

CPAP STUDY GUIDE TO VCE BUSINESS MANAGEMENT

1ST EDITION

BONUS EXAMINATION

SAMPLE ANSWERS

Please note: since this bonus examination was published, the VCAA released the structure of the examination for the 2017 study design. While the questions in this bonus examination will serve as good practice and the sample responses will assist in your revision, it is important to note that there are some changes to the structure of the official examination. Firstly, the VCAA examination will be 75 marks and there will be two sections. However, like this bonus examination, the VCAA examination will be a combination of theory questions and application questions.

Question 1

James Wolf began his graphic design business with his partner Sally Moloney 8 years ago. The business is called J&S Design and was built on a culture where relationships are highly valued. The business has gone through rapid growth over the past 3 years and now employs 35 people. James and Sally have grown the business by purchasing two small graphic design businesses. Since the acquisitions, Sally has noticed more conflict between many of the employees, especially the designers which has resulted in a high level of staff absenteeism. The number of complaints from clients has increased significantly and some larger clients are threatening to take their business elsewhere.

- a. *Staff absenteeism is the rate in which employees do not turn up for work when scheduled to be there*
- b. *One management style that would be appropriate for James would be the consultative style. The consultative style is where the manager seeks employee feedback before making the final decision themselves. The consultative style would be appropriate because James could ask the designers why they feel the customer complaints have risen. The designers are the employees that are in direct contact with the customers and would be able to give James an insight into the issues that are causing the complaints. This will allow James to make a more informed decision about how to overcome the rise in customer complaints. However, the consultative management style can be time consuming as James will need to consult with all of the designers. This can cause a delay in the solution to the complaints which could be costly to J&S Design as they will want to rectify the problems quickly.*
- c. *One management skill is interpersonal skills. Interpersonal skills are where a manager is able to interact and communicate with others while maintaining strong relationships. Interpersonal skills will allow James to build strong relationships and gain trust with his employees. He can then use this trust to begin building the relationships between the staff at J&S Design. Another management skill is leading. Leading is the ability of a manager to motivate and inspire employees to achieve business objectives. Strong leaders will lead by example to get others to follow. If James can build on the relationships with his subordinates, it will provide an example of how to treat others. This will give the other employees an example of what is expected when dealing with others which will inspire others to do the same.*

- d. *Real corporate culture is the shared values and beliefs of the people within the business and can be seen in the way managers communicate with staff. Whereas official corporate culture is values and beliefs that the business wants its employees to display and can be seen in official documents such as the business mission statement. The difference between the two is that the official culture is what the business wants the culture to be, whereas the real culture is what the culture of the business actually is. For example, the official corporate culture at J&S Design is one where they want the employees to value relationships, however this value is not currently seen in the real corporate culture as there is rising conflict among employees.*
- e. *The four drive theory is a motivation theory developed by Lawrence and Nohria and is based on four human drives. These four drives are the drive to acquire (tangible items and status), the drive to bond (form meaningful relationships), the drive to learn (learn new skills) and the drive to defend (defend their work or position). Lawrence and Nohria found that these four drives were innate in all humans however, the magnitude of each drive will vary in each individual and can change over time. To motivate employees, it is important that the business provides each employee opportunities to satisfy their four drives. To motivate the employees at J&S Design, James needs to ensure he is providing opportunities for the employees to satisfy their drives. For example, if the designers are not getting along, James can provide opportunities for the employees to get to know each other and build meaningful relationships, satisfying the drive to bond. He could do this by implementing work functions where employees spend time together and get to know each other. By doing this, the employees will bond and will enjoy being at work which will reduce the rising staff absenteeism.*
- f. *A partnership is a business structure where between 2 and 20 people own a business. One of the advantages of this type of business is that there are shared responsibilities within the business and the partners can use their individual skills to help the business success. A partnership is also a relatively simple structure to set up and any liabilities within the business are shared amongst the partners which can relieve some of the financial burden on the partners. However, a partnership has unlimited liability, meaning that the owners are personally responsible for any debts incurred by the business. This can put each partner at personal financial risk. There can also be conflict between the partners about certain business decisions.*

A private limited company is a business that has been incorporated and is owned by shares. The private limited company is a separate legal entity from the shareholders. The shareholders have limited liability, meaning their liability is limited by the amount of their investment. This helps protect the shareholders' personal assets. It can also be easier to raise money for a private limited company, as the business can sell shares to any potential investors. However, this type of business is more expensive to set up than a partnership and there is more government regulation that must be adhered to. I would recommend that James and Sally move to a private limited company to help protect their personal assets. This will allow them to sell shares in the business to private investors which will allow them to use the money to expand and grow the business.

Question 2

- a. *One materials management strategy is forecasting. Forecasting is a materials requirement tool that looks at data and trends to try and determine future demand for products. A business will look to forecast the demand for its products so that it has enough materials on hand when required for production. This will help Thread It as they can look at past data to help determine the market demand for their clothes. This will ensure they are not overstocked with idle product or understocked in high demand products. Another materials management strategy is the Just-In-Time (JIT) strategy. JIT is where materials arrive just as they are needed for production. This helps reduce storage which can greatly reduce wastage and improve efficiency. This will help Thread It with their inventory management as they will not have large quantities of stock on hand. This improvement in inventory management will ensure they have more space available to maximise production when required.*
- b. *Lean management is a management system that looks to reduce wastage from the business while improving the value to the end consumer. Manufacturing businesses such as Thread It can use lean management by assessing each of their processes and look to where they can reduce wastage. For example, one area that lean management looks to reduce waste is in overproduction. Thread It has been overproducing their products which has forced them to be three years overstocked. With fashion items having a short life span, implementing lean management practices will ensure that Thread It doesn't overproduce their clothing which will lead to greater efficiency due to the reduced wastage.*
- c. *Porter's theory states that businesses can gain a competitive advantage by implementing one of his generic strategies. The two generic strategies are the lower cost strategy and the differentiation strategy. The lower cost strategy is where a business looks to reduce its costs in primary and support activities. If a business is able to lower its costs and become a cost leader and sell its goods or services at or near the industry average, it will gain a competitive advantage. The differentiation strategy is where a business looks to offer something unique that its customers value. This increases the demand for the product and the business is rewarded by being able to charge a premium price for the product.
Thread It could gain a competitive advantage if it is to implement one of Porter's generic strategies such as the lower cost strategy. One way of lowering costs is by increasing production and achieving economies of scale. Thread It will be able to reduce their production costs while maintaining an industry average price. This will increase their profit margins and allow them to gain a competitive advantage.*
- d. *Off-the-job training is the process of an employee learning new skills away from the workplace. This can be conducted in a number of settings such as a classroom, lecture hall or outside simulation. Off-the-job training can help the employees at Thread It improve their customer service skills as they will be able to learn from industry experts in regards to customer service. It will also allow them the time to learn these new skills without having the pressure of performing their normal day-to-day duties. By improving their customer service skills and learning from experts, the employees will be able to bring these skills back to their jobs and improve the customer experience at Thread It. However, off-the-job training can be an expensive process for a business. During the time of training there will also be lowered productivity as the employees will not be able to perform their normal duties.*

Question 3

- a. *One strategy that Spick & Span Cleaning Services could use to seek new business domestically would be to expand into new locations. Currently Spick & Span is working out of Melbourne and Sydney. It could look to service areas that are outside these capital cities and into rural areas. This will enable them to gain more business and increase their revenues as they will attract more clients. However, one drawback with this issue is the increased cost of entering these new markets. The business will need to set up offices and have a team of cleaners in a range of different locations which will likely have a high setup cost.*

Another strategy that Spick & Span can implement is to franchise their business. Franchising is where a business grants another business the right to use their trademarks and systems. Franchising the business will allow them to enter into new locations and increase the amount of business they receive and utilising capital from the franchisees to expand. This can also increase the branding of the business as many new franchises open up throughout the country. However, one drawback of franchising is that although the amount of business is increased, only a percentage of sales is received by the head company. There would also be some loss of control for Spick & Span and the quality of the service that is being delivered by each franchisee.

- b. *An industry award is a form of agreement that outlines the minimum wages and conditions of employment for those in a particular industry. Whereas an enterprise agreement is a type of agreement that outlines the wages and conditions of employment for a group of employees within a business. One of the differences is that the award covers all employees in an industry whereas the enterprise agreement would cover a group of employees in a business such as Spick & Span. Another difference is that an award is determined by the Fair Work Commission, whereas the enterprise agreement is negotiated through the use of enterprise bargaining between Spick & Span and their employees or their respective representatives.*

Question 4

Corporate social responsibility (CSR) is the ongoing commitment of a business to operate in an economically, socially and environmentally sustainable manner while considering the interests of diverse stakeholders. One way a business can implement CSR into their operations system is in their inputs. Inputs are the resources used in the production of a good or service. Businesses can use renewable energy to power the production facility. This can minimise their impact on the environment which is socially responsible as it will reduce their carbon footprint.

Another strategy a business can implement into its operations system is in the processes element. Processes are all the activities that transform the inputs into the final output. One strategy in the processes element is to minimise the amount of waste in the production process. By minimising waste and recycling materials where possible, the business will not only improve the efficiency of the business, but minimise the impact on the environment as less waste is going to landfill.

Question 5

One stakeholder that is impacted by change is the employees. Employees are those that work in the business in exchange for money. Change will often impact the employees the most. This can occur if a change results in redundancies, which has a negative impact on the employees as many will be left unemployed, which can place them under financial stress. This was seen at Foxtel when they implemented changes to compete against Netflix and Stan. Part of the changes at Foxtel was to close down their streaming service Presto. This resulted in a number of redundancies which clearly had a negative impact on the employees.

Another stakeholder that is impacted by change is the customers. Customers are those that purchase goods and/or services from the business. Customers can be impacted by change if the changes impact the goods or service they are purchasing. The impact can be either positive or negative. This was seen at Foxtel as part of the change was to reduce the price of their service significantly to allow them to compete against Netflix and Stan. This had a positive impact on the customers as they were able to access Foxtel's streaming service, Foxtel Now for a much cheaper price.

One high risk strategy that can be used is manipulation. Manipulation is where stakeholders are informed about the change with only select facts. This can help a business to implement change quickly as they employees will only hear the positives of the change. For example: if management were to notify the employees at Presto that the service was closing down but not mention the negative impact to many employees. However, while this can get stakeholders on board with the change, it can cause a great amount of resentment once they find out they were manipulated. This can have a negative impact on the relationships within the business.

A low risk strategy that can be used is open two-way communication. Being open and honest about the changes will ensure that employees are aware of the impact the changes will have and why they are happening. This can help get employees on board with the changes. For example, if the employees at Foxtel and Presto were well aware of the amount of redundancies and the time they had to prepare, while they may be upset, they are more likely to appreciate the business being honest with them. This can reduce the resistance to the changes. However, communication can be time consuming and slow down the implementation of the changes. There may be lots of time wasted communicating and discussing which will harm the productivity of the business.