

BOARD OF STUDIES
NEW SOUTH WALES

1998 HSC

EXAMINATION REPORT

Business Studies

Including:

- Marking criteria
- Sample responses
- Examiners' comments

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1998 HIGHER SCHOOL CERTIFICATE ENHANCED EXAMINATION REPORT

BUSINESS STUDIES

Introduction

1998 was the fourth year for examination of the revised 1995 Business Studies 2/3 Unit Syllabus.

The candidature increased from that of 1997. The 2/3 Unit candidature was 14 300 (13 400 in 1997) and the 3 Unit candidature was 3060 (3000 in 1997).

In 1998 there were two marking centres for Business Studies. The Newcastle Centre was responsible for 2/3 Unit (Common) Section II short answers and the Sydney Centre was responsible for 2/3 Unit (Common) and 3 Unit extended responses. Section I was machine marked.

The marking of the 1998 examination papers showed a continued improvement in the quality of student responses. Short answer responses were more concise. Candidates successfully used skills of analysis in application of the stimulus material in the examination. Candidates not only wrote more but also were more relevant and analytical in their responses.

This examination report contains general, as well as specific, information related to each section of the examination paper. It has been compiled to provide advice to both candidates and teachers.

2/3 Unit (Common)**Section I Multiple Choice**

Question	Answer	Correct (%)
1	C	76
2	B	59
3	D	45
4	C	63
5	C	63
6	D	68
7	D	88
8	C	72
9	B	19
10	C	69
11	A	25
12	B	8
13	A	85
14	A	42
5	C	93
16	D	59
17	B	54
18	C	28
19	C	34
20	A	81

This table indicates the correct response for each question and the percentage of the total candidature choosing that response. The multiple choice questions of Section I of the examination paper were based on the Outcomes of the 2 Unit course, pages 27–9 of the syllabus and, in particular, the Expected Outcomes of the Introductory Core Topic: Management in Action, page 32 and Concluding Core Topic: Business in Action, page 48 of the syllabus. The Outcomes are further expanded in the Areas of Study on pages 33–6 and pages 49–50 of the syllabus.

The mean of the multiple choice was 11.3 compared to the 1997 multiple choice mean of 11.5.

Section II

Marking of Section II

General Comments

The quality of responses in this section has continued to improve. The majority of candidates were familiar with the specific requirements of the short-answer questions and the need to deal with the requirements of the question by utilising the line space provided and by referring to the relative importance of each part of the question indicated by the mark allocation.

The space provided for each response is considered to be adequate for candidates to earn full marks. The majority of candidates restricted their responses to the line space provided. Longer responses did not necessarily gain any advantage.

The aim of the marking process is to be fair to all candidates. The Business Studies marking process is norm-referenced, reliable and accurate.

The marking of each question involves the establishment of specific criteria for each part of the question. Senior Markers compile these criteria after extensive reading of scripts from a variety of marking centres. Realistic, usable criteria are established which are tested in a pilot-marking phase. Reassessment and adjustment of criteria occurs to ensure that all types of responses are accommodated. The criteria constitute a valid and equitable means of discriminating between responses. Pilot marking not only tests the criteria but also compares the marking standards individually and between groups.

In applying the principles of marking, markers use the full range of marks available (the best responses are awarded 10 and the worst 0) and use the marking guide for each response marked. There are no penalties for mistakes — marks are awarded for appropriate responses. A mark of zero is awarded for non-attempts, a restatement of the question or completely incorrect or irrelevant information.

During marking a number of strategies are used to ensure the reliability, consistency and validity of the marking process. In monitoring the marking operation Senior Markers use a combination of information sources to ensure that marking is reliable. Sources of information include the daily statistical reports provided by the Marker Statistics Operation, extensive systematic check marking of scripts and daily control scripts within and between groups.

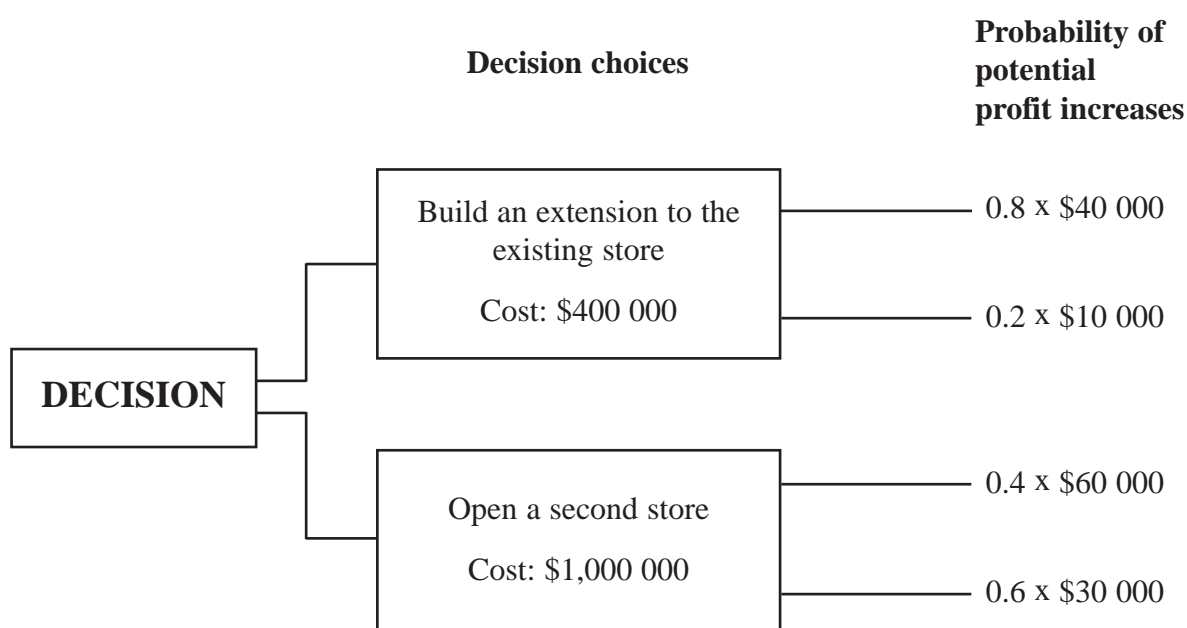
Each of these procedures assists the Supervisors of Marking and Senior Markers to maintain the reliability of individual markers, individual groups, groups marking the same question and the whole marking centre.

Question 21

A sports shoe warehouse has been making substantial profits over a period of time and has decided to use its accumulated funds to expand the business. Currently the management is considering two options:

- 1 building an extension to the existing store;
- 2 opening a second store.

Management is using the decision-making technique below to guide its choice.



- (a) What is the decision-making technique on the previous page called and when is it most appropriately used?
- (b) Using the information on the previous page, provide advice to assist management in comparing the two investment options.
- (c) Identify TWO other decision-making techniques, and give their most appropriate uses.

General Comments

The question required candidates to:

- identify the decision-making technique and when it is most appropriately used;
- provide advice to assist management in comparing two investment options;
- identify and outline the appropriate use of two other decision-making techniques. Most candidates were able to identify the decision-making technique as a decision tree and indicate its use in analysing financial options.

The majority of candidates could use the information to compare the investment options and recommend to management an extension to the existing store. Better candidates analysed the stimulus material to justify their advice to management.

Most candidates identified two other decision-making techniques and better candidates outlined appropriate uses for these decision-making techniques.

Excellent Responses

Candidates were able to identify the decision-making technique as a decision tree and explained its use to analyse financial options.

To analyse the information and justify advice to management, candidates used a variety of methods. For example, some candidates indicated there was an 80% chance of making a 10% return on investment with the option of an extension to the existing store, compared to a 40% chance of a 6% return on investment for the option of opening a second store.

Candidates identified two other decision-making techniques and fully explained their use in the planning process. Examples of decision-making techniques included critical path analysis, SWOT, schedules, staff teams and consultants.

Above Average Responses

Candidates were able to identify the decision-making technique as a decision tree and indicated its use in analysing financial options. Candidates interpreted and analysed the information to provide advice to management for the building of an extension to the existing store. Candidates identified two other decision-making techniques and explained their use in the planning process.

Average Responses

Candidates were able to identify the decision-making technique used as a decision tree and provided some explanation of its use. Candidates attempted to interpret and analyse the information to provide advice to management, but with limited evidence of calculations. Candidates identified two other decision-making techniques and briefly explained their use. Some candidates used decision-making tools in their responses.

Sample Excellent Response

- (a) This decision-making technique is known as a decision tree. It is used when there are a number of choices and Outcomes that could result with various decisions with a monetary value. It shows the financial Outcomes of decisions made.
- (b) The two investments both prove to have positive and profitable Outcomes. However, the amount one is willing to pay at the outset will have immense impact on the decision. Extending the premises costs \$400,000 whereas the new premises costs \$100,000. The best outcome comes from extending at an increased profit of \$32,000 compared to the second store where only a \$24,000 increase in profit occurs.
- (c) SWOT analysis is an ideal technique that assists management in identifying the internal strengths and weaknesses of their business as well as looking at opportunities and threats in the external environment.

The use of scheduling and Program Evaluation Review Technique is another useful technique that illustrates all tasks and activities that need to be fulfilled in completing a project. Each activity has a time and sequence to be followed.

Question 22

The following information relates to Rob's Chocolate Shop as at 30 June 1998 (comparative figures for 1997 are also provided).

Rob's Chocolate Shop					
	1997	1998		1997	1998
	(\$)	(\$)		(\$)	(\$)
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	5 000	1 000	Overdraft	9 000	13 000
Accounts Receivable	7 000	11 000	Accounts Payable	4 500	9 000
Inventories	6 000	10 000			
<i>Non-Current assets</i>			<i>Owner's Equity</i>		
Lease — Building	3 500		Capital	8 500	12 000
Fixtures and Fittings	4 000	5 000	Add Net Profit	4 200	11 500
Buildings		12 500		12 700	23 500
			Less Drawings	700	6 000
				12 000	17 500
	25 500	39 500		25 500	39 500

Rob's bank manager is concerned that the overdraft has exceeded the limit of \$10 000 and has arranged a meeting with him to discuss the overdraft and the financial management of the business.

- State TWO other business issues that the bank manager may wish to discuss with Rob apart from the fact that the overdraft is over the limit.
- Give TWO reasons for the change in working capital for Rob's Chocolate Shop from 1997 to 1998.
- Give TWO strategies Rob could adopt to improve working capital.

General Comments

The question required candidates to:

- examine a balance sheet with particular reference to the concept of financial management/working capital;
- state two business issues affecting the financial management of this organisation that the bank manager may wish to discuss;
- give two reasons for the change in working capital;
- give two strategies that would improve working capital.

All candidates were able to state two issues the bank manager may wish to discuss. Any issue related to financial management was accepted with no explanation required. Most candidates identified that working capital had decreased and better candidates gave two appropriate reasons for the change in working capital. Better candidates clearly explained two strategies to improve working capital. A wide variety of strategies were proposed. Overall, this question was well answered, reflecting an increased emphasis by teachers on the accounting section of the syllabus.

Excellent Responses

Candidates stated two issues the bank manager may wish to discuss. Examples of issues included increases in inventory levels, liquidity, solvency and increases in accounts payable.

Candidates clearly explained two reasons why working capital may have changed (ie decreased) and related this explanation to the business. Examples of reasons included the purchase of a building, increase in drawings, increase in accounts payable and increase in overdraft.

Candidates identified and clearly explained two strategies that could be adopted to improve working capital. Examples of strategies included an increase in equity, decrease in drawings, leasing of buildings, improved credit policy and JIT inventory control. Candidates clearly explained how these strategies would improve the working capital of the business.

Above Average Responses

Candidates stated two issues the bank manager may wish to discuss. Candidates explained two reasons why working capital may have changed (ie decreased) for this business. Such explanations were often not related to the stimulus. Candidates identified and explained two strategies that could be adopted to improve working capital.

Average Responses

Candidates stated two issues the bank manager may wish to discuss. Candidates identified but failed to explain two reasons why working capital may have changed for this business. Candidates identified two strategies that could be adopted to improve working capital but often did not explain such strategies.

Sample Excellent Response

- (a) (i) Cash level — there is a drop of 80% in cash available of the business from 1997-98. This would worry the bank manager as it further shows the shop's inability to repay the overdraft.
- (ii) Accounts payable has doubled from 1997-98 which means the firm has to pay more debt to other creditors and thus the amount paid to the bank may be less.
- (b) (i) In 1997 there was working capital of \$4,500 but in 1998 it dropped to \$0. This is partially due to the fact that the firms decided to buy the building instead of leasing, thus money is tied up.
- (ii) The massive increase in drawings (\$6,000 in 1997 compared to \$700 in 1998). This causes a significant reduction in cash available, hence the firm has to obtain outside resources to finance the business in the short term.
- (c) (i) Lease the buildings again to free up capital which could be used to pay debts.
- (ii) Cancelling the overdraft account and obtain a long-term loan from the bank hence reducing the level of interest and increase the amount of working capital.

Question 23

Sally is looking at purchasing 'Wax Surfboards', a retail surf shop. The following information is an extract from a financial report.

	1997	1998
	\$	\$
Sales	200 000	100 000
Opening Stock	40 000	30 000
Purchases	90 000	70 000
Closing Stock	30 000	50 000
Expenses	80 000	30 000

Using the above information, answer the following questions.

- (a) *From which financial statement would this information have been taken?*
- (b) *Calculate gross profit for 1997 and for 1998 (show working).*
- (c) *Given that the net profit for 1997 and the net profit for 1998 are the same, give reasons for the variation in gross profit.*

General Comments

The question required candidates to:

- identify the financial statement from which a range of income and expenditure figures were taken;
- calculate (showing working) gross profit for two successive years;
- give reasons for the variation in gross profit between the two years.

Most candidates were able to correctly identify the financial statement in the stimulus material as a Profit and Loss/Revenue/Income Statement. Better candidates were able to correctly calculate the gross profit (showing working) for both years.

The majority of candidates were able to identify the decrease in sales as a major factor contributing to the decline in gross profit. Better candidates gave a clear explanation as to why gross profit declined and linked a decrease in sales to a possible change in external factors.

Excellent Responses

A Profit and Loss Statement/ Revenue Statement/Income Statement was identified as the correct financial statement.

Candidates calculated gross profit by using the equation:

Gross Profit = Sales - Cost of Goods Sold (where, Cost of Goods Sold = Opening stock + Purchases - Closing Stock)

Gross profit was \$100,000 for 1997 and \$50,000 for 1998.

Candidates identified and clearly explained two possible reasons for the variation in gross profit. Typical examples cited included a decrease in sales due to lower advertising, changes in fashion/trends, a downturn in the economy, poor surf conditions, increased competition, purchasing poor quality stock, a low rate of stock turnover. These candidates also commented on lower sales and subsequent gross profit being the indirect result of lower overall expenses.

Above Average Responses

A Profit and Loss Statement/ Revenue Statement/Income Statement was identified as the correct financial statement. Candidates calculated gross profit (with appropriate working). Candidates identified and explained two possible reasons for the variation in gross profit.

Average Responses

A Profit and Loss Statement/ Revenue Statement/Income Statement was identified as the correct financial statement. Candidates attempted to calculate gross profit (with some working). Candidates may have known the correct formulae but were unable to fully apply it. Candidates attempted to identify and explain possible reasons for the variation in gross profit.

Sample Excellent Response

- (a) From which financial statement would this information have been taken?

Profit and Loss Statement

- (b) Gross Profit = Sales – COGS

$$\text{COGS} = \text{Opening stock} + \text{Purchases} - \text{Closing Stock}$$

$$1997 \text{ COGS} = 40,000 + 90,000 - 30,000$$

$$= \$100,000$$

$$\text{Gross Profit} = 200,000 - 100,000$$

$$= \$100,000$$

$$1998 \text{ COGS} = 30,000 + 70,000 - 50,000$$

$$= \$50,000$$

$$\text{Gross Profit} = 100,000 - 50,000$$

$$= \$50,000$$

- (c) Sales from 1997 to 1998 have been halved. There must have been a change in demand or a problem with promotion or production methods.

There was \$20,000 more closing stock in 1998 compared with the previous year. Inventory turnover is suffering affecting gross profit.

Question 24

The following extract is from the cash flow forecast of a small coffee shop in the ski resort of Jindabyne.

	June	July	Aug	Sept	Oct	Nov	Dec
Opening Balance (\$)	1 000						
Cash Receipts (\$)	6 000	7 000	11 000	9 000	4 500	1 500	3 000
Cash Payments (\$)	8 500	4 500	4 500	8 500	4 500	4 500	11 500

The following costs are included in the above cash payments:

	\$
Wages per month	2 500
Other expenses per month	2 000
Rent per quarter	4 000
Insurance premium paid annually	3 000

- (a) *What is the purpose of this cash flow forecast?*
- (b) *Using the cash flow forecast:*
 - (i) *calculate the opening cash balance in August*
 - (ii) *identify the months that begin with a cash shortage.*
- (c) *Explain TWO payment strategies that could be used to overcome the cash shortages.*

General Comments

This question required candidates to:

- explain the purpose of the cash flow forecast shown in the stimulus material;
- calculate the opening cash balance for the month of August;
- identify months that begin with a cash flow shortage;
- explain two payment strategies that could be used to overcome this shortage.

Most candidates were able to describe a cash flow forecast as a projection of expected income and expenditure. Better candidates were able to explain cash flow forecasts as a management tool used to formulate strategies to cope with predicted variations in cash flow.

Many candidates had difficulty calculating the opening balance for August as \$1000 and establishing that July and January of the following year were the months that begin with a cash flow shortage. Some candidates may have been confused by January not being shown as a month on the stimulus material.

Most candidates were able to identify two payment strategies that could be used to overcome cash shortages. Better candidates clearly explained such strategies and linked them directly to the cash flow problem.

Excellent Responses

Candidates clearly explained a cash flow forecast as a management tool used to formulate strategies to cope with predicted variations in cash flow.

Candidates correctly calculated the opening balance for August as \$1000 and established that July and January of the following year were the months that begin with a cash flow shortage.

Candidates identified and clearly explained explain two payment strategies that could be used to overcome cash shortages and related such strategies to the cash flow problem of the business concerned. Examples included rent/insurance paid more regularly to take financial strain off key months, make use of casual staff to minimise wages cost and use of overdraft facilities.

Above Average Responses

Candidates explained a cash flow forecast as a planning tool. Candidates correctly calculated the opening balance for August and established that July and January of the following year were the months that begin with a cash flow shortage. Candidates identified and explained two payment strategies that could be used to overcome cash shortages.

Average Responses

Candidates defined a cash flow forecast without explaining its purpose. Some candidates correctly calculated the opening balance for August and established that July and January of the following year were the months that begin with a cash flow shortage. Candidates identified and attempted to explain two payment strategies that could be used to overcome cash shortages. Strategies identified were often not necessarily linked to stimulus.

Sample Excellent Response

- (a) It enables managers to predict any liquidity problems and develop strategies on how to overcome them. It acts as a financial planning tool.
- (b) (i) June balance = -\$1,500; July balance = -\$1,500 + 7,000 - 4,500 = \$1,000
Therefore August opening balance = \$1,000
- (ii) July with \$1,500 shortage and in the following year January with a \$3,500 shortage.
- (c) Monthly payments for the rent instead of quarterly, because during the summer it would be difficult to produce a large amount of money all at the end of one quarter. It would be more convenient to save and pay monthly.

In order to decrease wages per month during the off peak periods, especially in summer, the business could reduce the number of people working in this period of time. This will lead to a more efficient payment strategy where money is not wasted on unneeded workforce and thus cash flow shortages will be eliminated.

Question 25

Carter Shoe Manufacturers is a traditional family firm. Mr Carter, the founder, has recently retired at 90 years of age and his granddaughter wishes to introduce changes utilising the latest automated production machinery and environmentally-friendly processes. She is facing considerable opposition from her management and staff.

- (a) *Outline ONE social cost arising from resistance to change in this business.*
- (b) *What is meant by ecological sustainability and how might it affect this business?*
- (c) *Explain TWO organising functions that could be applied to this business in managing these changes.*

General Comments

The question required candidates to:

- identify and outline a social cost which may arise because of resistance to change for the business of Carter Shoe Manufacturers;
- explain the concept of ecological sustainability and comment on its possible impact on this business;

- identify and explain two organising functions that could be applied to this business in managing change.

Most candidates were able to identify a social cost and explain the concept of ecological sustainability and its possible impact on the business. Better candidates correctly identified and outlined a relevant social cost that arose as a result of resistance to change. These candidates also explained two appropriate organising functions required to manage change in the business.

Excellent Responses

Candidates identified a relevant social cost and outlined how it may arise through resistance to change. Typical examples included:

- (a) worker morale may be altered with change, or
- (b) client identity with the product could decrease because of change, or
- (c) pollution levels may not decrease if change is not undertaken, or
- (d) industrial unrest could increase if change occurs.

Candidates clearly explained ecological sustainability as a development that meets the needs of the current generation without compromising the ability of future generations to meet their needs. These candidates also outlined relevant possible effects ecological sustainability may have on the business, giving examples as waste management or costs of environmentally friendly machinery.

Candidates identified and clearly explained two organising functions that helped Carter Shoe Manufacturers manage change. Examples included changing the organisational structure, organising training programs for workers and introducing flexible work practices.

Above Average Responses

Candidates identified a social cost that may arise through resistance to change. Candidates clearly explained the concept of ecological sustainability and outlined possible effects ecological sustainability may have on the business. Candidates identified and explained two organising functions that helped Carter Shoe Manufacturers manage change.

Average Responses

Candidates identified a general social cost of change (not necessarily arising from resistance to change). Candidates provided a general explanation of ecological sustainability and possible effects ecological sustainability may have on the business. Candidates identified two organising functions that helped manage change but provided a limited explanation or provided an explanation of only one organising function.

Sample Excellent Response

- (a) There may be a loss of worker morale in the firm's workforce if the staff don't resist the change; to be moved from their "comfort zone" and "fear of the unknown".
- (b) Ecological sustainability is using the resources efficiently and minimising waste to ensure future generations have access to today's resources. This may affect the type of resources used in the production process to ensure that environmentally friendly resources are used.

This may affect the “cost” of inputs as well as how the firm disposes of wastes.

- (c) An organising function that could be applied would be determination of input resources and grouping of work tasks. This is so environmentally friendly inputs and processes are used and resources are allocated efficiently.

The organisational structure of the business may also be changed to a flatter structure that allows more flexibility and better communication between management and staff.

Question 26

An Australian music store is concerned that CDs can now be purchased in small quantities from an overseas supplier through the Internet, without the payment of Australian government taxes.

- (a) *Identify the external source of change.*
- (b) *Name TWO internal stakeholders of the music store. Explain briefly the effect of the change on them.*
- (c) *What is meant by a level playing field, and how is it affecting this business?*

General Comments

This question required candidates to:

- identify technological change as the external source of change in the stimulus material;
- name two internal stakeholders of the business and explain the effect of change on them;
- explain the concept of a level playing field and how this is affecting the business.

Most candidates identified the Internet as the external source of change. Better candidates clearly identified two internal stakeholders and explained the effect of the change on them. Most candidates were able to clearly explain the concept of a level playing field. Better candidates clearly explained how this business is affected.

Excellent Responses

Candidates identified the Internet/technological change as the external source of change.

Candidates identified two internal stakeholders. Examples of internal stakeholders included owners, managers, shareholders and employees. Candidates clearly explained the effect of the change on internal stakeholders giving examples such as alteration to management plans, impact of reduced sales on profits and security of employment for staff.

Candidates clearly explained the concept of a ‘level playing field’ as a business environment where all businesses are faced with the same restrictions on operating conditions. Candidates also clearly explained how this business is affected by the increased competition from overseas sellers, which resulted from the development of the Internet. Candidates referred to the absence of a level playing field giving examples of effects, which included discrimination in taxation policies and attempts to counteract competition.

Above Average Responses

Candidates identified the Internet/technological change as the external source of change. Candidates identified two internal stakeholders and explained the effect of the change on them.

Candidates explained how this business is affected by the increased competition from overseas sellers, which resulted from the development of the Internet. However, most candidates provided only a limited explanation of the concept of a 'level playing field'.

Average Responses

Candidates identified the Internet/technological change as the external source of change. Candidates identified two internal stakeholders and provided a limited explanation of the effect of the change on them. Candidates explained how this business is affected by the increased competition from overseas sellers. Most candidates provided only a brief explanation of the concept of a 'level playing field'.

Sample Excellent Response

- (a) The external source of change of change is technological advancement. The introduction of the Internet has allowed the purchase of these CD's without the relevant government taxes.
- (b)
 - (i) Management – the rise in the prominence of the Internet may see an increase in the purchase of CD's through these means, thus, lost customer base and lost revenue to keep the business operating.
 - (ii) Employees – should the Internet result in lost revenue and a shrinking of the customer base, then management will look to cut costs and downsizing would seem to be an obvious option.
- (c) A level playing field refers to all retailers of the one product having equal opportunity and equal rights in accessing the market. By selling CD's on the Internet and bypassing government taxes this level playing field does not exist as at least one organisation has an advantage of being able to sell CD's at a cheaper price without any direct cost to that company. If the music store were to drop prices it would still have the government taxes attached and therefore only lose revenue. A level playing field does therefore not exist in this market.

SECTION III

General Comments

This section of the paper is based on the 2 Unit Options in the 2/3 Unit (Common) Syllabus. Candidates are required to answer two questions, one from each of the TWO options; namely, Business Law, Industrial Relations, Marketing and Small Business Management.

Candidates must answer in essay or report form depending on the requirements of the question. The best candidates answer the question fully integrating the stimulus material into their response and, where appropriate, integrating aspects of a current case study or case studies.

Candidates must read the question carefully and ensure that all concepts and/or issues in the question are addressed in their response.

In preparing for the examination candidates should be familiar with the general course Outcomes and the specific topic Outcomes as well as the areas of study.

Popularity of Questions — 2/3 Unit (Common) Paper

Candidature:

Topic	Question	% Frequency Questions	% Frequency of Options
Business Law	27	4.00	13.9
Business Law	28	6.9	
Industrial Relations	29	8.8	17.8
Industrial Relations	30	9.0	
Marketing	31	29.7	78.4
Marketing	32	48.7	
Small Business Management	33	29.4	84.0
Small Business Management	34	54.6	

Marking of Section III

The aim of the marking process is to be fair to all candidates. The Business Studies marking process is norm-referenced, reliable and accurate. The marking of questions involves the establishment of specific criteria for each section of the question, in establishing such criteria it is important to remember that the aim of the marking process is to rank the relative merit of candidates so that no student is either advantaged or disadvantaged by selecting a specific question marked by a particular marker or marking group.

The marking criteria are compiled by Senior Markers from extensive reading of a large number of scripts from a variety of centres. Realistic, useable criteria are established which are tested in a pilot-marking phase. Reassessment and readjustment of the criteria occurs to ensure that all types

of responses are accommodated and that the selected criteria constitute a valid and equitable means of discriminating between responses. Pilot marking not only tests the criteria but also compares the marking standard individually and between groups.

In applying the principles of marking, markers use the full range of marks available (the best responses are awarded 20 and the worst 0) and use the marking guide for each response marked. Although extended responses are marked in accordance with the specific criteria for each part of the question, responses are marked holistically. Markers do not allocate marks to each section of a question, since poor performance in one part of a response may be compensated by superior performance in another part.

Section III was double marked out of 20. There were no penalties for mistakes, only marks for appropriate responses. No marks are awarded to non-attempts, a restatement of the question or completely incorrect or irrelevant information. As outlined for the marking of Section II, a number of strategies are used to ensure the reliability, consistency and validity of the Section III marking process.

MARKING GUIDE

Rank	Mark		%		Guidelines
A	Extended Responses	Short Responses	10	The Best	Clear reasoning, explicit. Scholarly argument. Evidence of a variety of data sources. Illustrative examples to support argument.
	20	10			
	19	9			
	18				
B	17	8	20	Above Average	Consistent. Factually correct. Explanatory. Attempt to justify generalisations.
	16	7			
	15				
C	14	6	40	Average	Somewhat descriptive but relevant to the question. Some useful factual data. Conclusions consistent with argument presented.
	13	5			
	12	4			
	11				
	10				
D	9	3	20	Below Average	Little use of factual data to support generalisations. Conclusions inconsistent with data or argument or no conclusions given.
	8	2			
	7				
	6				
E	5		10	The Worst	Absence of factual data. Much irrelevant material. Incoherent or incomprehensible. Restatement of question. No relevant facts.
	4				
	3	1			
	2				
	1				
	0	0			

BUSINESS LAW

Question 27

Yuk! is the only soft drink to have been made using the artificial colouring chemical MG124. MG124 has just been proved to be harmful to health, with long-term cumulative effects and has now been banned. Now the manufacturer of Yuk! is facing legal action from past consumers.

- 1 Explain the difference between civil and criminal liability.*
- 2 Discuss the potential civil and criminal liability that may arise from the above business conduct.*
- 3 Identify the possible consequences if the consumers succeed in the above situation.*

Topic Outcomes examined:

- understand the nature and role of law in contemporary business life
- 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 legal aspects of business situations
- reach conclusions in business law based on logical reasoning
- analyse the legal implications of business decision-making.

The majority of candidates were able to:

- understand the nature and role of law in contemporary business life.

They were, however, less clear about:

- identifying business situations having legal implications
- locating and selecting relevant business law
- understanding and applying appropriate legal principles to new and everyday business situations
- communicating effectively about legal aspects of business situations
- analysing the legal implications of business decision-making
- reaching conclusions in business law based on logical reasoning.

General Comments

Most candidates had a basic understanding of civil and criminal liabilities. However, many candidates did not distinguish clearly between the two. Only the best candidates gave examples of civil liabilities, (negligence, passing off) or criminal liabilities (fraud, embezzlement and larceny).

Better candidates were able to discuss potential civil and criminal liabilities that might arise from the Yuk! soft drink situation. Some candidates showed that the potential liabilities were directly linked to the actual or specific long-term effects, eg if a customer of Yuk! died as a result of the Yuk! producers not exercising their duty of care, then negligence (a civil liability) would probably result.

Most candidates discussed some possible consequences if the consumers succeeded in the Yuk! situation. The most common consequences discussed were suing for damages for negligence, fines or a gaol sentence for criminal liability.

Excellent Responses

Candidates answered all parts of the question in some depth, using appropriate legal terminology. They clearly explained the difference between civil and criminal liabilities. They gave examples and explanations of civil liabilities (eg negligence, passing off, misrepresentation) and criminal liabilities (eg fraud, larceny and embezzlement).

Candidates offered several potential civil and criminal liabilities arising from the Yuk! situation. The potential civil liabilities discussed included the tort of negligence and breaches of the Fair Trading Act and the Trade Practices Act. Candidates related the potential criminal liabilities to the possible long term effects of using MG124, eg death.

Candidates identified a variety of possible consequences if the consumers succeeded in their legal action. They discussed suing for damages, fines, business closure, bankruptcy and possible manslaughter charges.

Above Average Responses

Candidates explained the difference between civil and criminal liabilities, but with fewer examples. Their discussion of potential civil and criminal liabilities generally included negligence and possible fraud, with reference to the Yuk! case. These candidates identified only a few possible consequences if the court action succeeded, eg suing for damages or fines.

Average Responses

Candidates defined civil and criminal liability, but did not clearly explain the differences between them. They discussed one or two potential liabilities in the Yuk! case, eg negligence, breach of contract. These candidates identified one or two possible consequences, and not all candidates referred to the Yuk! case. Some candidates confused the Fair Trading Act and Trade Practices Act as falling under criminal law, instead of civil law.

Sample Excellent Response

Introduction

The legal Australia is divided into two types of categories. They are:

- criminal
- civil.

Criminal law exists for the actions of individuals or businesses that are considered to be more severe and the plaintiff would be usually the government in some form.

Civil law or torts refers to wrongs committed by one party against another resulting in damage, injury or loss. Torts are not criminal offences and such people found guilty of committing a tort do not face imprisonment nor face a criminal record.

Types of Civil (Torts) Liability

Under civil law there are areas in which a breach may be committed. These areas include:

- negligence
- negligent misrepresentation
- passing off
- conversion.

Negligence is the situation that arises when a duty of care is breached by a party in an agreement that may be written or oral. To ascertain negligence, the following items must be demonstrated:

- a duty of care is owed
- the duty of care was breached
- as a result of the breach, there has been loss, injury or damage.

Negligent Misrepresentation is when a party misrepresents its products or services in some matter. As well as protection of the civil courts, complaints may be lodged with the Trade Practices Commission which administers the Trade Practices Act under Sections 51(A), 51(I), 52 and 53. This body has the statutory power to punish offenders to a maximum of \$200 000 for corporations and \$50 000 for individuals.

Passing Off is the tort where a product is designed to impersonate another product through items such as brand name or trademarks

Conversion is the tort against assets and properties such as joyriding as seen in the case of *Schemmel v Pommeroy* (1989).

In this particular case concerning the soft drink 'Yuk!', potential civil liability rests with Negligence.

In determining this, duty of care must be ascertained. A duty of care is clearly owed by the producer of the soft drink to the consumers of it. This duty of care is legislated by the Sales of

Goods Act 1923 and states the product must be of:

- marketable quality
- fit for purpose
- fit description
- comply with legislation.

Additionally the Part IV of the Trade Practices Act concerning defective goods and services may also be applicable.

Whether the manufacturers of the soft drink 'Yuk' took 'reasonable care' in product safety is also essential to proving negligence. Reasonable care is a legal term referring to what the 'reasonable person' would do.

If the duty of care can be proved, the breach of that duty must be ascertained and the principles of liability, vicarious liability and fault will be assessed. If the business took reasonable care in ensuring its product safety, it may be found that the breach did not occur.

The concluding stages in proving negligence is to show that actual damages or injury has occurred. The presence of MG124 and its effect 'have been proved harmful thus injury has been proven'. This condition of the harmful effects of MG124 may however be disputed by the defendant and new research may be needed to be undertaken.

Types of Criminal Liability

Criminal liability that may arise from business operations include those of:

- fraud
- theft/larceny
- embezzlement.

Other forms of criminal liability include the various legislation statutes that exist under the legal system.

In the case of the manufacturers of the soft drink 'Yuk!' they may be facing charges of criminal offences such as 'negligence causing bodily harm' and may even be liable for charges of 'manslaughter' or 'murder', if it is found that they have been negligent. In this case, the directors would be the responsible parties as they have a duty to their customers.

The procedure of criminal charges is somewhat different from that of civil cases. In many cases the prosecutor represents the Commonwealth, replacing the plaintiff and punishment ranges from jail, to fines, to community service.

If the Director of Public Prosecutions decides to continue with a case, it will be formally submitted to a court which will then issue a summons ordering the defendant/s to appear.

The defence then enters a plea and then the trial stages are reached.

In the case of 'Yuk!' although the manufacturers of 'Yuk!' may be responsible, the manufacturers of MG124 may also face liability in both civil and criminal courts.

Other Potential Situations

There may also be a range of legal proceedings if the scenario occurs. For instance, the manufacturer of the soft drink 'Yuk!' may be able to sue the business that manufactures the chemical MG124 and that business in question could also be facing claims of negligence and criminal liability.

The consumers of the soft drink may also have a case against the manufacturer of the chemical and thus there may be a sense that contributory negligence by more than one party is involved.

If more than one party is involved in negligence, it is at the discretion of the courts to assign blame and this is achieved through determining the level and severity of the negligence of a particular party.

Possible Consequences

If the consumers of 'Yuk!' succeed in suing the manufacturer of the soft drink, a range of options is available to the judge. It must be noted, that their victory will be in civil court and by such, the business is not facing criminal liability.

After determining the negligence of the manufacturers, the judge has the options of:

- damages
- injunction
- specific performance.

Additionally, the court may issue a Mareva Injunction against the manufacturers to prevent them moving funds out of the business.

The court may award damages to the plaintiff by either:

- Liquidated damages: where the actual amount of monetary damage has been ascertained.
- Unliquidated damages: the court must determine the monetary worth of the damages inflicted.
- Nominal damages: courts award a token payment. This is not likely to occur in this situation.
- Punitive damages: when the courts desire to punish the behaviours of the business. This may occur if it is found that the business was aware of the risk of MG124 but continued its usage to cut costs, etc.

It is important to note that in civil court, only a majority of the jury need to be convinced of the plaintiff's case, as only what 'seemed likely' needs to be proved. This contrasts with the 'beyond reasonable doubt' of the criminal courts.

An injunction may also be granted by the courts against the defendants ordering them to comply with certain orders and such.

Additionally the court may order 'specific performance' if it is not a personal service. In this case, the courts may also order the manufacturers to cease usage of the chemical MG124 if it has obviously not done so due to the ban. It may also require the manufacturer to provide services to the victims such as counselling and other services.

The plaintiffs of this case may also ask for the cost of the case and this decision is at the discretion of the presiding judge or magistrate.

However, the plaintiffs of this case may have difficulty in proving that they have consumed the products and that they have been injured as a result. The 'victim' must be able to demonstrate that they have bought and consumed the product in a quantity that has the potential to harm.

The research of MG124 has only indicated that the chemical 'has just been proved to be harmful to health, with long term cumulative effects'. It must be ascertained the level of harm the products have on consumers, whether there were warnings such as cigarettes, and how much effect it has on the consumers. These factors must all be considered before damages can be ascertained in addition to any contributing negligence that may have been present in the chain of events.

Conclusion

Whilst the manufacturers of the soft drink 'Yuk!' have used a chemical later verified to be harmful to health, it must be determined whether:

- duty of care owed
- breach of duty of care
- damage occurring as a result.

Thus, civil liability may be demonstrated but factors such as contributory negligence may also play a role.

Additionally there are other parties that may be legally liable and here the consumers of 'Yuk!' and its manufacturer may have a case against the manufacturer of MG124.

There are a wide range of options available to the award of damages including damages, injunctions and specific performances.

This case is a complex case and by such legal complications which may occur throughout the legal case and there is also the possibility of criminal liability.

Question 28

The most common commercial transactions carried out by business are the sales of goods and services. Such transactions are governed by laws relating to the contract between the seller and the purchaser.

- 1 *Explain the elements of a valid contract.*
- 2 *Outline the methods of settling a business dispute, with particular reference to a breach of contract.*
- 3 *Discuss the sources of contract law and the ways in which governments use legislation concerning the sale of goods and services to provide greater certainty for business operations.*

Topic Outcomes examined:

- understand the nature and role of law in contemporary business life
- describe the legal structures, processes and institutions used in settling business disputes
- identify business situations having legal implications
- locate and select relevant business law
- understand and apply appropriate legal principles to new and everyday business situations
- communicate effectively about the legal aspects of business situations.

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

- understanding the nature and role of law in contemporary business life
- describing the legal structures, processes and institutions used in settling business disputes
- identifying business situations having legal implications
- locating and selecting relevant business law.

They were, however, less clear about:

- understanding and applying appropriate legal principles to new and everyday business situations
- communicating effectively about the legal aspects of business situations.

Most candidates explained elements of a valid contract and outlined methods of settling a business dispute. Better candidates referred to the implications of a breach of contract as a method of settling a business dispute. They also referred to the way in which legislation provides certainty for business.

Many candidates discussed legislation that was relevant to business situations. However, they had difficulty referring to the manner in which breach of contract is settled, as well as discussing the sources of contract law and the way in which this promotes business certainty.

Excellent Responses

Candidates answered all parts of the question, in depth, and used appropriate legal terminology. They explained in detail the main elements of a valid contract.

Candidates outlined methods of settling business disputes, both litigation and alternative dispute resolution, eg negotiation, commercial arbitration, mediation. They also made detailed reference to breach of contract, conditions, warranties and methods of settling a breach of contract, eg rescission, damages, injunction and specific performance.

Candidates also discussed sources of law, and distinguished those elements that were relevant to contract law. They discussed legislation in detail that is relevant to business, eg *Sale of Goods Act 1923*, *Trade Practices Act 1974*, *Fair Trading Act 1987*, *Review of Contracts Act 1980*, and showed how legislation provided certainty for business.

Above Average Responses

Candidates answered all parts of the question using legal terminology. They explained the main elements of a valid contract. Candidates outlined methods of settling disputes and made some reference to breach of contract. They made reference to sources of law, although they did not necessarily refer to contract law. Candidates discussed government legislation in some detail and some explained how this would provide greater certainty for business.

Average Responses

Candidates briefly explained the elements of a valid contract. They outlined some methods of settling a business dispute, usually without reference to breach of contract. Some candidates were able to identify a source of law, and most candidates were able to briefly discuss, or list, some relevant legislation.

Sample Excellent Response

Part (a)

There are six essential elements of a valid contract, and the absence of any of these elements may render the contract void. These six essential elements stem from the Common Law of Contracts, although some statutory intervention does apply.

1 Intention to Create Legal Relations

Since a contract is a legal relationship providing legal rights and obligations, it is necessary that both parties intended to create a legal relationship. The test is that of a reasonable person. The court assumes that intention is not present in domestic or social contexts — the onus is on the disputing party to prove otherwise.

2 Offer and Acceptance

- The offer made must be clear and unambiguous and is distinct from an invitation to treat — merely an invitation to consider making an offer (this principle is outlined in the *Boots Cash Chemist Case* — UK).
- Acceptance — must be absolute and unqualified; distinct from a counter-offer, a request for further information. The acceptance must be firm and definite.

If a party to a contract disputes either of these components a court will once again apply the test of a ‘reasonable person’ in the context of the specific situation.

3 Consideration or Form

This is the exchange of something of value — known as ‘benefit and detriment’ or ‘quid pro quo’. For example, ‘consideration’ occurs when a seller gives their goods to the buyer, in exchange for payment from the buyer. It is immaterial the ‘value’ of this consideration. However, a court may rule that what a person was already entitled to do by law, constitutes valid consideration.

4 Capacity to Create Legal Relations

This can occur in reference to a number of situations, aimed at curbing the inequality of bargaining power in the market place. Examples of when a party to a contract may be considered not to possess the capacity to enter into a contract include:

- (i) Intoxicated;
- (ii) undischarged bankrupt;
- (iii) a minor (under 18 years) — however, contracts which are beneficial are presumed to be ‘presumptively binding’ under the Minors (Property and Contracts) Act 1970 (NSW);
- (iv) a person with little experience/education in commercial matters — this reflects a general trend towards redressing equality of bargaining power in the market place.

5 Genuine Consent

If this is not present a contract may be void. There are a number of circumstances where consent may be lacking, which are outlined below:

- (a) Mistake in fact
 - a common mistake: both parties are deceived as to the nature of the contract.
 - mutual mistake: both parties are deceived but are at cross-purposes.
 - Unilateral mistake: where one party is deceived and the other should have acted uberrimae fidei (in utmost good faith).
 - The principle of non est factum: the court will not enforce a written contract if a party believed it to be ‘fundamentally different’.
- (b) Misrepresentation: innocent, negligent or fraudulent, to induce a party to enter into the contract.
- (c) Undue Influence: a party exerts influence over another party, especially in a susceptible relationship (such as lawyer/client). Influenced party may act to their detriment.
- (d) Duress: coercive force used to have a party enter into a contract.
- (e) Fraud: wilful deception of a party to enter into a contract.
- (f) Unconscionability: a party takes advantage of another, to their detriment, due to a special disability, such as illiteracy, poor English, mental handicap. This was outlined in the Amadio Case (1983).

6 Legality or Public Policy

A contract may be declared void if it is judged to be:

- (a) A threat to the public good — incurring criminal liability. A contract to share profits after a bank robbery would not be a valid contract, for example.
- (b) Restraint of trade/competitive. For example, exclusionary contracts are illegal under the Trade Practices Act 1974 (Cth).

Part (b)

There are a number of methods for settling a business dispute; these include litigation, mediation, arbitration and alternative dispute resolution (ADR) techniques. It should be noted that the trend is away from the cost of adversarial proceedings towards ADR techniques, mediation and arbitration.

Litigation

Despite its cost, litigation is the primary technique in resolving contract disputes. Other business disputes can be brought to the court, either under common law (such as the tort of passing off) or criminal law, for embezzlement or fraud, for example.

In the case of the breach of contract, particular consideration must be paid as to what was breached.

Conditions are terms of a contract which are fundamental and essential to the fulfilment of the contract. The breaching of conditions can result in the cessation of a contract. This may include implied terms, introduced by the Sale of Goods Act 1923 (NSW) for the sale of goods or Trade Practices Act 1974 (Cth) for services rendered. The breach of implied terms such as merchantable quality can result in the repudiation of a contract.

Warranties are terms which are collateral to the main function and agreement of the contract; the breach of which can only give rise to a claim of damages, not repudiation of the contract.

There are four main orders a court can make when a breach of contract has been established.

- 1 An injunction: this may constitute stopping a party from enforcing their rights under a contract if it has been formed invalidly, or may include provisions to stop a party breaching conditions of a contract.
- 2 Specific performance order: an order from the court compelling a party to a contract to act in accordance with the contract, eg conform to one of the express terms in the contract.
- 3 Damages: these are awarded on the premise that those who have suffered an injury should be compensated. These can be awarded for breach of contract and include:
 - nominal damages
 - exemplary damages
 - unliquidated damages
 - liquidated damages.
- 4 A rescission order: designed to restore the injured party to the position they were in before the contract was breached. This may include damages, return of goods or a specific action.

Litigation may also be used if prosecuting for a breach of such legislation as the Trade Practices Act 1974 (Cth) or the Sale of Goods Act 1923 (NSW).

Mediation

This is becoming an increasingly popular method of dispute resolution due to the little cost involved. However, damages cannot be awarded and compliance with an agreement reached is dependent on the parties' honour. Mediation can be carried out by an independent mediator.

Arbitration

Organisations such as the Commercial Arbitration Centre can place binding orders on parties to a business dispute. This is more effective than mediation, but does not give an absolute outcome such as litigation does.

Alternative Dispute Resolution (ADR) Techniques

These have become more popular in recent years, due to less expense and cost involved. These include:

- structured case settlement (rent a judge)
- LEADER (lawyers involved in alternative dispute resolution)
- independent expert determination
- early neutral appraisal
- facilitation.

These means are becoming a more popular way in which to resolve business disputes. However, to provide absolute certainty, litigation is still the best answer to resolve disputes, particularly regarding breach of contract.

Part (c)

Sources of contract law can be divided into two areas: statutory and common law. Statutory law - made by the federal and state governments, governs the implied terms in consumer contracts. These include the Trade Practices Act 1974 (Cth) and the Sale of Goods Act 1923 (NSW). These implied terms include fit for the purpose, fit the description, merchantable quality and corresponds with the sample. Contract law also stems from the common law - that is the system of precedent. This is what the essential elements of a contract are based on, and the system of common law determines the way in which damages are awarded.

Legislation also covers specific types of contracts - such as the Conveyancing Act (regarding the sale of land) and the Insurance Contracts Act.

Governments use legislation which governs the sale and supply of goods and services to both protect the public and preserve the competitive market place. By so doing, this ensures certainty to business operations, as it gives business a clearly definable legal framework within which to work. For example, the Trade Practices Act 1974 (Cth) aims at both protecting consumers through marketing and advertising provisions (ss 52-65) and the competitive market place through a variety of restrictions on price fixing and restriction of trade. This applies to unincorporated businesses in New South Wales by the Fair Trading Act 1987 (NSW). Similarly the Trade Practices Act 1974 outlined provisions regarding the sale of goods which applies in New South Wales through the Sale of Goods Act 1923 (NSW).

By providing both marketing provisions and restraint of trade provisions, coupled with the monitoring bodies of the Australian Competition and Consumer Commission, and the Department of Fair Trading, this provides certainty in terms of a business's legal rights and duties. Business can be prosecuted either through common law, or through criminal law (by the ACCC or the DFT) for breaches.

INDUSTRIAL RELATIONS

Question 29

The Workplace Relations Act 1996 accelerated the movement of Australia's industrial relations system towards a mostly decentralised and deregulated format. More recent legislation has continued this trend and given it renewed emphasis.

- (b) Outline the recent changes in industrial relations legislation.*
- (c) Discuss the opportunities and threats that these changes present to Australian businesses and their employees.*
- (d) For a selected business that you have studied, explain the changes in the nature of industrial relations in that business as a result of the legislative changes of recent years.*

Topic Outcomes 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 governments
- explain the dynamic nature of industrial relations.

Outcomes achieved by the majority of candidates:

- the ways in which the political, economic, social and other environmental factors affect industrial relations
- explaining the dynamic nature of industrial relations
- understanding the nature and role of trade unions and employer groups in the industrial relations process.

Outcomes about which the candidates were less clear:

- assessing the influence of beliefs and values on industrial relations by individuals, business, trade unions and governments.

General Comments

Better responses clearly outlined legislative changes in detail while the majority of candidates tended to describe change in the industrial relations system in general. A wide variety of opportunities and threats were discussed.

Most candidates were able to identify some of the opportunities and threats that these changes present for both employees and business, while some of the better candidates discussed them from

a broader perspective.

Many candidates found it difficult to relate recent legislative changes to a particular business as the impact of the legislation has been confined to a small number of businesses.

Many candidates ignored the second sentence of the stimulus material as it was misleading.

Excellent Responses

Candidates clearly outlined aspects of recent legislation but emphasised the Workplace Relations Act 1996. Some of these changes included the 20 allowable matters, the reduced role of trade unions and the AIRC, introduction of AWAs and the Employment Advocate.

Some of the candidates placed these changes in an historical context in relation to recent changes in the system.

Candidates discussed a broad range of opportunities and threats, including higher/lower inflation, increased income inequality, increased efficiency, changes in morale, changes in the power relationship between employees and employers and considered these from at least the perspective of business and employees. Some candidates discussed these changes from a broader perspective of others such as governments and the unions, both at a macro (whole economy) and micro (business) level.

Above Average Responses

These responses exhibited most of the features of excellent responses, but were less detailed. Candidates discussed recent changes in the nature of industrial relations, but were less able to relate legislative changes to changes in a particular business. Candidates discussed a limited range of opportunities and threats. Better candidates were able to directly relate the changes in legislation to changes in industrial relations in the business.

Average Responses

Candidates outlined changes mainly in terms of the move from a centralised to a decentralised system. Opportunities and threats were described rather than discussed. Candidates described a business/dispute and some related the changes to recent legislation.

Sample Excellent Response

From 1983 to the present, Australia's Industrial Relations system moved from a centralised to a decentralised one. This was the effect of government legislation intended to internationalise and globalise the Australian economy. This placed enormous pressure on Australian business to increase its efficiency, effectiveness and productivity. This involved the removal of restrictive work practices and the use of enterprise bargaining.

The Workplace Relations Act 1996 (Cth)

The Act, which was introduced by the Howard Government, pushed Australia's Industrial Relations system deeply into a decentralised one. The aim of the Act was to shift the focus to the workplace level. The responsibility was on the employers and employees to negotiate an employment contract and resolve any disputes through negotiation.

The Act separated workers into three streams for the purpose of employment contracts and the negotiation of Standards and Conditions:

- the award system for those who have little bargaining power, eg cleaners;
- the introduction of Australian Workplace Agreements (AWAs) for those who independently negotiate a contract;
- Certified Agreements (CAs) for those who are represented by a union.

Awards

The Workplace Relations Act 1996 retains awards as a safety net for those workers with poor bargaining power, and as the basis of the AIRC's 'no disadvantage' test. The award system is administered by the Australian Industrial Relations Commission (AIRC) and wage rises are given through 'Safety Net' wage rises. These rises have been less than the amount usually negotiated by individual negotiations through enterprise bargaining.

The award system has been simplified to 20 allowable matters. These include wage rates, leave entitlements, superannuation and workers compensation. The AIRC can arbitrate only on the 20 allowable matters. Awards were made more flexible for individual needs. However, there have been some protests at the restriction of 20 allowable matters, for example, by the building industry.

AWAs

The Act introduced this new type of agreement, which is administered by the Employment Advocate, an independent government official. AWAs are negotiated independently between employer and employee. The Employment Advocate and the AIRC act as a watchdog to ensure that no worker is disadvantaged as they apply the 'no disadvantage test'.

Employees can have a choice of bargaining agents but they are not parties to the agreement. Once an agreement has been reached it is filed with the Employment Advocate and it cannot be seen by a third party. The agreement can last for a maximum of three years. No industrial action is permitted during the term of the agreement, only during the negotiation process, unless the Employment Advocate deems it should be examined by the AIRC.

Certified Agreements

The Certified Agreement is a collective agreement, which the majority of employees must approve. It is also negotiated at workplace level with or without union representation. Unlike the Industrial Relations Reform Act 1993, unions have no automatic right of involvement. The Act bans 'preference for unionists' and 'closed shops' provisions of the previous industrial relations law and allows for freedom of association.

The AIRC applies the 'no disadvantage test' to the CAs and administers their application. They also can be for a maximum of three years and no industrial action is permitted during the term of the agreement, only during negotiation.

The Role of the AIRC

The question of the role of the IRC in the Workplace Relations Act is frequently asked. They administer the award system and approve Certified Agreements, undertake award simplification and conduct 'safety net' hearings. However the previous arbitration role is not evident. They are more like a 'watchdog' to make sure no worker is disadvantaged. The Act has stripped the AIRC of much of its power and left the workplace with no avenue for a third party to arbitrate.

The Workplace Relations Act focussed on the enterprise bargaining which was introduced in October 1991 through the Accord MkVI (6).

(b) Opportunities and Threats

Enterprise bargaining and the 1996 Workplace Relations Act, have brought many changes to the industrial relations system of Australia.

- The opportunities and the underlying principle is to improve the productivity of Australian businesses. Through multiskilling, broadbanding and the removal of unnecessary demarcation lines, the workplace can become more efficient.
- The nature of enterprise bargaining allows communication lines to be open within the business; problems can be aired and there is the opportunity for an harmonious workplace. If workers are involved in the negotiation they are more likely to be satisfied with the outcome which leads to higher moral and less conflict.
- Enterprise bargaining gives the opportunity for more responsibility and more decision-making power to the workers. Enterprise bargaining gives workers the opportunity to bargain for a wage rise in return for increased productivity. This can lead to greater social and personal opportunities in the individual worker's life.

However, while these opportunities are a result of the Workplace Relations Act, it creates a number of threats present in Australia's IR system.

- The Act has stripped the AIRC of most of its power to arbitrate on disputes. As a result, the Act has left no avenue for parties who cannot resolve their disputes through negotiation, which is the only option given by the Act. This threatens national security when serious disputes develop, eg 1998 waterfront and 1997 Hunter Valley No 1 Mine disputes. This also threatens the relationships between the parties and is unlikely to produce long term industrial harmony.
- The new laws threaten the security of jobs. With restructuring comes the sackings and redundancies of many workers, eg Portlands Avoca smelter cut its workforce by half when it introduced enterprise agreements in June 1993. This has also been evident in many other industries including the waterfront.

- The Workplace Relations Act threatens to destroy the existence of unions through the abolition of ‘preference for unionists’ and ‘closed shops’ clauses and freedom of association provisions. The Act curtails the power of workers to act collectively and bargain collectively.
 - The Act could threaten to create a greater gap in the class systems. Those on low incomes who lack ‘industrial muscle’ will be on the award while higher income brackets continue to negotiate for higher wages. Powerful employers can exploit workers and threaten their job security or pay rise.
- (c) The Waterfront Industry is an industry that has been severely affected by the changes in laws over the last few years.

Restructuring

In early 1992 the Waterfront Reform Authority was established to oversee the restructuring of the industry. It aimed at removing the restrictive work practices and adversarial nature of the culture on the waterfront.

In 1992 and 1993 Patrick Stevedores negotiated enterprise agreements with its workforce. The loss of jobs was evident in this process with over 280 (approximately) redundancies by Patrick Stevedores. This process was not an easy one, as conflict occurred as the changes were not welcomed by the waterfront workers.

A further loss of jobs and protest was evident in 1994 when the Labor government spent over \$400 million on redundancies in the industry.

In 1998 the conflict erupted again as Patrick sacked its entire waterfront workforce of 1400 full time and 600 casual workers. This was a result of the MUA’s lack of commitment and willingness to negotiate changes to work practices and productivity. The confrontation started in Melbourne’s Webb Dock in January 1998. The negotiations between the parties repeatedly broke down and the IRC’s lack of power meant that the conflict continued. This then spread to the rest of the nation and affected the entire society.

The waterfront dispute indicates the ineffectiveness of the Workplace Relations Act’s resolution procedures. It offers no avenue when parties cannot come to an agreement. The law must recognise this and have some avenue for a third party to arbitrate when negotiations simply cannot work.

The waterfront dispute illustrates the commitment of the government to a workforce that is not restricted by work practices or union involvement. This can be seen through the government supporting Patrick Stevedores in every move they made

The waterfront industry clearly illustrates the effect on business that the legislative changes have. As the system moved to a decentralised one, the waterfront industry was restructured to internationalise and promote Australian business. The industry clearly shows that this is not always a smooth process and there are some faults, eg lack of an effective resolution process to disputes.

Question 30

A large engineering company is experiencing work bans as a result of workers being injured in the factory.

With reference to this dispute:

- (a) outline relevant social justice legislation;*
- (b) explain the possible processes of resolution;*
- (c) discuss the relevant wage and non-wage outcomes that could arise from a resolution.*

Topic Outcomes examined:

- appreciate the way the political, economic, social and other environmental influences affect industrial relations
- understand the causes of industrial conflict and types of industrial action.

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

- understanding the causes of industrial conflict and types of industrial action.

They were less clear about the outcomes relating to:

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

General Comments

The narrow focus of the dispute described in the stimulus material and the directive to outline only relevant social justice legislation, eg the Occupational Health and Safety Act hindered candidates in their attempts to fully achieve the outcomes examined. A majority of candidates were able to explain dispute resolution processes but were less successful in applying them to the given dispute.

Similarly, in the last part of the question, a majority of candidates were able to identify outcomes arising from a resolution but again were less successful in identifying relevant wage and non-wage outcomes to the given dispute.

Excellent Responses

Candidates attempted to expand on the narrow focus of the question by demonstrating their full knowledge of social justice legislation, giving a definition, a discussion of the need for such legislation and examples including the Racial Discrimination Act 1975 and the Sex Discrimination Act 1984. They then identified and described the Occupational Health and Safety Act 1983 as the relevant legislation in the dispute.

Candidates examined a wide variety of possible resolution processes from negotiation through to conciliation and arbitration, and identified the processes with greatest relevance to the dispute.

Candidates discussed a wide variety of outcomes was examined. Candidates were able to distinguish between wage (eg a bonus for changed work practices with an emphasis on safety)

and non-wage (eg better communication, training, productivity, better management of safety, two committees) outcomes and to identify those relevant to the dispute.

Above Average Responses

Candidates identified and described the Occupational Health and Safety Act as the relevant legislation in the dispute. They were able to discuss a wide variety of resolution processes but tended to relate them to disputes in general rather than the specific dispute outlined in the stimulus material. Candidates were able to examine a wide variety of outcomes relevant to disputes in general but were less able to distinguish between wage and non-wage outcomes.

Average Responses

Candidates identified occupational health and safety as the relevant legislation in the dispute. They were able to describe resolution processes in a general way but did not then relate to the specific dispute. Candidates identified outcomes relevant to disputes in general and tended to discuss costs and benefits. Overall these candidates were less able to develop their response due to the narrow focus of the question and were limited in achieving the outcomes examined.

Sample Excellent Response

Industrial Relations and Social Justice Legislation

Industrial Relations is the study of employers and employees in any business organisation. Due to the amount of discrimination and disadvantages suffered from employees in the workplace, it is necessary to have both state and federal legislation to ensure standards are being met and that nobody suffers from discrimination. This is also known as social justice legislation. The main types of legislation include most importantly Occupational Health and Safety Act, Anti Discrimination Act, Sex Discrimination Act and Affirmative Action (Equal Employment Opportunities for Women Act).

(a) Occupational Health and Safety Act

With reference to this dispute, the main social justice legislation is the Occupational Health and Safety Act. As employment is seen as a contract between employees and employers, (as in an Australian Workforce Agreement or Enterprise Agreement and so on), the law also imposes certain rights and duties upon both the employees and employers.

The Occupational Health and Safety Act was enacted to ensure that every business provided a safe and healthy workplace for every employee. Certain standards and procedures were enforced and if a business did not meet any requirements, they would face possible fines, imprisonment or even a dismissal in their operation of business. This became the law as a result of the many dangerous work practices that led to a rise in the annual number of deaths or injuries suffered in the work place.

The OH&S Act also covers such things as stress and the general health of all employees. Not only does the Act ensure safe work practices, but it is committed to reducing the stress and anxiety of all workers and even managers. The health of an employee can be seen as a major priority as it determines the working ability and load of a particular person. Therefore businesses try to maintain, even exceed, certain standards so as to keep their employees, and to have them working both effectively and efficiently.

An example of how a business can do this is to provide regular medical checkups, or even provide a work gym. This way the health of employees is monitored and staff morale is increased.

To also comply with this OH&S Act there could be an increase in total application of/implementation of Quality Management at all stages of business operation to ensure a safe working place.

In this particular dispute at the large engineering company, there was a major problem faced with workers being injured. Due to the complexity and level of danger of work, it was the business's responsibility to revise safety techniques, the safety of the equipment and, more importantly, make sure that workers were fully trained to use the equipment which was delegated to them.

Due to this breach by management, procedures were obviously not up to standard and injury resulted. The managers and employers had a duty of care to all employees, which was breached, and injury and harm occurred. Employees did not show up for work, calling in 'work bans', demonstrating that something had to be done otherwise workers could leave the factory, or take further action such as stop work meetings, boycotts, strikes, go-slows, absenteeism, pickets and lock-outs.

Legislation also imposes rights and duties upon both employees and employers. Employers have a duty to not only pay wages, but **ensure** a safe and healthy work environment and suitable training to all workers. In return, employees agree to work in a safe and competent manner to the best of their abilities.

If either of these rights or duties are breached then, by law, businesses can be fined, lose their ability to operate and pay damages, and employees could face termination of employment.

It does not matter if the employees are in a union or not, it is by law that these certain standards and procedures are followed. With the engineering company, an industrial dispute has resulted due to physical working conditions. Other possible causes include wage demands, other conditions such as rosters, managerial policies, demarcation policies and even political changes or social changes. Although workers have only displayed their position with work bans, a full blown dispute could arise if nothing is done to change the safety of the workplace.

(b) Dispute Resolution Processes

The possible processes of resolution in this dispute are widespread, ranging from direct negotiation with employers and employees, to grievance procedures and even conciliation and arbitration. Each of these procedures also depends on the type of work contract and the involvement of unions.

Direct negotiation between employees and employers is the quickest and easiest way to settle the dispute. If employees are represented by unions, then they have a more equal bargaining power, but if not, powerful employers could exploit their workers. If there is an individual contract, then negotiation is the best method. It is simple, but sometimes the desired outcome is not achieved. If it is, however, there is the outcome of less working days lost and even a better communication between both parties. The result may be an improvement in equipment or even training. Either way, each party is able to state what they want from the negotiation.

Grievance procedures are generally set down in every separate work contract. These are a set of procedures that are agreed on by both parties, to be followed in the event of a dispute arising. These procedures are thus followed and hopefully a desired outcome is achieved by both parties

in a quick and easy method, that is in compliance with the law.

If either of these do not work effectively, then either conciliation or arbitration may be used. Within the last decade due to changes in Industrial Relations and an increase in a decentralised wage system, the use of arbitration is less, as it is not able to intervene in some issues under certain individual contracts or enterprise agreements.

Conciliation is a process whereby a neutral third party is called upon to propose a certain agreement on both parties. Negotiation is used and both parties try to work out a solution, although the decision is not binding.

Arbitration is the last resort whereby the third party is used in the tribunals or courts to impose an agreement on both parties that is legally binding on both of them and enforced by law.

In this dispute, because the factory is so large, the possibility of unions is obvious, so therefore some method such as conciliation or arbitration would result in the best possible outcome for the parties.

(c) Relevant Wage/Non-Wage Outcomes

The relevant wage and non-wage outcomes that would arise from a resolution in this dispute are also widespread, with the most important one being a change in work practices so as to ensure a safe and healthy work place.

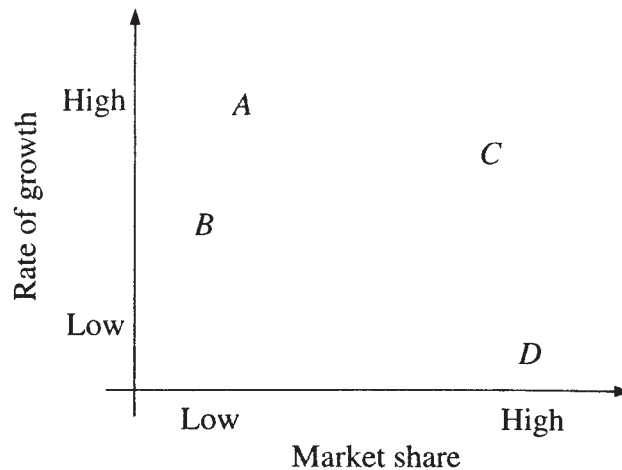
Certain wage outcomes include a pay rise or other monetary benefits or compensation paid, but what workers really want is a safe place to work.

Non-wage outcomes include such things as fringe benefits, or other benefits, better working conditions, a safe place to work, less days lost due to less work bans, an increase in production and sales and income, increased motivation of workers and even increased communication and cooperation between employees and employers.

The most relevant outcome of this dispute would be a non-wage one, when working practices were changed, equipment upgraded and better training programs for workers implemented so that they know how to properly use the equipment, and hopefully will not get injured. Of course monetary benefits would not go astray, but improvement in safety is the most prominent resolution.

MARKETING

Question 31



- (a) Compare products A and D and their probable product life cycles, with reference to the above model.
- (b) With reference to a product you have studied and its position in the above model:
- describe its market share and rate of growth;
 - discuss its marketing plan.

Topic Outcomes examined:

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

The majority of candidates were able to:

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

They were less clear about:

- Critically assessing the implementation and management of a marketing plan.

General Comments

This question required candidates to apply marketing theory to the stimulus material. The question focused on both skills and knowledge outcomes of the syllabus, linking them to the Marketing option.

The majority of candidates were able to identify and locate products in the correct stage of the

product life cycle. They had some difficulty, however, in discussing implications of the Life Cycle stage for managing the marketing process, and for the product which the student identified as having studied.

Most candidates were able to describe in general terms the market share and rate of growth of the product studied. They were also able to discuss a marketing plan for the product.

In the better responses, candidates clearly related aspects of the marketing plan (eg marketing mix) to the product studied to its position in the product life cycle and discussed implications for managing the marketing plan.

Excellent Responses

Candidates answered all parts of the question in some detail and effectively used the stimulus material and appropriate Marketing terminology. Candidates clearly related each aspect of the marketing plan to the product's position in the Stimulus Material model and/or the Product Life Cycle model. They then discussed implications of the life cycle stage for managing the marketing process in general and for the product studied. Candidates often included a Product Life Cycle diagram when comparing products A and D and SWOT analysis and the development of the marketing mix when discussing the marketing plan.

Above Average Responses

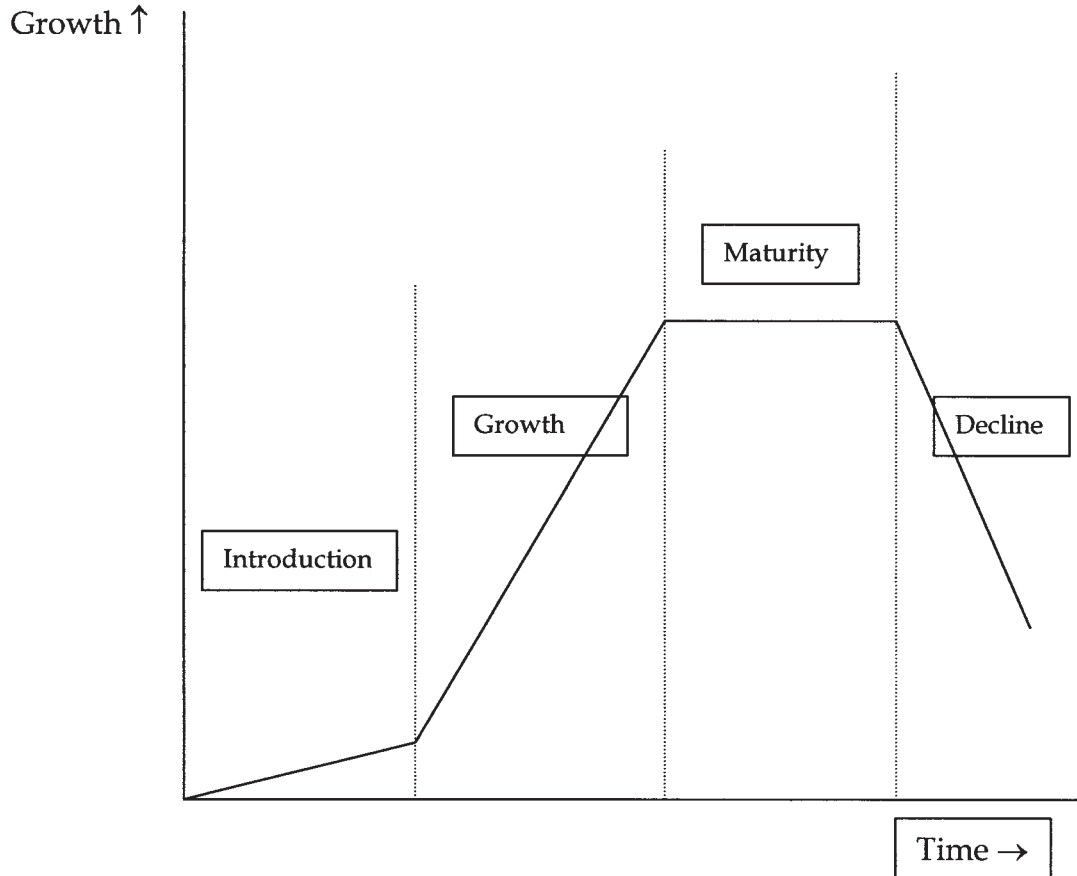
Candidates answered all parts of the question but in less depth and with less reference to the stimulus material than in excellent responses. Candidates identified and compared products A and D in terms of the life cycle stage and placed the product studied in its correct position in the Stimulus model. Candidates described some implications of the product life cycle for management decisions and linked aspects of the marketing plan of the product studied to the Stimulus model or the Product Life Cycle model.

Average Responses

Candidates identified and located products A and D in the correct stage of the product life cycle and briefly described the market share and growth rate of the product studied. Candidates generally described a prepared marketing plan without reference to the stimulus material.

Sample Excellent Response

- (a) Each new product developed, generally develops a pattern of sale, a lifecycle.



As a product progresses through its lifecycle, it undergoes changes. Two factors that change are the rate of growth of the product (or percentage increase in sales volume) and a growth in market share.

Product A, at present is undergoing a high rate of growth, with a low market share. Product A is most likely in an early growth stage, characterised by:

- an increased recognition of the product in the market, resulting in increased sales;
- low market share, as faithful consumers remain with the competition, and product recognition is still relatively low.

The growth stage has followed the introduction stages, characterised by:

- a low market share;
- low growth in sales;
- negative profits; and
- few competitors.

Product D is experiencing a high market share with a low rate of growth. This is characteristic of a product in the maturity stage and is characterised by:

- reduced rates of growth, as competition is at a maximum and the market fulfils its requirements;
- maintenance of a high market share, as marketing focuses on promoting customer loyalty and the product becomes well known.

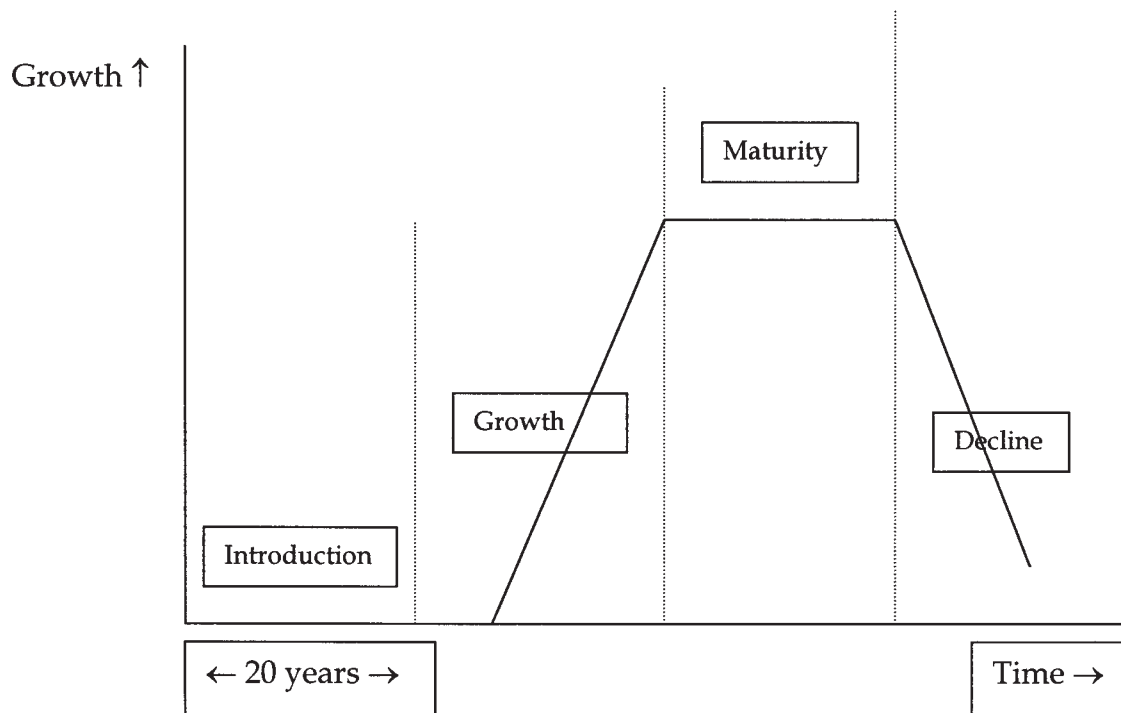
The prior phase of growth, was characterised by:

- large rates of growth;
- increasing market share;
- increasing profit levels; and
- increasing competition.

- (b) Panasonic IMAX theatres have stemmed from the IMAX Corporation. Cinema Plus Pty Ltd has obtained the rights to develop IMAX theatres in Australia and New Zealand. IMAX Darling Harbour is a new and relatively unknown product and therefore marketing will play a vital role in its success.
- (i) IMAX Darling Harbour is a relatively new product, just beginning to experience growth. The IMAX Corporation has been established for 20 years but has only recently begun to experience rapid growth, and increasing market share.

In Toronto Canada the IMAX Corporation has faced unprecedented growth. Brand awareness is up to 78% and market share is rapidly growing.

The IMAX Product Lifecycle



The high rates of growth and increasing market share are typical of the early growth phase, which the IMAX Corporation is experiencing.

(ii) Marketing is the total system of interacting activities designed to plan, promote, price and distribute products to present and potential consumers. It involves:

- determining consumer wants through market research;
- mobilising resources to produce those wants; and
- effectively communicating with the customers.

A typical marketing plan involves the development of five stages:

- organising the planning process;
- analysing market opportunities;
- selecting target markets;
- developing the marketing mix;
- managing the marketing effort.

In the development of their marketing plan IMAX have undertaken each appropriate stage.

1 Organising the planning process

The business must undertake a situational analysis to determine the business's position. It does this by analysing its Mission Statement, internal and external environment, as well as its objectives and the strategies devised to achieve them.

Mission Statement: to provide our guests with high value, leading edge entertainment, in a consistently high quality environment, enabling us to maximise the return to our stakeholders.

Objectives are based on the following:

- Increasing market share, ie the percentage of total sales achieved by a particular product or film.
- Expansion through exports.
- Changing the product mix, eg IMAX is introducing 3D and more commercial entertainment style films.
- Maximising customer service.

The strategies to achieve the Objectives are based on a number of factors.

- The present position of the product within the product lifecycle.
- The results of a SWOT analysis determining the strengths to be built on, weaknesses to be eliminated, opportunities to capitalise on and threats to account for.
- The target market at which the strategies are aimed.

Strategies, generally, involve the manipulation of the marketing mix (ie product, price, place and promotion) which will be discussed later. However IMAX's strategies include:

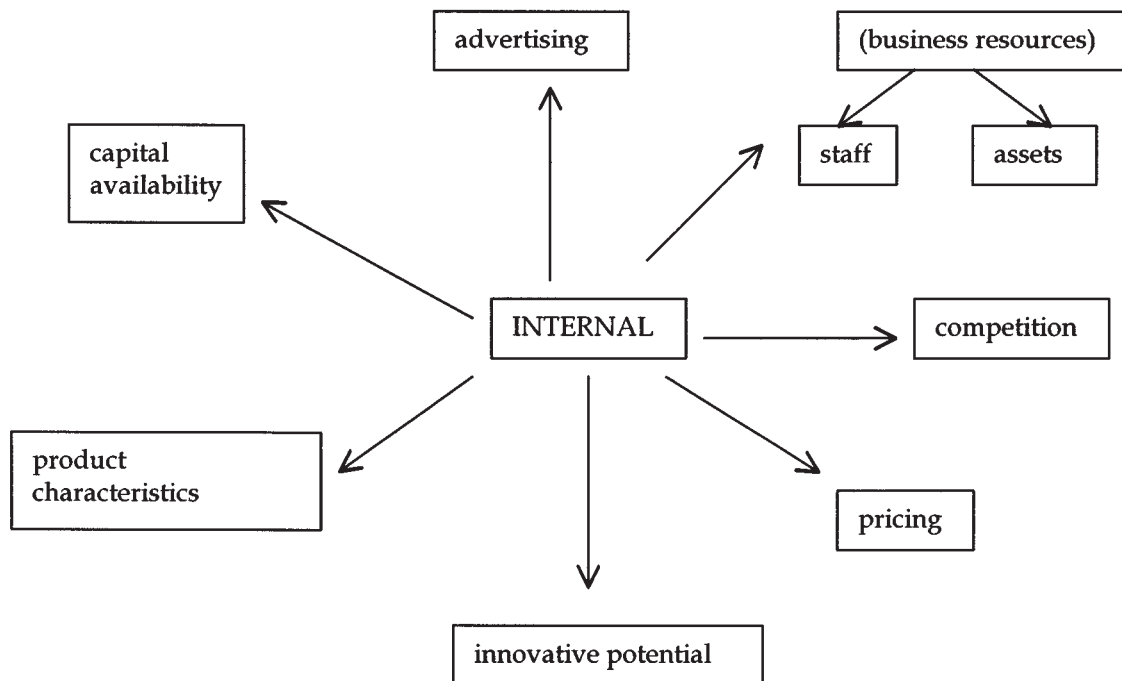
- market development, expanding into New Zealand and Asia;
- product development - introduction of 3D, development of a more entertainment style film and of a destination style film.

These strategies are aimed at easing growth of sales and market share.

2 Analysing Market Opportunities

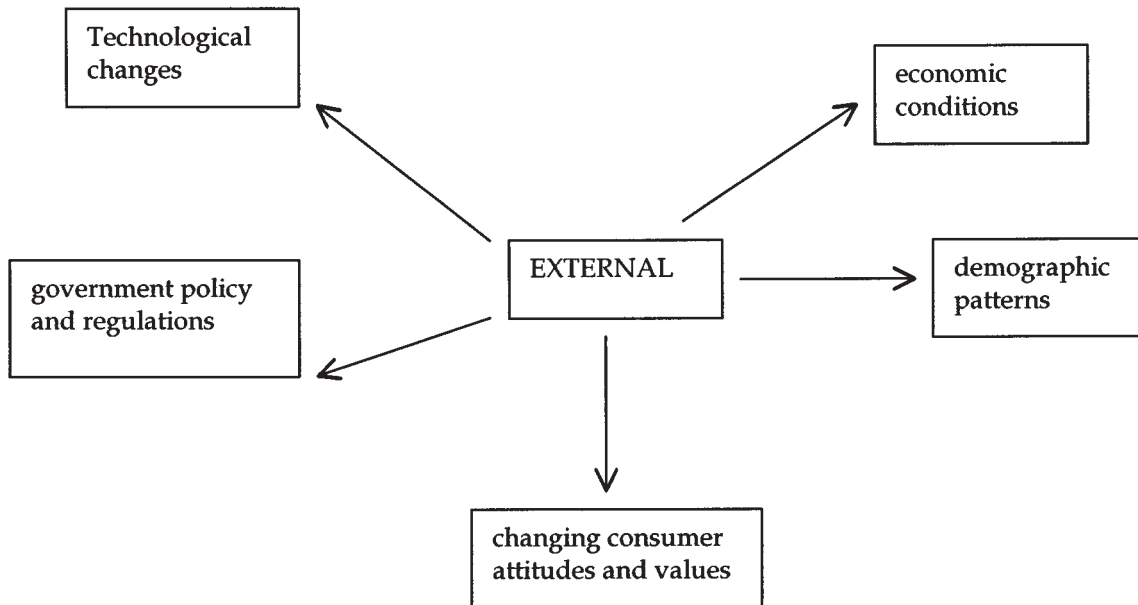
Once the business has critically examined the business situation, objectives and strategies, it must analyse the environment in which it operates.

(a) Internal



IMAX's product is new and innovative and its staff are focused on customer service and hard work.

(b) External



- Australia has undergone six years of sustained economic growth.
- Demographic patterns - increasing leisure time and reduced working hours promote opportunities for the entertainment industry.
- Consumer attitudes - increased community awareness has assisted the market focus on school children and educational style films.

3 Selecting Target Markets

In order for marketing efforts to be cost effective, the business needs to segment the market based on homogenous characteristics such as:

- demographic patterns (sex, age, etc)
- geographical features (eg climate)
- behavioural features
- type of industry
- size of industry.

The focussed segment is called the target market and may be:

- a mass market
- a concentrated market
- a niche market
- differentiated.

IMAX have undertaken a mass market approach - 'everyone from 4 to 94', with specific niche groups such as school children and tourists.

4 Developing the Marketing Mix

The marketing mix constitutes:

- Price
- Product
- Promotion
- Distribution (Place)

In determining the mix, businesses must align their strategies with both marketing objectives and organisational objectives, while being aware of product lifecycles.

IMAX

Price

- Use of psychological strategies, eg \$13.95.
- Meet the competition - similar prices to other cinemas.
- Discounts - for school children and tourist groups, focusing on their target market.

Distribution

- A selective strategy - of large cities.

Product

- Concentration on experience rather than specific films, attempting to increase brand awareness.
- Focus on quality, rather than quantity, generally with one hour films.

Promotion - the most focused aspect involves use of all strategies including:

- Personal selling to the tourist centres and schools.
- Advertising through television, newspapers and magazines.

- Promotion through discounts and free entry.
- Publicity via free advertising provided through newspapers etc, reporting on the experience.

5 Managing the Marketing Effort

Once the financial period has ended and throughout it, the business must compare actual results with forecasts and take corrective action where it is required, in order to ensure that the business is being responsive to change.

The business must analyse:

- Marketing and Sales: through the total sales and revenue of each department IMAX had budgeted for an attendance of 675 000 people for the year. However, the attendance was only 632 000, although second half attendance was up 4% on budget. Therefore IMAX must analyse promotion and determine why the gap occurred.
- **Market Share Analysis:** IMAX must compare its budgeted and actual market share against competitors to analyse why a change, if any, has occurred.
- IMAX must also segment its own business into product lines and work teams, to analyse the profitability of each segment, by comparing sales revenue forecasts with a marketing cost study.

NB: The IMAX marketing plan, must align with organisational objectives and be continually reviewed and updated to ensure that IMAX remains responsive to both its internal and external factors.

Question 32

New technology has enabled the production of a stronger and faster roller blade. A company has acquired exclusive rights to this technology and will manufacture it under the name 'Racing Roller'.

You are a marketing consultant and are asked to prepare a report for the launch of 'Racing Roller'. Your report is to include:

- (a) *a situational analysis;*
- (b) *a relevant marketing mix;*
- (c) *factors to be considered in a financial forecast.*

Topic Outcomes examined

- describe the steps in successfully marketing a product
- devise a marketing plan.

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

- describing the steps in successfully marketing a product
- devising a marketing plan.

Candidates were less clear, however, about Outcomes relating to:

- critically assessing the implementation and management of a marketing plan.

General Comments

This question asked for a report and most candidates responded in report style using some of these features:

- executive summary
- headings and sub headings
- underlining
- tables
- sketches and/or diagrams.

Most candidates were able to respond to the three parts of the question. Situational analysis was a term a significant number of candidates found difficult. Candidates had the opportunity to discuss a number of concepts from the first three steps in the marketing process:

- organising the planning process
- analysing marketing opportunities
- selecting the target market.

Only the better candidates demonstrated understanding of situational analysis.

There was a very significant range in the way candidates developed the marketing mix. The better candidates:

- identified the 4 Ps (ie product, price, promotion and place)
- developed and discussed the concepts
- showed how the concept was relevant to the stimulus.

Many responses on the marketing mix were too descriptive. Candidates used the 4 Ps as headings but wrote general descriptions.

The section dealing with ‘factors to be considered in a financial forecast’ was generally less well answered, with candidates tending to list general factors.

Excellent Responses

Candidates answered all parts of the question using relevant headings. They identified the situational analysis as the current position of the product in relation to its environment. These candidates then discussed a number of aspects which may have included:

- mission statement
- external environmental influences or trends
- SWOT analysis

- target market
- segmentation
- competitor analysis
- industry analysis.

The discussion related to the stimulus. Terminology was defined or explained.

Candidates were able to illustrate their knowledge and understanding of the marketing mix, ie the 4 Ps, and further developed concepts such as:

- product positioning
- brand
- warranty
- price-skimming
- promotional techniques.

Most candidates were able to define the concepts and discussed them in relation to the stimulus.

Candidates defined a financial forecast as projected costs and revenue and discussed some of the following factors:

- development costs
- production costs
- promotional costs
- forecasted revenues
- expenditure breakdowns or budgets, including research costs and promotional costs.

Above Average Responses

Candidates answered all parts of the question using relevant headings. They explained the role of the situational analysis but tended to focus on fewer factors. Candidates were able to explain a number of marketing mix concepts. However, there was less depth in their discussion. There was a greater tendency for these candidates to interpret the factors more generally, for example, as external environmental influences such as interest rates or economic conditions that might influence business finance.

Average Responses

Many candidates identified and briefly described aspects of the situational analysis; others were unclear as to the meaning of the term. Most referred briefly to a SWOT. Most candidates described a general marketing mix. There was little discussion of the relationship between the marketing mix concept and the stimulus. Candidates had difficulty with part (c) of the question. Factors, when they did relate to financial forecasts tended to be listed. Some candidates focused on the word 'factors' and discussed influences from the external environment that had little relationship to financial forecasts.

Sample Excellent Response

Executive Summary

For the company the role of marketing is crucial to the success of the new product 'Racing Roller'. A situational analysis, marketing mix and financial forecast are required in developing the marketing effort for the company to launch its new product.

(a) Situational Analysis

There are a variety of factors to be considered when undertaking a situational analysis. These include the following.

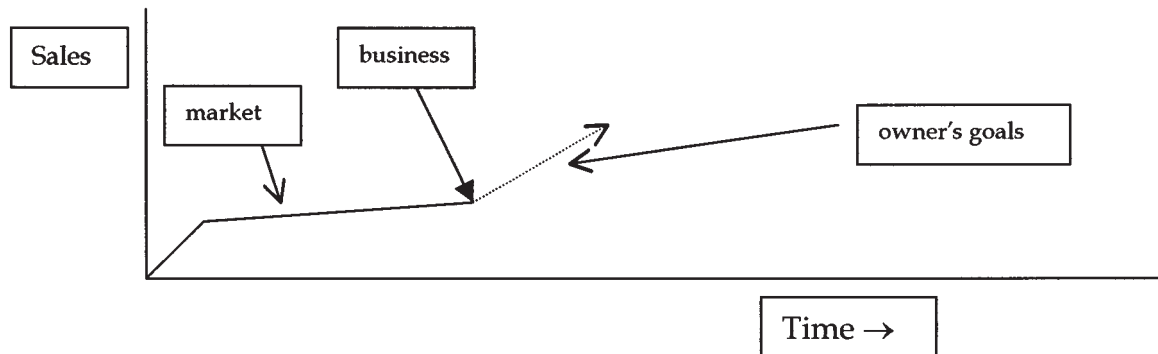
Market — The roller blade product finds itself in a market that has reached maturity stage. This is indicated by the levelling off of sales in this market as well as a steady level of competition. Advertising in this market has declined and is concerned mainly with maintaining market share by those in the market rather than obtaining new market share. Racing Roller aims to take market share from those already in the market through an aggressive marketing campaign.

Competition — Competition levels in this market are low. It is an oligopoly with four large firms controlling 95% of market share. These companies are however diversified and Racing Roller is to be the first entrant to the market whose prime function is the production and maintenance of high quality roller blades.

Management — The business has five full-time employees who are also the owners of the business, having each contributed equal start-up capital. The owners have decided to employ world best practice in Racing Rollers, benchmarking the highest world standards for their business. They have formed a quality circle and each member is skilled in all aspects of the production process allowing them to cover any injury or sickness. This has also brought high levels of dedication to make the business succeed.

Economy — The current uncertainty has provided a certain number of problems for the owners. However, Australia's resilience against the Asian crisis and problems in other world markets, combined with low interest rates, means that the business finds itself in a satisfactory if not favourable position.

Product Life Cycle — Although Racing Roller is entering the market in the maturity phase, it aims to cause a regrowth in this area.



Analysing Market Opportunities

SWOT

Strengths

- Small market therefore able to adjust to market demands and change.
- Small highly skilled workforce able to undertake all areas of business.
- Owners are skilled in most areas of business - accounting, law and the use of technology.
- Sustainable advantage through high quality staff and machinery.
- Experience of owners in business, three out of five have run previously successful business ventures.
- All component parts made locally thus not at risk from international problems.
- Diverse training and experience of managers.

Weaknesses

- No immediate cash flow.
- Management not experienced in this specific area of business.
- Diversity of owners - may not be able to come to a consensus and make decisions.
- Position of product life cycle.
- Internal fighting over profit levels and retained earnings.
- Initially product orientated approach, a better roller blade will sell, the managers have to shift to a marketing approach.

The strengths and weaknesses represent internal environment factors in the business.

Opportunities

- Expand into roller blade accessories.
- Diversity into related industries, eg skate boarding.
- Expand business geographically throughout Australia.
- Take the market share of its competitors.

Threats

- Competitors increasing their marketing and maintaining their share of the market.
- Problems with production machinery.
- Price competition from overseas with lower labour costs.
- High cost of local inputs.
- Reduction in protection opening Australian market to overseas business.
- Market goes into decline rather than regrowth.

Opportunities and Threats are concerned with external environmental influences on the business.

Objectives

- To have a 20% market share by June 1999.
- To have a net profit ratio of 15% from immediate sales.
- To have sold 100 000 roller blade pairs by January 2000.

Strategies

Product Positioning

The product is going to come out initially with three different types. These are to be aimed at three different markets (see target markets). The low level entry is to compete on price with roller blades sold in toy shops.

The middle level product is to be sold in sport stores and through the business's own highly specialised retail store.

The third is to be aimed at highly skilled roller bladers to be sold only through the Racing Rollers store. It is to offer value for money while maintaining extremely high standards of quality.

Branding

The competitive advantage is going to come for this product through its use of state of the art technology with a highly skilled workforce that offers a product of the highest quality with a life time guarantee against manufacturing defects.

The new innovative design will offer superior speed and handling to experienced skaters and durability to those learning to skate.

Target Market

The low price products in toy stores is aimed primarily at children learning to skate. These are to be stocked in all K-Mart and Target stores in Sydney initially. This is to test the production capacity of the business.

The other two products are aimed specifically at an experienced roller blader who is looking for a blade that offers increased speed and handling to those already on the market. Its advantages will be clear to experienced bladers because of the functional design and intensive awareness marketing.

It will be aimed at males and females between the ages of 15 and 30 who currently own roller blades. This will require their marketing campaign directly to take market share from its competitors.

(b) The Marketing Mix

Price

The low level entry will be price competitive with the other low level product entries. The price for this will thus be based on competitors within the market and the product will be highly price sensitive. Costs of manufacturing this product are around \$10 and therefore a sale price of around \$30 to \$40 is initially expected. This allows the business to absorb cost influences as well as being able to offer discounts to entice customers.

The other products will be priced about 10% below other brands on the market. This is a penetration strategy being used to gain market share from competitors. Again cost of production is relatively low allowing flexibility for owners and managers in terms of competition, discounts and price.

Thus the business aims to use price competition as well as quality as a competitive advantage.

Product

The three products are to be manufactured by the business ensuring high quality is always maintained. This allows a life time guarantee against any mechanical faults with the product.

The roller blades are to be produced in a variety of colours with the retail Racing Roller store offering the option of custom designed blades for a slightly higher price.

The highest quality inputs are to be used only and these are purchased from businesses who have approval from the Australian Standards Board.

Product accessories will also be available from 1997 with protective equipment all carrying the Racing Roller insignia.

The interlinking 'RR' has been registered as a trademark and is a strength of the business and product upon which its image will be built.

Promotion

The retail store will be promoted through signage around the store. However, its location on an industrial area will necessitate other advertising. Racing Roller have, after much research, decided to use radio as their means of promotion. Their primary target market will be reached most successfully through this medium.

The kids roller blades will be advertised through instore promotions in K-Mart and Target before Christmas. Professional promotions people have been employed to do this. The company has considered TV however it is felt that at present the benefits of this do not justify its costs.

Place

The manufacturing plant and retail store are located in the same building, co-owned by two of the managers. This reduces rent costs for the business and allows it to set up fittings, furniture and production equipment with an element of stability. They will not be forced to move in the near future.

The location is ideal with large areas for storage space.

It is also located near to a railway station and its main supplier of parts is within the immediate vicinity of the business.

The location is slightly inconvenient for large delivery trucks of the department stores to pick up the product - the business is off the main road thus they have subcontracted a driver for deliveries when the business necessitates. The owners endeavour to do the small order deliveries themselves to reduce expenses.

The product can be found in all K-Mart and Target stores New South Wales wide on 1 December 1998. The product has been in sports stores for the past three weeks and the retail store has been open for two months. Sales so far have been slow because there have been faults with the equipment. This business is on track to meet its production needs for Christmas and undertake its vigorous marketing campaign in 1999.

(c) Factors to be considered in the financial forecast

Due to this product being a new form of technology and innovation, there is not a clear indication of its acceptance in the market place. A number of factors must be considered when predicting a financial forecast.

The cost of its vigorous marketing campaign to get market share from its competitors has been financed through the owners capital. Future expansion is however going to be financed through debt because of the reluctance to take up a new partner and the tax deductibility of interest repayments.

The business has budgeted in its planning for a cash shortfall in the next three months and

sufficient levels of capital are available for this. An overdraft has been secured in the event of a prolonged shortfall or unexpected events.

Rollerblading is predominantly a summer sport and as such the cash flow during winter may be tight. If sales are low during these months, the financial forecast must include consideration of what working capital will be available to the business during these months.

The individual budgets that must be set for all aspects of the marketing effort are an important factor to be considered in the financial forecast. These are shown below:

- Advertising - magazine, television, radio, competitions
- Sales staff - wages, overtime, bonus
- Transport - from warehouse to distribution channels
- Testing and Research & Development budgets including quality checking and testing of products.

The business has produced a simple break-even point estimating about 500 units per fortnight as its break-even output. This should be reached well within the production capacity.

There are external factors that will affect a financial forecast. The actions of customers and social influences will affect the sales levels and consequent profit levels of Racing Roller. The size of the expected market will affect the financial forecast. If Racing Roller attracts only a proportion of the expected market share, the financial forecasts will not have been accurate.

Prior to forecasting finances, the business should perform a cost/benefit analysis in order to ensure that the product will be financially viable/profitable. The benefits must exceed the costs and these benefits need to be considered in the financial forecast.

The financial forecast is based on estimations however these may not be accurate as the markets change. The importance of the marketing report such as this one can be seen through the detailed situational analysis and marketing mix required for a successful launch of any new product.

SMALL BUSINESS MANAGEMENT

Question 33

The major reason for failure in small businesses is poor management rather than the inability to undertake their prime function.

- (a) *With reference to a small business you have studied:*
- (i) *outline its business plan;*
 - (ii) *discuss the management factors that have contributed to the success of this business.*
- (b) *Explain the importance that feedback controls and financial statements have in the management of a small business.*

Topic Outcomes examined:

- understanding of the factors contributing to a successful business
- understanding the techniques of small business management
- development of a detailed business plan for a small business.

The majority of candidates were able to:

- understand the factors contributing to a successful business
- develop a detailed plan for a small business.

Candidates were less clear about:

- understanding the techniques of small business.

General Comments

This question related the Small Business option to the skills and knowledge Outcomes of the syllabus. Most candidates were able to write about a business plan, though some referred to a plan of a business that did not meet the criteria of 'small'. Many candidates presented a business plan. A smaller number of candidates wrote about parts of a business, described a business, or reproduced a generic business plan.

Candidates were generally able to discuss management factors contributing to the success of the business. Some candidates did not refer to a small business. Most candidates were able to identify several different types of financial statements and explain their importance to small business management.

Some responses indicated that candidates left insufficient time to complete their response.

Excellent Responses

Candidates answered all parts of the question in depth. They presented comprehensive business plans of a particular small business and discussed the management factors that contributed to its success. Some candidates discussed a few factors in detail while others discussed many factors in less detail. Many candidates acknowledged the importance of feedback controls, with most candidates giving examples. Only a few explained their importance in the management of a small business. These candidates showed a clear understanding of the components of business plans.

Excellent responses were written in report form. These responses effectively linked the business plan to the management factors contributing to the success of the small business. Management factors cited included administration, production, marketing, customer relations, staffing and finance.

Excellent responses explained in depth the importance of a range of feedback controls and financial statements, clearly illustrating their role in a business. Excellent responses demonstrated the candidates' understanding of the role of feedback controls and financial statements in the business operation. Candidates explained in depth the importance of feedback controls in small business management, including appraisals, customer surveys and quality testing. Candidates clearly explained the importance in small business management of a range of financial statements, including actual and/or budgeted profit and loss (revenue) accounts, balance sheets and cash flow statements.

Above Average Responses

Candidates attempted all parts of the question, answering some parts in less depth. They gave less comprehensive business plans. The discussion of management factors contributing to the success of the small business was less detailed or included fewer factors. These candidates explained the importance of a range of feedback controls and financial statements in less depth.

Average Responses

Candidates wrote brief business plans or presented generic plans. They referred to management factors without necessarily relating them to the success of the business. Average responses named specific feedback controls, rather than explaining their importance in small business management. On the other hand, these responses listed a good range of financial statements but did not explain well their importance in small business management.

Sample Excellent Response

Executive Summary

The purpose of this report is to outline the business plan of Rock Solid Products, discuss the management factors that have contributed to the success of the business and explain the importance of feedback controls and financial statements.

Rock Solid Products Australia Pty Ltd

Prime Function

To import reconstituted granite veneer, fabricate benchtops and market them as an alternative to existing laminex and solid stone benchtops.

Nature of the Product

- Formed through the permanent adhesion of stone veneer to either moisture resistant board or pre-existing benchtops.
- Raw material (6.5mm reconstituted granite veneer) is imported from Italy.
- Product is lightweight, easily transported and worked.
- Product comes in a range of eight colours, all of them constant regarding quality and colour.
- To meet demand, one month's stock is kept on hand.
- Product comes with a 10 year warranty to ensure customer satisfaction.

Mission Statement/Goals

- Product aims to fill the market niche that exists between solid granite, marble and corian benchtops at the top of the scale and laminex at the other.
- Business wishes to establish a franchise network to sell Rock Solid Products such as benchtops, wall cladding and floor tiles, throughout Australia (approximately 30 franchisees).
- The company hopes to cut a 6% slice of the kitchen benchtop and bathroom vanity market for itself - expected turnover of \$1 million annually.
- After establishment of the franchise network, an annual turnover of \$2 million is expected.
- Company hopes to produce bar and tabletops for resorts, hotels, motels and clubs.
- company hopes to seek out and promote other stone products that can be marketed through the company and its franchise network.

Financial Plan

- Initial capital contribution of \$70 000 was made by each of the three owners/shareholders.
- Initial capital went towards research and development setting up a showroom and office and the purchase of stock.
- The business' expansion through the franchise network should be self funding with each franchise paying an initial deposit and regular monthly payments for two years.
- Each franchise will be expected to contribute 2% of gross turnover to a national advertising fund.

Competition

Company aims to compete against the manufacturer of laminex (CSR) and the manufacturers of solid granite, marble and corian benchtops.

Target Market

- Product is aimed at home renovators (particularly from the medium to high income bracket).
- Company also intends to market its product towards the shop fitting industry and the hotel and accommodation industry.

Location

- The location of the office and showroom was not considered as a critical factor for the success of the business.
- The product is presented through displays and samples in the showrooms of kitchen companies and building information centres. This eliminates the need for company sales staff and covers a wide geographical area.

Management Factors

Management

Management consists of three shareholders.

- Owner 1: background in joinery and cabinet making. Provides most of the research and development associated with the product.
- Owner 2: background in sales and marketing. Has had a number of other successful small business ventures.
- Owner 3: contributes accounting and administration services.

Together the three managers have broad knowledge and experience in all the business aspects. This is a major factor and strength that has contributed to the business success.

Risk Management

Management takes a number of precautions to ensure the business objectives are being achieved and to ensure that the external environment does not pose any threats to the future of the business.

- Cash flow statements highlight any potential cash flow problems.
- A sound credit policy keeps a tight reign on debtors, therefore eliminating the possibility that the business will endure bad debts.
- The company has adequate insurance covering every aspect of the business.
- Constant monitoring of the quality standards of subcontractors and franchisees ensures

that the company's reputation for producing a high quality product is kept.

- Potential customers are monitored on an ongoing basis, in order to identify selling opportunities.

Staff

Management has decided to take an unusual approach to labour levels in the hope that it will contribute to success of the business.

- Company employs no staff apart from the three owners.
- Subcontractors are used for product fabrication and the installation of finished goods.
- The services of a solicitor and accountant are subcontracted also.

The company has found that running the business in this manner has been most successful and provides the most profitable return.

Importance of Feedback Controls and Financial Statements

Feedback controls measure the results of a completed activity. For example, a survey of customer satisfaction. This provides managers with the most useful indication of whether the product or service is meeting customer requirements or whether it needs to be redesigned or restructured. Feedback controls identify areas of the business that need to be improved and highlight the product's strengths.

Preparing financial statements is a fundamental aspect of successful business management. Cash flow statements, budgets, profit and loss statements and balance sheets all assist managers in monitoring the performance of the business. They alert management to any dangers by showing when further investigation is needed. These financial statements enable managers to make decisions regarding the future of the business and the ways in which the business costs and financial policies can be improved.

Financial statements can be used by people both inside and outside the business. They give an indication of the business' financial position which can be of interest to investors, employees, customers and suppliers.

Question 34

On completing their HSC, Caroline and Stuart established their own record label company 'Galaxy Sounds'. After only two years in operation they have been awarded a gold medal in the National Small Business Awards for their commitment to customer service and innovative practices. They have recently employed two staff and are looking at expanding their operations next year.

- (a) *Outline the characteristics of small business.*
- (b) *Discuss the importance of small business in the Australian economy.*
- (c) *Explain the factors Caroline and Stuart had to consider when establishing their business.*
- (d) *Examine the management factors Caroline and Stuart should consider when planning for the next five years.*

Topic Outcomes examined

- recognise the importance of the small business sector in the national economy
- 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.

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

- recognising the importance of the small business sector in the national economy
- understanding the factors contributing to a successful business.

They were, however, less able to achieve Outcomes relating to:

- recognising the factors to be considered in establishing a small business
- understanding the techniques of small business management.

General Comments

Candidates were able to display a broad understanding of the Small Business Management topic in responding to this question. The question also provided the opportunity for candidates to display an ability to apply this material to the scenario presented in the stimulus material.

Some candidates had difficulty in:

- developing a detailed response to explain the factors Caroline and Stuart had to consider when establishing this business, often presenting a general response rather than relating to the specific requirements of the question;
- presenting a range of relevant management factors that should be considered by Caroline and Stuart when planning for the next five years.

Excellent Responses

Candidates analysed each part of the question demonstrating a knowledge of key small business concepts and made appropriate use of business terminology. Candidates outlined a wide range of relevant quantitative and qualitative small business characteristics. Quantitative data commonly included employee numbers, turnover and asset value. Qualitative data often included a reference to the reliance on a small number of people as decision makers, reliance on external support services and small market share.

Candidates also discussed an extensive range of ways in which the small business sector contributes to the Australian economy, using statistics where relevant. Commonly used statistics included contribution to employment, GDP and job growth. Candidates discussed Small Business' role in export and development of new products or services, the servicing of niche markets and as a nursery for entrepreneurs.

In explaining the factors that Caroline and Stuart should consider in establishing their business, candidates explained a wide range of relevant factors including financing, location, personal qualities, experience and marketing.

When examining the management factors that Caroline and Stuart should consider when planning for the next five years, candidates referred to strategic planning and emphasised aspects such as human resource management, development of financial controls, financial management and the management of the diversification process or product. Candidates also recognised the need to monitor changes in consumer demand.

Above Average Responses

These responses either answered all four parts of the question showing a good understanding of small business management, or provided a comprehensive coverage of three parts of the question with less detailed coverage of the fourth part.

A range of small business characteristics were outlined, with some use of supporting statistics. The contribution of small business to the Australian economy was discussed, often using some supporting statistics. A range of factors involved in establishing the business was described and management factors relevant to the expansion of the business were discussed in less detail.

Average Responses

Candidates generally attempted all four parts of the question and demonstrated an understanding of the more important aspects of small business management. They outlined some small business characteristics often giving a definition, supported by some statistics. Candidates briefly outlined some ways in which small business contributes to the economy. Some candidates used relevant supporting statistics. In referring to the factors relating to the establishment of the business, candidates either provided a general description or only focused on initial planning options. These candidates listed or briefly described key management factors with limited reference to the stimulus material or applied the stimulus material well but with limited reference to business concepts and terminology.

Sample Excellent Response

‘Small business is acknowledged as a vital and significant sector of the Australian economy. Small business is recognised worldwide as a key to achieving national economic objectives’. [Small Business Australia ABS, 1995]

A Characteristics of Small Business

Small businesses have many different characteristics. They can be quantitative measurements or qualitative descriptions. These characteristics form the basis of the various definitions of a small business.

A quantitative approach involves statistical calculations and characteristics expressed as a number. This refers to factors such as the number of employees, turnover and asset value. As such a general definition was required and in 1995 the government passed the Corporate Law Simplification Act which defines a business as small if:

- 1 it has less than 50 employees;
- 2 it has an asset value less than \$5 million;
- 3 it has a turnover less than \$10 million.

The latest method of defining a small business takes a quantitative approach and is adopted by the Australian Bureau of Statistics (ABS). This method simply refers to the number of employees.

- 1 Less than 20 for a non-manufacturing firm.
- 2 Less than 100 for a manufacturing firm.

Qualitative characteristics refer to ‘the way a business is owned, operated, organised and managed’. In a direct parallel with these characteristics in the 1990 Beddal Report which classes a business as small if:

- i) it is independently owned/managed;
- ii) it is operated by the owners/managers who contribute the majority of working capital;
- iii) principal decisions lie with the owners/managers.

B Importance of Small Business

The small business sectors contributions to the economy are far ranging and instrumental for the economic welfare and prosperity of the nation.

- 1 Contribution to Gross Domestic Product (GDP): the small business sector makes a substantial contribution to GDP, approximately 40% in 1996/7 (\$172 billion).
- 2 Contribution to Employment: although only increasing 0.2% from 1995/6 the current contribution of small businesses to employment is 50.7% - the major generator of employment since the mid 80s.
- 3 Contribution to the Balance of Payments: due to the nature of small businesses (ie relatively small in size, shorter chain of command, larger span of control), they are more responsive to change, particularly change in overseas markets. As a result small businesses

are often more successful at exporting than larger firms, contributing to the balance on merchandise trade - a major part of the current account which is predicted to record a deficit of \$31 billion in 1998/9.

- 4 Contribution to Innovation/Invention: current figures reveal that Australian small businesses are spending increasing amounts on research and development and in 1996/7 small businesses contributed 21.2% of total revenue spent on research and development.

Other contributions which often go unnoticed include:

- 1 Providing a 'breeding ground' for budding entrepreneurs to develop new products and ideas.
- 2 Adding variety to goods and services offered to the public.
- 3 Providing tax revenue to government.

A good example of a small business which has contributed significantly to the economy is DARK ZONE. Developed in Melbourne, this innovative laser tag game has achieved great success, exported to over 30 countries with a total of 235 centres. This business makes considerable contributions to all areas addressed above.

C Establishing 'Galaxy Sounds'

In establishing 'Galaxy Sounds', Caroline and Stuart had many planning options to consider when establishing their business.

Firstly, they would have had to assess whether they would buy an existing business or buy and establish a new business. There are advantages and disadvantages of each option and 68% of Australians choose to establish their own business. Adopting this option, significantly increases the risk of the business venture as no reputation, market, revenue has been established. However, this option allows freedom in setting goals and avoids buying another 'nightmare' (ie a business with bad debts, overpriced goodwill and so on).

Buying an existing premises decreases the risk as income can be expected almost immediately, reputation and market share is established. However, it is possible to purchase a business which is not in a good state, particularly financially. Staff may not be adequately trained or may lack motivation and direction.

Another option which may have been considered by Caroline and Stuart is franchising. A popular trend of the 1990s this has the advantages of an immediate consumer base and strong reputation but any downfall experienced by one franchise reflects upon each and every outlet.

Risk management is another factor which Caroline and Stuart would have considered. This primarily involves insurance and the different types available. It is likely the owners would have taken out business contents insurance due to the nature of their business. Other forms of insurance to consider include workers compensation, fire insurance and owner life insurance.

Location is a factor essential to consider prior to establishment. Depending on the business this can vary. In the case of a record label company it must be located in an area where transportation costs would be minimal. The location of their business should also be in an area which is accessible to its clients. Caroline and Stuart would have carefully selected their location ensuring maximum exposure and convenience.

There are many legal factors to consider particularly in establishing a company. This involves formulating a Memorandum and Articles of Association, gain a Certificate of Incorporation and an ACN number. If a public company a prospectus must be issued, with a following float on the Australian Stock Exchange. As Caroline and Stuart decided to adopt a company as their legal structure, their liability is 'limited' but the costs in set up are increased. Additionally there are many other legal requirements which must be adhered to, such as zoning laws.

As they are establishing a record label company there would be many different regulations which the owners would have had to familiarise themselves with. Various licenses and patents would be required in such an industry where regulations are an everyday issue.

The financial factors are essential to consider prior to start up and it would have been essential that Caroline and Stuart form budgets and prepare a break even analysis. Other financial reports such as a profit/loss statement, balance sheet (if buying an existing business) would be essential.

It is often a lack of planning, particularly in accounting and finance which brings many Australian small businesses undone.

Finally, in establishing their business Caroline and Stuart would have had to develop a detailed business plan similar to that illustrated below. (Figure 1)

Figure 1 - The Business Plan



Through the business plan Caroline and Stuart could effectively establish their business with a specific focus and direction in mind.

D Management Factors Involved in Planning for the Next Five Years

Over the next five years it is essential that Stuart and Caroline constantly monitor their business plan and adopt appropriate management techniques.

1 Managing Finance

Outsourcing would be beneficial to 'Galaxy Sounds' particularly for financial purposes, mainly due to the owners limited accounting knowledge. Continual evaluation of all performance measures such as budgets and break even analysis are essential as management can compare planned vs actual and decide what modifications are needed.

2 Managing Staffing (Human Resources)

As they have recently employed two new staff they need to ensure that a safe and efficient working environment is fostered. They need to motivate their workers in achieving business goals, possibly through the use of incentives (eg cash bonuses). Caroline and Stuart could adopt proactive human resource management, acting before any dispute or conflicts arise.

3 Managing Operations

As they have built a reputation up as an innovative small business, that offers high quality customer service, it is essential that this reputation is further established with the utmost care. Regular surveys, a feedback control will allow Caroline and Stuart to manage that aspect of operation effectively. They should also aim to continually improve all their processes, possibly adopting the modern philosophy of Total Quality Management which aims at continuous improvement and exceeding the expectations of consumers.

4 Managing Risk

The owners must ensure all insurance is paid on time, covering the company against any adverse developments. Furthermore, Caroline and Stuart must ensure they abide by all the regulations relevant to them and communicate this throughout the organisation to avoid any legal cases and so on.

5 Managing Administration

This vital function of management is often overlooked and can lead to financial data being inaccurate or not properly processed. Businesses are required to provide certain reports and although recently being reduced the Small Business Deregulation Task Force (headed by Charlie Bell), small businesses must provide a range of financial information to the government. As the amount of information is so large, Caroline and Stuart could possibly introduce a management information system which gathers, sorts and distributes relevant information using key indicators.

Furthermore they could again look towards outsourcing depending on the costs and benefits.

Small businesses are an essential part of the Australian economy. Prior to embarking on a small business venture there are many factors to consider which require constant managing to ensure future success in the volatile and everchanging business environment.

3 Unit (Additional)

General Comments

The candidature for 3 Unit Business Studies in 1998 was 3125 which represents a relatively strong participation of the total candidature in the Business Studies 3 Unit course.

The quality of responses continues to improve with candidates writing extensive responses to address the concepts and issues posed by the question. Candidates demonstrated a high level of competence in applying their skills and knowledge and understandings to the specific questions.

Popularity of Questions — 3 Unit (Additional)

Candidature:

Topic	Question	% Frequency Questions	% Frequency of Option
Business and Technology	1	4.7	18.5
Business and Technology	2	3.8	
Financial Markets	3	8.9	13.0
Financial Markets	4	4.2	
Human Resource Management	5	27.9	85.2
Human Resource Management	6	57.3	
Production Management	7	3.6	18.0
Production Management	8	14.5	
International Business	9	20.6	62.0
International Business	10	41.4	

Marking of 3 Unit (Additional)

The marking of 3 Unit extended responses is identical to the marking of the 2/3 Unit extended responses. 3 Unit markers are required to have extensive experience in the teaching of 3 Unit Options that they mark.

BUSINESS AND TECHNOLOGY

Question 1

The evolution of the electronic office in Australia is having widespread effects on the way people in firms conduct business.

- (a) *Outline and discuss the benefits of the electronic office in the internal business environment.*
- (b) *Identify the social, personal and business issues arising from the electronic office.*
- (c) *Appraise the application of technology to various aspects of a business you have studied.*

Topic Outcomes examined:

- analyse and evaluate the evolving nature of technology and its relationship to productivity, efficiency and effectiveness
- evaluate the benefits and costs of technology, including research and development
- appraise the application of technology to various facets of business activities
- identify social, personal and business issues arising from changes in technology.

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

- analysing and evaluating the evolving nature of technology and its relationship to productivity, efficiency and effectiveness
- evaluating the benefits and costs of technology, including research and development
- identify social, personal and business issues arising from changes in technology.

They were, however, less clear about:

- appraising the application of technology to various facets of business activities.

General Comments

The majority of candidates outlined and discussed various benefits of the electronic office in the internal business environment, eg telecommuting, increased efficiency and speed, improved communications.

Candidates identified a variety of social, personal and business issues arising from the electronic office. Issues included retrenchments, skilling and deskilling, resistance to change, ergonomics, training and the environment.

Some candidates appraised the application of technology to various aspects of a business. Case studies were used, but many candidates often described new technology in a business, rather than appraising the application of technology in that business.

Excellent Responses

Candidates answered all parts of the question in depth. They outlined clearly the features of an electronic office and discussed in detail a range of benefits of the electronic office. Some candidates mentioned telecommuting, particularly SOHO (Small Office Home Office).

A range of social, personal and business issues, such as unemployment, downsizing, retraining and deskilling were discussed as issues arising from the electronic office. These candidates were able to appraise the ability of a business to apply technology in various aspects of the business such as the office, the production floor and human resource management.

Above Average Responses

Candidates answered all parts of the question in less detail. They discussed, rather than appraised, their business' application of technology.

Average Responses

These candidates outlined and discussed some benefits of the electronic office or technology in general. They identified one or more social, personal and business issues arising from an electronic office. However, they often limited their description of the application of technology to narrow aspects of a business studied, eg one new piece of technology.

Sample Excellent Response

Introduction

Technology is the knowledge and skills applied to a given discipline to help change the very things done in the past. The 'electronic office' refers to the introduction of technology into modern business offices, in all facets of office operations.

- (a) The 'electronic office' includes technology such as the Internet, modems, faxes, teleconferencing, networking of computers, mobile phones, touch screens and word processors — all available within the individual office. This technology enables the firm to reap many benefits. These include:

Productivity

Productivity per worker is able to increase rapidly, with the rate of work completed being much faster.

Profitability

Overall profitability of the business is increased as firms are able to minimise long-term costs, increase output and reduce the timetable for completion of projects.

Customer satisfaction is also increased contributing to increased profitability.

Economies of Scale

The overall business is able to benefit from economies of scale as the scale of work completed in the office increases. These benefits are utilised by each individual within the office.

Communication

Technology within the office is currently the key provider of the communications revolution taking place. Businesses are able to communicate more widely as well as faster and more cheaply. Businesses are able to communicate globally, with technology such as teleconferencing reforming the conduct of businesses.

Cost Minimisation

Businesses are able to minimise costs in the long term, as technology minimises both labour working hours and the amount of labour.

Domestic and International Competitiveness

The technology adopted enables the business to gain a sustainable competitive advantage both domestically and overseas. Technology is seen as a key factor in determining the long term success of the modern business.

Information Management

Technology within the 'electronic office' enables managers to more efficiently access, manage, store, retrieve and dispense information. This enables decision making to be faster and more efficient.

Market Access

The modern office is able to gain information about their markets more efficiently and deal directly with clients.

Organisational and Managerial Efficiency

Finally, the 'electronic office' enables a more efficient operation of the business. Lead time is reduced, with increased flexibility of conduct. Paperwork within the office is minimised and staff are encouraged to be more flexible, skilled and motivated.

(b) The electronic office impacts on social, personal and business aspects.

Business Issues

- The 'electronic office' is significantly different from offices without technological support. The organisational structure is altered significantly, with the rapid pace of technological change favouring those firms which are 'lean, fast, flexible'. Downsizing is aggregating and decoupling is a regular occurrence in the modern office. Middle management is often erased and staff and line functions are merged as information becomes available to all employees.

The time autonomy of employees is also gradually reduced with the rapid pace of the onset of technology.

- **Management** within the business must ensure to 'keep up' with the technological advancements. Technology can either be very disruptive to a business or it can improve its operations and it is the manner in which the management implements the technology which determines its success.

- Management must ensure to retrain staff accordingly and offer relevant information services.
- Technology contributes to a completely new work culture with a focus on flexibility, efficiency and a continual striving for a competitive edge.

Personal Issues

- Technology can rapidly reform the individual's interaction within the work environment. A whole new work culture must be considered by each employee within the business.
- Workers may fear the change and resist it or attempt to counteract it. These workers are referred to as 'luddites'. Employers may provide counselling services to employees to cope with the change.
- The individuals flexibility is increased. Employees may have shorter or more flexible working hours and may be able to work from the home environment.
- Individual employees must participate in training and reskilling programs offered by the business.

Social Issues

Technology has significantly affected society as a whole.

- Society is more educated and aware of technological advancements — even young children are utilising new technological developments. The information industry within Australia is worth over \$27 billion — a huge amount.
- Environmental issues must be considered. Technology contributes to noise, air and water pollution, with the release of many toxins and dangerous chemicals. This is a serious issue for Australia with high levels of environmental damage.
- Women are being increasingly adopted into the workforce, with their ability to operate technology which has replaced heavy physical work. A more multicultural workforce is also apparent.
- The focus on industries within society has altered with more emphasis placed on growth in tertiary industries than primary industries.

(c) Executive Summary

Fairfax is Australia's largest newspaper and magazine printer and distributor. Due to competitive pressures in 1994, Fairfax relocated its printing plant to Chullora. Fairfax has 'state of the art' technology and is recognised as having the most advanced technology in its industry in the southern hemisphere.

Fairfax's operations are entirely automated — including manufacturing, distribution and collection of information.

Benefits of Technology to Fairfax

Fairfax has utilised its technology efficiently to maximise the benefits received.

Productivity

Productivity has increased by 14.5% since the introduction of its new robotics and computer automated manufacture (CAM) system.

Profitability

With costs reduced by 7% (year 2005 prediction) and productivity increased, profitability is set to increase by a huge 15-20%.

Print Quality and Capacity

Both Fairfax's printing quality and colour capacity has risen notably. Customer satisfaction has been maximised and advertisers more satisfied with results.

Occupational Health & Safety Issues (OHS)

Fairfax's injuries and OHS problems have been almost entirely eradicated with machines taking the place of dangerous work.

Staff Satisfaction

Employees are more motivated with job enrichment increased, as repetitive tasks have been erased.

Early Morning Sales

Early morning sales have increased due to reduced lead time and increased flexibility within the business.

Costs of Technology

Fairfax, however, when implementing technology had to consider its costs.

Initial costs: were huge, which Fairfax had to plan carefully. The costs of purchasing new technology exceeded \$15 million.

Training Costs

Staff had to be retrained and reskilled which involved time and capital.

Inertia of Staff and Managers

Both staff and management were fearful of the change.

Management — A Cost Benefit Analysis

When conducting a cost benefit analysis it can be seen that management were able to minimise costs and maximise benefits, thus ensuring the decision to implement technology was a highly successful one.

Both Fairfax and society will benefit from the technological improvements, with disruptions to printing being almost non-existent.

Technology benefited its reporters, manufacturers, distributors and administrators dramatically.

Question 2

Harbourcats

Two ferry companies compete for commuter passenger traffic in a large commercial harbour. Both have recently purchased expensive boats called 'Venturers', that have very low running costs. Their biggest operating cost is now labour, as each boat requires a captain, a ticket collector and a deck-hand. Now a new boat, the 'Harbourcat', has been developed which has automatic ticket machines and a computerised docking mechanism enabling a safe and effective one-person operation.

- (a) *Discuss the relationship between the recent investment in 'Venturers' and the performance of the ferry companies. How will the development of the 'Harbourcat' affect the likely future performance of the companies?*
- (b) *Examine the benefits and costs the ferry companies would have to consider when deciding whether to purchase Harbourcats. How would this decision be different if the two companies were merged?*

Topic Outcomes examined:

- evaluate the benefits and costs of technology, including research and development
- judge the effectiveness of management practices in dealing with technological change.

The majority of candidates achieved Outcomes relating to:

- evaluating the benefits and costs of technology, including research and development

They were less clear, however, about:

- judging the effectiveness of management practices in dealing with technological change.

General Comments

Most candidates realised that the development of the Harbourcat would affect the likely performance of the two ferry companies. They hypothesised about various possible effects of the Harbourcat. Most candidates examined benefits and costs that the ferry companies would have to consider. The better candidates were able to discuss the relationship between the recent investment in 'Venturers' and the performance of the ferry companies, in terms of probable increased efficiency, profitability and productivity. Few candidates were able to discuss well the possible merger.

Excellent Responses

These candidates answered all parts of the question, some parts in depth. They discussed the probability that investment in 'Venturers' would increase productivity and profitability. They examined a range of benefits and costs of purchasing the Harbourcat and offered possible scenarios if the two ferry companies merged. Some candidates suggested the possibility of a third company, a new competitor, entering the market and purchasing the Harbourcat.

Above Average Responses

Candidates in this range answered the question in less detail, giving fewer options/possibilities in each of the situations, such as possible future performance and a possible merger. They examined a range of costs and benefits the companies needed to consider if purchasing the Harbourcat.

Average Responses

Candidates typically discussed both/either parts of the question in brief and general form. They were able to examine a few costs and benefits of technology in general, but were less able to discuss the relationship between the recent investment in 'Venturers' and the performance of the ferry companies or the likely effect of the Harbourcat on the two companies.

Sample Excellent Response

Executive Summary

The implementation of 'Venturers' will improve the performance of both ferry companies. However, if the two are competing for the same market how can the market share improve? Also this report will look at the performance possibilities of the 'Harbourcat'. There are benefits and costs associated with the purchase of the Harbourcat which will be analysed.

The ferry companies had to clearly invest large capital in the 'expensive boats' purchased called 'Venturers'. The boats, however, are claimed to be very low running. The requirement of three employees per boat is a large cost for the firms.

Profitability

With lower costs on the ships now with the implementation of new ships, the firm will improve its net profits.

Net profit = Sales – Expenses [No Cogs]

However there was a great expense in the boat purchase. With this purchase, has the working capital of the firm been affected and hence liquidity decreased?

Market Size

Has the implementation of the new 'Venturers' brought a new market? Clearly the costs will have decreased, yet the bulk capital use for the purchase requires a larger market to meet its debt payments on the ships.

Efficiency

The new boats will have decreased the old labour force. This will streamline profits and thus improve the efficiency of funds used by the firm.

The performance of the 'Venturers' clearly is dependent on the ability of the firm to now cost cut. There are new costs.

- Capital purchase of the 'Venturer' boats
- Retraining to use boats
- Redundancy packages to old workforce.

Now, are these costs to be outweighed by a new surge of commercial passengers in sea travel? If this is the case the investment was worthwhile and will improve business performance.

The development of the 'Harbourcat' will be a burden to the two ferry companies. The new or existing firm which purchases the new technology can cut back on labour costs and maintenance costs. The use of Point of Sale (POS) technology 'automatic ticket machines'. The two ferry companies purchased an already obsolete technology and could be bought out of the market by another more efficient competitor.

The two ferry firms must find new markets if they are to succeed financially. Their costs are going to be higher than the firm implementing the 'Harbourcat' and if they do not diversify will be forced out of business by this alternative company's ability to cost cut. Possible tourist markets may be targeted with an emphasis on the firm's competitive advantage and the 'personal crew on board'. This can be utilised where they can act as tour guides - pointing out famous sites. This can be the firm's critical success factor to maintain its profitability. The emphasis on the non-mechanised boat could act on 'luddites' who are afraid of technology and rather a human touch.

Cost and Benefits Analysis

Benefits

Productivity: the boat can be run by a single captain (not three personnel). This results in the same number of passengers travelling with a one third the workforce. This can result in redundancies. In the long term there will be less wages to pay and therefore an improvement in profitability.

Point of Sale Technology

The automatic ticket machine allows immediate computerisation of all 'sales'. This gives the management:

- Sales Numbers
- Popular and weak times
- Age at which times fare — adult/child/student

This can aid the ferry company in all decision making, allowing for more ferries to be implemented at peak times and less frequently at weak times. Also removing the need for long hours at a computer for accounting purposed [time = dollars].

Management Efficiency

The firm can implement TQM with the new technology using benchmarks of past sales [in periods] to force an improvement per employee.

Costs

The cost of the investment. The boat purchase will require large investment capital — is this investment worthy and will it bring improved business performance.

Redundancy Packages

The old 'outdated skills' workforce must be retrenched. There must be outplacement of these employees to allow the current continuation and also there must be financial packages to 'pay off' the workers on top of the superannuation, holiday and sick pay. This can be a huge cost possibly resulting in claims for Unfair Dismissal if not managed properly.

Retraining

Due to the deskilling new employees or the current workforce must be trained and use the new technology. This can be done using:

- simulation processes
- Vestibule Training
- external courses.

The cheapest on the job training for the behavioural modelling cannot be used as only one operator is required on each ship. The simulation will allow the necessary skills of the employee to be learned — however this is at a cost and the retraining is expensive.

Systems Failure

There is great trust of life and money placed in this technology.

Life: those on board are susceptible to a systems failure which could result in the ship being shut off. Contingency plans must be prepared as well as manual oversize capacity.

Sales

Due to the automatic ticketing there could be crime of adults paying child fares and such cost must be remedied or possible profits are diminished.

The company must decide whether the investment and returning is going to bring more profits and success. The use of decision trees and a SWOT analysis can aid management in the worth of the 'Harbourcat'.

Decision Change

If the firms were to merge the competition in the market is lessened. This 'monopoly' can act to minimise the need for the new technology. Again the firms must perform a Cost & benefits analysis on merger. This must outline the costs in dollars outlined above against the production

gains and profitability in dollars.

The key element here is if they merge there is a less competitive market — and tickets pricing can go up and the management must decide whether the introduction and spending of capital is cost effective. The merger will make the new technology more attainable, [two firms = more capital], but also less necessary.

FINANCIAL MARKETS

Question 3

Newsflash

The Australian stockmarket fell yesterday as investors deserted investments in the region, fearing another sell-off in Asian currencies. International traders did not want to buy Australian dollars after further turmoil in the region.

- (a) *Explain the role of financial markets in the business environment.*
- (b) *Describe the activities of a major participant in financial markets. How has its role changed in recent times?*
- (c) *With reference to the above information and recent examples, discuss the impact of overseas events on Australian financial markets.*

Topic Outcomes examined:

- describe the role of financial markets in the business environment
- identify the participants in financial markets
- analyse the interrelationships and impacts of the dynamic forces within financial markets
- describe the types and characteristics of instruments traded.

The majority of candidates achieved the following Outcomes:

- describe the role of financial markets in the business environment
- identify the participants in financial markets
- describe the types and characteristics of instruments traded.

They were less clear, however, about:

- analyse the interrelationships and impacts of the dynamic forces within financial markets.

General Comments

The quality of answers to this question was generally good. Most candidates were able to attempt each part of the question and in doing so were able to tie the different concepts together.

Most candidates were able to identify and explain the role of financial markets as providing a link between savers and investors and briefly explained the different types of markets.

They either discussed the role of one participant in some detail or a number of participants in less detail and identified their changing role in the financial market.

Most candidates were able to describe the Asian crisis and its negative impact on Australia, namely the value of the dollar and the adverse impact on the equities markets.

Some candidates had difficulty in describing the full range of activities of a single participant (such as merchant banks, superannuation funds and brokers) in financial markets, analysing the reasons for a change (such as deregulation, globalisation and technology) in the role of a participant in financial markets and identifying the consequences of the changing role of a participant in financial markets.

Candidates were able to expand their discussion of overseas events beyond the stimulus material provided and identify the short and long term impacts of overseas events on Australian financial markets.

Excellent Responses

Candidates explained the role of the different financial markets especially the debt and equity markets and the foreign exchange markets and derivatives market. They also accurately described a number of activities of a single participant in depth, and analysed recent changes in the role of the participant, providing some reasons for their changing role including deregulation and globalisation of financial markets. Candidates were able to discuss overseas events in depth, in addition to the stimulus material, including such things as United States investment banks and the Euro dollar. Candidates were able to distinguish and discuss the short term impacts, such as the valuation of the Australian dollar, and long term impacts such as the effects on interest rates and investment of those changes.

Above Average Responses

Candidates described a number of the more common roles, such as facilitating the exchange of savings to investors, carried out by the financial markets. They described a number of activities of a major participant in some detail and outlined the causes of a number of changes in the role of a participant, such as deregulation. Candidates also described overseas events, in addition to the stimulus material such as United States investment banks, focussing on the short term impacts of those changes.

Average Responses

Candidates outlines some features of financial markets and their roles, such as acting as an intermediary. They then either described a number of activities of a major participant with limited reference to the changing role of that participant, or, briefly described an activity of a number of participants with limited reference to their changing role. Candidates were able to identify the events in the stimulus material and discuss, in little depth, the short term impacts of the changes.

Sample Excellent Response

The role of financial markets in the business environment is to channel funds from the surplus sectors of the economy to the deficit sectors of the economy to undertake real investment. Real investment is the purchase of capital goods, such as equipment and machinery. Financial investment is the purchase of financial instruments such as shares and debentures. Financial markets bring these people together and make funds available for those who wish to invest.

The surplus sectors of the economy are net savers. They include households, governments and the foreign sector. Households save in the form of bank deposits, superannuation and shares, and the government saves when its current revenue exceeds its expenditure (eg Federal Budget Surplus: 1998/99). The foreign sector provides its savings, to Australians, by financing our current account deficits (CAD). The CAD is the amount by which national saving exceeds national investment. National saving is insufficient to finance national investment, so we must rely on the savings of foreigners to finance our investment. Foreigners provide savings when they lend to us (ie buy debt securities) or purchase assets (eg shares).

The deficit sectors of the economy are net dissavers. They include businesses and governments. The whole purpose of saving is so that firms can invest. By saving, we are forgoing current consumption. But by doing this, we are increasing future consumption. Investment is essential for economic growth, and that is the main role of financial markets in Australia. The more efficient financial markets, the greater the capacity for the economy to increase its annual output of goods and services (GDP). Without financial markets, investment is not likely to occur as it does today. So the main role of financial markets in the business environment is to make available to net dissavers funds required for real investment. Economic growth requires real investment.

In the business environment, financial markets may act as either intermediaries or agents. An example of a financial intermediary is a bank — it pools the savings of many households and lends them to the firms sector for investment purposes. There is no direct link between the providers of funds and the users of funds. An agent is an institution which draws both parties together to make a financial transaction. An example of this would be a stockbroker (ASX).

A major participant in financial markets is the banking sector. Prior to the deregulation of the 1980s, its main role was to provide funds for people buying homes. Interest rates were controlled by the government, and preference was given to home owners when buying a house. Banks were not competitive. By government policy, they all offered the same interest rates. No competition was present in the banking sector. After deregulation the government abandoned this policy and dismantled all its rules and regulations on the banking sector. All banks were allowed to change their own rates and compete with each other.

The primary activity of the banking sector is to pool the savings of individuals, households and institutions and make them available for those who wish to undertake real investment. They are essential for the Reserve Bank of Australia's (RBA) monetary policy. Monetary policy is the area of market operations which influences the level of economic activity. Market operations is the purchase and sale of second-hand Commonwealth Government Securities (CGS) to and from the bank to influence the price and availability of money.

Through the banks, the RBA influences the 'cash rate'. This is the cost of borrowing money overnight in the short term money market. Changes in the cash rate change all other short term and variable interest rates. So, from the government's perspective banks play a major role in the operation of financial markets in the business environment.

The bank's main role now is to provide banking services for households and business services for firms. They participate in other financial markets by developing portfolios for clients and investing funds in a range of securities. As a whole the banking sector is important for the RBA and the economy, and is a major participant in other activities in financial markets.

Overseas events impact significantly on Australian financial markets because all major financial markets are connected to a global financial market. New technology, innovation, globalisation and

trade have made it cheaper and easier to transfer funds and financial securities to other countries, promoting growth and development of financial markets.

Changes in overseas financial markets have ‘flow-on’ effects in Australia. For example the correction of the New York market in late 1997 had immediate effects on the Australian Stock Exchange. World financial markets are closely connected so that changes in one market all flow on to another.

Financial markets are very sensitive to economic performance. During times of low economic growth and high unemployment, stock markets tend to slide. The Asian economic crisis, which is said to have started in Thailand, flowed on to the other East Asian nations and eventually Australia. Australia was seen by world financial markets as an important player in Asia. When foreign investors fear a major sell-off in Asian currencies, they will not buy Australian dollars simply because Australia is perceived as part of Asia. Generally, when world economic growth is strong, stock markets rise; when growth is weak, stock markets fall. The decline in economic growth of the major East Asian economies led to sharp depreciations in currencies and sharp falls in stock markets.

Thus overseas events impact directly on Australian financial markets because world financial markets are more interrelated. Changes in one major financial market will cause a flow on effect to another financial market.

Question 4

Capital Investment Boom Coming — But When?

The historically low interest rates of the late 1990s should be a trigger for an acceleration of capital investment by businesses. Analysts are questioning whether this will become a reality or whether low interest rates will simply divert dollars into other investments.

- (a) *Consider the basic criteria used by businesses in making investment decisions.*
- (b) *Examine the characteristics of TWO equity and TWO debt instruments traded in financial markets.*
- (c) *With reference to the above information, why might businesses be delaying capital investment?*

Topic Outcomes examined:

- describe the role of financial markets in the business environment
- identify participants in financial markets
- analyse the interrelationships and impacts of the dynamic forces within financial markets
- describe the types and characteristics of instruments traded
- analyse and interpret the results of trading in various instruments
- apply the risk/return relationship to business decisions
- analyse the impact of capital expenditure decisions within a business.

The majority of candidates achieved the following outcomes:

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

They were less clear, however, about the following outcomes:

- analyse the interrelationships and impacts of the dynamic forces within financial markets
- analyse the impact of capital expenditure decisions within a business.

General Comments

The quality of responses for this question was generally good. Most candidates were able to attempt part (a) and part (b) successfully but few were able to develop reasons or justification as to why businesses may delay capital investment.

Most candidates were able to identify and explain the basic criteria used by businesses in making investment decisions. They clearly outlined the need for businesses to investigate risk and return considerations, as well as identified term, diversification, firm objectives as other criteria to be investigated. The majority of candidates were able to accurately distinguish between equity and debt instruments and examine some of the characteristics of the selected instruments that are traded in financial markets. However, many candidates had difficulty in explaining why businesses might be delaying capital investment.

Some candidates had difficulty in discussing the full range of basic criteria (need to match objectives, risk/return, term, diversification and overseas opportunities) used by businesses in making investment decisions.

Some candidates incorrectly classified selected financial instruments as debt or equity instruments, or neglected to examine the characteristics of the chosen instruments (liquidity, term, maturity, negotiability, security, yield, pricing and unique features). In addition, some candidates selected hybrid instruments (convertible share) with little knowledge of their characteristics.

Most candidates were unable to expand reasons as to why businesses might delay capital investment beyond the stimulus material of 'low interest' rates. Few explained or justified other reasons such as uncertain economic conditions (domestically and overseas), volatility in the financial markets (\$A down) and the application of capital evaluation techniques (NPV etc).

Few candidates incorporated flow diagrams, tables or graphs to demonstrate relevant concepts.

Most candidates had difficulty in analysing the interrelationships and impacts of the dynamic forces within financial markets.

Excellent Responses

Candidates clearly listed and analysed the basic criteria used by businesses in making investment decisions:

- need to match objectives
- risk/return considerations (use of diagrams enhanced candidate explanation)
- term to maturity
- diversification
- domestic versus overseas opportunities — interest rate.

Some responses discussed the relevance of a number of capital evaluation techniques such as Net Present Value and the Internal Rate of Return in investment decision making.

They also accurately discussed the characteristics (term, maturity, negotiability, liquidity, security, yield, pricing, unique features) of two equity and two debt instruments traded in financial markets.

Candidates were able to explain and justify why businesses may decide to delay/not delay capital investment through a discussion of issues such as:

- uncertain economic conditions both domestically and overseas
 - interest rate movement
 - falling Australian dollar
 - volatile All Ordinaries Index
 - Asian crisis — influence on demand for Australian goods and services
- returns to be gained from ‘other’ investments
- capital evaluation techniques.

Above Average Responses

Candidates provided a more general outline or discussed in less detail the basic criteria used by businesses in making investment decisions. Most limited their discussion to matching objectives and risk/return aspects of the criteria.

They accurately discussed the characteristics of two equity and two debt investments traded in financial markets in depth with some comparison of the instrument characteristics.

Candidates also explained briefly, usually with little justification, as to why businesses may decide to delay capital investment. However, most explanations focussed on the issue of ‘low’ interest rates and uncertainty.

Average Responses

Candidates described some of the basic criteria especially risk/return, but also included some listing of the characteristics of financial instruments as variables that businesses would consider in making investment decisions. They then identified some characteristics of a number of financial instruments which in some instances were incorrectly classified as equity or debt. The depth of discussion was limited with little if any comparison between the instruments treated.

Candidates limited their explanation of why businesses may delay capital investment to a simple explanation of low interest rates or the overseas financial crisis creating uncertainty in the minds of business decision makers.

Sample Excellent Response

Executive Summary

This report will outline the basic criteria used by business in making investment decisions. It will examine two equity and two debt instruments traded in financial markets and will also investigate reasons why business might be delaying capital investment.

Criteria used for investment decisions.

Liquidity

Liquidity refers to the ease with which a security can be converted into cash. Highly liquid assets can be more popular than assets that are illiquid because there is perceived security in the ability to convert the asset into cash when required.

Security

Security refers to how safe the investment is. It also relates to the likelihood that borrower will not be able to repay the lender the amount promised.

Term

Term is the amount of time before the investment expires and the holder must be repaid. Short term securities have a term ranging from overnight to one year. Long term securities have a term of a year or longer.

Parties Involved

The parties involved in an investment can range from Issuer and Holder up to and beyond Issuer to Manager to Trust to Holder. The number of parties involved will depend on the type of security issued.

Negotiability

Negotiability refers to the ability to onsell a security. That is to trade it on the secondary market. The best example of a negotiable security are shares. These are sold over and over again on the secondary market (ASX).

Yield

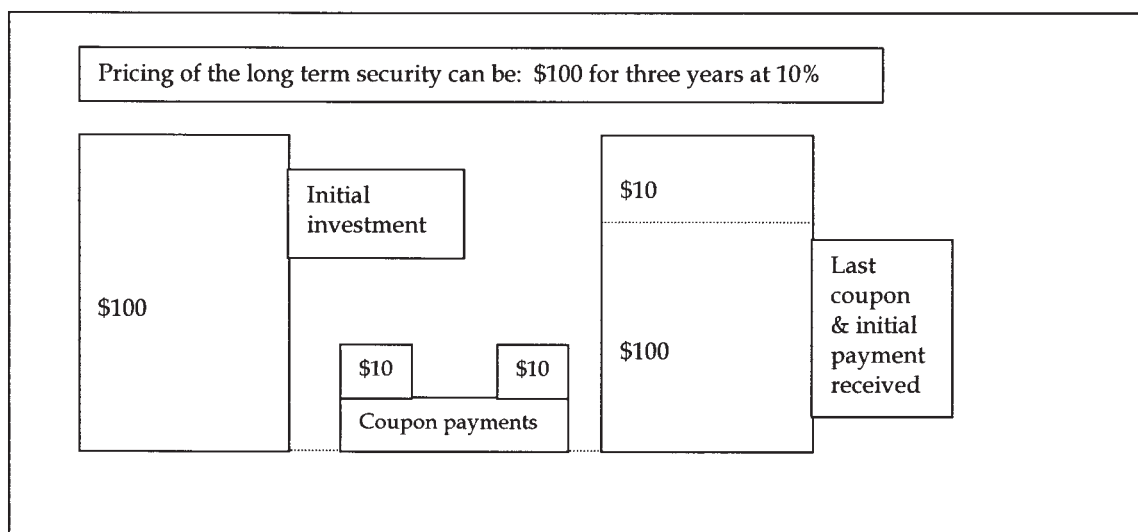
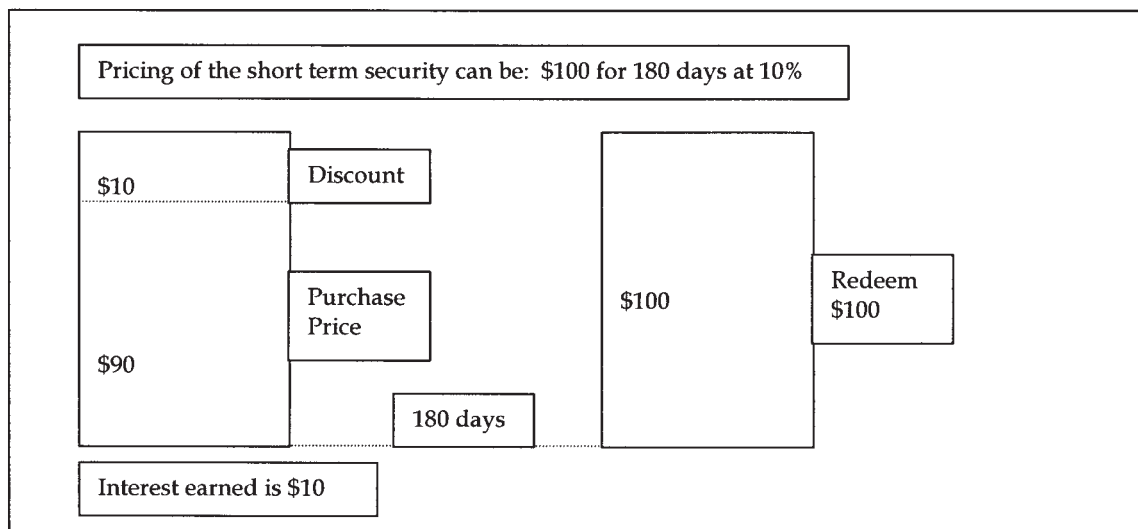
Yield is the expected annual rate of return. Yield moves inversely to price.

ie: Price Rises — Yield Falls

$$\text{Yield} = \frac{\text{Sale Price} - \text{Purchase Price}}{\text{Purchase Price}} \times \frac{365}{t}$$

Price

Securities can be issued on a discount of face value or there can be an explicit or implicit interest rate.



Importance of Criteria

It is important to analyse all the criteria for investment when making investment decisions. The key is to find the right mix to suit the individual.

Factors to consider in Portfolio selections

- 1 Characteristics
- 2 Age
- 3 Wealth
- 4 Attitude
- 5 Flexibility
- 6 Management costs
- 7 Diversification — to spread the Risk

Equity Investments

Equity investments mean the investor has a claim to the business.

Shares

Shares are issued by companies to raise money for investment. Ordinary shares are issued at par value. Preference shares receive a dividend set at a percentage above par value.

Liquidity	:	High
Security	:	Low
Term	:	None
Negotiability	:	High
Parties:	:	Issuer and Holder

Unsecured Notes

Unsecured notes paying fixed interest over a set time. Can be converted into ordinary shares.

Liquidity	:	High
Security	:	Low
Term	:	Long
Negotiability	:	High
Parties	:	Intermediary and Holder

Debt Instruments

Debt instruments can be long and short term.

Short/Long Term Commonwealth/State/Private Sector Bonds

Issued by Government to help the economy. Monetary policy lever.

Liquidity	:	High
Security	:	High
Term	:	Long or Short
Negotiability	:	Developing secondary market
Parties	:	Issuer to Manager

Debentures

Direct loan to the company. All the assets of the loan are used as security.

Liquidity	:	High
Security	:	Medium
Term	:	Long
Negotiability	:	Thin secondary market
Parties	:	Issuer to manager to holder

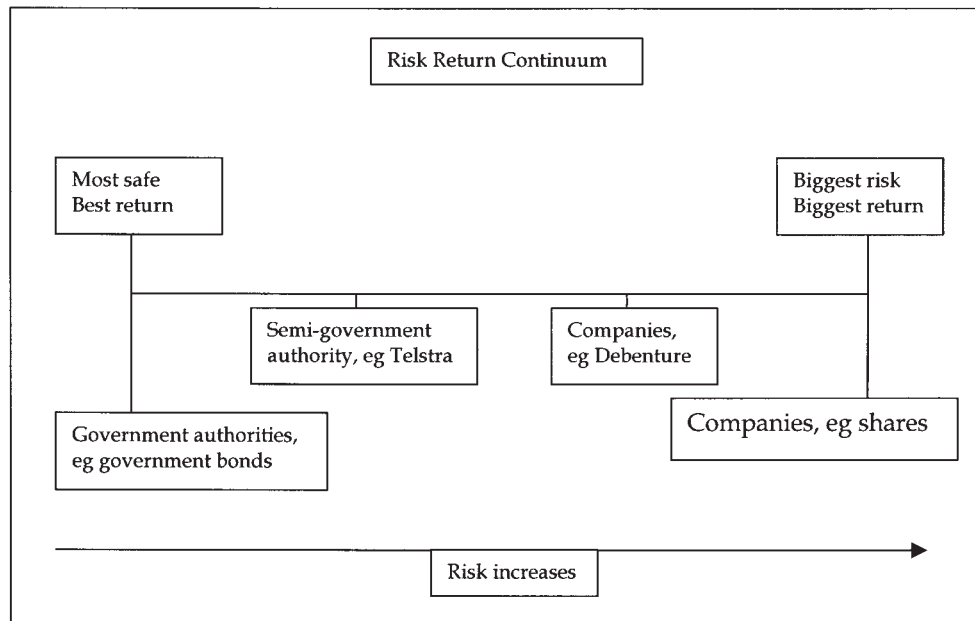
Why delay capital investment?

Risk/Return Relationship

Risk is the possibility that expected return may differ from the actual return. There are many different types of risk:

- 1 Maturity risk
- 2 Inflation risk
- 3 Liquidity risk
- 4 Interest rate risk
- 5 Market risk

Risk will differ depending on the type of security traded.



A risk averse individual is one who has to be paid more to undergo a greater risk.

Interest Rate Risk

Low interest rates in the late 1990s should be an acceleration of capital investment by business but due to the economic cycle the speculation of recession is resulting in decreased consumer confidence in the economic market.

Asia Crisis

When speculators in the western countries heard of economic downturns in Asia they all rushed out the door at once, causing an economic crisis. Investors in Australia are still feeling the after effects of the crash which resulted in our dollar dropping to 56 cents and no-one enthusiastic about investing.

Market Instability

Businesses may also be delaying capital investment due to market instability, not sure if we are going to continue up on this boom or if we are going to crash down soon.

Capital Investment v Financial Investment

There may also be a realisation that capital investment may not be earning as great a return as does financial investment. With different instruments like futures and derivatives capital investment may not seem as worthwhile as it once did. Other investments both in the Australian financial market and FOREX market can provide great flexibility and tailoring to individual needs than capital investment does.

Capital investment can involve long terms where as financial investment can be tailored to suit the kind of term required. Investors needs are all different and so different investments will always be viable to different people.

HUMAN RESOURCE MANAGEMENT

Question 5

Martin Ltd has a reputation for industrial unrest. Stoppages are frequent and workers are often late or absent. Management has only ever responded by periodically dismissing difficult employees, but the situation has not improved.

You are the new Human Resource Manager of Martin Ltd and are asked to write a report to improve the situation. Your report is to include:

- (a) an evaluation of the effectiveness of the current human resource management;*
- (b) a package of measures to resolve differences between management and workers, with particular reference to grievance procedures and management training;*
- (c) a motivation program, with justification for your choice of techniques.*

Topic Outcomes examined

- outline the function and role of Human Resource Management within an organisation.
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resource management policies
- evaluate methods used for maintenance and alteration of human resources within the legal and organisational constraints of a firm
- explain the way differences between employees and employers can be handled in the work place.

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

- outline the function and role of Human Resource Management within an organisation
- describe the components and effects of motivation and its relationship with job satisfaction, performance and human resource management policies
- explain the way differences between employees and employers can be handled in the work place.

They were less clear, however, about the following outcome:

- evaluate methods used for maintenance and alteration of human resources within the legal and organisational constraints of a firm.

General Comments

Almost all candidates could outline methods of motivating staff. Most could offer a suitable program for Martin Ltd, but fewer were able to justify their choice. Answers referred to motivation theory in justifying the program. Most candidates talked about a general package of resolution measures for Martin Ltd. These were often generic in nature. Grievance procedures were poorly understood by many candidates, while management training was misunderstood by most candidates, ie it was interpreted as training in general.

Nearly all candidates understood that there were problems in Martin Ltd. A majority of candidates described the range of problems in the organisation while better answers evaluated the effectiveness of the present human resource management. This was often achieved through candidates explaining the implications, eg increased cost, lower productivity and morale of the current human resource problems at Martin Ltd.

Excellent Responses

Candidates explained the impact of a range of poor HR practices on the organisation, and using absenteeism, lateness, work sloppiness, lower productivity and recruitment and costs. Most responses went beyond the list given in the stimulus, including staff turnover and production/output, lower sales, lower moral, higher costs. These candidates were able to identify and clearly explain a variety of appropriate measures to resolve the problem between management and workers, referring to both grievance procedures and management training.

Motivational strategies suggested by candidates were appropriate to Martin Ltd, and clearly explained and justified choices. This was often supported by theoretical references, eg Maslow.

Above Average Responses

In these responses candidates described a range of problems in the organisation, usually referring to the stimulus problems and suggesting a few other expected Outcomes of the poor HRM practices. Candidates were able to describe a variety of measures to resolve the problems between management and workers. Some candidates referred to both grievance procedures and the need for management training or alternatively referred to one of these in greater detail. Candidates suggested an appropriate motivation program for Martin Ltd. They justified and explained their choice without referring to motivation theories.

Average

Candidates often listed and briefly described the current HRM problems at Martin Ltd, some just described one problem in detail. They were able to describe some measures, eg grievance procedures and training to solve the problems between management and workers. Candidates often outlines a generic motivation program or listed a range of motivation methods which were not always relevant to Martin Ltd.

Sample Excellent Response

Executive Summary

This report is to analyse the current human resource management, clearly unsuccessful at present. There will be measures referred to which will minimise disputes and grievances. Finally a new motivational program will be established to improve the moral of the current workforce.

Part (a)

Currently Martin Ltd has a reputation for unrest. This occurs due to poor human resource maintenance. This poor management leads to separation and new selection and training costs. There are numerous evaluation factors that can illustrate the effectiveness of current human resources.

Absenteeism

Currently there is a trend to begin worker absenteeism. This illustrates the workers lack of motivation, the company have not motivated the employees sufficiently.

Lateness

This seems to also be a problem occurring in the firm. This will decrease the productivity of the firm as work can only resume later in the morning and this will indent into current profitability.

Job Turnover

This is how many employees are hired and leave the company in each year. This turnover is a clear indicator to the management that the employees seek new job opportunities as they are disgruntled in their current workplace. In Birapont Pty Ltd there was an emerging trend of 7% employee turnover yearly. This was a great expense to the firm costing:

- retraining
- selecting [managers time and advertising]
- loss of productivity, therefore the workplace.

The firm did not attack the problem. This resulted in the firm's eventual liquidation. To prevent this Martin Ltd must use new motivational techniques.

Sales per Employee

Has the employee 'paid their own wage'? What sales or revenue is this employee bringing to the firm? Through the use of Portable Data Entry or Point of Sale technology the firm can evaluate the number of sales each employee is making and whether the HRM techniques were successful.

Profit per Employee

How much profit did each employee bring to the firm?

Has the current HRM actually motivated the employees to maximise the firm's profits.

The management must analyse whether the costs incurred due to the HRM were worthwhile. If Martin Ltd spent \$180 000 on a Human Resource Manager and new motivational techniques and maintenance schemes, why is the firm still littered with dissatisfied employees showing up to work late, if at all. These controls to analyse HR success must be implemented to maintain a profitable business.

Part (b)

The current industrial disputes must be rectified or Martin Ltd will certainly not succeed as a business. The maintenance techniques must help achieve the firms strategic plan and mission. The following package could possibly ease the current grievances between employees and management.

- 1 Attempt a more laissez-faire approach to management, using TQM and grouping the employees into teams. The teams must strive to achieve goals planned each half year. Incentives can be used such as if the goal is met the winning team [most sales] receive a bonus of \$800 each. Such monetary reward must motivate the workers and at the same time promote team work and harmony.
- 2 The current workforce can be given the option under the new Australian Workplace Relations Act to work under a Structural Efficiency Accord. This enterprise bargaining between the work force will promote productivity and could rectify current employee qualms. A possible shift from unionism could also prevent the current industrial unrest and shift to decentralisation.
- 3 The current work environment must be analysed. Under the Occupational Health and Safety Act 1985, the firm must promote a safe working environment where machinery and floorspace is clear of danger. This could again prevent disputes.

Training

With increased training the current managers could learn to deal better with 'difficult employees' than mere dismissals. As Professor Hilmer claims, 'downsizing is a last resort' to remove current workforce is costly and will pose problems in the future.

External Courses

The management must be sent to external courses to attempt to remedy the grievance handling and prevent intervention from the Industrial Relations Court. These external courses could train the managers to 'understand' better the employees and attempt to prevent industrial unrest. Although while away the firms productivity will decrease, in the long term the firm will only gain from the management's new skills.

Behavioural Modelling

A specialist Human Resource Manager can be employed to teach the current management how to deal with grievances. The new managers have the experience and understanding of the field to 'model' and attempt to resolve grievances.

Class Courses

The managers who attended the external courses must pass on the new ideas to the rest of the management body. Such a class room situation will maximise the worth of the courses and ultimately attempt to deal better with employees.

Part (c)

A positive motivation program can act to increase workers morale and in turn decrease the absenteeism and lateness thus increasing profitability.

Performance Appraisal

The firm must analyse its employees on a quarterly system. This must be done in an informal manner to minimise the employees' unrest and discomfort. The Performance Appraisal is an opportunity for employees to:

- 1 gain a promotion;
- 2 show their worth to the firm;
- 3 gain recognition [a large motivator].

If the Performance Appraisal is done using Management by Objectives, the employees will form their own targets and strive to achieve them. [Locke goal setting theory]. This will possibly aim to remove current thoughts of unrest and force a team based and motivated work force. The opportunity to show management their skills and the opportunity to gain recognition acts as a motivation.

Job Satisfaction

This can be improved by numerous techniques.

- 1 Multiskilling [secondment]
 - 2 Job enlargement
 - 3 Training
 - 4 Job enrichment
- 1 The new skills learned and changing environment will excite and motivate the workers.
 - 2 The larger work type will remove the continuous specialisation and bring new experiences to employees.
 - 3 New training and external courses or use of simulation will improve motivation.
 - 4 Giving employees decision making and higher order tasks will give responsibility and recognition to employees. [Herzberg's theory].

The training must be monitored for success and an increase in:

- productivity
- ideas/skills
- motivation

and a decrease in:

- waste
- accidents
- absenteeism/turnover.

Non-Monetary Motivators

- Recognition
- Responsibility
- Perks
- Studies
- Personal security - all act as a motivation to workers.

If the new 'non-monetary' motivators were implemented the employees morale would lift.

Finally, use of monetary motivators 'operant conditioning' of commission or a bonus system acts as an incentive to improve morale of employees and profitability of the company.

Question 6

Poor recruitment processes have been blamed for the increasing number of graduate trainees leaving their employer within one year of recruitment.

- Outline the recruitment and selection processes. How might these processes be better applied to prevent the above situation occurring?*
- Identify the characteristics of an effective induction process.*
- With reference to a case study, explain the role of the Human Resource Manager in managing change in the workplace.*

Topic Outcomes examined:

- explain the way legislation influences human resource management activities
- outline the function and role of human resource management within an organisation
- outline the relationship between the strategic plan and human resource management
- 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 resource management policies.

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

- explain the recruitment and selection process
- outline the function and role of the human resource management within an organisation.

They were, however, less able to relate Outcomes to:

- identify the characteristics of effective induction and training programs.

General Comments

Most candidates were able to outline the recruitment and selection processes in detail. However, only some were able to explain how these processes could be better applied to prevent the increasing number of graduate trainees leaving their employer within one year.

Candidates were able to explain the induction process, the Outcomes of the induction process and methods used in an induction process. However, only a few candidates outlined the characteristics of an effective induction process.

Most candidates were able to explain the role of the Human Resource Manager in managing change in the workplace. They looked at the changing business culture, structure, laws, aging population, industrial relations and economic and demographic changes.

Candidates either concentrated on a few changes which related to their case study or examined a number of changes and their management by the HRM.

Excellent Responses

Candidates analysed each part of the question in depth demonstrating a knowledge of key human resource management concepts and using appropriate business terminology. They outlined a wide range of recruitment and selection processes and in most cases related some of these to the stimulus.

They explained features of a typical recruitment process in a large firm, including the use of job analysis, job description, internal and external recruitment.

The selection process was outlined equally well. It included initial screening, completion of applications, consideration of EEO issues, preliminary interview, testing, reference checks, medical and final selection.

To prevent trainees leaving, the HRM could use a comprehensive approach consisting of a range of selection devices, eg objective assessment, tests, work simulation, appraisal and better job descriptions.

Candidates also identified an extensive range of characteristics of an effective induction process, for example:

- determining needs and priorities
- principles of training and development
- types of training
- outcomes of an effective induction program, eg job satisfaction, improved performance,

lower staff turnover rates, better customer service and lower accident rates.

Excellent responses explained in depth the role of human resource manager in managing change with detailed reference to a case study. They either referred to a particular change which had an influence on their case study or referred to several changes, eg improving communications affecting the case study, including:

- the role of women
- increasing part time work
- the changing structure of a business
- legal/government changes
- a need for increased productivity and efficiency.

Above Average Responses

Above average responses either answered all parts of the question or answered two parts well. Candidates outlined a range of recruitment and selection processes but most did not refer to the stimulus. Most candidates outlined a limited range of characteristics of an effective induction process or they discussed some Outcomes of an effective induction process in less depth. Most candidates focused more on the first two parts of the question. In part (c) candidates briefly used a case study to explain the role of human resource manager in managing change.

Average Responses

Candidates outlined some recruitment and selection processes but did not refer to the stimulus material. Average responses identified some characteristics of an effective induction process or mentioned some Outcomes of an induction process. Most candidates used a case study to explain the role of human resource manager but did not explain it in depth. Most did not refer to management of change.

Sample Excellent Response

Human Resource Management (HRM) is concerned with the relationship between employee and employer.

Recruitment and Selection Process

Recruitment and selection is part of the many functions of HRM.

Recruitment is the attracting of candidates that best meet the organisation's HR requirements. It is focussed on meeting supply and demand of HR and very much integrated into the strategic plan of the business. Recruitment is a term of economic competition as businesses strive to offer the best job to the best candidate.

(a) Recruiting involves forming a job analysis which contains two parts:

- Job description — outlines duties, responsibilities, working condition, reporting relationships.

- Job specification — which looks at skills, experience, qualifications, abilities and education.

The forming of the job analysis leads to various forms of internal or external recruitment procedures, advertising, consultancies, job postings and search agencies. For the situation mentioned, an effective, organised approach to formulating a job analysis should be undertaken, so that the right type of people with the right skills are first attracted. This process must also involve presenting a good image for the organisation, so that potential candidates are initially attracted.

After the recruiting process the selection process begins. Selection is designed to pick out a successful candidate from a pool of candidates, who best meet the selection criteria. The selection process includes:

- Application Form: basic knowledge about the applicant.
- A screening interview: to sift through the candidates and reduce numbers.
- A formal interview: to assess personality, skills, experience and knowledge.
- Variety of tests: aptitude, personality and behaviour.
- Medical examination: for jobs requiring strong physical fitness.

The selection procedure after the situation must be thorough and planned - management must attend interviews knowing what objectives they aim to achieve and what type of employee they are looking for. Merit processes must also meet legislated requirements such as EEO, AA and Anti Discrimination.

(b) Induction is a process by which a new employee is introduced to the organisation's culture, values and practices. An effective induction program should include:

- reduced anxiety for new employees
- facilitate recruitment with management
- reinforce company values and ethics
- meet colleagues and partners
- a good image of the organisation.

Induction processes are essential because they provide the employee with the first glimpse of the initial business environment. They should aim to put forward a positive work culture and strive to make the new employee as comfortable as possible.

Some businesses use mentors, so that the employee can facilitate communication with members of the business. This ensures that they do not feel lost or isolated. It gives them a sense of belonging to the organisation and makes them feel at ease towards management.

It is important for businesses not to overwhelm the employee with too much information on the first day. It should only be a basic outline.

Most induction procedures have three stages. These are:

- Company induction: the objectives, mission strategies of the overall business.

- Department induction: supervisors, management, induction rules, procedures, ethics and cultures are defined.
- Job induction: what the job entails; the responsibilities, relationships etc.

Induction programs must be structured and sound so that the employee does not get confused.

Management often checks up a few months after induction to ensure that the employee has settled in, as well as to fix any problems. This is part of good management practices on behalf of the organisation.

(c) Case Study: McDonalds

The HRM at McDonalds Australia is always concerned about managing change and its impact on their HR. They believe it is their responsibility to provide a positive view towards change, and to be proactive so as not to cause any ... within the internal environment.

The HRM is responsible for the motivation training, development, maintenance of HR during the process of change. McDonalds is greatly affected by changes in the external business environment such as economic cycles, technology, social values, demographics and competition. It plans for these external influences strategically, integrating their HR function with long term strategic objectives. HRM continually monitors the environment, conducting situation analysis and SWOT analysis and planning proactively to deal with these changes.

The training and development of HR is important to McDonalds as they believe it is their customer service that gives them their competitive edge. Through performance appraisals they are able to identify employees for career development and training. McDonald believes that through the training and development of employees, they are able to successfully cope with change in the business environment. Their training involves off the job lectures at Training Centres, as well as on the job experience in dealing with new technology and new processes. Their provision of career paths for all employees motivates their workers in a positive way. The provision of awards for outstanding achievements in job performance is their non-monetary way of motivating employees to deal with change internally and externally.

McDonalds is constantly planning for change through the closing of restaurants in some locations and the opening of new ones at better locations. They are able to provide their employees with effective channels of communication through open door policies, crew meetings, rap sessions and the Personal Action Letter (PAL) system. They maintain their obligation to follow OHS rules by forming committees that meet every quarter to discuss safety issues and so forth and always comply within EEO, AA and Anti Discrimination laws.

The management of change is important for HRM at McDonalds as they plan strategically to be able to forecast and meet HR requirements. HR managers must work closely with line managers and McDonalds does this so that a strong link between the strategic planning and organisation planning is formed. This flexibility enables McDonalds to cope with the dynamic changes through the training, development, motivation and maintenance of employees. Its policies towards legislation, the society, the environment are also firmly planted in McDonalds strategic plans as is their responsibility to take into account the impact that their business has over these issues.

McDonalds has lots of support from management and staff and this has contributed to their success in managing change.

PRODUCTION MANAGEMENT

Question 7

Balmain Jetties

Balmain Jetties specialises in the production of small jetties and wharves in Sydney Harbour. It uses the only crane-carrying barge on the Harbour, built at great expense thirty years ago. A new company, Riverside Constructions, has started making jetties and wharves using multiskilled, outsourced tradespersons and lower quality materials. By working at low tide they avoid the need for a specialised barge. Riverside's rates are considerably lower but, according to Balmain Jetties, their work suffers from faults that will not be obvious for many years to come.

- (a) *Identify the production issues raised by these two different operations.*
- (b) *Discuss the social issues involved in the above situation.*
- (c) *What factors should Balmain Jetties consider with regard to replacing their barge, or changing their production procedures?*

Topic Outcomes examined:

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

The majority of candidates were able to achieve outcomes that required them to:

- appreciate the impact of social issues applicable to the two situations.

They were less clear, however, about outcomes that required them to:

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

General Comments

This question required candidates to discuss a broad range of issues relating to production management. Candidates easily identified social issues in the question but found it difficult to discuss production issues with reference to Balmain Jetties. Many candidates discussed a wide variety of options that Balmain Jetties should consider and drew logical and conclusions relevant to the stimulus. Candidates did, however, have difficulty applying production management concepts to replacing a barge or changing production procedures.

Excellent Responses

Candidates analysed production issues relating to the two different operations such as multiskilling, the production process and workplace practices, outsourcing, technological change, quality control and quality assurance and clearly linked their responses to the stimulus material.

Social issues such as environmentally sustainable production procedures and social responsibilities relating to employment, quality and ethics were discussed. Candidates considered a range of production factors of concern, but had difficulty relating these issues to a manufacturing business such as Balmain Jetties. These issues included technological change and associated financial costs, frequently changing production processes and work practices.

Above Average Responses

Candidates identified fewer social and production issues relating to the two different operations. They discussed general production and social issues rather than ones specific to the stimulus. Candidates discussed some factors to be considered by Balmain Jetties and Riverside Constructions. Candidates answered two parts well.

Average Responses

Candidates discussed general production and social issues rather than ones specific to the stimulus. Candidates often made a value judgement based on the stimulus material, accepting the assertion that Riverside was a less reputable and lower quality product.

Sample Excellent Response

- (a) In production management, the transformation of raw materials into a marketable product, there are a broad range of production issues pressuring the way in which a product is produced and the purpose it is for. In regards to the companies 'Balmain Jetties' and 'Riverside Constructions' a range of these issues are raised. These include:
- Price: Riverside Constructions are able to provide a jetty for a lower price than Balmain Jetties, this due to different production methods and levels of quality.
 - Usefulness/Practicality: both companies provide relatively the same product. The life of a product is also incorporated. According to Balmain Jetties, Riverside's products do not last as long or as well as theirs. This being an aspect reviewed by the consumer when looking into the value of who is to build their jetty.
 - Aesthetic appeal: relatively the same.
 - Procedure: Balmain uses a crane barge, Riverside waits for low tide to build; this allows them to charge lower prices because Balmain must include the price of their barge. As Riverside must avoid low tide, the customer may be inconvenienced. In some instances, the barge may be better suited to a particular job. In others the barge may not be able to be manoeuvred to the right place. In this instance, Riverside's workers may be better suited.

- Technology: both companies are different. Balmain uses a higher level of technology whereas Riverside finds this level unnecessary and instead outsources multiskilled tradespersons.
 - Quality: quality is the main concern when identifying such production issues. Balmain provides a higher level of quality to their customers, although this comes with a higher level of cost. Riverside uses a considerably lower quality of material which enables them to advertise cheaper prices, although a shorter product life span.
 - Laws and Regulations by Government: are they being adhered to?
- (b) Social issues are also involved in production management. As society, ie customers, are the purchasers of such products, the customers therefore determine what companies are to make. Their demand determines the levels of quality, safety and moral values are attached or incorporated in the product they buy. Social issues involved in Balmain Jetties and Riverside Jetties, include:
- Environmental sustainability: what materials do each of the companies use? If wood is used, are forests being replanted to compensate for the trees they cut down. What form of waste disposal is used? Is waste disposed of effectively in an environmentally friendly manner and what recycling is used?
 - Social justice and safety: are the products made with the customers' safety in mind? Will the product continue to operate efficiently and effectively? Is it value for money. Does it perform the job it was advertised to do?
 - Customer loyalty: if a customer purchases a product which conforms to their needs and values, they will either purchase again, or tell others of its merits. The same works for a bad product. There is always a carry-over effect. In Riverside Construction's case, if faults do eventually appear in their products, a bad image develops in customers' minds and affects other customers' views of the business itself.
 - Quality: a customer expects to get what they are paying for. If they pay a higher price, then they expect a higher level of quality. For example, Balmain Jetties, if they pay a lower price, then as high a level of quality may not be expected, ie as in the case of Riverside Constructions. It is fine for a business to offer a lower level of quality so long as the customer realises that the product they are buying is of lower quality and that the business offering it does not enhance the product by being misleading about the level of quality and the features it offers.
- (c) As technology increases, so must business' equipment and procedures. These will ensure business does not become obsolete and lose its competitive advantage. Riverside Constructions has eliminated the technology change aspect to some extent by using manual labour. Any changes they make may instead refer to increased training and development of their workers. On the other hand, Balmain Jetties built a crane-carrying barge at great expense. This barge is now 30 years old and over the last 30 years technology has greatly improved. They must, therefore, continuously make changes to their barge to keep up to date. If not their barge may become obsolete itself. Replacing the barge would cost a great amount. To raise needed capital the business may have to lower costs and to do this, they may have to lower quality. This will put them on the same level as Riverside Constructions. Instead, continuously improving and updating the crane with

the newest technology may be a better way for Balmain Jetties to continue.

As well as the increase in technology affecting Balmain Jetties' barge, it may also affect the production procedures they operate under. As the business has been established for over 30 years, it may be time to introduce changes, especially in procedures and pricing.

Constant monitoring and evaluation of the business' production and the business as a whole will help the business find out how it can improve. This will allow it to position itself after changes in its external environment and to stay competitive against the newcomers, Riverside Constructions, thus allowing it to remain afloat and in operation.

Question 8

If Australian production is to succeed in the twenty-first century it must be innovative and quality conscious.

- (a) *Outline the processes and procedures involved in designing a product, and how quality assurance should be applied.*
- (b) *For a business you have studied:*
 - (i) *Discuss its production management in terms of organising, leading and controlling.*
 - (ii) *With reference to the above statement, evaluate the chances of success of this business in the twenty-first century.*

Topic Outcomes examined:

- analyse the production process
- evaluate the features of acceptable product design
- understand and apply the steps in quality assurance and quality control and recognise the benefits of quality production
- identify, plan and simulate the steps involved in bringing together the resources needed to produce goods efficiently.

The majority of candidates were able to achieve outcomes that required them to:

- analyse the production process
- identify, plan and simulate the steps involved in bringing together the resources needed to produce goods efficiently.

They were less clear, however, about outcomes that required them to:

- evaluate the features of acceptable product design
- understand and apply the steps in quality assurance and quality control and recognise the benefits of quality production.

General Comments

Most candidates outlined the processes and procedures involved in designing a product. Some candidates, however, confused processes and procedures with design aspects. Better candidates discussed their case study in terms of production management concepts in the option. Some candidates focused on the theoretical management issues of organising, leading and controlling in the 2 Unit core topic, rather than discussing them in relation to production management. Some candidates used case studies that were not suitable for production management such as McDonalds or a local coffee shop.

Excellent Responses

Candidates outlined the processes and procedures in designing a product, including innovation/invention, product design, prototype manufacture and testing, product feasibility study and final product design including packaging. Candidates discussed quality assurance as an integral part of design.

Candidates used their case study to discuss how organising, leading and controlling are implemented by a business, through such processes as purchasing, organisation and storage of inputs, production scheduling, dispatch and the integration of quality assurance. Candidates evaluated the chances of success into the 21st century by identifying those aspects of their business that they considered would ensure success and also those aspects that they thought needed attention.

Above Average Responses

Candidates outlined some of the processes and procedures and described quality assurance but did not necessarily relate it to the design process. Candidates described how organising, leading and controlling are implemented by a business with reference to production management. Candidates explained why the business would succeed into the next century, rather than evaluating its chances of success.

Average Responses

Candidates briefly outlined the processes and procedures involved in designing a product but confused aspects of design with processes and procedures. They usually described their business case study and did not discuss its production management, in terms of organising, leading and controlling. Candidates made only brief reference to the quality assurance process. The chances of success were usually discussed with little reference to the stimulus statement. Inappropriate case studies limited many students' responses.

Sample Excellent Response

Australian manufacturing industries today face an increasingly internationalising economy with reductions in protection since the March 1991 Industry Statement and the deregulations of financial markets in 1993. Today production businesses must be international players and exhibit quality, innovation and an export orientation in order to survive in this dynamic environment towards the new millennium.

(a) Production management is defined by Geoff West as:

‘... a complex juggling act where many physical and human resources are brought together to produce a product, hopefully on time, on budget and within specification ...’

(Geoff West, 1996)

It is the planning and implementation of strategies to ensure that goods and services satisfy customer requirements with the greatest efficiency and effectiveness.

The production process of transforming inputs into outputs covers three main areas of:

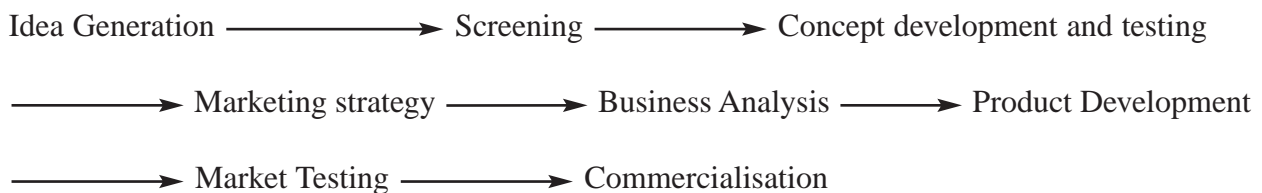
- Product design
- Manufacture
- Quality.

Product Design

The following aspects must be taken into consideration when designing a product:

- Pricing
- Practicality/usefulness
- Packaging
- Aesthetics
- Industry standards
- Legal requirements.

These aspects are then coordinated into the design process:



Processes and Procedures involved in designing a product

Product Design

This begins with a design brief which is a short statement indicating what is to be designed. Ideas are screened and the most appealing to consumers are embraced while less effective are discarded.

Prototype Manufacture

A prototype or model is made to illustrate what the final product will look like. At A Goninan & Co Ltd, an engineering division of Howard Smith located at Broadmeadow, their prototypes are hand made from balsa.

Prototype Testing

The prototype is tested for market acceptability and technical performance, as it is expensive to produce a product full scale without knowledge of its market acceptance. For example, Kroc had a service site in California for the first McDonalds store to test menu and service.

Production Feasibility Study

This looks at how the product will be processed. Generally new products use skilled labour and general purpose machines until no changes need to be made when production switches to automation and special purpose machinery, as in Sony and its Walkmans.

Final Product Design

Here full scale commercialisation occurs.

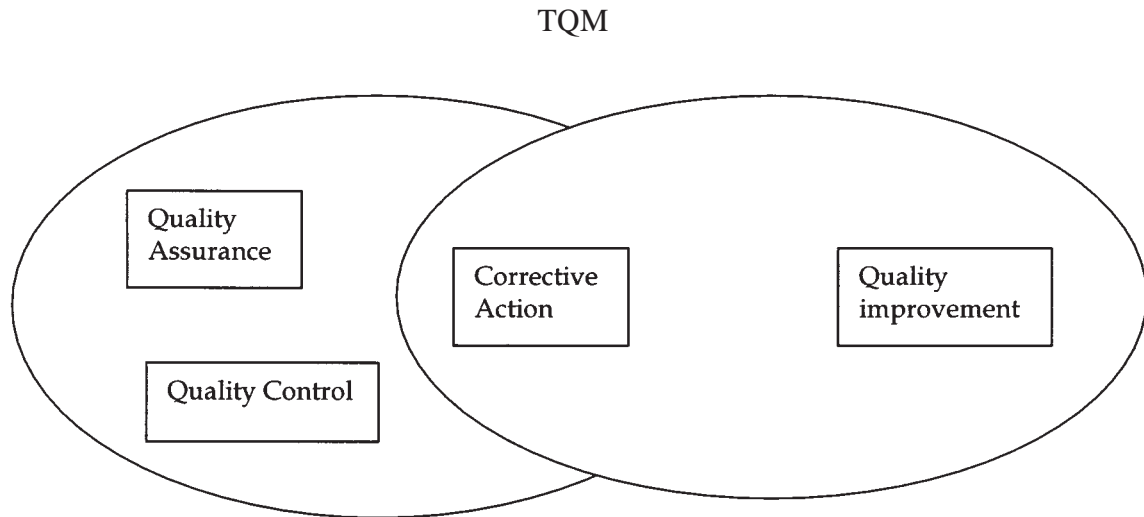
Quality

Quality is considered to be conforming to customer requirements and design specifications. Many different definitions have developed over the years, from quality control and inspection, to statistical control and finally a prevention and quality assurance approach.

This total quality management approach (TQM) considers quality to be 'a journey rather than a destination' (Cronk et al). Quality assurance should be applied at all stages of the production process, from design, obtaining raw materials, production and output.

It requires:

- Management commitment
- Employee involvement
- Quality assurance and measurement
- Quality improvement
- Cost reduction



- (b) Goninans is located at Broadmeadow in Newcastle and is the engineering division of Howard Smith Ltd. It is one of only nine providers in Australia of heavy railway rolling stock. It will soon celebrate 100 years of operation.
- (i) **Organising, Leading and Controlling**

Purchase, organisation and storage of inputs: Goninans operate a system derived from Japanese 'Just in Time' inventory management called Kanban. It is a visible card record system whereby stock is pulled from one workstation to another with a visible sign; (card or empty container) indicating new stock must be ordered. This system has negated theft at Goninans, as well as reducing work in progress inventory and storage costs.

Production Scheduling: Goninans utilise production schedules due to their large projects and contracts. The recent restoration of 130 SRA carriages had a cycle of four cars that moved through the production line. It had a turnaround of 20 days when it should have 20 due to spanning out production in hope of keeping staff on for the fourth generation Tangara contract. This contract was recently lost to Clydes Engineering in September. They use materials requirements planning.

Production

Production is coordinated according to the nature of the contract. The coal wagon production utilises continuous process whereas Goninans gearing operations is a one-off jobbing production process.

Assembly

Goninans is not an assembly plant like Ford Motor Company and so on. However while parts are sometimes manufactured for large projects at other Goninan sites, the Broadmeadow site sometimes combines them into the final product.

Dispatch

This involves scheduling the work tasks to be completed in sequence and releasing them for production when required. Goninans has dispatch lists on the factory floor with workers ticking off tasks as completed.

Quality

Goninans are committed to integrated quality control as indicated by their slogan 'Goninan Quality'.

(ii) Evaluation of Success

If Australian production is to succeed in the 21st century it must be innovative and quality conscious. Goninans has an excellent chance of success with the adoption of accreditation to Lloyds ISO9000 Quality Assurance Management System. Goninans has integrated quality into every aspect of their business, from purchase of raw materials all the way through to final output.

The Cardiff Design Centre is regarded as internationally world's best utilising technological advances such as CAD and 'Kaha'. Quality is thus ensured in design and innovation is enhanced through this technology.

Also Goninans has invented testing machines for its coal wagons to highlight hot points and stress areas. They also test the SRA carriages for leaks by putting them through high pressure water sprays.

Goninans is highly innovative in its designs and technology and has adopted Quality Assurance Management Systems. However with the recent loss of the SRA 4th Generation Tangara Project to Clydes in Bathurst, 420 of the 620 jobs at Broadmeadow and Cardiff are to go. This may reduce its chances of success. However, with an international approach of exporting to Hong Kong and Malaysia, Goninans, by focusing on its core activities of railway rolling stock, should be able to survive this turbulence into the new millennium.

Production management in today's environment must be flexible as Goninans has shown through its one-off production methods. Production must also be innovative and export oriented. Quality is a key aspect ensuring a distinct competitive advantage. This Quality Improvement journey, like any worthwhile journey, is slow, often painful, requires total commitment by senior management but is ultimately very rewarding.

INTERNATIONAL BUSINESS

Question 9

Balmain Jetties

The Asian economic crisis of 1997–1998 has been characterised by depreciating currency values and hurried political decision-making. For Australian businesses either exporting into east-Asian markets or operating in east-Asian economies, the current crisis has increased the financial and other risk factors associated with their international ventures.

Using the above information as a guide, answer the following questions.

- (a) *Outline the exchange rate risks faced by businesses when operating in overseas markets. How might these risks be overcome?*
- (b) *Identify the features of east-Asian markets that have influenced Australian businesses.*
- (c) *Discuss the possible changes that may occur in the composition, importance and direction of Australian trade as a result of the Asian economic crisis.*

Topic Outcomes examined:

- description of the changing composition, importance and direction of the national economy's international transactions
- analysis of how specific economic, financial, cultural, legal and business practices of overseas markets affect business success (when expanding internationally)
- recognition that differences in business culture and practice exist on an international scale and analysis of how they impact on business.

The majority of candidates were able to achieve outcomes that required them to:

- analyse how specific economic, financial, cultural, legal and business practices of overseas markets affect the success of Australian businesses when expanding internationally
- recognise that differences in business culture and practice exist on an international scale and analyse their impact on business.

They were less clear, however, about outcomes that required them to:

- describe the changing composition, importance and direction of the national economy's international transactions.

General Comments

A number of candidates were able to outline exchange rate risks and correctly explain a range of hedging tools. This was the most conceptually demanding aspect of the question and was handled well by candidates.

Most candidates identified the purely economic and geographic aspects of east-Asian markets that

have influenced Australian businesses. Few described social, political, legal and cultural factors.

Often, very detailed answers were given describing historic changes in the composition, importance and direction of Australian trade. However this was not required by the question. Many candidates either misread the question or were less able to make the link between the Asian economic crisis and possible changes in the composition, importance and direction of Australian trade.

Excellent Responses

Candidates demonstrated a clear understanding of exchange rate risks and their implications for Australian business and gave detailed explanations of appropriate hedging tools. They identified a range of features which made east-Asian markets attractive to Australian business and were particularly detailed in their discussion of economic features. Excellent candidates employed statistical analysis to support their discussion of possible changes in Australian trade and clearly related these possible changes to the Asian crisis.

Above Average Responses

Above average responses outlined exchange rate risks and described a range of hedging tools, but in less depth. They identified relevant features of east-Asian markets and related possible changes in Australian trade to the Asian crisis. However, their discussion lacked the clarity and depth of the excellent responses.

Average Responses

These responses described exchange rate risks and tended to identify rather than explain the use of hedging tools. They gave a more limited account of the features of east-Asian markets. While they were still able to discuss the nature of Australian trade, they tended to give an historic account of changes in Australian trade, rather than possible changes due to the Asian crisis.

Sample Excellent Response

(a) Any form of international transaction will involve risks. The recent turmoil in the Asian Region has highlighted the caution with which this region should be dealt with. The significant depreciations of the Asian currencies (as high as 80% of Indonesians against the \$AUS) has the effect of:

- making Australian exports to the Asian region more expensive;
- making imports from the Asian region cheaper and hence the loss of competitiveness of Australian output to buyers like the EU and the USA.

When any transaction occurs between two countries, the currencies must be exchanged. Due to a highly speculative free and deregulated market much fluctuation occurs and it is estimated to be 90% speculative. Recently the Australian dollar depreciated from highs of 68 cents to the US dollar in early 1998 to a low of 58 cents in early October. This depreciation makes Australian exports more lucrative, however, can lead to a decreased profit.

There are various financial derivatives that can be used to hedge against these exchange rate risks - they may charge a fee as a result, yet are necessary in international business, especially in the turmoilled Asian region. They include:

Options: this is when a party agrees on selling a certain amount of a commodity on a date at a certain agreed on price. The option may be traded before the maturity date in the secondary market. If the price is above the agreed amount, the higher price may be opted for.

Futures: this is a similar agreement when a commodity or blocs of \$A100 000 are agreed to be bought at a certain time in future on an agreed rate. Like options, it allows the business insurance as to how much profit will actually be received and hence overcomes risk.

The most popular hedging tool is **forward cover**. This is when two parties agree (between themselves) on exactly how much a good or service will cost at an agreed exchange rate.

Exposure netting: this can reduce the amount of times transactions have to be exchanged by amalgamating the transactions till the end of a financial year so that the transaction will only be subject to one exchange rate.

Businesses must also ensure that real exchange rates are accounted for, ie inflation must be taken into account so as to ensure that a venture will be profitable when converted into \$AUS.

(b) The east-Asia market was indeed lucrative. It was immature and experiencing unprecedented growth rates as high as 10% of GDP per quarter prior to 1997. Prior to this growth the developing economies within this region had minimal infrastructure or manufacturing industries. This lack of development lured Australian businesses into areas of communication, transport and manufacturing industries as these necessary services were essential for the development process. Telstra was hired by Indonesia to assemble cabling in 1996.

The geographic location to Australia has also acted as a luring factor for Australian businesses with transport costs being cheaper than those associated with trade to the SU and USA.

Australia's comparative advantage in minerals and agriculture provided the raw materials for the developing Asian nations.

The lax environmental laws of many of the east-Asian markets and the various tax advantages associated with investment, eg 16% in Hong Kong, proved these nations as a cheaper alternative production source than Australia.

The depreciated currencies of the Asian nations in comparison to the \$AUS enabled production offshore to be a viable alternative.

The cheap labour and lax wages and industrial relations system enabled production costs to be substantially lower for Australian businesses willing to invest. Labour is as cheap as 50 cents per hour in China.

The regionalisation of these Asian nations in ASEAN and APEC has fostered loyalty and trade amongst member nations. Australia, with its reciprocal trade agreements, has a comparative advantage in this region when compared to the highly subsidised sectors in the EU and USA.

The growing incomes of the east-Asian region and their demand for conspicuous consumption on westernised consumer goods, placed Australia as a profitable entrepreneur in satisfying their demands

(c) Possible Changes in Australian Trade resulting from the Crisis

Already demand for Australia's agricultural produce has fallen from the Asian region. This is due to:

- the depreciated dollar makes raw materials more expensive;
- fall in domestic Asian demand for cars, electronics and EIMs reduces the demand for iron ore, coal and minerals which make up 26% of Australia's export base.

Meat and livestock has also suffered with falls of 18% in some businesses. However, Fletchers Meats Pty Ltd noticed that its quality meats have sustained a high demand.

Tourism has suffered the most with a decrease of 30% between 1997 and 1998. Ansett International Pty Ltd has cancelled flights to Shanghai, Osaka, Kuala Lumpur, Jakarta and Seoul, whilst flights to Bali and Fiji have increased substantially as a result of depreciated economies.

Financial services such as international banking and insurance have experienced an increase in demand as investors seek security in an unstable environment.

Australian service products, eg Tourism, are more inclined to pitch their services at the growing US and Europe market.

Australia's association with Asia resulted in a loss of confidence in the \$AUS and in Australia as being a lucrative place of investment. Australia witnessed a huge exodus of capital flight by managed funds during the Asian crisis — this stigma is still attached to Australia and hence investment — both portfolio and direct — has declined and is thought to continue in the future.

Australia's loss of exports to the Asian region has worsened our CAD - now up to 4.4% of GDP (1997/98). This has placed importance on trade as a means of rectifying our foreign debt.

To succeed in Asia now, definite niche markets need to be established. Further trade liberalisation is being sought by Prime Minister Howard at the recent APEC summit in Malaysia. As a result of the Asian currency crisis countries are hesitant to stick to their objectives of free trade by 2020. This hesitancy with liberalisation may force Australia's trade to search elsewhere for lucrative markets interested in free trade, eg Mexico and New Zealand.

Europe and USA will be targeted for agricultural commodities and services — tourism, banking and finance as alternative markets. However, some Asian markets still remain as lucrative as before, eg China is yet to crumble.

Question 10

In developing a new product or service today it is no longer efficient to simply look at the Australian market. Management should at least see the region as their potential market and probably the entire world.

- Explain the relationship that exists between a strategic plan of a business and its expansion into new markets.*
- Discuss the financial and other attractions that expansion or relocation into overseas markets presents to Australian businesses.*
- Evaluate the methods of expansion, used by a business you have studied, to penetrate foreign markets and to improve international competitiveness.*

Topic Outcomes examined:

- explain how diversification and investment into overseas markets increases competitiveness of the business and the economy
- explain the economic, financial, social, political, cultural and legal factors influencing the expansion of a particular business into a Pacific Rim market
- analyse how specific economic, financial, cultural, legal and businesses practices of overseas markets affect business success when expanding internationally.

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

- explanation of how economic, financial, social, political, cultural and legal factors influence the expansion of a particular business into a Pacific Rim market
- analysis of how specific economic, financial, cultural, legal and businesses practices of overseas markets affect business success when expanding internationally.

Candidates were less clear, however, about outcomes relating to:

- explanation of how diversification and investment into overseas markets increases competitiveness of the business and the economy.

General Comments

The majority of candidates answered all parts of the question, though responses tended to describe rather than follow the directions in the question, which were to explain, discuss and evaluate.

Many identified a connection between strategic plans and expansions into new markets though few explained the nature and importance of strategic plans, eg the setting of objectives in a time frame; the strategies to achieve these objectives and the allocation of the necessary resources.

While most candidates could identify a number of advantages of, or reasons for, expanding or relocating overseas, many were less able to discuss the financial implications of these attractions.

Most candidates referred to a case study, but few evaluated the methods of expansion. Rather, they tended to identify and discuss the reactions of management to issues encountered once the international expansion was underway. Very few explained how the business chosen had improved their international competitiveness as a result of expansion into foreign markets.

An increasing number of candidates are becoming familiar with topic outcomes. Candidates need to be aware that the broader knowledge and understanding common to all options in the 3 Unit syllabus are also examined.

Excellent Responses

Candidates discussed the nature and importance of strategic planning, eg in estimating market potential, risk assessment, assessment of alternative methods of expansion in terms of investment criteria and case flow implications and the establishment of time frames.

They identified a range of attractions and clearly discussed the financial implications of these for

business profitability. For example, they discussed various input costs, revenue implications of new markets, cash flow implications of different business cycles, the impact of government incentives and policies on the bottom line.

Some evaluated alternative methods of expansion (advantages and disadvantages) used by their business but many had difficulty evaluating methods of expansion. The majority attempted to evaluate the success or otherwise of the expansion/relocation through a discussion of management's reactions to issues encountered.

These candidates had difficulty discussing the impact of the expansion/relocation or the international competitiveness of the business in terms of sales volumes, world's best practice, benchmarking and returns to shareholders.

Some excellent responses integrated the case study throughout all parts of the question or used a variety of examples to illustrate key points.

Above Average Responses

These candidates recognised the link between strategic planning and expansion in terms of increased sales potential and cost reductions if relocating overseas. Many saw the attraction of overseas markets in terms of the limitations of domestic markets. They were able to describe the nature of a variety of attractions but were less able to discuss the financial implications of them. Typical examples included cheap labour, economies of scale, lower tax rates and increased sales. Candidates used case studies but were more descriptive. Discussion was limited to management reactions to problems or issues encountered. Few were able to address the implications of expansion/relocation on international competitiveness.

Average Responses

Candidates identified strategic plans in terms of 3–5 year time frames and briefly stated that they were important. They tended to outline or list some advantages and/or disadvantages of international expansion, with limited discussion of 'financial' attractions. They identified some advantages and disadvantages of some methods of expansion with limited reference to a case study or tended to give an historical account of a business' expansion/relocation overseas.

Sample Excellent Response

International business is concerned with transactions between countries around the world. All business in international business should have a strategic plan when looking to expand into new markets.

(a) Relationship between Strategic Plan and Expansion Strategies

A strategic plan is an analysis of a business and includes a business mission statement, a situational analysis, organisational objectives and implementation and evaluation of objectives. There is an interdependent relationship between the business' strategic plan and its expansion into new markets. Expansion into new markets is a strategy for the business to implement its plan and achieve the objectives of the strategic plan.

Obviously when expanding into new markets the strategic plan would need to change slightly, it should include a close analysis of the foreign markets such as the economic and political climate

as well as socio-cultural factors as these will influence how the business should penetrate these markets to achieve its objectives.

(b) Attractions of Overseas Markets

As there are many attractions that can arise from expansion or relocation into overseas markets for Australian businesses, many of them decide to do so. Obviously the main aim is to increase bottom line profitability for a business however there are other reasons for expansion which include:

(i) New Markets

- increased sales can occur and thus profit if domestic market is saturated
- can extend the business life cycle if the product has reached the maturity or post-maturity stage
- can expand market share by targeting at a broader client base
- a United Nations study found that amount the top industrial businesses over 40% of their sales come from foreign markets.

(ii) Economics of Scale

- This is cost saving due to increasing the size of scale of a business' production bulk buying which given multi-national corporations (MNCs) market power and minimises their tax liability.
- Finance is also easier to obtain due to size of business.
- Transportation costs will be reduced because of bulk.

(iii) Diversification

- By having a number of different suppliers in a number of different countries it minimises risk of under supply of a product or component part and any price movement.

(iv) Minimises Risk

- Exchange rate fluctuates daily in international trade thus by trading in a variety of currencies a business will minimise this financial risk.

(v) Regulatory Differences

- Many overseas countries have different regulations compared to Australian. In order to attract investment, they offer many incentives such as low taxation rates, low interest rates and other favourable incentives.

(vi) Lower Costs

Many overseas countries, particularly Asian ones have very low cost of raw materials and labour. This attracts Australian businesses as it can dramatically reduce their costs of product and hence increase overall profits.

(vii) Can secure technology and expertise

Many overseas countries have advanced technology and expertise that we do not possess

in Australia. Thus it is beneficial to expand into these markets as it can help a business increase efficiency.

(viii) **Proximity to markets**

Many Australian customers are from overseas so by relocating production there, the business has a better chance of meeting its customers' needs.

(c) **Methods of Expansion**

When thinking of expansion, businesses need to consider which methods they are to adopt to suit their business. There are many methods available however they might be suitable for every business. They include:

- 1 Licensing: when a firm (Licensor) allows another firm to use (Licensee) 'intangible' property such as patents, copyrights and trademarks.

For the licensor it has their product to be developed and sold on the global market with little financial outlay from the licensor, while it allows the licensee the right to use a proven property for less than the cost than if this property was developed internally. An example of licensing is Coca Cola bottling plants in Poland.
- 2 Franchising: similar to licensing except the franchisor assists the franchisee on a continual basis and provides advice, advertising and equipment. However the franchisee also has to share the profits with the franchisor. This method is very successful as can be seen by McDonalds franchises around the world as well as the famous Dymocks Bookstores.
- 3 Management Contracts: this is when one business offers managers to other countries that can provide general functions or specialised management functions over a period of time for a fee. For the business offering the contract it provides export income with little financial outlay and for the receiving nation, it gains necessary skills which can then be passed on to its employees.
- 4 Mergers: When two businesses combine resources and operate as a single unit. Benefits include greater output due to increase in resources and it also eliminates a competitor. A recent merger was between the two top accounting firms, Price Waterhouse and Coopers and Lybrand.
- 5 Takeover: this is when one business takes over control of another business and integrates it into the current organisational structure.

Faulding Pharmaceuticals

One method successfully used to penetrate foreign markets and to improve international competition has been a joint venture entered into by F H Faulding and Co with various pharmaceutical companies throughout the world, such as New Zealand, many Asian countries, England, etc.

In late November 1994, Faulding Pharmaceuticals decided to enter into a joint venture for Foshan Pharmaceutical Company in China. It acquired a 90% interest in the company for \$40 million and also bought two manufacturing plants and a distribution centre for western pharmaceuticals and traditional Chinese remedies. This was a bold step for Faulding, however, it was designed to penetrate the huge growth potential of the Chinese market. Faulding Pharmaceuticals decided on joint ventures as a form of expansion as it provides sharing in capital and risk by Faulding and Company in other nations. It allows Faulding to penetrate the overseas markets and overcome trading barriers such as quotas, tariffs etc. Joint ventures are also beneficial as the other company knows the customers, culture, ethics, competitors and legal regulations. The head of Faulding, Robert Wong, is a native and as such any language barriers that could have been experienced by Faulding are overcome. Most of the workers are also native Chinese.

Faulding did experience some problems initially, such as operations were constrained due to some problems and delays in receiving a product marketing approval due to China's erratic legal system. As a result profits for the 1994/95 financial year were below original estimates. However, it did make a \$14 million in sales in the seven month trading period prior to June 1995. It achieved a pre-tax profit of \$536 000. Faulding Pharmaceuticals has told its shareholders to be patient for high returns as investment projects in China are often seen as long term returns and there is no quick 'money making' strategy.

Faulding also had to upgrade some plant and equipment in its operations in China so as to increase output and efficiency.

So although a significant outlay has been provided by Faulding its investment strategy of a joint venture has proved very successful. The head of Faulding China, Richard Wong, predicts that China will be the second largest pharmaceutical market by the year 2005. At the moment it is seventh. However with the help of Fauldings investment, it seems very possible.

Faulding, through its various joint ventures throughout the world, spreads out its risks such as fluctuating exchange rates and political environments, thus making it a global business and by sharing ownership and control it improves its international competitiveness.

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