BUSINESS MANAGEMENT UNIT 4

Unit 4, Outcome 2 assessment task: implementing change in a business.

Assessment task detailS

Name of task

Case study

Unit/area of study

Unit 4: Transforming a Business

Area of Study 2: ‘Implementing change’

Outcome 2

‘Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of a business.’

Source: *VCE Business Management Study Design* (2017–2021), VCAA, page 23

Key knowledge

* the importance of leadership in change management
* **management strategies to respond to key performance indicators, including staff training**, **staff motivation**, **change in** **management styles** or management skills, increased investment in technology, improving quality in production, **cost cutting**, initiating lean production techniques and redeployment of resources (natural, labour and capital)
* **management strategies to seek new business opportunities both domestically** and globally
* an overview of the principles of the Learning Organisation (Senge)
* low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives
* high-risk strategies to overcome employee resistance, including manipulation and threat
* key principles of the Three Step Change Model (Lewin)
* the effect of change on stakeholders, including managers, employees, customers, suppliers and the general community
* corporate social responsibility considerations when implementing change
* the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

Questions

Read the following fictional case study and Table 1, and answer the questions that follow.

Finesse

Mark Etting is the Chief Executive Officer (CEO) of Finesse, a medium-sized marketing and communications agency located in Melbourne. The business employs 80 people, including creative and administrative staff, accounts managers and a sales and marketing team.

Finesse was established in 1990 and offers clients a range of services including conducting research, marketing, advertising and graphic design. Its clients include organisations from both the public and private sectors. The business assists clients with strategic marketing, brand building, website design, product and service advertising across most sectors of the mainstream media, including the internet, newspapers and magazines, signage, television and radio.

Over the past financial year Finesse has experienced a decline in revenue and net profit due to competition from a number of new boutique marketing firms that are undercutting Finesse’s prices. A number of these rival companies have even managed to secure some of Finesse’s larger clients.

In response to this financial situation, Mark and the business’s Human Resource Manager, Kim Tran, decided that urgent changes were required if Finesse was to survive and remain competitive. In June 2017, they implemented the following changes:

• Bonuses were increased by 50% to sales staff who attracted new clients.

• Two of the 10 administrative staff and two of the 5 account managers were retrenched to reduce operating costs. Tasks previously done by the retrenched staff have been distributed among the remaining staff members.

• All remaining staff were required to undertake professional development training in their respective area, paid for by Finesse, to enhance their skills and to improve the competitiveness of Finesse.

Refer to Table 1 for some details of Finesse’s performance for the period June 2016 to June 2018.

Table 1: Extract from Finesse’s 2018 annual report

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| **Item** | **June 2016** | **June 2017** | **June 2018** | **Change over  past year (%)** |
| Net profit | $6 000 300 | $2 300 000 | $1 900 400 | –17% |
| Revenue | $10 000 500 | $6 000 300 | $3 000 000 | –49% |
| Percentage of market share | 3% | 2.8% | 1.9% | –0.9% |
| Staff absenteeism | 2% | 2.3% | 5% | +2.7% |
| Level of staff turnover | 2% | 2.2% | 4.3% | +2.1% |
| Average annual operating costs | $4 000 000 | $3 700 000 | $1 100 000 | –30% |

Question 1 (3 marks)

a. Define the term ‘leadership’. 1 mark

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b. Explain why it is important for the Chief Executive Office (CEO) of Finesse, Mark, to demonstrate leadership throughout the change process. 2 marks

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Question 2 (13 marks)

a. Identify **one** financial key performance indicator (KPI) from the case study. 1 mark

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b. Explain the importance of using KPIs to evaluate the effectiveness of business transformation. 2 marks

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c. Staff absenteeism, which is a KPI, has increased by 3% at Finesse since 2016.

Explain the possible impact of this change on **one** other KPI used by Finesse. 2 marks

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d. Identify **two** types of management strategies that have been used to implement change at Finesse. 2 marks

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e. Evaluate the effectiveness of the **two** management strategies stated in your response to **part d.** for Finesse. 4 marks

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f. Mark has decided to use a different management style to improve his business’s performance.

Recommend a management style and provide **one** reason why it would improve the level of staff absenteeism at Finesse. 2 marks

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Question 3 (4 marks)

a. Identify **two** stakeholders who would be affected by a change in Finesse’s management strategies. 2 marks

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b. Explain how the changes implemented at Finesse would affect **one** of the stakeholders identified in your response to **part a**. 2 marks

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Question 4 (3 marks)

Mark thinks that expanding the business across Australia would help it overcome the competition it faces in Melbourne.

Propose and justify **one** strategy that Mark could consider to seek new opportunities in other domestic markets.

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Question 5 (10 marks)

a. Distinguish between low-risk strategies and high-risk strategies. 3 marks

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b. Describe **one** low-risk strategy and **one** high-risk strategy that Mark and his Human Resource Manager, Kim Tran, could use to overcome any employee resistance to the changes they implemented. 4 marks

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c. Which of the strategies described in your response to **part b.** should Mark and Kim use? Justify your choice. 3 marks

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Question 6 (6 marks)

Explain how Mark could have applied Lewin’s Three Step Change Model when implementing the changes at Finesse.

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Question 7 (4 marks)

Describe **two** corporate social responsibility considerations that Mark needed to address when implementing the changes at Finesse.

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Question 8 (7 marks)

Mark’s vision for Finesse is for his business to become a ‘learning organisation’.

a. According to Senge, there are five Learning Organisation principles (disciplines).

Identify **three** of these principles. 3 marks

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b. Explain how Mark could have applied the **two** other principles that were **not** identified in your response to **part a.** to assist in implementing the changes at Finesse. 4 marks

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Suggested answers

***Note:*** *The answers below are suggestions only. For some questions, more than one answer is possible.*

Question 1 (3 marks)

**a. Define the term ‘leadership’.** **1 mark**

Leadership refers to the ability to motivate a group of people in a business and direct their skills and knowledge towards the achievement of common goals.

*Marking guide:*

***1 mark*** *for correctly stating the meaning of the term*

**b. Explain why it is important for the Chief Executive Officer (CEO) of Finesse, Mark, to demonstrate leadership throughout the change process. 2 marks**

Successful change in a business depends on leadership. Mark needs to be able to clarify and communicate his vision for change in the business in order to gain his employees’ support for the changes. Acceptance of proposed changes by employees and support for them is crucial if a change is to be implemented successfully. As a leader, Mark needs to provide the motivation for change, advocate the change, get staff involved in it and ensure they understand their role in the change process. To ensure this, he needs to stay connected with his employees and keep them informed of decisions relating to the proposed changes. He also needs to backup the proposed changes with effective decision-making and planning.

*Marking guide*:

***1 mark*** *for stating the importance of leadership*

***1 mark*** *for making a connection between a leadership action of Mark and a measurable result*

Question 2 (13 marks)

**a. Identify *one* financial key performance indicator (KPI) from the case study. 1 mark**

***Note:*** *The following financial KPIs are relevant to this case study—net profit, revenue and annual operating costs.*

*Marking guide:*

***1 mark*** *for recognising and naming a correct KPI*

**b. Explain the importance of using KPIs to evaluate the effectiveness of business transformation. 2 marks**

KPIs are quantifiable financial and non-financial measures of how well a business is meeting its objectives. In other words, they are used to measure progress towards business goals and are the key to its success. KPIs provide a snapshot of a business’s performance and enable it to determine if it is achieving its objectives, although KPIs must be appropriately matched to the goals they are measuring. KPIs are extremely important tools for evaluating the success of a change management initiative because unless progress can be proven, there is no point to initiating a change.

*Marking guide:*

***1 mark*** *for stating the role of KPIs*

***1 mark*** *for linking the importance of a KPI to measuring how well a business has transformed its performance*

**c. Staff absenteeism, which is a KPI, has increased by 3% at Finesse since 2016.**

**Explain the possible impact of this change on *one* other KPI used by Finesse.**

**2 marks**

***Note:*** *The following answer is one of a number of possible answers to this question. Other KPIs include percentage of market share, revenue and level of staff turnover.*

Net profit is a KPI that could have been affected by staff absenteeism. Net profit is a financial KPI that measures the money left over after expenses have been deducted from revenue. Net profit has decreased by 17% over the past year. As such, the cost-reducing strategies appear to have had little impact on increasing net profit figures. This could be due to the increased competition in the market, making it difficult for Finesse to secure new clients. While Finesse is still operating at a profit, the reduction in net profit figures suggests that the business might not be performing as effectively as it would like.

*Marking guide:*

***1 mark*** *for stating an appropriate KPI*

***1 mark*** *for linking how the change in staff absenteeism will result in a change to the identified KPI*

**d. Identify *two* types of management strategies that have been used to implement change at Finesse. 2 marks**

***Note:*** *The answer should include two of the following management strategies—staff motivation through performance-based pay, investment in staff training and cost cutting.*

*Marking guide:*

***1 mark*** *for stating an appropriate strategy (x two = 2 marks)*

**e. Evaluate the effectiveness of the *two* management strategies stated in your response to *part d*. for Finesse. 4 marks**

***Note:*** *The following answer is one of a number of possible answers to this question. .An alternative second strategy is provided.*

A management strategy used to implement the change was staff motivation, through performance-based pay. Sales staff were given a 50% increase in bonuses for bringing in new clients. Such an incentive would serve to motivate staff extrinsically and encourage them to increase their efforts to bring new clients to Finesse. However, it appears that this strategy has not been effective in bringing in new clients as over the past year Finesse has experienced a significant decrease in revenue of 49% since June 2016. Furthermore, Finesse’s percentage of market share has also decreased by 0.9%, which indicates that potential clients have sought the services of other agencies.

The second strategy Finesse has used was investment in staff training. Finesse had asked staff to undertake subsidised professional development training in specific skill areas. Ideally such a strategy would serve to improve performance throughout the business due to the increase in knowledge and skills. Furthermore, investing in training would theoretically improve the morale of the remaining employees by increasing their employability. However, the decrease in revenue and the increase in the level of staff turnover and absenteeism would indicate that this strategy has not improved business performance or morale and has therefore not been effective.

*Alternative answer:*

The second strategy used by Finesse was cost cutting. Four staff members were retrenched in order to reduce operating costs with their workload being distributed to the remaining employees. While this strategy was successful in reducing annual operating costs, it has had detrimental effects in other areas. Retrenching staff would have lowered morale and increased stress among the remaining employees, who would be experiencing a greater workload and possibly a reduced sense of job security. This in turn has affected business performance, as the reduced operating costs have not succeeded in increasing profits or market share and therefore the strategy of cost cutting has been largely ineffective.

*Marking guide:*

***1 mark*** *for stating a strength of a strategy, based on the criteria of effectiveness (x two = 2 marks)*

***1 mark*** *for stating a weakness of a strategy, based on the criteria of effectiveness (x two = 2 marks)*

**f. Mark has decided to use a different management style to improve his business’s performance.**

**Recommend a management style and provide *one* reason why it would improve the level of staff absenteeism at Finesse. 2 marks**

***Note:*** *The following answer is one of a number of possible answers to this question. Other appropriate management styles include consultative and persuasive. Autocratic is problematic as it does not allow for staff participation and laissez-faire is problematic as staff need direction during the change process.*

The level of staff absenteeism has most likely increased due to the reduced level of staff morale brought about by downsizing. Mark could adopt a participative management style in order to address the increase in the level of staff absenteeism. This style is characterised by two-way communication and decentralised decision making, whereby the manager and employees work together to make decisions and resolve problems. Participative management could help resolve the issue of staff absenteeism as involving staff in the decision-making process would empower them to make decisions and take ownership of the success of the change at Finesse. This in turn should improve staff morale and see a reduction in the level of staff absenteeism.

*Marking guide:*

***1 mark*** *for suggesting an appropriate style*

***1 mark*** *for providing a valid reason for the choice of the management style*

Question 3 (4 marks)

**a. Identify *two* stakeholders who would be affected by a change in Finesse’s management strategies. 2 marks**

***Note:*** *The answer should include two of the following stakeholders—managers, general community, suppliers, employees and customers.*

*Marking guide:*

***1 mark*** *for stating an appropriate stakeholder (x two = 2 marks)*

**b. Explain how the changes implemented at Finesse would affect *one* of the stakeholders identified in your response to *part a*. 2 marks**

A stakeholder is an individual or group with a vested interest in the business and its performance.

One stakeholder that would be affected by the change is employees. As part of the change, Finesse has increased the bonus for sales staff by 50% for bringing in new clients. This strategy of performance-based pay could serve to motivate employees to increase their efforts to market the business and bring in new clientele. Additionally, encouraging staff to undertake their own professional development, subsidised by the business, would further serve to motivate employees, and in theory, reduce the level of staff absenteeism. However, the recent spate of retrenchments could serve to demotivate employees and lower morale as they might not have the same level of job security as before the change.

*Alternative answer:*

A stakeholder affected by the changes is customers. The clients of Finesse might benefit from the change as employees are receiving extra training that would improve the quality of service customers are receiving, which in turn, would assist the employees in achieving their own objectives. However, with Finesse retrenching employees, there are fewer staff available to service clients, and as a result, customers might not receive the attention they did prior to the changes at Finesse.

*Marking guide:*

***1 mark*** *for outlining a change at Finesse*

***1 mark*** *for describing how the stakeholder will be affected by the change*

Question 4 (3 marks)

**Mark thinks that expanding the business across Australia would help it overcome the competition it faces in Melbourne.**

**Propose and justify *one* strategy that Mark could consider to seek new opportunities in other domestic markets.**

***Note:*** *The following answer is one of a number of possible answers to this question. Other appropriate strategies include innovation, research and development, and new and emerging technologies.*

One strategy Mark could consider to seek new opportunities in other domestic markets is developing a niche market. This means that Finesse would have to identify a gap in the market currently not being serviced, or specialised in, by domestic competitors. By narrowly defining a specific market, such as public health sector organisations around Australia, Finesse could focus on catering to their specific needs and develop a positive reputation and therefore competitive advantage in that particular market, not being serviced by other businesses.

*Marking guide:*

***1 mark*** *for stating a strategy*

***2 marks*** *for the providing valid reasons why the strategy suits the circumstances of the case study*

Question 5 (10 marks)

**a. Distinguish between low-risk strategies and high-risk strategies. 3 marks**

Low-risk strategies involve a participative approach to implementing change. Strategies include communication, empowerment, work group involvement and incentives when implementing change. These strategies are less likely to result in employee resistance and therefore increase the likelihood of the change being successful. High-risk strategies; however, involve an autocratic approach to implementing change. Strategies include using force, threats and the manipulation of situations to achieve a change. These are deemed high-risk as they are more likely to lead to employee resistance towards the change.

A key distinguishing difference between the two strategies is an understanding of the employees’ role in supporting the implementation of change**.**

*Alternative answers to a distinguishing feature:*

Low-risk strategies can be considered ‘light-touch’, employee-focused approaches relying on employees to support change, whereas high-risk strategies tend to take a more heavy-handed approach to achieving results, not always considering the employees.

OR

A key distinguishing difference between the two strategies is the extent or degree of the consequences resulting from implementing a strategy. High-risk strategies can cause intense loss or harm, whereas the intensity of the consequences for a low-risk strategy is less.

OR

A distinguishing feature is the ethics of the strategies. A low-risk strategy is a more ethical approach to change management as it involves treating employees with respect. High risk strategies, such as threat and manipulation, can lead to managers exhibiting unethical behaviours.

*Marking guide:*

***1 mark*** *for stating the essential qualities of a strategy (x two = 2 marks)*

***1 mark*** *for showing a difference between the two strategies*

**b. Describe *one* low-risk strategy and *one* high-risk strategy that Mark and his Human Resource Manager, Kim Tran, could use to overcome any employee resistance to the changes they implemented. 4 marks**

One low-risk strategy Mark and Kim could use is communication. Communication involves the exchange of information between people. In a business, communication can be top-down, bottom-up or two-way depending on the business’s structure and culture. This strategy is considered low-risk as open lines of communication between management and employees will help foster a sense of trust between the parties, enabling the change to occur smoothly while minimising the risk of employee resistance.

One high-risk strategy Mark and Kim could use is threats. This occurs when the manager exerts force and power by imposing consequences to get employees to undertake particular tasks. Threats can include loss of promotion, compulsory overtime or dismissal. This is considered a high-risk strategy as while threats can bring about immediate compliance from employees, they might harbour internal resentment towards the manager, which leads to resistance toward the change.

*Marking guide:*

***1 mark*** *for providing the characteristics and features of a low-risk strategy*

***1 mark*** *for relating the low-risk strategy to employee resistance*

***1 mark*** *for providing the characteristics and features of a high-risk strategy*

***1 mark*** *for relating the high-risk strategy to employee resistance*

**c. Which of the strategies described in your response to *part b.* should Mark and Kim use? Justify your choice. 3 marks**

Mark and Kim should use the low-risk strategy of communication. The recent retrenchments at Finesse would have resulted in a sense of anxiety and job insecurity among the remaining employees. It is vital to the success of the change that employees understand the reasons behind the retrenchments and that it was necessary for survival of the business. Through clear communication Mark and Kim can speak to employees explaining the reasons behind the changes and that transparency could help build a sense of trust in management and a sense of security. Furthermore, using two-way communication will provide employees with an avenue through which to express any concerns they might have regarding the changes. Using clear two-way communication could help reduce employee resistance at Finesse.

*Marking guide:*

***1 mark*** *for selecting a strategy*

***2 marks*** *for providing valid reasons to support the selection of the strategy*

Question 6 (6 marks)

**Explain how Mark could have applied Lewin’s Three Step Change Model when implementing the changes at Finesse.**

The first step of Lewin’s Three Step Change Model is to unfreeze. This means that in order to undergo change the business needs to identify the current situation and what needs to change. Mark needed to determine what changes had to occur. By analysing the recent poor performance of Finesse and the state of the market with the entry of competitors, Mark could have identified that due to a decrease in profits and a loss of clients, there was an urgency to make particular changes to Finesse’s operations. Recognising the need to change helps unfreeze the business from its current state and readies it for transformation.

The second stage of Lewin’s model is change. Once the business has been unfrozen from its current state, change is able to be undertaken. Mark could have applied this step by communicating regularly to employees, the reasons for the change. This would have dispelled rumours, therefore reducing anxiety and resistance towards the change. He could have empowered the employees to be part of the change process by seeking out professional development opportunities with the knowledge that their new skills would help make the change successful.

The final stage of Lewin’s model is refreeze. This occurs once the business consolidates the change into the culture, in order to prevent it moving backwards to the state it was in prior to the change. Mark could have applied this stage by celebrating small successes and providing support and training to staff to ensure they embrace the change.

*Marking guide:*

***1 mark*** *for accurately providing the features and characteristics of each step (x three = 3 marks)*

***1 mark*** *for relating each step to the case study (x three = 3 marks)*

Question 7 (4 marks)

**Describe *two* corporate social responsibility considerations that Mark needed to address when implementing the changes at Finesse.**

Corporate social responsibility refers to the commitment by businesses to conduct their affairs in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to be accountable above and beyond their legal obligations to stakeholders.

One corporate social responsibility consideration that Mark needed to address when implementing the change was Finesse’s obligations towards the wellbeing of employees. The recent downsizing would have had a detrimental effect on the remaining employees who would be experiencing a sense of anxiety and possibly an increase degree of job insecurity. This would negatively affect morale throughout the business. Mark needed to ensure that communication remained open throughout the change and employees were provided with updated information on a regular basis, possibly through special fortnightly meetings. Doing so would have helped ensure the wellbeing of employees.

A second corporate social responsibility consideration would be the business’s obligation to the general community. Mark needed to ensure that when the changes were implemented, Finesse considered the impact of its activities on the local commuity. If Finesse were sponsoring local events or involved in community programs, Mark needed to ensure that these were not neglected during the change process. Additionally, Mark could have continued to, or began to, use local suppliers in order to support the community and address Finesse’s corporate social responsibility obligations.

*Marking guide:*

***1 mark*** *for providing the characteristics and features of each corporate social responsibility (x two = 2 marks)*

***1 mark*** *for linking each corporate social responsibility to the case study (x two = 2 marks)*

Question 8 (7 marks)

**Mark’s vision for Finesse is for his business to become a ‘learning organisation’.**

**a. According to Senge, there are five Learning Organisation principles (disciplines).**

**Identify *three* of these principles. 3 marks**

***Note:*** *The answer should include three of the following principles—systems thinking, mental models, building shared vision, team learning and personal mastery.*

*Marking guide:*

***1 mark*** *for correctly stating a principle (x three = 3 marks)*

**b. Explain how Mark could have applied the *two* other principles that were not identified in your response to *part a*. to assist in implementing the changes at Finesse. 4 marks**

***Note:*** *The following answer is one of a number of possible answers to this question. Other appropriate principles include:*

* *Building shared vision—getting staff to understand the long-term goals and the reasons for the change, thereby building commitment towards it.*
* *Team learning—building on personal mastery and shared vision, people work together through open communication in order to think together and become a learning organisation.*
* *Mental models—these are assumptions people have about themselves that impact on behaviour. Staff need to change these assumptions so that they act in a manner that moves the organisation in the right direction.*

Mark could have applied the principle of systems thinking to assist with implementing the changes. Systems thinking involves seeing the whole picture and understanding that businesses and individuals do not operate in isolation. In order for Finesse to develop into a learning organisation, Mark needed to be aware of what was happening in both the internal and external environments and why it was happening. By analysing the business’s current situation, possibly through using a strengths, weaknesses, opportunities and threats (SWOT) analysis, Mark could have seen that new entrants into the market were taking away clients from Finesse, which resulted in a decrease in revenue. In line with systems thinking, Mark needed to focus on long-term goals rather that just short-term objectives.

The second principle Mark could have applied is personal mastery. This principle suggests that organisations only become learning organisations when the individuals within them learn themselves, developing competences and mastering skills. Individuals should be able to analyse their own strengths and weaknesses and identify areas for personal improvement. In the case of Finesse, Mark could have applied this principle by encouraging staff to undertake professional development in areas that needed improvement. Increasing the skill level and knowledge base of individuals within Finesse would have enabled the business to improve its collective abilities and regain its competitive edge.

*Marking guide:*

***1 mark*** *for providing the characteristics and features of each principle (x two = 2 marks)*

***1 mark*** *for linking each principle to the case study (x two = 2 marks)*

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