduce conflicts in the workplace to zero through the development of an effective conflict-resolution process.

Refer to at least ONE industrial dispute you have studied.

- (a) Outline the causes of industrial conflict.
- (b) Explain the consequences of disputes.
- (c) Evaluate the various processes available for the resolution of industrial conflict.

Outcomes which the question examined:

- understand the nature and role of trade unions and employee groups in the industrial relations process
- understand the causes of industrial conflict and types 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.

However, candidates were less clear about outcomes relating to:

- appreciating the way the political economic, social and other environmental influences affect industrial relations
- explaining the dynamic nature of industrial relations.

General Comments

Most candidates answered all three parts of the question and were able to support their response with reference to one dispute. Fewer candidates used more than one dispute. The recent and more complex disputes such as CRA, Nestle and MIM gave students a greater opportunity to discuss more than one cause, explain the consequences of disputes and processes for dispute resolution.

Many candidates had difficulty in evaluating the processes available for the resolution of industrial conflict and described each process rather than evaluating. Some candidates wrote only about the types of industrial conflict rather than the negative and positive consequences of disputes. Candidates were less able to see positive outcomes from a dispute and so appreciate the changes made to workplace practices, eg better safety procedures and improved communications.

Excellent Responses

Candidates answered all parts of the question and supported their response by reference to an appropriate dispute in depth or parts of different disputes. These case studies illustrated the various causes, consequences and processes available for the resolution of industrial conflict. Candidates were able to identify the relative importance of each of the causes and used recent statistics to support their answers.

Candidates explained both the costs, eg loss of wages to the employees and loss of profits to the business and the benefits, eg improved human resource management, which may result as a consequence of a dispute. Candidates provided detailed analysis of the processes in dispute resolution from grievance procedures through to arbitration and agreement ratification and effectively evaluated each stage of the process.

Through detailed examination of the case study, better candidates were able to appreciate the external environmental factors which influenced the causes of the dispute, eg changes in government policy and the sanctioning of contract workers at Weipa. Candidates demonstrated an understanding of the dynamic nature of industrial relations.

Sample Excellent Response

Industrial Relations is the study of the way the employer/management, their employer associates and the employees, trade unions interact with each other within the workplace. In this business studies essay on IR, I am going to use ICI and WAMAC as case studies.

(a) The major causes of industrial conflict in Australia are:

1] Managerial Policy - account for about 60% of total disputes. These disputes start up due to workplace practices, management styles and the bad culture that is created by management in the workplace. The main reason is because of bad management styles adopted.

2] Physical working conditions - this accounts for about 15% of total disputes. It covers such things as the working conditions, the equipment status and maintenance, health and safety regulations, cleanliness, and provision of staff amenities.

3] Wage disputes - accounts for 10% of all disputes. As the heading suggests, the cause of industrial conflict is over payment of income.

4] Trade Unionism - this accounts for about 6% of industrial conflict. Under this heading the issues covered are of inter and intra union conflicts, and sympathy stoppages.

5] Leave, Pensions and Compensation - this accounts for about 3% of industrial conflict. The issues this covers are on leave entitlements, calculation of redundancy payments, pension payments and compensation payments.

6] Hours of work - only accounts for 1% of all disputes and covers issues of hours of work for employers, rosters for part-time employees and overtime.

7] Other - these are minor occurrences which have got to do with personal matters of employees.

The cause of industrial conflict at ICI, a chemical manufacturer located in Botany was because of managerial policy. The management of ICI wanted to be at the forefront of IR changes in 1989, and they tried to adopt enterprise bargaining - individual staff contracts with employee consultation.

In the case of WAMAC, a small metal fabrication company in Botany as well. The conflict arose because of the breaches of Occupational Health and Safety Rules, and breach of award payment to employees.

(b) The consequences of disputes in relation to:

• Employer

- Financial costs: this results from the loss of production due to industrial action, loss of productivity, loss of market share, legal costs and there may be vandalism and theft.
- Social costs: low moral, increased stress and tension, breakdown in communication.

• Employee

- Financial costs: loss of income - it could also mean loss of employment, legal costs could also be incurred.
- Social costs: low morale, increased stress and tension, breakdown in communication.

• Political costs: this can be from a challenge or damage to a political party by the use of wrong policies.

• International costs: this is in reference to lost markets because of the unreliability caused by the industrial conflict.

But there are benefits of having industrial conflict, as we will see in the following case studies. The benefits are:

- an opportunity for employees to express their dissatisfaction
- provides opportunities to explore new ways of getting things done
- can open up new lines of communication
- may address occupational health and safety issues.

At ICI, the consequences of applying pressure on employees of converting to enterprise bargaining was seen in February 1989 when the workers held a ten day site wide strike. This severely crippled ICI in production and public relations and ruined their chances of being a leading chemical manufacturer in the Asia Pacific Region. This didn't stop the management of ICI, they decided to consult with other organisations using enterprise agreements. This resulted in them creating a Human Resources strategy which was integrated into the business plan. This HR strategy was communicated by management to their employees directly. There was some negotiation being made between the employers and employees and finally in 1990 they reached an enterprise agreement. The consequences of ICI converting to enterprise agreements was positive as both the employers and employees benefited.

The employers at ICI benefited by having a more productive and flexible group of employees which has enabled them to rebuild their public image of being a leading chemical manufacturer and to double their production output. The employees have benefited by receiving a salary increase. They are freer to make their own decisions as the agreement uses the Structural Efficiency Principal and they are now strategic partners in the business as they have been delegated more autonomy and responsibility.

At WAMAC, the consequences were that the union organiser from AFMEO came and negotiated with the employer. Before the employees got what they wanted, they gave the employers 72 hours notice of a 24 hour stoppage. After hearing of this, the employers accepted the employees' claim. This resulted in benefits for the employer and the employees. The benefit for the employer is that the labour force is more flexible and more productive. The employees benefited from increased wages over 18 months following a structure of 6% + 3% + 3%. They also benefited by an improvement in their workplace which resulted in less injuries.

(c) The processes that are available for the resolution of industrial conflict are:

• Grievance procedures - these are methods listed in the awards or negotiated between employer and employee to solve industrial disputes at the workplace level. I believe that this is the best way of resolving industrial conflict as it is cost-effective, there is little working time lost and very quick so there is little disturbance to the production process.

• Negotiation - this occurs if grievance procedures fail. Negotiations take place between the shop steward and the supervisor. In this process the employer and the employees negotiate about what employees want and how the employer can satisfy these wants. This process is also an effective one as it is cost-effective and there is little working time lost.

• Collective bargaining - this is where the employees call on the union to bargain on their behalf and the employer may call on their employer association to bargain on their behalf. My evaluation of this process is that the union may be too powerful and exploit the employees resulting in reduced productivity and an inflexible workforce.

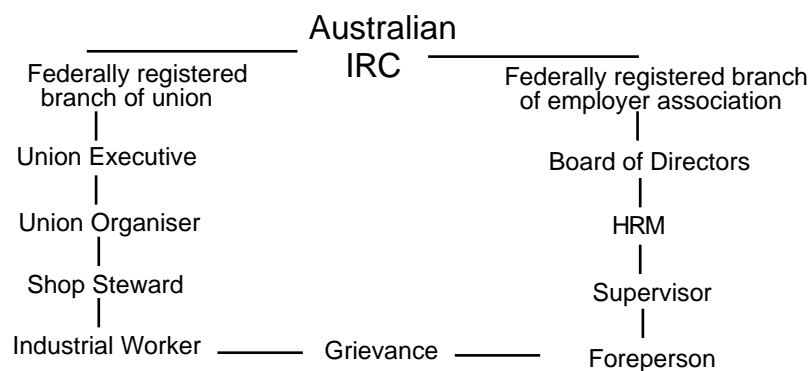
• Mediation - this is the last step before conciliation and arbitration. It involves the employers and employees appointing a mutually acceptable mediator such as a politician or a well respected

business person. Then the employers and employees negotiate their terms and conditions in front of the mediator who after hearing both sides, makes a decision. My evaluation of this process is that it is good as a last resort, better than spending money and going to the IRC for conciliation and arbitration. It is also cost-effective compared with conciliation and arbitration.

- Conciliation and arbitration - this is the last resort employers and employees have in reaching a decision if all else fails. This involves both sides going to the IRC. Conciliation is a form of negotiation with or without an IRC commissioner. First the IRC lets the two sides bargain without a commissioner and if this fails they can use a commissioner as a mediator. The arbitration step is the last step and is costly because it incurs such costs as going to court. It involves advocates representing the two parties (employers and employees) in the tribunal in front of a panel of commissioners. The commissioners consider the presentation of the case from each side and then make a decision which is legally enforceable on both parties. My evaluation of this method is that it is an ineffective method of resolving an issue or conflict. As it is enforced upon both parties, the commitment to the decision can be low. It can also be a costly exercise.

I agree with the Prime Minister, Mr John Howard, who wants to reduce the role of the Australian IRC in relation to conciliation and arbitration in his Workplace Reform Bill which is going through Parliament in a couple of weeks.

The following is a diagram which shows the processes available for resolution of industrial conflict:



The process used by ICI and WAMAC was direct negotiation between the two parties. This resulted in a more cost-effective way of dealing with the issues and in the case of WAMAC, a small loss of working time. I believe that the most cost-effective way of resolving conflict issues is by the use of direct negotiation and enterprise bargaining.

Above Average Responses

Candidates answered all three parts of the question and were able to tie the case study into their response. Generally candidates analysed the causes of the dispute and were able to give a sound explanation of the consequences. However, the emphasis was on the negative consequences often omitting the positive impact on the business and the resulting change in business culture. Whilst candidates demonstrated an understanding of the various processes available for the resolution of conflict, there was little evidence of any evaluation.

Average Responses

Candidates were more descriptive in their approach, often listing the causes of industrial conflict with little reference to a case study. Candidates often referred to types of conflict such as strikes, boycotts, lockouts etc without examining the consequences of these actions. Candidates' responses focused on the costs of disputes. Treatment of the processes of dispute resolution was brief. Candidates were more limited in their use of industrial relations terminology.

MARKETING

QUESTION 31 (25 marks)

PIZZA PAN

Gold Medallist in the Pizza Olympics!

Pizza Pan, a dynamic company, has developed two new styles of frozen pizza:

- a lite-cheese, single-size wholemeal pizza
- a jumbo, topping-plus pizza.

Pizza Pan is considering undertaking a promotional campaign to market these new varieties.

As the marketing manager, present a report:

- outlining possible marketing goals for Pizza Pan in promoting these two products;
- identifying and analysing target markets for these two products;
- developing a market mix for ONE of these products;
- explaining how a cost/benefit analysis could be used to evaluate a marketing plan.

Topic outcomes which the question examined:

- understand the role of marketing in business
- describe the steps in successfully marketing a product
- devise a marketing plan
- assess the implementation and management of a marketing plan.

Skills outcomes which the question examined:

- examine the relative merits of solutions to business problem
- judge the effectiveness of business decisions in relation to its goals.

The majority of candidates were able to demonstrate an understanding of the role of marketing in business. However, students were less clear about demonstrating achievement of all the other topic and skills outcomes.

General Comments

Most candidates discussed advertising pizzas without using marketing or business theory or concepts. Some students introduced erroneously the idea of a SWOT analysis or a prepared answer without a marketing plan. Many students failed to present a report.

Excellent Responses

The best answers used a report format. Excellent answers clearly identified marketing goals as separate from business goals. The answers were detailed and contained examples related to the pizza business.

Excellent responses identified and analysed a range of target markets for *both* pizzas. In their discussion candidates gave a detailed explanation of segmentation including mass versus niche market and demographic, geographic and psychographic factors.

Excellent responses developed a marketing mix for one pizza and described in detail:

- product eg packaging, branding, qualities and packaging
- price strategies eg skimming, penetration, psychological competition
- place eg distribution channels, position in market
- promotion (personal sibling, point of sale advertising (advertising, incentives, publicity)

Excellent responses gave a detailed explanation of cost benefit analysis and how it is used as an evaluation tool to choose related to the pizza business between alternative courses of action by identifying the greatest net benefit. They broke down cost structures with relevant cost items.

Sample Excellent Response

Marketing Goals

- The Marketing Goals for Pizza Pans two new styles of frozen Pizza (a lite cheese, single-size, wholemeal pizza and a jumbo, topping-plus pizza) are to achieved in the next five years. These marketing goals are as follows:
- Increase overall market shares through adopting these new styles of pizza
- Increase sales/profitability of the business through adopting these new styles of pizza
- Increase the geographical representation of the product range thorough advertising more heavily
- Maximise customer satisfaction through this healthier pizza for health conscious people and a more appetising pizza for those who are always hungry.

Also see end of report for more goals.

Target Markets:

Lite Cheese, Single Size, Wholemeal Pizza

The primary target market for this product will be people who are overweight, health conscious and need to lose weight for medical reasons (eg diet). A study of the population shows that about 50% of males and 45% of females are overweight. Our promotional tactics will aim at these people to help them lose the extra weight.

The secondary target market will be sporting people and people who fear putting on weight. Developing this sporting ways will definitely help sell more of the product and reach our marketing goals.

Jumbo, Topping - Plus Pizza

The primary target market for this product will be teenage males and the people with a big appetite. It is known that teenage males can never eat enough and they'd eat their parents out of house and home given the chance. Also people with big appetites (like labourers) need something to satisfy them after a hard day's work.

The secondary target market for this product is people who are having parties and need to feed a lot of people. A party requires food like a big pizza.

Marketing Mix for Lite Cheese, Single Size, Wholemeal Pizza

The Marketing Mix are controllable variables used to sell a product. They are product, price, promotion, place, positioning and people.

Product

The product is a lite cheese, single size wholemeal pizza. It was designed for health conscious people. It will be packaged in such a way that it promotes this describing all the benefits of it (eg lite cheese) on the pack.

Price

The pricing method used will be cost-plus pricing as there are not many competitors in the healthy pizza market. This will ensure maximum profit is made and costs covered easily.

This new product will be promoted heavily in its first four years to make customers aware of the product. Advertising will occur on television, magazines and posters around shops and health stores.

Place

The chain of distribution will be from the producer to the wholesaler to retailer to consumer. An intensive distribution method will be used to stock as many places with the product as possible as it is new, then it will come down to exclusive distribution to reduce costs.

Positioning

The position of the product we want to get in the consumers' mind is it is a healthy product and it will help you lose weight. Also a sporty image is a secondary target market aim.

People

We only employ people who like the job and will do it to the best of their ability. Our competitors employ the same kind of people so we will have to beware and keep up our good Human Resource Management.

A cost/benefit analysis involves analysing the costs of making a product, and then working out the benefits gained from these costs. A cost/benefit analysis could be used to evaluate a marketing plan by making sure the right marketing mix is being used (that is the most effective mix at the lowest possible price) and to make sure certain costs are of benefit to the business. It also helps to make decisions about how to correct the problem.

Above Average Responses

Candidates answered all parts of the question but usually in less detail and sometimes did not use a report format. They outlined marketing goals and related some of these to the pizza business. Candidates explained the target market and gave less detailed description of segmentation for both pizzas. They explained the role of the elements of the marketing mix in less detail and often gave a less detailed response to explaining how a cost benefit analysis could be used to evaluate a marketing plan.

Average Responses

Candidates gave a general description of business goals and limited identification of target market categories. They described the 4Ps of the marketing mix but generally emphasised promotion, particularly advertising. There was no clear explanation of cost/benefit analysis and how it could be used to evaluate a marketing plan.

QUESTION 32 (25 marks)

THE RISING PROMINENCE OF MARKETING IS BAD NEWS FOR AD AGENCIES

Marketing is too important to be left to the advertising guys. It involves finance, operations, and legal departments, where innovation, research, and cultures all impact on marketing success.

Sergio Zyman, President - Marketing, *Coolum Cola Company*

- (a) Discuss the role of marketing in the achievement of business goals by Coolum Cola.
- (b) Outline the essential points that might be included in a marketing plan for Coolum Cola.
- (c) Refer to a business you have studied. Critically assess how management has managed the marketing plan.

Topic outcomes which the question examined:

- understand the role of marketing in business
- devise a marketing plan
- critically assess the implementation and management of a marketing plan.

Knowledge and skills outcomes which the question examined:

- 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
- suggest alternative solutions to business problems
- examine the relative merits of solutions to business problems.

The majority of candidates were able to address outcomes relating:

- understanding the role of marketing in business
- devising a market plan.

However, candidates were less able to demonstrate achievement of the other topic outcome and the knowledge and skills outcomes.

General Comments

Candidates discussed the role of marketing in the achievement of business goals by Coolum Cola. However, many candidates confused business goals and marketing goals and did not relate the goals to Coolum Cola.

Most candidates were able to outline the essential points of a marketing plan and they demonstrated a sound theoretical knowledge of marketing plans.

Many candidates described or outlined the marketing plan of a business they had studied but had difficulty critically assessing the management of the marketing plan and confused management with monitoring.

Some candidates used a business report style format in presenting their marketing plans. Some candidates confused business plans and marketing plans and included the prime function and mission statement.

Candidates need to ensure that all parts of the question are answered and that they do not spend a disproportional amount of time on one or two parts.

Excellent Responses

Excellent responses showed a clear understanding of the role of marketing in achieving business goals and specifically related this to Coolum Cola. They recognised marketing as the link between business goals and customers/sales.

Excellent responses gave a detailed outline of all essential components of a marketing plan with specific application to Coolum Cola.

In part (c) excellent responses discussed management of the marketing plan and offered some critical assessment. They referred to monitoring, evaluation and modification, and included some of the following in their discussion: sales analysis, cost/benefit analysis, market share analysis, profitability analysis and the provision of feedback controls.

Sample Excellent Response

(a)

Marketing is any business activity that relates to pricing, distribution, planning and promoting want satisfying products to present to potential customers in order to achieve the business's objectives.

Business Goals for Coolum Cola

- increase market share
- increase geographical representation
- involve all departments at Coolum Cola in marketing.

Establishing Priorities

Marketing forces the business to establish priorities such as objectives, goals and strategies. For Coolum Cola increasing the market share would be their first priority and increasing their geographical representation would be their second and would also contribute to achieving their first.

Forces Communication

Marketing forces communication between departments which is critical of the success of their business. Coolum Cola is organised in a functional structure. Communication between each division is essential or the business would not coordinate and remain a going concern. Marketing forces this as it involves all aspects such as finance and operations, and is influenced and controlled by areas such as research and development.

Forces Situational Analysis

Marketing forces the business to look at internal and external influences such as legal influences and departments, cultures of target markets and innovation technology. This would be critical for Coolum Cola Company as competition, trends in the target markets and economic conditions, would all be external influences on the company.

Provides Opportunity

Marketing provides opportunities and allows them to be taken up. For example for customers to purchase Coolum Cola at the right place and the right time. Marketing will place Coolum Cola in areas that will make it easy for customers to purchase. It also provides opportunities for the business to achieve its objectives, obtain profits and remain viable.

Finds the Target Markets

Marketing finds the target market and directs resources of the business towards satisfying them. This would include financial resources, physical resources obtained because of recent innovation and human resources.

(b)

Objectives

Increase the market share from the present position of 7% to 9% in the short term and 12% in the long term.

Geographical representation to increase the number of outlets at which it is sold.

Strategies

Differentiation

In order to appeal to a broader target market and achieve the objective of increasing the market share, make differentiation of the product.

Distribution

Instead of selective distribution a change to an intensive distribution.

Maximise Customer Service

Ensure satisfaction from all distribution outlets in order to foster repeat orders and maintain and increase market share.

Situational Analysis

External

• Competition

Continually monitor direct and indirect competition for any price changes, competitive advantages or changes in any aspects of their product. Direct competitors would include other soft drink companies, specifically those that sell Cola such as CCA. Indirect competition would include companies that sell drinks ranging from juices to cordial.

• Social and Cultural

Any change in attitudes must be adapted in order to maintain competitive advantage. For example, the recent interest in health and fitness provides opportunity for diversification into diet drinks and caffeine free drinks.

• Legal

Copyrights and patents must be monitored in order to ensure that Coolum Cola does not encounter any problems with fines or with other companies copying them. Government regulations and laws must also be conformed to, such as Trade Practices Act.

• Innovation

Coolum Cola must be continually open to any new idea for modification or changes and must readily research them in order to ensure all possible opportunities are taken advantage of.

Internal

• Staff and Management

Communication between the two is critical and ensures quality products and efficient coordination. Relevant skills and knowledge are critical. Performance appraisals are regularly conducted. Any new training that may assist staff is adopted.

Marketing Mix

Product Positioning - Coolum Cola intends to increase from 7% to 9% market shares in short term and 9% to 17% in the long term.

Packaging is to protect the product when it is sent to retail outlets in order to ensure minimum wastage. It is to attract customers and provide a visual cue when on the shelf.

Differentiation - In order to achieve objectives of increasing the market share Coolum Cola are planning to differentiate into diet and caffeine free drinks. This would appeal to a broader target market.

Price - A cost plus method is used. Discounts for quantity purchases are given. Trade credit is allocated where confidence is felt but tight management of it is also implemented.

Distribution - An increase from selective to intensive base leads to a need for more transport.

Promotion - The new diversification into diet and caffeine free drinks will be advertised and directed at the respective target market. New distribution outlets also lead to the need for an increased awareness of the product in order to ensure its purchase.

Media Choice - Television advertising, although expensive, is appropriate as it will reach Coolum Cola's large target market.

Finance

Projections, forecasts and budgets are all necessary for Coolum Cola. For example, the increase in need for transport would result in a change to forecasted costs.

Evaluation

Cost versus benefits would need to be evaluated in Coolum Cola's marketing plan. As an objective is to increase market share a market share analysis would be appropriate.

Target Market

The demographic, psychologically behavioural and geographic elements of Coolum Cola's target market would be researched. For example, the behavioural (perceived benefits) target market would look at those purchasing the new diet drink.

(c)

JJJ's management has recently changed from a product named approach of talking at the customer to a customer based approach of communication with the customer. This has been managed through strategies such as increasing feedback in methods such as internet, toll free numbers, competitions. This management change has seen an increase in their market share which is an objective of the business.

Previous management at JJJ was headed by David Hill who was looking to international expansion. However, difficulties and obstacles were presented as management wasn't thorough. Present management headed by Brian Johns has seen management focus on strengthening the domestic market. They are doing this through geographical representation with an aim to move from 36 regional stations to 44, eg recently opened in Armidale this year.

Triple J Management sees the importance of continual planning, management, controlling, leading and evaluation. For example, they use a market share analysis as a key indication because they are not result orientated and their main objective is to increase their market share.

Triple J is funded by the ABC Charter which is funded by the government and they have limited funds. This leads to a need for good marketing management. They use alternative, unorthodox methods such as the internet, sponsorship, icons, in order to achieve this. Triple J's management aims to achieve all their business objectives and remain viable.

Above Average Responses

These candidates identified business goals but did not necessarily relate them to Coolum Cola. Some confused business goals and marketing goals. They outlined many essential components of a marketing plan with inferences made to Coolum Cola. Their business case study included some discussion of management but with little or no assessment of how management managed the marketing plan.

Average Responses

The average responses presented a general discussion of business or marketing goals without relating them to Coolum Cola. The marketing plans in part (b) were less detailed than the better responses often with no mention of Coolum Cola. Part (c) was neglected by many candidates with a description of marketing strategies such as the 4 Ps rather than management strategies. There was no evidence of any assessment of management.

SMALL BUSINESS MANAGEMENT

QUESTION 33 (25 marks)

Most small businesses fail in the first ten years of their operations, due to poor management practices.

PROFESSOR ALAN WILLIAMS, University of Newcastle, 1994

- (a) Outline TWO planning options to be considered before starting a new small business.
- (b) Refer to a small business you have studied.
- (i) Present a SWOT analysis.
 - (ii) Explain the role of planning time-frames in the short, medium, and long terms.
 - (iii) Outline its current business plan and how it has been implemented.
 - (iv) Evaluate the success of this plan, and refer to THREE management reports which may improve future performance.

Topic outcomes which the question examined:

- understand the factors contributing to a successful business
- 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.

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

- understanding the factors contributing to a successful business
- recognising the factors to be considered in establishing a small business
- developing a business plan for a small business.

However, they were less clear about outcomes relating to:

- understanding the techniques of small business management.

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 Management option.

The need for a properly researched case study was recognised by many candidates who identified the features of the case study that were relevant to this question. They clearly identified the business as a small business, briefly referring to its prime function and location.

It was pleasing to see that an increasing number of candidates effectively used a report format in answering this question.

Excellent Responses

Candidates answered all parts of the question, clearly outlining two relevant planning options with discussion relating to starting a small business. Planning options discussed included setting up a new business or purchasing an existing business, capital availability, location, target market and use of SWOT analysis.

An appropriate business was clearly identified including its location and prime function. A comprehensive and well structured SWOT analysis was presented with reference to internal (strengths and weaknesses) and external (opportunities and threats) factors.

Candidates demonstrated a good understanding of planning time frames which they clearly linked to their case study with many referring to tactical, operational and strategic planning.

Candidates presented a clear, well structured outline of the Business Plan including specific details relevant to their case study. Candidates clearly linked their Business Plan to its implementation.

The success of the plan was clearly evaluated with reference to three management reports including financial reports, sales report, inventory control, marketing report and HRM report.

Sample Excellent Response

- (a) Two planning options that need to be considered before starting a new small business would include
- (i) whether management should start a new business or run with an existing business and
 - (ii) the location of the business

(i)

1] **Starting a new business**

Advantages

You have the choice of making a number of critical decisions concerning factors such as the location, the style of management, the procedures, the suppliers, the target market etc.

You can have all of the aspects of the business well planned, and you don't need to worry about overcoming any bad reputation of a previous owner, and it is sometimes cheaper to set a business up this way as you are not paying for the goodwill of the business.

Disadvantages

It is very costly, as you need the establishment costs for the business you may have trouble obtaining finance and there is a lot of risk and uncertainty involved. There is also a lot of planning that needs to be done, on areas mentioned above in advantages. Also you have to work very hard before you get a noticeable return as the business is unknown and a lot of promotion may be needed - again costly.

2] **Purchasing an existing business**

Advantages

All of the set up is organised and all procedures and staff are ready to start operation. It gives immediate income and employment and there is already a customer group for you to work with.

Disadvantages

You may not have the personality and skills of the previous manager/owner to make it work. You may have to make up for a previous bad reputation, or bad financial book-keeping, and usually it is costly to improve the business.

Sometimes a Franchise System also works well as it is tried and tested and usually already planned, eg McDonalds.

1 out of 10 franchises fails over a period of time.

9 out of 10 businesses fail over a period of time.

(ii)

Planning the location is also a very important aspect of the business. Your location needs to provide access to your customers, eg parking, transport - buses etc and needs to provide access for your suppliers - transport - can the trucks get to you?

Your location can be either leasehold - where you rent the premises of the business, or freehold where you also live in the premises. Your competitors' locations should also be taken into consideration.

(b) Refer to a business studied - Whitakers Jewellery - Newcastle

(i) SWOT for the Business

Strengths of the business - reputation. The business has been operating in Newcastle and the Hunter for 100 odd years, and successfully family owned and operated.

- sustainable competitive advantage - it sells very high quality merchandise, and has a reputable quality diamond range.
- customer/client base. As it has been operating for a long time, they have a large and loyal customer group in the Newcastle area.
- image - there is a well known image that runs with the business - high quality and exceptional service and qualified/friendly staff.
- range of goods - along with jewellery and quality watch lines - such as 'Tag Heuer' and 'Morris Laquire' there is also a great range of Lladro figurines, Armani figurines, glassware, crystalware etc. There is a large Lladro and Swarovski members club.

Weaknesses

- sometimes the price of the goods is too high for other groups in the target market.
- cheaper, chainstore type shops such as Gold Mark and Prouds which are also located near the Whitakers' 4 stores.

Opportunities

- there is now a large market for designer jewellery, specified by the customer. Whitakers has 3 designers already, and may expand this aspect of the jewellery industry.
- there may be a market in the Sydney area for Whitakers as it has now provided a well-known quality reputation in Newcastle, and a store just recently opened at Tuggerah, moving closer towards Sydney.

Threats

- other cheaper stores taking customers
- Media is provoking an image of the jewellery industry - of ripping the public off - 'A Current Affair' story.

(ii) Planning Timeframes

Short term - this is to service the customers of today. Know the characteristics of the current target market, and their changing attitudes. Make sure you provide the goods that are in demand currently and provide the service that will make the customer happy, today.

Planning - short term - tactical/operational - Planning the day to day running of the business, relating to such things as finance, management, staffing, customer relations, production, innovation and technology and controlling and monitoring.

Medium term - again operational plans, staffing, management etc. Providing the services to customers to produce word of mouth sales, the promotion of sale items and services, eg repairs division.

Long term - Strategic Planning/Corporate Planning. Planning the desired image, reputation and outcomes of the business, setting goals and objectives, and the strategies to meet these goals. Quality service that will produce lifelong, loyal customers. Financial requirements for the future. Financial aims for the future.

(iii) **Business Plan**

Objectives/goals for the business and the strategies to achieve them.

- Where are we now? - situational analysis
- Where do we want to go? - objectives
- How do we get there? - strategies for objectives

Where are we now? - The business is in a great financial position and rapidly expanding. The image and status of the business is clearly defined - upper market. The market share is good for the business.

Where do we want to go? - Staff meetings are held monthly, where ideas are thrown and from those ideas, management meetings are then held to decide on future objectives of the business. Again increase in market share, diversify into the designing of jewellery etc and remain and improve on those levels that are above the cheaper, chainstore jewellery outlets.

How do we get there? - Many strategies have recently and currently been implemented to achieve the objectives of the business. Examples include: Risk Referral Policies - including '30 day home trials' and 'money back guarantee' and also the 'warranty' systems that has been put in place for customers, that is highly advanced over any nearest competitor. And special staff meetings are also being held that are independently run by business experts so that staff are highly trained in a number of different areas. These and other strategies have been used to increase market share and obtain more loyal, lifetime customers, along with other factors.

(iv) **Evaluate success of plan**

The current strategies being used by the business are rapidly improving market share and the reputation of the business. There is now a lot more planning going into the future of the business, which has increased employee motivation and morale and increased their respect for the management of the business. Customer relations have also been noticed to have improved.

Three Management Reports:

- Administration and Information - there could possibly be an increase in the technology of computer systems that are used within the business which would have a number of ongoing benefits.
- Financial Reports - in the areas of budgeting etc and forecasting sales could be used to provide management and sales staff with knowledge of the sales/turnover needed to improve future business performance.

- Control and Evaluation - they could be a range of controls implemented to increase performance, as management would understand the current position in areas of finance, production and human resources. Self evaluative measures for staff could also be an advantage to increasing the departments performances, which in turn would increase business performance.

Above Average Responses

Candidates answered all parts of the question and clearly outlined two relevant planning options. They identified the business and presented an adequate SWOT analysis. Candidates referred to short, medium and long term planning with some reference to the business studied. They outlined a business plan and discussed its implementation. Some valid conclusions about the success of the business were presented with some reference to management reports. Some candidates use a report format.

Average Responses

Candidates attempted most parts of the question and outlined at least one planning option. They identified a business and presented a general SWOT analysis. Candidates referred to planning in general and briefly referred to time frames. A business plan was outlined in general terms with brief reference to its implementation. The evaluation of the success of the plan was limited.

QUESTION 34 (25 marks)

Joanne is a qualified preschool teacher. She has been successfully managing Dandy Preschool for the last three years. Recently the owners have offered to sell the business to her. Her brother George has just completed his accountancy qualification and is keen to start his own accounting practice. They have inherited \$20 000 each from their grandmother. They would like to go into partnership, but cannot decide which business idea to pursue.

As their small business consultant, write a report:

- (a) comparing the planning options for setting up a new business, or purchasing an existing one;
- (b) discussing the factors contributing to a successful business, making reference to the qualities of your clients;
- (c) identifying possible growth areas in the small-business sector.

Topic outcomes which the question examined

- understand the factors contributing to a successful small business
- identify the growth areas in the small business sector
- recognise factors to be considered in establishing a small business.

The majority of candidates were able to achieve:

- understand the factors contributing to a successful small business
- recognise factors to be considered in establishing a small business.

However they were less clear about outcome

- identify the growth areas in the small business sector.

General Comments

This question provided candidates with the opportunity to demonstrate both an understanding of business theory and the practical application of this theory to the stimulus material. The question focused on both skills and knowledge outcomes of the syllabus linking them with the small business option.

Some candidates had difficulty with applying terms such as ‘comparing the planning options’ - a specific term used in the Business Studies syllabus area of study. This resulted in problems for some candidates as they tended to list advantages and disadvantages rather than compare, ie focusing on similarities and differences and amount of planning required.

Some candidates were unable to identify the clients as Joanne and George. Many candidates did not write their report as a small business consultant.

Although candidates were asked to use a report format many students still used the essay style. Some candidates were unclear about the new owners’ responsibility for liabilities and debts upon purchase of a business.

Better responses developed the linkages between the sections of the course, eg planning from the core topic management in action.

Excellent Responses

Candidates addressed all three parts of the question with particular reference to the stimulus material and used a report format. Candidates clearly compared the planning options available to Joanne and George.

As well as highlighting the similarities and differences of setting up a new business and purchasing an existing business. Candidates compared other planning options such as government legislation, capital availability and target market.

Candidates fully discussed and clearly linked factors contributing to a successful small business with qualities of Joanne and George. They included Joanne's experience in successfully managing the preschool, the availability of capital with the inheritance, George's accountancy qualification.

In identifying growth areas in the small business sector, candidates used current data and explored future growth areas again making appropriate linkages to the preschool and the accountancy business.

Sample Excellent Response

Attention: Joanne and George Smith

After considering the position you are both in, the following will provide you (hopefully) with some helpful and useful advice for pursuing your business venture.

ESTABLISHING THE BUSINESS

In today's business environment new businesses may either be:

- A. Established from scratch
- B. Purchased, ie franchise
- C. Inherited

In your position, obviously we are able to disregard inheriting a business, allowing us to focus on either A. establishing your own business or B. purchasing an already existing business.

A. Establishing your own business

- Ninety per cent of businesses are classified as small businesses. Over half of newly established small businesses fail each year due mainly to the lack of planning and financial assistance.
- The risk involved in establishing your own small business is extremely high. The \$40,000 inheritance is a great starting point, however, during the establishment, unfortunately more equity is required. Considering your two choices - accounting practice, and preschool - equity-wise the accounting practice seems cheaper to establish. Due to the high risk associated with establishing small businesses, financial institutions are often reluctant to support your business venture.

B. Purchasing an already existing business

- This can vary from buying an already established business to purchasing a franchise.
- Along with these options comes advantages and disadvantages. Since an offer has been made to Joanne to purchase an already existing business, I will outline the advantages and disadvantages of this option.

Advantages:

- equipment/furniture and so forth may be included in the same. (Note: Need to find this out before accepting offer.)

- business is likely to be known in the area and goodwill established (Joanne will have had first-hand experience relating to this).
- business is already established and running, therefore limited start-up costs.

Note: Best sale situation is Walk In Walk Out (WIWO). Business operation remains the same under change in control. Again this needs to be discussed before accepting the offer.

After comparing the planning options for setting up a new business, or purchasing an existing one, my advice to you would be to purchase the already existing business - Dandy Preschool. Joanne has first-hand experience due to her managerial experiences there and has already established a working relationship, and business relationship with the preschool's owners.

WHAT MAKES A SUCCESSFUL BUSINESS?

Before entering into a business venture, a number of factors in order to make your business successful need to be considered.

As mentioned before, over half of newly established businesses fail due to lack of planning by the owners and managers.

When entering into a small business venture, a number of factors need to be considered:

- A. Personal characteristics
- B. Experience
- C. A Small Business Plan

A. Personal characteristics

- Owner/managers need to have goals and be able to run a business efficiently and effectively. They need to be influential to others within the business and bring everybody together to achieve the business's objectives.
- But most of all they need to be experienced.

B. Experience

- Experience is needed in a number of areas: managerial; the business type and the general functioning of the business. How many times do we hear 'businesses don't plan to fail, they simply fail to plan'?
- Experience is considered to be one of the main components of planning. To be a successful planner in business, experience is needed.
- Owner/managers need to attend courses and lectures - forever learning how to change their business quickly to adapt to the dynamic business environment, how to be effective and efficient managers with a successful business and so forth.
- These courses will also assist with plan improving.

C. The Small Business Plan

- Firstly the business needs to decide what field it is going to operate in and the general structure.
- After completing this, goals and objectives, both short term and long term, need to be devised.

- A number of options can be used once production begins about checking that the business is on track and achieving their goals and objectives, ie the most common, the SWOT analysis. This outlines the business's Strengths, Weaknesses, Opportunities and Threats. When comparing this to business activity, any deviations can be detected. Another form is budgets.
- The business' market needs to be identified, along with the product/s - goods or services - which the business aims to deal with. Under this category is the business location and any necessary legislations which need to be considered.

Comparing the qualities of you both (Joanne and George), as your business consultant, I would advise you to accept the Dandy Preschool offer.

Within this business venture, it is possible for the both of you to pursue your career interests:

- Joanne - Experience exists in the field of the business venture, ie daycare. You already have first-hand experience as a qualified teacher and as the manager of Dandy Preschool. Your position would hardly change with the change in ownership.
- And George - You have completed your accountancy qualification but lack experience in the field, especially with owning an accounting practice. In combining your inheritances (\$40,000) and with little help from financial institutions, the preschool may be purchased under a partnership, you having the choice whether to be a silent partner or not, and continue in your field of study, gaining experience as the preschool's finance manager.

As the trend in the future is leaning towards more small businesses there are many possible growth areas. The most popular area is the providing of goods and services to society. The preschool is a good example of this. People continue to have babies and as more women are pursuing careers rather than staying home caring for children, enrolment figures are set to increase.

When integrating and combining the above information, the safest bit is to opt for purchasing the preschool. The criteria to make this a successful partnership and business venture exists within the partnership of Joanne and George, especially entering into one of the future growth areas.

I hope this information assists you with making the right decision.

Good luck and Regards

Above Average Responses

These responses demonstrated most of the features of excellent responses but lacked the consistency that excellent responses showed in all parts of the question. Often a report format was not used. While good reference was made to the stimulus material it was not evident in all parts.

Average Responses

These responses tended to list the advantages and disadvantages of the planning options with little compassion or reference to the stimulus material. Many candidates did not recognise Joanne and George as the clients and responded with generic success factors and basic discussion. Candidates identified growth areas in broad terms, often using out of date information and without specific reference to the preschool or to the accountancy business.

3 UNIT (ADDITIONAL)

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

BUSINESS AND TECHNOLOGY

QUESTION 1 (25 marks)

Australian banks are increasing their technology spending as they prepare for a new era of electronic banking. Technology leadership will decide industry winners.

- (a) Discuss the role of technology in organisational performance.
- (b) Explain why some industries have adopted the use of computer technology more rapidly than others.
- (c) Analyse and evaluate the evolving nature of technology in industries such as banking, as outlined above.

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.

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

- analysing the evolving nature of technology and its relationship to productivity efficiency and effectiveness
- appraising the application of technology to various facets of business activities.

However, candidates were less clear about outcomes relating to:

- evaluating the evolving nature of technology and its relationship to productivity efficiency and effectiveness.

General Comments

Most candidates were able to discuss the role of technology in improving businesses' ability to compete, manage or innovate. Better candidates were able to explain the range of industry characteristics that ensure that industries adopt computer technologies more rapidly. Better candidates also commented on the issues raised by evolving technology using the stimulus statement.

Excellent Responses

Candidates discussed in detail the role of technology in organisational performance in allowing businesses and industries to innovate, compete and improve their ability to meet the demands of the external business environment. Candidates explained in detail factors which influence the adoption of computer technology more rapidly in some industries than others. Factors included the nature of competition in the industry, its exposure to foreign competition, the technology base of the industry, the type of product, research and development characteristics of the industry and changes in the business environment.

Candidates analysed and evaluated the evolving nature of technology in service industries especially how service industries are undertaking rapid and growing use of new technologies. Candidates identified the changes that were occurring in the management and organisational performance of service industries.

Candidates used case study material and the stimulus material in their responses.

Sample Excellent Response

Today's dynamic business environment requires the fact that its organisational structure and performance are at its peak performance in order to stay competitive within the market. The introduction of new technologies into a business means that it can do that easily.

Technology, in relationship to organisational performance, has caused structures in Australia to become flatter. This is the current trend to which most businesses are swinging to. When there are flatter structures, employees become more involved in the work that they are doing and more in touch with higher levels of management. Devices such as telephones, facsimile machines and desktop computers, all enable the top management to communicate with workers below them as well.

Improvements in technology have also seen the organisational performance of businesses improve. The concept of the global village and innovations such as the internet have enabled businesses to communicate effectively with the rest of the world. Improvements in transportation have also meant that businesses can compete in the international arena, which all contributes to managers organising their business effectively.

Improved technology has also enabled women to work from home as child care facilities become rare and expensive. This has caused business in Australia to see an increase in part time work due to the feminisation of the workplace. Women are still seen to be the child-rearers in the family and technology such as modems at home, linked to the network in the business, help a great deal.

Technology has also seen the business organisational performance decrease due to 'old' jobs not needed anymore. Specialisation hardly exists anymore and today's workforce is multiskilled. All this contributes to the organisational performance of a business.

Computer technology has, however, been adopted in some industries more rapidly than others due to fear of change. It is a fact that nobody likes change and new improvements in technology always threaten change. Industries such as mining and agriculture have adopted new technology due to the nature of the work. Mining is very dangerous and human lives are at risk every time they enter the mines. Robotic arms and devices has meant that humans no longer must venture down into mines as there are machines to do that for them. Agriculture is another industry that has adopted the use of computer technology as more machines are available as labour saving devices. For example, Australia's cotton industry has seen a large boom due to it being Australia's second largest export. If it wasn't for the large cotton picking machines, it would not be possible to pick such large quantities for export, and the money received for this export is vital to Australia's economy.

Industries such as retail and manufacturing have been slow in adopting the use of computer technology. Retail stores have recently introduced EFTPOS (electronic funds transfer at the point of sale), within the last ten years. This has made it easier for the customer to shop as Australia edges forward toward the cashless society.

Manufacturing industries have also been slow in adopting the use of computer technology as there are still many manufacturers that have workers on the conveyor belt.

These industries have both accepted or have rejected computer technology because of either fear of change or profits to be gained. In the example of the agriculture industry, there are serious profits to be made both domestically and internationally, so it is an investment that is well worthwhile.

In the case of retail stores, it could be because the computer technology can benefit them indirectly, rather than directly. For example, the introduction of EFTPOS means that staff must be retrained which costs money, and there is still no guarantee that it will bring the customers to shop at the establishment. It could however, be the reverse where it is easier for customers, in which case, the business indirectly benefits.

The evolving nature of technology in industries such as banking has been of benefit. Due to the deregulation of the financial sector, banks are competing fiercely to gain the greatest market share. New technology has been the only way to gain customers, by promoting convenience. For example, Automated Teller Machines (ATMs) have enabled customers to gain money at almost anytime of the day and week. The recent five minute guarantee, promoted by ANZ, was to show to customers that their technology was so efficient that if a customer waited in the queue for longer than five minutes, five dollars would be deposited into their account by the bank.

However, because of this constant improvement in technology in the banking system, there have been major costs that have had to be dealt with. For example, state of the art security systems have been installed in the banks as well as on computer programs to safeguard from hackers. Natural systems failure such as lightning storms causing blackouts have also been of some concern to the banking industry. Then there is the customer. All of their account details and information are on one plastic card, and if this is stolen and not reported in time, can cause the cost of rearranging the internal environment of the bank. For example, ATMs are now inside the bank and can only be accessed by swiping the card through a slot.

The evolving nature of technology has meant that business within Australia has become more flexible and internationally competitive. However, the many costs such as security guarding and systems failure should be of concern, so that confidential information does not fall into the wrong hands.

Above Average Responses

Candidates discussed the role of technology in organisational performance, concentrating on the quality of the product on the business's ability to compete. Candidates explained differential industry computer adoption and identified relevant industry characteristics. Candidates analysed and evaluated the evolution of technology in banking or service industries generally in some detail and supported their analysis with references to appropriate case studies.

Average Responses

Average responses described the role of technology in business and differentiated business computer technology adoption. Candidates described the development of computer technology and the use of technology in service and/or other industries with reference to a case study.

QUESTION 2 (25 marks)

Antonio Vivaldi runs a manufacturing business which also wholesales and retails its products. Marco, Antonio's son, is not happy with the business's performance, as he feels it is no longer competitive.

Marco has approached you as a business consultant to help convince his father to improve the business through the application of technology.

Marco particularly wants you to show Antonio how other businesses have responded to technological change.

Write a report to Antonio:

- (a) outlining the application of automated technology to business;
- (b) explaining how investment in technology can lead to improvement in the organisational performance of his business;
- (c) analysing the effects of the costs of technological change on the internal business environment.

Outcomes which the question examined:

- evaluate the benefits and costs of technology including research and development
- appraise the application of technology to various facets of business activities.

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

- evaluating the benefits of technology including research and development
- appraising the application of technology to various facets of business activities.

However, candidates were less clear about outcomes relating to

- evaluating the costs of technology.

General Comments

Most candidates were able to outline the application of automated technologies to business, usually emphasising manufacturing industries. Most students were able to describe the benefits of investment in technology and better students explained how specific technologies would increase organisational performance of the business. However, only the better students were able to analyse the effects of the costs of technological change in the internal business environment.

Better candidates used a report form.

Excellent Responses

Candidates presented an in-depth *report* to Antonio Vivaldi, using the stimulus material and recognising that Antonio's prime function was manufacturing.

Candidates outlined applications of automated technology in manufacturing and other businesses. Applications included CAD/CAM, FAMS, CNC, NC, robotics, and information systems. Candidates used case studies to emphasise the application of automated technology.

Candidates identified organisational performance indicators as reduced costs, increased quality control (TQM) and improved communication in business. Candidates clearly explained how investment in technology can lead to improvement in the organisational performance of a business and in particular how improvement could occur specifically in Antonio's business.

Candidates analysed the effects of cost of technological changes on internal business environments including effects such as multiskilling, retraining and changing organisational structures.

Sample Excellent Response

Report for A Vivaldi

A. Technology

Technology is a dynamic factor in the business environment. It is constantly designing and shaping the way society lives. Its impact is especially noticed by businesses such as yours.

Mike Cawly claims if a business fails to examine the external environment for technological change, then it can be guaranteed failure in the next five years.

The force behind technology is knowledge which Peter Drucker believes is the most important factor in business.

To be ahead of competitors be more globally competitive and proactive, instead of reactive, in the dynamic business environment, then it can be generally said, technological change has to be adhered to, notice taken of research and development, innovation commercialised, and the Australian manufacturing sector made stronger and larger, as 73% of successful businesses claim that success came through technology adaptation and innovation.

Types of Automated Technology

You have numerous technological advances that may be adapted to your manufacturing business in order for it to boost performance and become competitive.

The processes such as, Just in Time (JIT), computer aided manufacture (CAM), computer aided design (CAD) and Total Quality Management (TQM), can help improve your business by streamlining procedures, eliminating all forms of waste, not increasing costs by having large amounts of stock being stored etc.

Due to the manufacturing business also being a wholesale and retail business, the concept of Electronic Data Interchange (EDI) would certainly make processes more effective and efficient in the business.

McLeods Pharmacy in Rutherford have such a system as EDI, where the main computer terminal, a Pentium, is connected to various wholesalers, then connected to the manufacturers.

The computers are all interconnected, meaning that if a particular product or the shelf falls below, for example 10 boxes, then the wholesaler automatically knows to have 10 more boxes delivered in 3 days.

This system allows for effective communication in the business which is vital and would be extremely beneficial for you to implement.

JIT Management would ensure that your business is not over producing stock and paying costly expenses such as insurance in having it stored, either on site or at the wholesalers (due to being a part of the same business). EDI can help your manufacturing manager know the demand for particular products and make changes as needed which reduces waste and shrinkage.

The concept of CAM would aid you to know which manufacturing processes would be best for the goods being produced, eg mass production, batch production etc.

The computer aids you and shows the possibilities and the result of each alternative.

CAD assists in choosing the correct way of designing equipment for the products being produced, for example a popular Japanese method in manufacturing is the Kanban style, where products are held in cells until the next part of the process occurs.

Application

In the short term it is costly for your firm, but in the long term, as your son Marco believes, the business will be improved by the application of some of these methods, costs should be reduced, concepts such as TQM should be applied, leading to continuous improvement in all areas of the business, more efficient and effective communication etc.

B. Investment in Technology

It is expensive to invest in technology, and it should only occur if your business needs it to achieve objectives. Investing and implementing technology for no strong reason is a bad choice, as funds could be better used elsewhere.

Investment in technology often requires debt or equity financing. This is often hard to come by as results if any do not often appear for many years. The technology becomes quickly outdated.

Many large Australian businesses have claimed that there is no actual evidence that technology gives firms a competitive advantage though the general agreement is by business writers such as Ross Gittens and Barry Jones, that in order for Australia to become internationally competitive and increase exports the manufacturing base in Australia needs to be strengthened and expanded.

A report released called the 'Innovation Cycle' supports this idea of manufacturers expanding in order to help the economy be built up.

Improvement in Organisation Performance

Through the implementation of processes such as TQM, JIT, EDI, CAM, CAD, there should be a noticeable improvement in your manufacturing business.

Expenses such as storage, insurance, waste and processes that do not add value to the products will be eliminated, therefore having a higher percentage of funds either to reinvest or have as profit. The organisation should regain its competitive market position, and may become a market leader in the industry.

C. Costs of Change on the Internal Environment

Change in technology may cause unrest, not only amongst workers, but also management.

Downsizing may occur in the pursuit of a flatter organisation. Middle managers may lose their jobs and the Human Resource Manager (HRM) will need to provide appropriate retraining and redundancy packages.

The HRM will also need to lead workers through the change, and have effective training, and induction programs implemented so that the new skills relating to the technological change are learnt.

Workers if retained, may have larger responsibilities, with them being multiskilled and managers having a wider span of control. Many workers may not react well to the changes or be unable to comprehend the new technology; they may need to be retrained and moved to another section of your business, where the technology is understood, eg from wholesale to retail.

The appropriate legislation has to be adhered to if downsizing should have to occur. Early retirement or voluntary redundancy may be a more appropriate way of attrition or it can occur more naturally.

You are strongly advised to supply technology relevant to the business in order to survive and remain profitable, to follow business internationally such as in Japan, and nationally such as McLeods chemist in responding to technological change.

Above Average Responses

Above average responses answered all parts of the question, usually in report format. Candidates outlined some applications of automated technology to the business in the stimulus and other businesses, usually manufacturing. Candidates described how improved technology could improve business performance. Candidates did some analysis of the costs of introducing technology, rather than the effects of the costs of technological change.

Average Responses

Candidates described but did not explain how technology could improve organisational performance in the business they had studied. Candidates outlined some applications of technology in business but often neglected automated technology. They gave general descriptions of technology changes rather than analysing the effects of the costs of technological change on organisational performance.

FINANCIAL MARKETS

QUESTION 3 (25 marks)

You are employed as a financial analyst in a suburban investment firm. A client has drawn your attention to the following newspaper article.

TRUST IN CASH MAKES PROFIT

Cash is still king for many investors, despite interest rates halving in the past six years. And the wonder funds of the late 80s, cash management trusts (CMTs), are again in favour.

The client usually invests in the following types of securities:

- listed and unlisted shares;
- long-term and short-term loans;
- secured and unsecured debt.

(a) Prepare a report for the client, explaining:

- (i) the role and characteristics of the different types of securities;
- (ii) why the securities have different risks.

(b) Discuss why investors would prefer to invest in cash when interest rates are falling.

Topic outcomes which the question examined:

- describe the types and characteristics of instruments traded
- apply the risk/return relationship to business traded
- analyse the interrelationship and impact of the dynamic forces within financial markets.

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

- describing the types and characteristics of instruments traded
- applying the risk/return relationship to business decisions.

However, candidates were less clear about outcomes relating to:

- analysing the interrelationship and impact of the dynamic forces within financial markets.

General Comments

Better candidates answered the question in report format and clearly explained the role and characteristics of the securities listed in the question. However, many candidates were unable to explain why securities have different risks and consequently were unable to explain why investors prefer to invest in cash in a falling interest rate market.

Excellent Responses

Candidates explained in detail both the role and characteristics of the listed securities. For example, listed shares fund Public Company operations are marketed through the ASX and pay dividends on performance.

Candidates explained in detail why securities have different risks, eg investor expectations, secured/unsecured, liquid/non-liquid.

Candidates discussed in detail why cash is preferred in a falling interest rate market, eg to be liquid and ready to take up other investment options.

Sample Excellent Response

Financial markets bring together the buyers and sellers of financial instruments, that is lenders (or investors) and borrowers. Financial markets provide a medium through which these financial instruments can be traded, facilitating the movement of funds from those who have a surplus for funds to those who have a need for funds.

Dear Client

In order to maximise the return from your investment and minimise the risk, it is essential to have a variety of different securities in your portfolio. As a portfolio manager I'm constantly looking to balance the accounting effects, investment effects and taxation effects of an investment. We must decide whether to take a more active approach, riding the yield curve to maximise returns, or to take a more passive approach, aiming to match and hedge.

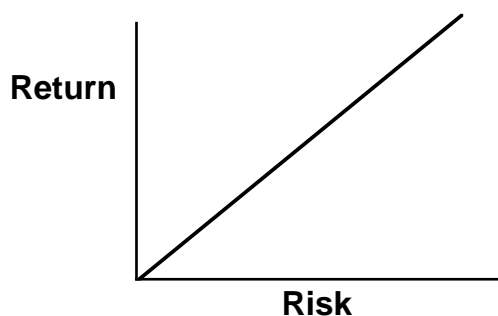
Shares are equity securities representing ownership in a company. Shareholders have a right to vote, a right to a dividend and a right to elect directors. Shares have no term to maturity. The liquidity of shares depends on whether the company is listed or unlisted. If the company is listed on the Australian Stock Exchange then the shares will be a fairly liquid asset. Ordinary shares carry the main burden of risk of the company's activities. There is no guarantee of a dividend and these are the last to receive a surplus on winding up. The risk can be reduced by purchasing preference shares, however, this is more expensive.

Debt finance is another type of security. It can be categorised as short or long term debt finance. Short term debt finance includes commercial bills and treasury rates. Treasury notes are issued by the Commonwealth Government on a tender basis, in standard amounts of \$100,000. These have 30, 60, 90, 120 or 180 days to maturity. They are virtually default risk free, hence they have a lower yield than other short term debt finance such as promissory notes or commercial bills. Treasury rates are used to fund government expenditure. If you choose to invest in promissory notes, a higher yield is possible, however there is a higher risk. All of these short term debt finance mentioned are fairly liquid.

Long term debt finance can include Treasury bonds, semi-government bonds and debentures. Treasury bonds are the most secure. They are issued by the Commonwealth Government to fund expenditure. They have 2-15 years to maturity. The secondary market for Treasury bonds in Australia is fairly active. Semi-government bonds are issued by State Governments or organisations such as Telstra. They are less secure than Treasury notes, hence they have a higher yield.

Debentures are another example of a long term debt. They are issued by companies and are for a fixed period at a fixed interest rate. The secondary market for debentures in Australia is quite thin, however they have a higher yield to compensate for the greater default risk and greater liquidity risk.

An investment has both systematic and unsystematic risk. Systematic risk is unavoidable and it applies to all investments. Unsystematic risk applies only to certain investments. It is avoidable, hence as a portfolio manager I will aim to reduce the unsystematic risk of the portfolio. You should be aware of a concept known as the Risk v Return Trade off. As the potential of a return on investment increases, so too generally does the risk involved.



The two main types of risks associated with financial instruments is financial risk and business risk. Financial risk includes the following:

- default risk - the risk of defaulting on principle or interest
- interest rate risk - associated with uncertain or rising interest rates
- liquidity risk - it is essential that you match the term of your investment with your business needs, otherwise your solvency could be threatened. This can be overcome with 'fire sales' or 'forced sales'. However, this reduces the overall rate of return
- security risk
- documentary risk.

Another type of risk associated with investing in financial instruments is business risk. This relates to the nature of the industry in which the firm operates. It may also involve being exposed to special influences such as overseas trading. Generally, a business can reduce its risk by diversification. However, often a business may be more successful 'sticking to the knitting' (ie sticking to its specialist function).

Devising an appropriate portfolio for your needs involves providing for a range of cash flow needs - including monthly cash outflows, peaks and troughs in monthly cash outflows and peaks and troughs in annual cash outflows.

The traditional reaction to rising or uncertain interest rates is to stay in short term investments. As the term of the investment increases, so too does the risk involved. Therefore, in times when interest rates are falling, it is best to invest in shorter term securities such as short term loans, which involve cash, rather than heavily investing in property or in listed or unlisted shares, which could be quite volatile investments in times of uncertain interest rates. A typical portfolio could include commercial bills, treasury notes, Commonwealth Government bonds as well as mortgage backed securities.

Cash management trusts (CMTs) are an effective way for small investors to gain a return on their money. People may invest in a cash management trust if they are not confident in their ability to make investment decisions. The trustee holds property to all assets of the trust. The trust deed must clearly outline the restrictions on the trust manager's choice of investment. The trust manager may invest in a wide range of securities in order to reduce risk. The individual investor is likely to obtain a higher return on funds in the wholesale market than they would on their own. The individual investors do not have a guaranteed rate of return, and the liquidity of the investment will depend on whether the trust is listed or unlisted.

Each financial instrument has its own set of unique features. However regardless of the instrument, on evaluation must occur in terms of yield, pricing, parties involved, liquidity, negotiability and security. Before deciding on the final portfolio it is essential that you consider each of these factors in terms of meeting your own needs. You must consider whether you wish to speculate and maximise gains at a greater risk, or to take a more passive approach and match and hedge, at the expense of a higher return.

Yours faithfully,

*

Financial Analyst

Above Average Responses

Candidates generally provided a good explanation of the characteristics of the listed securities. However, their explanation of the roles of these securities was less clear. Candidates were able to explain why securities were able to discuss why cash is preferred in a falling interest rate market.

Average Responses

Candidates provided a list of characteristics for the listed securities with little reference to their role. They gave a general description of the relationship between risk and return and were unclear as to why cash is preferred in a falling interest market.

QUESTION 4 (25 marks)

(Note: included here was a graph comparing performance of the flexible fund with the Australian All Ordinaries Index. Please refer to the 1996 HSC 3 Unit (Additional) Business Studies Examination Paper.)

FLEXIBLE FUND ASSET MIX

Australian shares	67%
International shares	30%
Short-term fixed interest	3%

Your parents have recently retired, receiving \$300 000, and are seeking your advice. They are interested in investing in the Flexible Fund. This fund aims at consistently outperforming the Australian All Ordinaries Index. It also aims to provide a high-growth return.

- The Flexible Fund has not met its objectives. Give possible reasons for this.
- Explain the importance of matching investors' objectives with those of an investment fund.
- Analyse how risk and return should be taken into account, and whether the Flexible Fund would provide a suitable investment for recent retirees.

Topic outcomes which the question examined:

- analyse the interrelationship and impacts of the dynamic forces within financial markets
- 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:

- analysing the interrelationships and impacts of the dynamic forces within financial markets
- applying the rich return relationship to business decisions.

However, candidates were less clear about outcomes relating to:

- analysing and interpreting the results of trading in various instruments.

General Comments

Most candidates were able to explain the importance of matching investors' objectives with those of an investment fund. Most candidates were also able to provide some analysis of risk and return of the fund relative to the needs of recent retirees. However, only the better candidates were able to provide an analysis of the portfolio spread and performance and explain possible reasons for the funds' failure to meet objectives.

Excellent Responses

Candidates analysed in detail the spread and performance of the fund and gave valid reasons for the Flexible Fund not meeting its objectives, eg (internal share problems, Australian share selection and poor performance).

Candidates explained, using appropriate examples, the importance of matching investor objectives with investment options (eg retirees' need for safe returns).

Candidates also gave a number of reasons why different investments have different risks and conclusively stated that the fund was not suited to recent retirees based on risk and return analysis.

Sample Excellent Response

(a) The flexible fund (FF) has not met its objectives for a number of reasons:

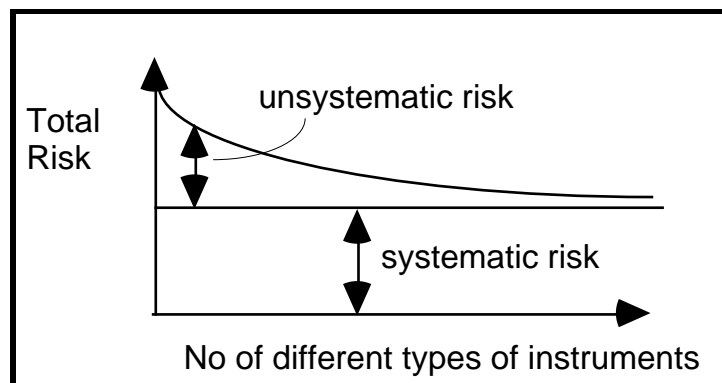
(i) Unfair Comparison

The All Ordinaries index (AOI) is the sum of a number of indicator stocks, most of which is 'blue chip'. Therefore if FF wants to outperform the AOI then they need to invest in stocks that are non-indicator. If they invest in indicator stocks then their performance will mirror the AOI. Yet by investing in non-indicator stocks they will be choosing much smaller and riskier businesses to invest in. This means that their choice to try to outperform the AOI detrimentally affects their stock portfolio.

(ii) Lack of Diversity

The FF has a severe lack of diversity as can be seen by the fact that 2/3 of their assets are Australian shares. This means that anything affecting the Australian Share Market will also heavily affect FF. There is also a worrying trend towards shares. Only 3% of FFs assets are in non-share financial instruments. If a wider selection of instruments was chosen, then FFs risk would be spread around, thus reducing the impact any one market will have on it. At the moment any share market crash would send the company into deep financial trouble.

In order to overcome these difficulties a wide range of instruments should be chosen. This will reduce the unsystematic risk. Unsystematic risk is the risk in each individual instrument that is avoidable either by choosing a different company or a different intermediary to deal with. Systematic risk is inherent in any instrument and cannot be avoided. But a careful selection of shares, bills, notes, bonds and derivatives should reduce the unsystematic risk.



(iii) Poor Management

Another possibility is that the manager of FF may be deficient in their efforts to search for the best investments. This may take the form of poor investments, insufficient return for the risk, bad investments, ones where the borrower defaults, or allowing capital to go unused for long periods instead of immediate use. All these have the ability to reduce the fund's profitability and therefore will affect its unit value.

(iv) Lack of Consumer Confidence

It is possible that FFs poor performance is only due to a lack of consumer confidence in trusts. The unit value will be driven by supply and demand. Therefore to achieve a high unit value then the trust must be attractive. Even if the trust is performing well there are a number of other factors driving supply/demand. Some

people prefer to manage their own portfolios. Others prefer to deal with a stockbroker they know and trust to make informed decisions about what to invest in. It is possible that there is just a shortage of people willing to let someone they don't know, manage their money.

(b) Investors have needs and objectives in terms of:

- how long they will be investing
- how much they will invest
- whether the investment should be liquid
- what return is desirable.

These must be matched with what the fund wants to do with the money and what their objectives are.

(i) Term

An investor will have a set time period for the investment. This is usually decided by a cash flow analysis to determine when they will need those funds again.

This needs to be matched to the fund so that the fund manager has the ability to pay the investor at that time. If the manager has all the funds locked up in securities then he will be unable to repay the investment. An exception to this is listed funds which can be sold at any time subject to supply/demand.

(ii) Amount

The investor will have a set quantity of funds to invest. This needs to be matched with the fund's desires. It is no good for a small time investor to be approaching a fund who requires large investment and vice versa.

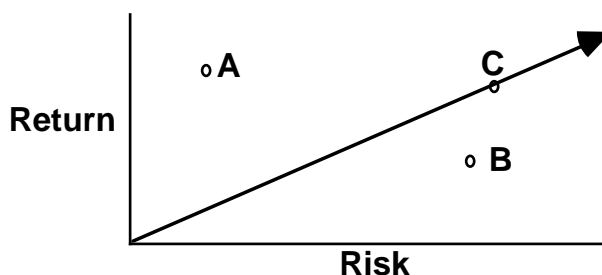
(iii) Liquidity

Should the investor experience cash flow problems then it may be necessary for the units to be sold or the investment paid back. This may happen at any time. Therefore the investor needs to assess the probability of a cash flow problem developing. If the probability is high then the required fund needs to be highly liquid or a listed fund. If the probability is low then it should not matter which fund is invested in, although higher returns may be available in exchange for less liquidity.

(iv) Return

An investor should expect a return that is greater than what they could earn in a bank term deposit. The higher the return, the greater the risk of getting no return at all. Therefore the investor's desire for security needs to be matched with the manager's desire to take risks.

c)



Risk is usually proportional to return, eg the higher the risk, the higher the return (see graph).

The investor needs to assess the relationship, decide where the investment ranks on the graph. Something at A is a really good investment, high returns for a relatively low risk.

B is a bad investment, too much risk for too little return.

C is the average and would be sound investment.

A careful evaluation of each individual investment needs to be done to determine its potential.

The FF seems to be a poor investment at face value. It is possible that there might be an upswing in the unit value. But as a cautionary step it would be advisable for recent retirees to seek individual advice and look at more secure investments to protect their nest egg which they will rely on for income over and above the pension. For them security will be of the most importance and therefore requires the most attention which can only be addressed by an individual stockbroker.

HUMAN RESOURCE MANAGEMENT

QUESTION 5 (25 marks)

CUSTOMER SERVICE LTD
Installers Wanted

A challenging career in the pay television industry awaits the right people.

People who:

- have previous experience in customer service, both internal and external;
- are physically fit;
- are able to work solo or as part of a team;
- maintain high standards of customer service and work quality;
- are able to promote products and services on site.

You must hold a current light-truck driver's licence, and be willing to develop skills through training courses.

Apply to: Gabriel Felkai
Phone: (xx) xxxx



The advertisement above is an important part of the recruitment and selection program of a business.

- (a) Outline the human resource management procedures which should have been undertaken before this advertisement was placed.
- (b) Refer to a business you have studied.
 - (i) Identify the characteristics of an effective induction program.
 - (ii) Evaluate the methods firms may adopt to ensure the retention of their fully-trained staff.

Topic outcomes which the question examined:

- explain the recruitment and selection processes
- identify the characteristics of effective induction and training programs
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resources management policies.

The majority of candidates effectively addressed all three outcomes in their responses to this question.

General Comments

The examiners were pleased with the generally high standard of response to this question. Few candidates had difficulty outlining recruitment procedures prior to the advertisement being placed, and most were able to identify at least some characteristics of an effective induction program, although not all related well to their case study.

Excellent Responses

Excellent responses outlined a broad range of HRM recruitment procedures in categories as legal, financial and organisational which would have been undertaken prior to placement of the advertisement.

Candidates identified the characteristics of effective induction programs including:

- functional responsibilities of the new employee
- team building activities
- occupational Health and Safety requirements
- ethos and culture of the case study organisation
- organisational goals
- formal or informal buddy systems and/or mentors.

Candidates clearly explained how these characteristics operated in their case study. Candidates evaluated methods firms may adopt to ensure the retention of their fully trained staff, using their case study. Methods included intrinsic and extrinsic motivators and maintenance.

Sample Excellent Response

Human Resource Management concerns itself with recognising the importance of an organisation's workforce as vital to achieving its goals and utilising various functions and activities in order to see effective utilisation of resources and fairness for the benefit of all.

In achieving HRM's primary aim of ensuring an organisation has the right people at the right time with the right skills to achieve its goals a number of activities must be carried out before the ad for Customer Service Ltd is placed.

HRM should have previously estimated the supply and demand for workers that the organisation will face. Demand is estimated through two major techniques. The Delphi technique involves a group of experts analysing the problems and a consensus being reached. Simple or Multiple Linear regression involves examining sales forecasts, past worker demand in order to predict requirements.

Estimating supply requires using market analysis based on historical and transition rates, renewal analysis and goal programming. These last two examine future effects the firm's decisions will have on worker numbers.

After determining that demand exceeds supply a comprehensive job analysis should have been carried out. Firstly the exact outcome the job's fulfilment entails should be broken down into a job description outlining tasks, operations likely to be carried out and any other job specific component. Job requirement should also be analysed. These involve person specific factors such as skills, personality, experience and values. This process is vital in order to lay the groundwork for an organisation gaining the right people to meet its goals.

The end result of this process is the advertisement. HRM at the pay TV company has obviously highlighted that demand is greater for labour than at present. HRM has also analysed the job's specifics indicating such tasks to be carried out as truck driving and salesmanship as well as such requirements as high standards of customer service and work quality.

When a business has finally passed through the recruitment and selection process it is vital that the high costs in time and resources are not wasted in the first impressions an employee gains about his new place of work. An employee should be told his position, who he is responsible to and where to go for assistance. He must also be told about the job. What he does? Why he does it? And why he does it the way he does it.

The future employee must also be introduced to the rest of the workers and told any problems and processes with the job. The induction process is vital in ensuring an employee gets the right impression about the organisation. It is also a time when the employee's new skills, ideas and innovations can greatly enhance and add to the success of the organisation.

An example of an effective induction program is the new Dartbrook Pty Ltd mine in the Hunter Valley. It is a wholly owned subsidiary of Shell Australia and has been operating currently for 1½ years. The costs incurred in recruitment and selection for this mine were high, at \$3000 - \$3500 per employee, a total of \$400 000 during the start up phase. Considering however the average salary was \$71 000, getting the right employee was paramount in the recruitment process being cost effective.

The induction program at Dartbrook took a unique perspective. An 8 week intensive course was undergone by employees, integrating them into the company culture and future mode of operations. The 'technicians' - a term applied to the miners - were given lectures on the coal group's markets, changing nature and given tours of the coal loaders and other infrastructure to enhance their empathy with the business as a whole. Interactive days between staff and management allowed members to become acquainted with the staff and functional behaviour of the organisation. Work teams were established and training in new techniques completed - the 8 week course with the employee being a fully qualified mine technician.

The training process is costly and time consuming. Once the employees are trained, in order to guard this investment HRM must look at developing, maintaining and motivating the workforce to stay within the organisation.

Motivation becomes a key factor behind retraining key employees. There are a number of theories underpinning workplace motivation. Various content theories such as Maslow's need hierarchy theory and Alderphere's Existence Relatedness Growth theory espouse a theory that certain employee needs such as related to existence relatedness and growth must be catered for.

Other content theories such as McClelland's Achievement Motivator theory stresses the character of the individual. High achievers need feedback, praise and to be respected by others. The last content theory examines what factors motivate and which just maintain motivation. The hygiene motivator theory stresses such things as empowerment, risk taking and power as being ways to motivation.

Process theories however examine the system that should be implemented. Expectancy, equity, goals and reinforcement should all form parts of an integral motivation system.

Motivation in itself will not keep an employee within the firm. It will, however, create job satisfaction and this will greatly increase the individual willingness to stay within the firm and increase his productive capacity.

Motivation at Dartbrook is achieved through a number of ways. Physiological needs such as amenities, counselling and surrounds all exceed requirements. There is a team perspective created through all employees, including management wearing the same uniform, and all employees may opt for the fringe benefits plans usually only available for management. Performance bonuses in addition to normal salaries also help. At Dartbrook like in most industries, a collection of theories are used.

Developing the workforce is also a key component in keeping the workforce together and protecting the investment in training. With continual performance appraisal highlighting successful individuals, eliminating weaknesses and leading to promotion and increases in salary all help to create career paths. Annual performance reviews establishing career paths are vital to keeping key employees.

At Dartbrook, career paths are established through annual performance review of goals achieved during the previous year.

Employees also require various functions such as adequate remuneration, injury cover, occupational health and safety, a means of settling disputes as well as provisions for social welfare. These are all met to varying degrees at Dartbrook.

Recruitment, induction and training are all expensive operations that require protecting. Maintenance development and motivation are all keys to this.

Above Average Responses

Candidates outlined fewer human resource management procedures in categories for recruitment and selection by firm and related these to the advertisement placed by Customer Service Ltd. Candidates identified most characteristics of an effective induction program and referred these to their case study. Candidates described some methods firms might adopt to ensure the retention of their fully trained staff and did some evaluation of these methods.

Average Responses

Candidates identified and described organisational analysis, job analysis, job description and job profile as HRM procedures which should have been undertaken. Candidates described generally effective induction programs with some reference to their case study.

Candidates described retention methods based on monetary motivators including pay rises, bonuses, fringe benefits with limited description of non-monetary motivators such as employee of the month.

QUESTION 6 (25 marks)

The managers of Ruby Supermarkets Ltd have experienced difficulty in finding full-time check-out operators. To overcome this problem, they are considering two alternative strategies:

- reorganise their human resources
- computerise their stock system and introduce electronic scanners.

If they adopt the second strategy, there will be retrenchment of staff in both check-out and stock management areas.

- (a) Explain how Ruby Supermarkets may overcome its staffing problem through better human resource management.
- (b) Analyse the different methods Ruby Supermarkets may use to downsize its workforce and comply with current legislation.
- (c) Evaluate the impact on training programs of adopting the second strategy.

Outcomes which the question examined:

- outline the function and role of human resource management within an organisation
- identify the characteristics of effective induction and training programs
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resource policies
- evaluate methods used for maintenance and attrition of human resources within the legal constraints of the firm.

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

- outlining the function and role of human resource management within an organisation
- describing the components and effects of motivation and its relationship with job satisfaction, performance and human resource policies
- evaluating methods used for maintenance and attrition of human resource management.

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

- identifying the characteristics of effective induction and training programs.

General Comments

Most students were able to explain the general functions of human resource management as it applied to Ruby Supermarkets.

Students were generally able to analyse the different methods that Ruby Supermarkets could downsize and demonstrate that downsizing was a planned exercise. Better candidates linked legislation to downsizing.

Many candidates discussed the types of training programs that Ruby Supermarkets could implement, without evaluating the impact of adopting the computerised stock system and electronic scanners on the training programs at Ruby Supermarkets.

Excellent Responses

Candidates gave a clear and detailed explanation of how Ruby Supermarkets could overcome its staffing problems through better human resource management including acquisition, development, motivation and maintenance strategies.

They gave a detailed analysis of the different methods Ruby Supermarkets could use to downsize and they explained the legal requirements relating to these methods.

Candidates gave a clear evaluation of the impact on training programs of computerising the stock system and introducing electronic scanners.

Sample Excellent Response

Human Resource Management - A definition

Human Resource Management (HRM) refers to the concerns regarding the employee/employer relationship, and methods and techniques aimed at making that relationship more effective. HRM performs several key functions to a business such as Ruby Supermarkets Ltd, including:

- acquisition
- development
- motivation
- maintenance
- separation/attrition

The manner in which HRM can assist Ruby Supermarkets (RS) in overcoming its staffing problem.

In order to maximise the use of their human resources. RS must first identify the cause of their staffing problems: that is, the possibility of capital substitution and making a more effective acquisition process.

Better HRM would allow RS to do many things including:

- (i) Review its recruitment, selection, induction and training schemes to ensure that the right person for the job is found at the right time. A more effective method of job analysis (hence compiling job descriptions) would allow for better person specification and a more comprehensive advertisement for the full-time check-out operators.
- (ii) Effective HRM could assess the human resource needs of the business, and then compare and contrast these needs with the strategy of capital substitution in the stock system. The information that is found could then be used to forecast the success of each strategy.
- (iii) Better HRM would allow problems to be more clearly identified: performance appraisals and feedback schemes, such as those which are conducted every six months at Dartbrook, a coal mining company in the Hunter Valley of NSW. Through these schemes, Dartbrook has been able to quickly locate problems, difficulties, and employee concerns; and has since then remedied the problems and introduced extensive cross-skilling and job rotation programs. RS could reap similar benefits through such a scheme resulting from better HRM.
- (iv) HRM, when implemented more effectively, can assist in helping businesses such as RS to encourage multiskilling and broadbanding. This could result in the staffing problem being addressed directly: full-time check-out operators would not be needed; instead, employees who are willing to undergo training and induction programs would become capable of performing a variety of jobs in RS, not just check-out operators.
- (v) HRM could allow the managers of RS to contemplate and forecast the impact of changing the staffing positions to casual. This would mean that a number of different employees would be check-out operators, not just two full-time workers.

An analysis of the different Methods that RS may use to downsize its workforce and comply with current legislation.

At the current time, the industrial relations scene is reasonably unsettled and volatile, hence RS are faced with increased concerns to downsizing their workforce. The Federal dismissal legislation is under review at present.

RS can choose several methods in downsizing its workforce. The Human Resource Department(HRD) of RS would act as the main body responsible for instigating the supermarkets' downsizing process. The methods open the RS's decision shown in figure one.

Separation/Attrition

voluntary	involuntary
retirement	redundancy
resignation	retrenchment
redundancy	dismissal

Fig 1: Methods of Downsizing

Redundancy occurs when the HRD presents the notion of downsizing to the employees: the employees then choose to stay with the business or leave/resign. Redundancy usually occurs as a result of technological advances, or an economic downsizing, and to compensate employees, management usually offers a financial package that may also include out placement services and counselling.

Retirement, or in this case, the HRD locating potential retirees, is another method RS may choose in order to downsize. This involves the HRD looking at which employees are nearing retirement age. These people can be separated from the business with less legal restrictions. Like redundancy, the retiree is presented with a financial package sometimes called a 'golden handshake'.

The supermarket's HRM can also choose to decrease its staff numbers through retrenchment. This occurs when the business asks the employee to leave, and unlike voluntary redundancy, the employee has no choice but to do so. To compensate for the fact that it is the employer who initiated the separation RS would need to offer some form of remuneration, and also outplacement services.

Dismissal and resignation, while methods of separation, are not really valid in a downsizing operation such as the one that may be conducted by RS. Dismissal, under the current legislation, is permitted only when there is serious and wilful misconduct and behaviour, such as theft or dishonesty. Therefore dismissal does not apply to the supermarket's downsizing operations.

An evaluation of this impact on Training Programs of adopting the second strategy.

The second strategy, the computerisation of RS's stock system and the introduction of electronic scanners, would involve both new recruits on the business, and previous employees to undergo an extensive training program. Elements of the existing training system relating to methods of inventory control and check-out work would need to be updated, and effective HRM could assist this process.

Training programs would need to be extended to cover:

- (i) An understanding of how the stock system works under computer control, hence computer skills would need to be introduced.

- (ii) Employees would need to be shown how to control the computer that manipulates the stock system.
- (iii) Employees would need to be taught how to use the electronic scanners, ie how many times a product must be scanned for it to register in the computer as a sale, how to cancel the sale if the product is returned . . . and so on.
- (iv) If multiskilling was introduced at RS (after better HRM has been implemented), then training programs would need to recognise that a variety of workers will be performing both stock system computer management and the check-out function using the electronic scanners.

Previous training programs of RS such as on the job training, would also need to be reconsidered. New training programs involving a step procedure would be best in training the workforce of RS. These steps include:

- (i) A comprehensive induction program that would provide employees with an accurate knowledge of the way RS operates
- (ii) A three day course showing recruits the procedures of business operation; and methods used in working. This course would also improve/update the recruits' computer skills.
- (iii) A period of two weeks 'on the job' training, whereby more experienced members of staff assist new employees in all aspects of working in RS.

Above Average Responses

Candidates gave a good explanation of how Ruby Supermarkets could overcome its staffing problems through better human resource management but with fewer examples and in less depth.

Candidates gave a good analysis of the different methods Ruby Supermarkets could use to downsize with less explanation of the legal requirements relating to these methods.

Candidates made reference to computerisation of stock systems and electronic scanners and the impact on training systems at Ruby Supermarkets.

Average Responses

Candidates explained general human resource principles and some candidates related these principles to Ruby Supermarkets.

Downsizing was discussed in general terms with little explanation of the legal requirements relating to the downsizing process.

Candidates discussed training programs in general terms with little or no evaluation of the impact of computerisation and scanners on training programs at Ruby Supermarkets.

PRODUCTION MANAGEMENT

QUESTION 7 (25 marks)

Production management is the organisation of all the factors involved in the production process.

Refer to at least ONE manufacturing business you have studied.

- (a) Outline the stages in producing a product.
- (b) Explain the role of planning in the production process.
- (c) Evaluate the impact of social issues on manufacturers.

Topic outcomes which the question examined:

- analyse the production process, its main functions, and its impact on how people work, employment levels and the goods available to consumers
- identify, plan and simulate the steps involved in bringing together the resources needed to produce goods efficiently
- appreciate the impact of social issues associated with the production process.

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

- analysing the production process
- identifying, planning and simulating the steps involved in bringing together the resources needed to produce goods efficiently.

However, candidates were unclear about outcomes relating to:

- appreciating the impact of social issues associated with the production process.

General Comments

The majority of candidates referred to at least ONE manufacturing business they had studied. Most candidates were able to identify some steps in producing a product, either in designing a product and/or full scale manufacture.

Most candidates were able to explain some of the planning role, including forecasting, the type of production and resources required.

Fewer candidates were able to evaluate the impact of social issues, such as employment and the ecological environment, on manufacturers.

Excellent Responses

Candidates answered all parts of the question well referring to at least one manufacturing business.

Candidates outlined the stages in producing a product namely product design, including innovation on idea generation, screening, product design, prototype manufacture, market testing, feasibility and commercialisation. Some candidates showed quality control as a stage in producing a product and quality assurance as integrated into all stages.

Candidates explained some planning roles in manufacturing, such as forecasting, type of production, and determining how resources are to be combined in the production process.

Candidates were able to evaluate the impact of aspects of employment and, where relevant, the ecological environment on manufacturers.

Sample Excellent Response

The production manager of the Wrigleys Company Stephen Tatt has identified many aspects of production at the company such as:

Part A

Stages in producing a product

At the Wrigleys company, the company is concerned with

- production design
- manufacture
- quality assurance and control

when it comes to producing a product.

Product Design

Much of the product design ideas come from the parent company in Chicago (United States of America) who suggest product designs to launch in Australia which, if successful, become part of the product range. The meaning of product design is the degree to which products meet the expectation of consumers. Wrigleys (Asquith Plant) work in conjunction in offering ideas for new product design. In fact 55% of all the new ideas come from within the Asquith plant from employees and various departments.

Once a product design idea is sent to Chicago for approval, Chicago will place it through several processes.

a. **Prototype manufacture and feasibility study**

Chicago is a simulation centre which produces gum according to the design brief. It is here that the Wrigleys Company determines whether the product can be made and incorporates a prototype feasibility study also to determine whether the product can be made at the Asquith plant with the machinery they hold.

b. **Prototype Market Testing**

Wrigleys Company, Chicago then sends its findings and products back to Australia to trial for a small amount of time or within a small geographic region. If the product seems to remain successful it moves to the next stage or procedure of the design process which is the marketing strategy.

c. **Marketing Strategy**

This incorporates the Asquith plant's marketing department with Chicago describing the target market, positioning the new product in the market and determining the sales, profit growth levels for the particular product.

During these stages Chicago has a lot of control over the production of the product therefore when it comes to the product development stage, Stephen Tatt must ensure that the machines and whole production process meets the guidelines and standards of the parent company.

A business analysis must be undertaken to ensure the company can adequately finance the new product design, its marketing, expenses and so forth.

Marketing testing will occur on a larger scale and even at this stage, the gum, or product from the Wrigleys Company may fail.

If the gum proves to be successful according to the stages of product design, then the Wrigleys plant in Asquith will launch or **commercialise** the product involving the manufacture of the goods.

2. **Manufacture**

The manufacture of Wrigleys gum involves the production manager ensuring the mission statement is abided by formulating strategies to achieve objectives as stated in the mission statement. Components of the mission statement and related strategies often include matters such as:

- Procurement - how to obtain supplies, materials, equipment etc.
- Location - of the plant's equipment and say a new room for the launch of a 'Hubba Bubba' product (NB: There is one room at the Asquith plant particularly reserved for the production of Hubba Bubba).
- Layout - concerning technology, equipment and process
- Scheduling - to ensure the right people, materials etc are available at the right time (meeting delivering times etc) and so forth.

3. **Quality Assurance and Control**

Quality Assurance is the planned and systematic actions that are necessary to provide adequate confidence that a good or service meet given or stated requirements (Team talk). At the Asquith Wrigley plant, Quality Assurance or QA is separated into two parts:

- QA
- Quality Control (QC).
- Quality Assurance is involved in ensuring that standards of quality are set for the people in the organisation to abide by. This involves training of the staff to a large extent and making the production process safer.
- Quality Control involves checking that the product is made safely and according to the Australian Food Standards Code and to meet the requirements of customers.

Wrigleys has a great emphasis on the quality of its products and sees this as contributing to its sustainable competitive advantage and the reasons why it holds 98% of the Australian market.

Part B

The Role of Planning for the Wrigleys Company at the Asquith Plant, in the Production Process

1. **Forecasting**

Wrigleys forecasts in time frames according to:

- long term plans (several years) on such matters as expansion, product design, new equipment/machinery etc
- medium term plans (1 month to 1 year) where such plans for recruitment sales forecasts etc are formulated
- short term plans (1 day to 1 month) concerning unplanned events that occur, scheduling etc.

At the Wrigleys Company both the qualitative and quantitative approaches of forecasting are adopted. The skills, expertise and experience of Stephen Tatt in anticipating customer demand and so forth are combined with statistical evidence, mathematical ratios, financial statements etc.

Many economic demands and technological forecasts are undertaken by the parent company to forewarn the Asquith plant so that they can act accordingly. Eg market research and a technological forecast proved that a Japanese competitor, if expanded into Australian markets, would have sufficient technology to capture a significant market share.

Planning according to these forecasts is essential in ensuring viability in the chewing gum market and in keeping their 95% Australian market share.

2. **Plant Layout and Work Conditions**

Stephen Tatt in former and in recent years has had to plan for the release or launch of the Extra Sugarless products which required new machinery. He, as the Production Manager, was allowed time through the planning process to acquire adequate equipment, machinery etc and incorporate a new Just In Time system, Kanban, into the company to minimise waste, time and costs. The Kanban system allows the company to plan production levels with suppliers through their interactions and correspondence of cards which indicate to suppliers when supplies are due to run out etc.

The role of planning in this respect is crucial in also allowing Wrigleys to plan in financial terms so that adequate funds are allocated to appropriate causes.

3. **Evaluating Capacity**

This involves planning the right amounts of raw materials, supplies, equipment needed to operate the production system at the right time.

This involves the scheduling of when goods are to be produced (eg Hubba Bubba one week and then Juicy Fruit the next) to ensure delivery dates are met on time, inventories are kept low and customer service remains high.

4. **Work Stations and Cash Allocation**

Stephen Tatt has to plan that the job performed in the production process suits the actual person who performs it. This is often referred to as job design and factors are considered such as:

- **Social factors** - interactions between employees
- **Intrinsic factors** - feelings after performing the job

- **Physical content** - heat, light, and surroundings of workers etc
- **Task Content** - whether employee is capable of performing task.

Stephen Tatt is concerned with ensuring each worker's job is clearly defined, supervised and performed properly so that not only is worker morale and satisfaction high but also that quality products are made at the Wrigleys factory, Asquith.

C. **Impact of Social Issues on Manufacturers and Especially the Wrigleys Company**

Many different examples of social impact on manufacturing companies will be used in this section.

Wrigleys has had to design products that are health/dental conscious, eg Sugarfree products, Extra and the gum Freedent designed for people with dentures, are examples of how a company has responded to social demands. The change of demand effectively meant new machinery, more room and more employees were needed to cater to the social demand.

Increasing environment awareness forced the Myer Grace Bros company to formulate an environmental manufacturing program where elimination of waste was achieved by recycling many products, in particular coat hangers.

The increasing role of women in the workforce has forced manufacturing businesses such as Coca-Cola Amatil to increase their numbers of women employed under the Equal Employment Opportunities (EEO) principles and in particular in Australia the Affirmative Action (EEO for women) Act of 1986 (Cth).

Training has had to increase to inform employees of social issues to increase awareness so that they would perform their jobs better.

A greater budget has been allocated towards environmental issues to decrease wastage in the Wrigleys Company by implementing a Kanban System to minimise overstock or understock. A Just In Time system is also implemented at the Coca-Cola factory in Northmead, Sydney.

Social issues are particularly pertinent to manufacturers as they arise from the consumers who buy their products. In order to meet customer demands manufacturers are compelled to follow guidelines set by society if they are desirous to survive in the market.

Above Average Responses

Candidates referred to at least ONE manufacturing business. They outlined most stages involved in producing a product, explained the role of planning in the production process and evaluated the impact of at least one social issue on manufacturers.

Average Responses

Candidates outlined some stages involved in producing a product. They explained the role of planning in the production process and evaluated the impact of a social issue on manufacturers but in less detail. Some candidates answered two parts of the question well and omitted one part while some candidates did not refer to a manufacturing business they had studied.

QUESTION 8 (25 marks)

Slash Printing is a manufacturer of screen-printed products. The products range from complex 'one-off' items such as signs or banners, to large runs of 'T-shirts' produced in batches of up to 500 units. Leo Tan, the owner of Slash Printing, has recently invested heavily in computerised design equipment and production machinery. As a result, he employs fewer screen printers and more computer operators.

- (a) Describe the types of production processes that operate at Slash Printing.
- (b) Discuss the role of the production manager in implementing a strategic plan for Slash Printing.
- (c) Outline methods of achieving and maintaining quality control in this business.
- (d) Analyse the impact of the changes to Slash Printing on its workforce.

Topic outcomes which the question examined:

- analyse the production process, its main functions, and its impact on how people work, employment levels and the goods available to consumers
- understand and apply the steps in quality assurance and quality control, and recognise the benefits of quality production
- appreciate the impact of social issues associated with the production process.

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

- analysing the production process, its main functions, and its impact on how people work, employment levels and the goods available to consumers
- understanding and applying the steps in quality assurance and quality control, and recognising the benefits of quality production.

However, candidates were less clear about outcomes relating to:

- appreciating the impact of social issues associated with the production process.

General Comments

The majority of students referred to the stimulus material in answering the question. Most students were able to differentiate the processes involved in making signs or banners and T-shirts and were able to describe ways of achieving and maintaining quality control. Fewer students successfully discussed the role of the production manager in implementing a strategic plan, such as purchasing inputs, production scheduling, production, assembly, packaging and dispatch. Fewer students also were able to analyse the impact of changes to the business on its workforce.

Excellent Responses

Candidates effectively used the stimulus material in their responses. They correctly identified and described in detail the types of production processes used to make signs, banners (unit or jobbing) and T-shirts (intermittent or process) at Slash Printing. Candidates discussed in detail the organising, leading and controlling role of the production manager in implementing a strategic plan for Slash Printing. Candidates outlined in detail the methods of achieving and maintaining quality control such as TQM or inspection stages. They analysed in detail the impact of the changes to Slash Printing on its workforce including the changing nature of work and job status, multiskilling, education and training.

Above Average Responses

Candidates used the stimulus material in their responses. They described the types of production processes used at Slash Printing and discussed the role of the production manager in implementing a strategic plan for Slash Printing. Candidates outlined the methods of achieving

and maintaining quality control and analysed the impact of the changes to Slash Printing on its workforce.

Average Responses

Candidates described the types of production processes used at Slash Printing and discussed some aspects of the role of a production manager in implementing a strategic plan. They outlined some of the methods of achieving and maintaining quality control and discussed some of the impacts of the changes to the workforce. There was less reference to the stimulus material in responses. Some candidates answered two parts of the question well.

INTERNATIONAL BUSINESS

QUESTION 9 (25 marks)

Governments continue to stress the importance of business exploiting the benefits of participation in the international economy. Yet, many businesses are choosing to reduce domestic production and establish plants offshore.

PHILLIP HOLT, Chief Executive, *Australian Business Limited*, 1996

- (a) Identify and explain the various methods of expansion into international markets.
- (b) Outline the reasons for relocating production outside national boundaries.
- (c) Analyse how specific economic, financial, cultural, legal, and business practices of international markets affect business success when expanding internationally.

Topic outcomes which the question examined:

- describe the changing composition, importance and direction of the national economy's international transactions
- explain how diversification and investment into overseas markets increases competitiveness of the business and the economy
- analyse how specific economic, financial, cultural, legal and business practices of overseas markets affect business success when expanding internationally.

Knowledge and understanding outcomes which the question examined:

- identify the contribution of critical success factors to business growth and profitability in different areas of business
- identify the alternative business strategies available to decision makers.

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

- describing the changing composition, importance and direction of the national economy's international transactions
- identifying the alternative business strategies available to decision makers.

However, candidates were less clear about outcomes relating to:

- explaining how diversification and investment into overseas markets increases competitiveness of the business and the economy
- analysing how specific economic, financial, cultural, legal and business practices of overseas markets affect business success when expanding internationally
- identifying the contribution of critical success factors to business growth and profitability in different areas of business.

General Comments

Candidates attempted all parts of the question. Some candidates described economic, financial, cultural, legal and business practices of international markets rather than analyse the effects on business success when expanding internationally.

Excellent Responses

Candidates identified and explained in detail a wide range of methods of expansion into international markets including direct exporting, licensing, joint ventures, foreign assembly. They outlined reasons for relocating production outside national boundaries including market proximity, lower labour costs, government assistance, lower resource costs. Candidates analysed a range of influences in international markets which affect business success when expanding overseas.

Sample Excellent Response

a. Methods of Expansion

- **Intermediaries**

Domestic firms do not have to establish a physical base in the foreign market as the intermediary sells and promotes the good or service. The disadvantage however, which such a method is that it is difficult for the business to monitor the level of aggressiveness of the representative.

- **Office or Base**

The business establishes a physical base for operation and sales within the foreign market. Therefore all direct sales and promotions are under the control of the original firm.

- **Licensing**

The Australian business sells for a period of time only, the right for another foreign company to use their production process, patent, or trademark.

For a fee or royalty payment, the contract is negotiated for a specific time frame. The disadvantage with such a method is that the foreign manufacturer at the conclusion of the contract has learnt all it can from the Australian firm and enters the market as a competitor.

- **Contract Manufacturing**

It is similar to Licensing however only the production of the product is produced by the internationally based firm. The domestic business markets and promotes the product being produced by the foreign company.

- **Joint Venture**

It is a partnership agreement between a domestic and international or foreign based firm. Ownership varies from 19% to 50% - the greater the ownership, the greater the control.

- The benefits of this form of expansion:

- market knowledge
- ease of strategic planning
- market share
- product range
- ideas, experience, direction.

- **Wholly Owned Subsidiaries**

The domestic company establishes all necessary means of production and operation in the foreign market.

- **Multi-national and Trans-national companies**

The world is one market via globalisation. All levels of planning, control, organisation and leadership are equal.

There is no one method of expansion into international markets. It depends upon the type of organisation, cost of the venture, convenience, risk and overall business objectives.

b. **Reasons for relocating production outside national boundaries**

• **Proactive Reasons**

- profitability
- market share
- take advantage of tax shelters
- cheaper labour
- cheaper resources
- business infrastructure may be of a higher standard or more suitable
- unique product design
- monopoly
- development of niche markets
- globalisation and to increase company and product awareness
- government trade incentives.

• **Reactive Reasons**

- decline in economic conditions
- saturation of domestic markets
- disposal of unsold stock-dumping technique
- changes in foreign relations and trade agreements
- high costs of raw materials
- political restrictions or policies.

c. **Factors affecting business success when expanding internationally:**

• **Economic factors:**

- General economic conditions can determine the success or otherwise of a business when expanding. It is advantageous for the economy to be in a 'boom' stage to allow the business to enter the market easily and impact the market's sales and consumer awareness.
- Economic/industry weaknesses.
- If the particular industry, that the business would enter into if expanding internationally, was weak or low, this could also affect how well a business would penetrate the market.
- Consumer spending and patterns of sales.
- How the foreign market rotates in terms of highs and lows will affect the timing of the firm's expansion and cash flow cycle.

• **Financial factors:**

- Sources of international finance
- Means by which finance if needed can be obtained in the foreign market could determine the success or failure of the business. Finance may be needed to aid the expansion, relieve cash flow difficulties, to purchase new equipment . . . etc.
- Government policies

- Many international governments and similar organisations encourage foreign investment and business activity
 - * low cost loans
 - * grants
 - * subsidiaries
 - * taxation advantages.

These can very well ease the expansion of a business in the market and improve chances of success.

- **Cultural factors**

- Religion
- The product or service of the new business must not prejudice or affect the cultural beliefs of the people in that community of trade
- Ethics
- The trade practices and conduct of the business must coincide with the social values and ethics of the foreign business environments. These issues may include:
 - * wastage disposal
 - * packaging
 - * conduct of business practices
 - * corporate goals
 - * environmental preservation.

- **Legal factors**

- Regulation - the laws and regulations of the international market must be abided by so as the business is able to produce and generate legally
- Structure - The business structure must employ legal requirements also
- Employment
- The laws of the country have many laws in relation to anti-discrimination, equal employment, working conditions and the attrition of workers.

Business factors and practices of a business expanding internationally will be how successful its development will be. The practices of any business entering into a foreign market must consider and involve the economic, financial, cultural, legal factors of the market. If a business considers all of these variables and has an innovative product or service, success will certainly be obtainable for the business in the international market.

Above Average Responses

Candidates identified and explained various methods of expansion into international markets. They outlined some of the reasons for locating outside international boundaries. Candidates gave a limited analysis of a narrower range of factors affecting business success when expanding internationally.

Average Responses

Candidates identified and explained some methods of expansion into international markets. They outlined a few reasons for overseas locations and they described some of the factors involved in international expansion with some reference to business success.

QUESTION 10 (25 marks)

The owner of an Australian fresh-food business saw the Asian growth forecasts as shown in the table below. She is now considering expanding the business by exporting produce into the Pacific Rim markets.

ASIAN GROWTH FORECASTS			
% CHANGE OF GDP PER YEAR			
	1997	1998	1999
China	10.0	9.0	8.5
Korea	9.4	7.5	7.0
Hong Kong	7.7	6.8	6.5
Taiwan	6.4	6.5	6.5
Malaysia	9.0	8.0	7.5
Vietnam	9.0	8.8	7.5
Thailand	8.6	8.5	7.5
Singapore	8.0	7.2	7.0
Philippines	5.5	6.0	7.0
Sri Lanka	5.5	7.4	7.1
Pakistan	4.7	6.0	7.0
India	3.9	5.0	5.0
Bangladesh	3.9	5.0	5.0
Overall average	8.0	7.4	7.1

Write a report for the owner:

- outlining the advantages of international expansion into these markets;
- discussing the role of government agencies and international agreements in assisting the expansion of this business;
- analysing the potential effects of financial and cultural influences on this business in its expansion into the Pacific Rim market.

General Comments

Candidates answered two parts of the question well but analysed the cultural and financial influences on a fresh food business in less detail. They described cultural influences better than financial influences. Few candidates answered in report style.

Excellent Responses

Candidates outlined a wide range of advantages of international expansion into Pac Rim markets for a fresh food business and they accurately described the opportunities arising from the changing economic and social environment in the Pac Rim. Candidates identified major government agencies including Austrade and Ausindustry and international agreements and discussed their role in assisting the expansion of this business (eg reducing protection barriers and creating good economic and business relationships). Multilateral and bilateral international trade agreements included APEC, NAFTA, WTO and CER.

Candidates analysed the effects of a range of relevant financial and cultural influences, suggesting strategies to deal with these influences. Financial influences included exchange rate risk, under capitalisation, transfer risks, credit risks, transport risks and corruption. Strategies to deal with these influences included the use of hedging tools, appropriate methods of payment, marine insurance and the use of a joint venture partner with good local knowledge and/or equity.

A range of cultural influences were analysed and often supported by case studies. For example, the Charada Cheesecake company had to introduce major changes to its technology and packaging to succeed in Japan.

Sample Excellent Response

a In expanding into international marketing, there are certain distinct advantages which arise:

- low production costs
- low transport costs
- favourable government incentives
- perishability
- close contact with the market
- availability of resources
- economics of scale from expanding plant capacity
- risk diversification.

Since the introduction of the Special Economic Zones in China, there has been a rapid increase in the GDP growth rate, as these zones encourage a market-style economy, the effects of which have, to an extent, filtered into the interior regions of China.

With a population of over one billion, China presents itself as a nation with a burgeoning low-cost labour pool, and relatively cheap establishment costs in comparison to Japan.

India is also in the same position, with a population that almost equals that of China, but also with the availability of capital also necessary for the expansion of a business that does not intend to be labour-intensive.

Hong Kong, the nation which is closest to a pure market economy, is experiencing steady growth rates, and has always been a stable choice for expansion. However, the change-over of rule from the British to the Chinese in July, 1997 may make expansion subject to more bureaucracy and restrictions.

The Pacific Rim nations generate \$US 10 billion in annual GDP cumulatively, and account for 50% of world production and 40% of world trade.

These nations have among the highest growth rates in the world, as most of them are underdeveloped nations coming off a low base.

b. The Australian government has set up Austrade as the main export agency in Australia.

Its services include export information, such as:

- assessment of readiness to export (Quick Market Assessment)
- information on labelling, mandatory certificates, tariffs and licensing
- seminars and workshops on markets and industries.

It also provides market information, such as:

- international business contacts (Govt. agencies and authorities)
- international market/opportunities
- market research in terms of market characteristics, competitor analysis, potential trading partners and regulatory environment influences
- strategic implementation and support (now scrapped).

Austrade will also subsidise trade fairs (such as in Vladivostok in the Soviet Far East in 1990).

Austrade also provides various grants, with conditions, to help exports.

- Export Market Development Scheme: provides funds for firms commencing to export to minimise risk and develop a competitive edge. It is given on the proviso that firms spend at least \$ 30,000 on market research, tenders and quotes, lodging patents, overseas trips to establish contacts and so on. Grants have been curtailed to \$150 m p/a.
- International Trade Enhancement Scheme: although this was scrapped in the 1996-97 budget, it provided funding for market entry and/or market expansion activities, provided that the project generated a cumulative net foreign exchange of \$20 million over 5 years.
- Project Marketing Loans Facility: this gives interest-free loans to overseas projects with significant Australian content.
- Innovative Agricultural Marketing Program: This gives funding for producers, processors, manufacturers and marketeers in the agricultural, forestry and fishing industries who have innovative and commercially sound projects.
- Austrade also had the Asia Business Links and the Asia-Pacific Fellowship Programs, which allowed business contacts to come here and go to Asia for familiarisation, but this has been scrapped.
- Export assistance has been reduced from \$375 m in 1995-96 to \$300 m in 1996-97.
- There are also certain international agreements which would affect the expansion of this business into the Pacific Rim markets:
 - Association of South-East Asian Nations (ASEAN) - formed in 1967 by Singapore, Thailand, Malaysia, the Philippines, Indonesia, and Brunei, its aim is to promote economic co-operation and development in the region, facilitated also via the creation of the ASEAN Free Trade Area (AFTA) in 1992.
 - Asia-Pacific Economic Co-operation (APEC) - this is a lobby group of 15 of the leading Pacific Basin nations, accounting for 40% of world trade and 50% of world production.

- General Agreement on Tariffs and Trade (GATT) - formed in 1948 to avoid a repeat of the 1930s tariff wars, has resulted in the reduction in manufacturing tariffs, and the promotion of international trade. In the latest round of negotiations in Uruguay in 1993, the influence of the Cairns Group ensured that this round addressed the reduction in agricultural tariffs, which have been rife while manufacturing tariffs have been progressively reduced.

(c) In terms of financial influences, this business may face barriers that may hamper its export approach.

In terms of exchange rates, the following considerations must be given:

- Market: Fluctuations in currency can affect demand and hence profitability.
- Production: High wages and operating costs may force location in an area with low costs and a relatively cheaper exchange rate, which makes initial investment cheaper.
- Financial: Restrictions on reporting financial results and company tax rates - the latter can be accounted for by the use of transfer/pricing.

Exchange rate fluctuations can be minimised through hedging, which involves agreeing to buy or sell a certain amount of currency at a specific rate at a certain time in the future.

There are also certain financial risks involved in expansion:

- Nominal exchange rate risk: currency fluctuations can provide illusory profits which, when remitted back into the domestic currency, can provide a loss.
- Real exchange rate risk: coupled with a loss that may be experienced, high inflation rates may reduce the purchasing power of money even further.
- Political and default risk: political instability in nations, which may render collection of debt procedures useless, may result in default of debt.

There are also many cultural and ethical influences that must be considered.

In Australia, although the Trade Practices Act provides stringent regulation of restrictive trade practices, other nations may have even more stringent policies, and these have to be adhered to.

In Asian nations, the issue of keeping 'face' in business relationships is very important, and the use of entertainment and gift-giving as part of the decision making process is paramount.

In Japan, and many Asian nations, there is a preference for long-term business relationships - an Australian cannot expect to do a deal with a Japanese firm in one day just because it is convenient to them. The long-term strategy must be adhered to, even if at the expense of short-term gains.

The Japanese also have a strong desire for quality and honesty and the following points should be considered in this regard:

- be experienced in your business
- have a product or service that works as advertised
- believe in your product
- research your target market well
- don't fudge the truth about your capabilities

- show your commitment to being a reliable supplier
- relationships are just as important as legal documents.

In addition to these, there must be a focus on:

- product quality
- continual product improvement
- adherence to strict delivery times
- meticulous paperwork.

Since our trade future is well-poised in the Asian markets, adherence to these values is essential in developing a coherent relationship with these nations that has mutual benefits.

Above Average Responses

Candidates outlined a range of advantages to the business in expanding into Pac Rim markets and described the major opportunities in these markets. They identified some agencies and agreements and discussed their role in a more generalised way. Candidates identified some of the financial and cultural influences in international business and used examples in their responses.

Average Responses

Candidates identified some benefits of international expansion and described some aspects of government assistance to international business either briefly or in a generalised way. Candidates have limited knowledge of financial and cultural influences. Some candidates answered two parts of the question but with some analysis throughout their response.