

**Year 12 *Trial Exam Paper***

**2017**

**BUSINESS MANAGEMENT Written examination**

**Reading time: 15 minutes**

**Writing time: 2 hours**

**QUESTION AND ANSWER BOOK**

**Structure of book**



**STUDENT NAME:**

  

* Students are permitted to write in blue or black pen.
* Students are permitted to bring the following items into the examination: pens, pencils,  highlighters, erasers, sharpeners and rulers.
* Students are NOT permitted to bring sheets of paper or white-out liquid/tape into the examination.
* Calculators are NOT permitted in this examination.
* You must answer the questions in English.

**Students are NOT permitted to bring mobile phones or any other unauthorised electronic devices into the examination.**

**Section A (30 marks)**

**Question 1**

Glen Hardy and Aimee Callinan are in talks to establish a restaurant business in a local shopping centre complex. They are currently discussing the type of business ownership structure they will adopt.

**a.** Describe **two** features of a partnership as a form of business ownership. 4 marks

**b.** Compare **two** aspects of Glen and Aimee operating as a private limited company rather than a partnership. 4 marks

**c.** In establishing their business, Glen and Aimee will need to utilise the management skill of planning. **Describe** this skill and explain how Glen and Aimee may use it in establishing the business. 4 marks

**Question 5** (4 marks) Explain and justify a management style that a business owner may adopt when starting a new business.

**Question 3** (4 marks) Describe the ‘drive to defend’ as proposed by Lawrence and Nohria and explain how it may apply to a business.

**Question 7** (10 marks) **Compare** Maslow’s and Locke and Latham’s theories of motivation. In your response, explain how **one** of these theories could be used to reduce the level of staff turnover in a business.

**SECTION B – Case study (17 Marks)**

**Instructions for Section B**

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

Answer **all** questions in the spaces provided.

**Case study**

Michaels Holdings is a small private limited company that manufactures baby prams, strollers and other such items.

Recent performance of the business has seen mixed results. Some data of concern to shareholders are summarised below:

|  |  |  |
| --- | --- | --- |
|  | **2016** | **2017** |
| **Sales** | $17.4m | $19.2m |
| **Net Profit** | $3.8m | $3.6m |
| **Level of wastage (% of inputs)** | 4% | 5% |
| **Number of customer complaints (per 1000 sales)** | 25 | 32 |

CEO Mark Edwards has identified operations as a key area where changes need to be made in order to improve performance.

**Question 1** (5 marks) In regards to Michaels Holdings, **explain** operationsas an area of management responsibility and **outline** the key elements of the operations system.

**Question 3** (4 marks)

Propose **one** material management strategy and evaluate how its implementation would act to improve the overall performance of Michaels Holdings.

**Question 4** (6 marks)

The key performance indicators (KPIs) suggest that cost is an area of concern for Michaels Holdings. The business is now considering outsourcing the majority of its manufacturing operations to a business overseas.

With reference to the relevant KPIs, discuss the advantages and disadvantages of adopting this business strategy.

**Question 5** (2 marks) Outline a corporate social responsibility consideration associated with overseas manufacturing that Michaels Holdings may face.

**SOLUTIONS**

**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 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 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 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 | * 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 | * 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 | * Good comparison between the two theories * Shows some understanding of key terms and concepts * Includes definition of staff turnover * Shows somes understanding of the basics of each theory * Some link between a theory and an improvement in staff turnover |
| 3–4 marks Low | * 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 | * 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 | * 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 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

**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.*