

YEAR 12 Trial Exam Paper

2017

BUSINESS MANAGEMENT

Written examination

Sample responses

This book presents:

- high-level sample responses
- mark allocations
- tips & guidelines

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SECTION A

Question 1a.

Sample response

A partnership is a business owned by two or more people, with most partnerships having a maximum of 20 partners.

A partnership does not operate as a separate legal entity from the owners. Therefore, the owners are subject to unlimited liability, making them personally responsible for the debts of the business.

Each partner will contribute capital to the establishment of the business and will share in the profits of the business in proportion to the capital contributed. Hence the partners need not be equal and some partners may contribute capital only and not work in the business (known as a silent partner). With multiple owners, a partnership allows for shared decision-making, shared responsibility and a share of the workload in operating the business, making it easier for the business to start operating.

Mark allocation: 4 marks

- 2 marks for describing unlimited liability as a feature of a partnership
- 2 marks for describing shared responsibility and decision-making as a feature of a partnership



Tip

- *To describe means to provide information about the topic – more than just a statement. Always try to provide more than a basic summary in your response.*

Question 1b.**Sample response**

By operating as a private limited company, Glen and Aimee would benefit from **limited liability**. This means that, should the business have to fold due to financial problems, the two owners would be limited in their liability for the debts of the business to the amount of their investment in the business. If they were to operate as a partnership, they wouldn't have that protection and so would be liable for all the debts of the business, to the extent where their personal assets may be used to pay these debts.

Secondly, the tax paid by a company could be lower than the tax paid by the two owners as partners in the business. **Company tax is a flat rate** (a fixed percentage) whereas the partners in a partnership are subject to PAYG income tax, which is a progressive tax, and the percentage of tax incurred increases as the incomes of the partners increase (as the profits of the business increase).

Mark allocation: 4 marks

- 2 marks for each aspect:
 - 1 mark for explaining how that aspect is derived by operating as a private limited company
 - 1 mark for explaining how this aspect is different for a partnership

Note: A comparison must be made, therefore an explanation of how each aspect operates under each type of business must be included.

**Tip**

- *To compare means to provide similarities as well as differences. It is important to balance your response to cover both aspects of the two ownership types.*

Question 1c.**Sample response**

Planning is the ability of a manager to define business objectives and decide on the methods or strategies to achieve them.

In establishing a business, there is a range of tasks that need to be performed and a number of legal requirements that must be met. Through planning, the two owners can determine which task needs to be completed first, and prioritise accordingly. There are three types of planning – strategic, tactical and operational – which ensure that tasks are completed in the order of importance and urgency.

Using these three levels of planning, Glen and Aimee could develop a timeline for the completion of tasks so that each task is completed in order. It also means that duties and responsibility for those tasks can be allocated, thereby eliminating duplication of tasks.

Mark allocation: 4 marks

- 1 mark for describing planning
- 1 mark for identifying the levels of planning
- 2 marks for explaining how planning would be used by Glen and Aimee

**Tip**

- *On first glance this question is straightforward – explaining a skill. However, the second part of the question is asking you to apply your knowledge of the skill to explain **how** it can be used.*

Question 2.**Sample response**

Lewin's Three Step Change model provides a structure for businesses to follow as they attempt to undergo change. Lewin identified that businesses become set in their ways – their policies and practices become rigid and the business itself becomes reluctant to change. Lewin suggests that, at this point, the business needs to 'unfreeze' – this involves identifying why a change is needed and what needs to change. Employees are informed that support is available from management to assist in the change process and that the status quo – the conditions under which the business is currently operating – is no longer applicable.

Once the business is unfrozen, it has the opportunity to make the necessary changes. Policies, practices and processes can be changed and, if management has put the appropriate support in place (be it training, communication, team-building, redundancy packages and transition services if jobs are lost), the business is moved into the new position that was identified when the need for change arose.

Finally, Lewin identified that the business now needs to 'refreeze'. Once the change has occurred, it needs to become part of the culture of the business or else there is a temptation to revert to the 'old way' of doing things. Lewin suggests that refreezing can involve developing strategies to sustain the change and to celebrate the change, such as creating some ritual that can be referred to as a means of reminding staff of the change. It can also involve re-writing the mission and vision statements so that the change is formally recognised.

Mark allocation: 3 marks

- 1 mark for describing each of the features/steps in the model (up to 3 marks)

**Tip**

- *The new Study Design contains more theories than before, and you must be familiar with them all as examiners may ask directly about a particular theory.*

Question 3.**Sample response**

The ‘drive to defend’ is what Lawrence and Nohria identified as a latent drive – there needs to be some form of threat for the drive to become active. Threats to the individual, their group, or the business as a whole can trigger the drive to defend. When this drive is activated, employees have the desire to remove those threats to their safety and security, and to protect what they regard as ‘theirs’.

Referring to this drive, motivation comes from removing fears and insecurities from the workplace.

Managers and employees seek to create a workplace that is welcoming and supportive, and one where intimidation, threats and manipulation are not used as management techniques. There is consistency and fairness in the treatment of employees, and any system for determining rewards and recognition are fair and transparent, so that no-one feels that any other employee is the subject of favouritism or that they have been discriminated against. Overall, there is a level of trust between managers and employees, and they are free (and even encouraged) to speak up and offer suggestions. If these forces aren’t present, then staff won’t be motivated to do their best work.

Mark allocation: 4 marks

- 3 marks for the description of the ‘drive to defend’
 - 1 mark for explaining how the latent drive is roused when an employee is threatened
 - 1 mark for explaining employees’ drive to protect themselves from any perceived threat
 - 1 mark for explaining how the drive to defend is used to motivate
- 1 mark for explaining how this could affect a business

**Tip**

- *The new Study Design identifies three theories of motivation. You should understand each theory because any of them can be specifically referred to. Lawrence and Nohria’s theory is new to the course and is therefore likely to appear in the examination.*

Question 4a.**Sample response**

A social enterprise is a business that produces goods and services for the market but operates with the primary objective of fulfilling a social need. The business will want to make a profit, because that profit will be reinvested back into the business so that it can continue to fulfil the social need.

Filling a social need means producing and/or selling goods and services for the purpose of making the world a better place.

Mark allocation: 3 marks

- 2 marks for defining a social enterprise
- 1 mark for outlining what it means to fill a social need

**Tip**

- *On some occasions, a question may have two distinct parts. Each part must be answered to attain full marks, and you should use reading time to determine how the marks might be allocated in these circumstances so that you approach the question in the correct manner. Here, the question is broken into 2 + 1 marks and should be answered accordingly.*

Question 4b.**Sample response**

As a social enterprise, Andrew Thomas' business will seek to fill a social need. Those people in the community affected by the issue that Andrew's new venture will be addressing will have an interest in the new business. They will be interested in how the business will operate and what practices it will put in place to achieve its objectives.

The employees of the new business will also have an interest in the business. As employees, they will receive an income from the business, and its continued success will provide a degree of job security for them, so they will want the business to succeed.

Mark allocation: 4 marks

- 2 marks for each stakeholder (up to 4 marks)
 - 1 mark for explaining the stakeholder
 - 1 mark for explaining their interest in this business

**Tip**

- *When asked to describe the interests of a stakeholder, the best approach is to ask, 'What does the stakeholder want from the business?'*

Question 4c.**Sample response**

As the operator of a social enterprise, Andrew would like his business to generate a profit so that it can be used to fill a social need. A key performance indicator he should use is his net profit figures, which is the value of revenue remaining after all expenses have been deducted. If the business is making a certain level of profit, it will have commenced successfully.

Mark allocation: 2 marks

- 1 mark for describing the key performance indicator (KPI)
- 1 mark for linking the KPI to the business

Note: Students may identify other KPIs, such as number of sales or percentage of market share. However, students must be mindful that not all KPIs identified in the Study Design will be relevant for this scenario.

**Tip**

- *In questions that ask you to refer to a style, skill or KPI, you should ensure that you select the style, skill or KPI that is most appropriate to the scenario provided and not just the one you remember best.*

Question 5.**Sample response**

A new business owner could adopt the consultative style of management.

The consultative style involves the manager seeking input from staff, and asking for their advice and ideas regarding key questions about establishing a business. It will involve open, two-way communication. However, once this input has been collated, the manager will make the final decision.

This style is appropriate when starting a business because often the owner does not have experience in all aspects of establishing a business. Obtaining advice from employees and other stakeholders can help the owner to establish the business in the correct manner and ensure that nothing is overlooked. Since the owner makes the final decision, they get to put their ‘stamp’ on the business.

Mark allocation: 4 marks

- 2 marks for explaining the management style; at least two features of the style selected must be provided
 - Students may select autocratic, persuasive or consultative as appropriate management styles. Participative and laissez-faire are not appropriate when commencing a business.
- 2 marks for a justification of the identified management style

**Tip**

- *In questions that ask you to justify a concept that you have selected, it is important to explain how this concept (in this case, a management style) would allow the business manager to achieve what they intend to achieve (in this case, starting a business).*

Question 6.**Sample response**

Senge developed the concept that all businesses are ‘Learning Organisations’; that is, all businesses are dynamic entities, constantly having to adapt and improve in an effort to develop into the type of business they aspire to be, often as outlined in their mission and vision statements.

He theorised that Learning Organisations are those businesses where managers and staff continually seek to expand their capacity to achieve the results they desire.

One principle of a Learning Organisation is the concept of systems thinking. Systems thinking is the ability to see the ‘big picture’ – to look past what is happening within the business, observe what is happening in the external environment and adapt. Businesses do not operate in isolation, and change can arise from patterns outside the business, not just from events specific to a business.

Another principle of Senge’s Learning Organisation is the concept of building a shared vision. Having a shared vision will motivate all members of the business. It encourages risk-taking and experimentation, and fosters innovation because as the business is seeking to continually learn, it must take risks to grow and adapt to the changes occurring. Staff who adopt this shared vision will see the long-term objectives and plan for the business, and so a commitment to the business and to learning will further develop.

Team learning is another of the five principles of Senge’s Learning Organisation. It is described as the process of aligning and developing the capacities of a team to create the results its members truly desire. Staff within a business need to act together so that the goals of the team members, the team itself and the business are all aligned.

Mark allocation: 8 marks

- 2 marks for explaining the term ‘Learning Organisation’
- 2 marks for each principle identified and explained (up to 6 marks)

**Tip**

- *The concept of the ‘Learning Organisation’ as proposed by Senge is a new area in the Business Management course. You must ensure that you are fully aware of these new concepts as they are likely to feature in the examination.*

Question 7

Sample response

Staff turnover refers to the number of staff employed in a business who leave the business and need to be replaced. If staff turnover is increasing, it suggests that staff are unhappy with various aspects of the business. This could include pay and working conditions, hours of work or opportunities for promotion. Staff turnover is a cost to the business because the process of recruiting and selecting new staff is time-consuming and costly. A business should therefore seek to minimise the level of staff turnover.

One means of reducing the level of staff turnover is to improve the motivation of staff. Motivation is the individual, internal process that directs, energises and sustains a person's behaviour. It is individual to each person, so a manager must determine what will motivate each employee so that they are satisfied with their job and are working towards achieving business objectives.

To help motivate employees, the manager might implement a motivation theory. Two such theories are Maslow's Hierarchy of Needs and Locke and Latham's Goal Setting Theory. Maslow recognised that each employee has five levels of needs, and to motivate an employee it is the responsibility of a manager to identify which level of need is not being met and then develop strategies to meet that need. Once a particular level of need has been met, the manager will need a new strategy to fill the next level of need. Each employee is individual and will therefore be at a different level, so the strategies will need to be set to suit each individual employee.

Another theory is Locke and Latham's Goal Setting Theory. This theory suggests that employees can be motivated by having a goal that they have helped to set. In setting these goals, employees can work with management to ensure that the goals are clear, provide some challenge for the employee, engender a commitment to both the business and the goal, have some element of complexity and can be achieved through regular feedback on progress.

These theories both seek to motivate employees through the use of various strategies. However, Maslow's theory is more generic as it places each employee into one of five groups (levels) and the strategies are linked to each level. Locke and Latham recognise that each employee requires individual methods of motivation and therefore each employee will require a different goal. Maslow's theory also ranks the levels and states that employees move from one level to the next after each one has been met. Locke and Latham state that once the goal has been achieved, a new goal will need to be set as the cause of the motivation will no longer exist.

Locke and Latham's theory could be used to reduce staff turnover by working with staff to develop goals appropriate to their position within the business. The goals would be clear so that employees would know what is expected of them. The management would sit with staff to develop these goals collaboratively so that staff feel some level of ownership of the goal. Management would provide feedback during the period so staff are kept on track, and small milestones would be identified and celebrated so staff see achievement occurring. If this occurs, staff may decide to see the goal through to the end and, if satisfied, may continue with the business, reducing turnover.

Regardless of which theory is adopted, managers will devise strategies to increase motivation according to how best they believe employees are motivated.

Mark allocation: 10 marks

Responses are marked globally

Mark range	Descriptor: typical performance in each range
9–10 marks Very high	<ul style="list-style-type: none"> • Very high level of comparison between the two theories • Shows in-depth understanding of key terms and concepts • Includes definition of staff turnover • Shows detailed understanding of the basics of each theory • Clearly links a theory to an improvement in staff turnover
7–8 marks High	<ul style="list-style-type: none"> • High level of comparison between the two theories • Shows understanding of key terms and concepts • Includes definition of staff turnover • Shows understanding of the basics of each theory • Links a theory to an improvement in staff turnover
5–6 marks Medium	<ul style="list-style-type: none"> • Good comparison between the two theories • Shows some understanding of key terms and concepts • Includes definition of staff turnover • Shows some understanding of the basics of each theory • Some link between a theory and an improvement in staff turnover
3–4 marks Low	<ul style="list-style-type: none"> • Satisfactory level of comparison between the two theories • Basic understanding of key terms and concepts • Includes weak definition of staff turnover • Shows limited understanding of the basics of each theory • Poor link between a theory and an improvement in staff turnover
1–2 marks Very low	<ul style="list-style-type: none"> • Basic/limited level of comparison between the two theories • Shows limited understanding of key terms and concepts • Includes weak definition of staff turnover • Shows very limited understanding of the basics of each theory • No link between a theory and an improvement in staff turnover
0 marks	<ul style="list-style-type: none"> • No attempt at response • Response addresses none of the concepts/issues identified in the question or suggested marking guide

**Tip**

- *These questions are marked globally – assessors read the response from start to finish and award a mark based on the criteria above. They don't 'check off' points. Ensure that you write one response, not three short-answer responses.*

SECTION B – Case study

Question 1

Sample response

Operations is the area of a business responsible for the day-to-day activities of the business. In the case of Michaels Holdings, it is responsible for manufacturing the products sold by the business.

Operations staff oversee the management of the operations system, which is the conversion of inputs into outputs via the use of a range of processes.

The first element of this system is the inputs. These are the resources (human, physical and natural), time, information and money that form the basis of the products the business produces. For Michaels Holdings, it would be the materials, wheels, metal and other components used.

The next element is the processes that the inputs are put through to create the product. This is a value-adding process where the inputs are combined, added to, altered or converted into another form. This would involve welding, and putting the various components of the prams and strollers together.

Lastly there are the outputs – the finished products (prams and strollers), ready for sale.

Mark allocation: 5 marks

- 1 mark for stating ‘responsible for day-to-day activities’
- 1 mark for explaining the operations system
- 1 mark for each element correctly outlined (up to 3 marks)



Tips

- *There are five areas of management responsibility identified in the Study Design. You need to be able to define them and explain their role in a business.*
- *Section B specifically asks you to link your responses to the business in the case study. While you are not expected to know everything about a business that manufactures prams, a reasonable attempt should be made.*

Question 2

Sample response

Customer complaints may stem from a deterioration in the quality of the product. Introducing a quality management system at Michaels Holdings could help to rectify issues with quality.

Quality control is a quality management system where products are selected at random at various points along the production line and these samples are checked against the required standard. Any items that vary from the standard are rejected, and problems in the production of the product are able to be identified and subsequently rectified. Hence all products have a minimum level of quality, and if this meets customer expectations then there should be a reduction in the number of customer complaints for Michaels Holdings.

However, the use of quality control may not always have the desired outcome. Quality control has a limited focus on production. If the complaints stem from the price of the product, the service provided during sales or after-sales or some other aspect of the business, then quality control may not rectify those problems. In addition, as only random samples are selected for testing, there may be some defective products that are not sampled and that make it through to customers. Quality control often requires the appointment of a quality control manager and this is an added cost of production, which will raise prices for Michaels Holdings. It also means that with a dedicated person responsible for quality, other employees may be less vigilant in monitoring quality and so further issues may arise.

Mark allocation: 4 marks

- 2 marks for proposing a quality management system and explaining how it links to efficiency
- 2 marks for an evaluation



Tips

- *The Study Design clearly identifies three quality management strategies and you should base your response on one of those strategies, as they will have been studied in class. While other quality management strategies can be used, it is always best to use those concepts stated in the Study Design.*
- *It is also important to link to the KPIs in the scenario. Care should be taken to link the quality management strategy with the most appropriate KPI.*

Question 3

Sample response

The level of wastage measures the amount of waste created by the production process. If the process is inefficient or the materials used are of a poor quality, poorly stored or handled, or the purchasing process is poor, then the level of wastage is likely to rise. To overcome this, Michaels Holdings can consider implementing a materials management system. Materials management is the strategy that manages the use, storage and delivery of materials to ensure that the right amount of inputs is available when required in the operations system. A system that can be implemented is the Just In Time (JIT) system.

JIT is a system whereby materials are ordered and delivered just as they are needed to enter the production process. This can reduce storage costs as no stock is actually held by the business, and it also reduces the risk of any waste occurring in storage, thus lowering costs and increasing competitiveness.

However, this system relies on the ability of suppliers to guarantee delivery of materials, both on time and in the quantities required. Any delay in delivery will result in production ceasing for a period and so sales may be lost.

Mark allocation: 4 marks

- 2 marks for proposing a materials management system and explaining how it will improve efficiency
- 2 marks for an evaluation



Tips

- *When asked to refer to one of the KPIs provided in the case study, it is important that you identify the most appropriate KPI to match the strategy selected. This allows for a full evaluation to be provided and therefore increases the chances of full marks being awarded.*
- *Given a KPI was addressed in the previous question, it is better to select a different KPI for this question to avoid repetition.*

Question 4

Sample response

When a business measures its performance, it may identify areas of concern. If Michaels Holdings' management has identified that the level of wastage and the number of customer complaints have risen, then it may suggest problems with the materials being used and/or the method of production being used. The business may then seek to change the means of production, with one option being manufacturing overseas. Overseas manufacturing (also referred to as offshoring) refers to the production of a good in a country that is different to the location of the business' headquarters.

Businesses may offshore their manufacturing because they can achieve certain advantages over their competitors. It is often cheaper to manufacture overseas because the labour costs are lower. This reduces the costs to the business, which could improve the net profit figures for Michaels Holdings. The business may also consider that, if the supplies are from overseas, it may make financial sense to manufacture in the country from which the supplies are sourced. This reduces transport costs (although the product will eventually be transported to Australia). In a similar manner, if the business exports its products, then overseas manufacturing may lower transport costs, as the location of the manufacturing may be closer to the export market.

However, overseas manufacturing could cause issues for Michaels Holdings. The business could lose control of the quality of the production process when it is outsourced to another business. The level of waste is difficult to control, as Michaels Holdings may have no say in the method of operation, so costs may increase, which would defeat the purpose of the move to overseas manufacturing.

If Michaels Holdings makes the decision to move manufacturing offshore, there is also the possibility of a public backlash against the business. The loss of jobs, incomes and spending in Australia will create a negative image of the business, and future sales and profits may be affected if the public stops buying from Michaels Holdings.

The decision to manufacture overseas is one that must be considered carefully, as there are negatives as well as the expected benefits of such a decision.

Mark allocation: 6 marks

- 2 marks for defining and explaining overseas manufacturing
- 2 marks for the discussion of advantages and disadvantages
- 2 marks for linking discussion to the relevant KPIs



Tip

- *When asked to discuss, you are required to provide arguments for and against the issue – in this case, the use of outsourcing. Again, you should link your response to the relevant KPIs for both the argument for and the argument against outsourcing.*

Question 5

Sample response

When outsourcing the manufacturing of a product overseas, Michaels Holdings' management must consider the reasons why they are doing it. It is often due to the lower wage rate available overseas and, in these circumstances, it is important that the business pays its workers the legal minimum wages applicable in that country and not exploit youth workers or other workers in the pursuit of lower costs and higher profits. Exploiting workers through the use of low-wage employees can give a business a poor reputation, which can negatively impact the sales and profits of a business – counteracting the gains made by outsourcing.

Mark allocation: 2 marks

- 1 mark for identifying a corporate social responsibility consideration associated with overseas manufacturing
- 1 mark for outlining what the business needs to consider



Tip

- *This question requires you to briefly outline the issue referred to in the question. To outline a concept requires more detail than a definition, and you should avoid just defining the key term – in this case, corporate social responsibility.*

Question 6

Sample response

Finance is the area of management responsible for financial aspects of the business. This can include developing financial policies, raising finance, budgeting, accounting and reporting, and cash control. Keeping control of cash flow will ensure that the business is meeting its financial obligations and paying bills, wages and costs for materials. Finance is also responsible for preparing financial reports, drawn from financial records, from which the performance of the business is able to be determined by calculating a range of key performance indicators – such as number of sales, net profit figures and the percentage of market share.

In the case of Michaels Holdings, the business has seen an increase in the \$ value of sales over the period shown, but also a decrease in the \$ value of net profit. This suggests that the costs of the business have increased over the year.

The finance area of responsibility should be able to identify which of the costs have increased over the period shown and then develop strategies to reduce those costs. If the cost of utilities has increased (gas, electricity, phone and water), the business can seek new providers. If the cost of materials has increased, the business can seek a new supplier or seek to offshore its labour or manufacture overseas.

Mark allocation: 4 marks

- 2 marks for describing the area of management responsibility (students may choose from finance, sales and marketing, and technology support)
- 2 marks for linking the area of responsibility to one of the KPIs identified



Tip

- *When a constraint is included in a question, it is important to take that into consideration. Referring to operations will result in no marks being awarded. You have three other areas of management responsibility to choose from, and you should also consider the KPI you wish to refer to before selecting one of these three areas.*

END OF SAMPLE RESPONSES