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1999 HSC  
**Business Studies**  
Enhanced Examination Report

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## **Introduction**

The 1999 candidature increased from that of 1998. The 2/3 Unit candidature was 15 291, compared with 14 300 in 1998, while the 3 Unit candidature was 3087 as compared with 3060 in 1998.

The marking of the 1999 examination papers showed a continued improvement in the standard of student responses. Short-answer responses were more concise. Candidates successfully used skills of analysis in application of the stimulus material and the quality of the responses in the 2/3 Unit and 3 Unit examinations continued to improve. Candidates not only wrote more, but their responses were more relevant and analytical.

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

## 2/3 Unit (Common)

**Section I – Multiple-choice Questions (20 Marks)**

Question	Answer	Correct (%)
1	C	75.84
2	A	60.87
3	B	74.20
4	C	39.42
5	D	57.17
6	D	50.13
7	B	82.11
8	A	52.23
9	A	30.88
10	B	87.13
11	B	59.46
12	B	50.30
13	D	84.49
14	C	75.17
15	D	31.43
16	B	79.90
17	A	.00
18	C	53.46
19	D	90.48
20	C	67.68

This table indicates the correct response for each question and the percentage of the total candidature choosing that response. The multiple-choice questions of Section I of the examination paper are based on the Outcomes of the 2 Unit course, pages 27–29 of the Syllabus and, in particular, the Expected Outcomes of the Introductory

Core Topic: Management in Action (page 32), and Concluding Core Topic: Business in Action, page 48 of the syllabus. The Outcomes are further expanded in the Areas of Study on pages 33–36 and pages 49–50 of the Syllabus.

In addition, it is assumed that all candidates commencing the Higher School Certificate Course in Business Studies have achieved the expected Outcomes of the Preliminary Course.

The mean of the multiple-choice section was 12.29 compared with the 1998 multiple-choice mean of 11.3.

## **Section II – Short-answer Questions (30 marks)**

### **General Comments**

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

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

### **Marking of Section II**

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

The marking of each question involves the establishment of specific criteria for each part of the question. These criteria are compiled after extensive reading of scripts from a variety of centres. Realistic, useable criteria are established which are tested in a pilot marking phase, during which reassessment and adjustment of criteria occur to ensure that all types of responses are accommodated. The criteria constitute a valid and fair means of discriminating between responses. Pilot marking not only tests the criteria but also compares the marking standards both individually and between groups.

In applying the principles of marking, the full range of marks available is used (the best responses are awarded 10 and the worst 0) and use the marking guide for each response marked. Section II was single-marked out of 10, with the aim of achieving a mean total mark of 5.5 and a standard deviation of 2. There are no penalties for mistakes — marks are awarded for appropriate responses. A mark of zero is awarded for non-attempts, a restatement of the question or completely incorrect or irrelevant information.

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

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

### **Question 21**

*Prawn Farmers and Co. has been farming prawns in Australia for the past five years. During that time it has exported most of its product to South-East Asia. The Asian economic crisis, however, has had a negative impact on its business.*

- (a) *Describe the external change that has affected this business.*
- (b) *Outline TWO internal changes that management could make in response to the Asian economic crisis.*
- (c) *Explain TWO reasons for resistance to internal change that may occur in this business.*

The following Topic Outcomes were examined:

- Describe the impact of the external environment on a range of businesses.
- Recognise the impact of changing economic, social, political, technological and legal influences on businesses.
- Identify and describe the ways in which business may initiate and respond to change through the planning, organising, leading and controlling functions of management.
- Predict probable consequences of a course of action taken by management to the business, society and the environment.

The following Outcomes were achieved by the majority of candidates:

- Describe the impact of the external environment on the business.
- Recognise the change that occurred as being either international or economic.
- Identify how the business could respond to those changes.

The following Outcomes were less clear to candidates:

- Predict probable consequences of actions that might be taken by management.

### **General Comments**

The question was well answered.

Most candidates were able both to describe the external change that affected the business and to outline possible ways in which management could respond.

The better candidates clearly described the external change and its effect on the business, relating the change and the possible responses by management to the situation described in the stimulus material. These candidates also showed a good understanding of the reasons for resistance to internal change, again relating these to the business's situation.

### ***Excellent responses***

Candidates identified the external change as being economic or international and went on to describe the change and how it had affected the business; for example, resulting in decreased sales and profits.

These responses clearly outlined two appropriate and distinct internal changes management could make and related them to the simulated *Prawn Farmers and Co.* situation. Examples included marketing strategies and diversification. In these responses candidates also identified and fully explained two valid reasons why resistance to internal change may occur; for example, inertia of management or financial costs, and related possible reasons to the business's current situation.

### ***Excellent response***

- (a) Overseas influence: decreased spending in overseas market due to their current economic conditions. This has meant decreased sales for the product in the Asian market place.
- (b) (i) Decreased staffing levels: by doing this the owners/management will be able to save on a decreased labour bill since the product demand has decreased.  
(ii) Reorientate the direction of the target market. Management can source out a new target market for the product such as America, Europe or even Australia.
- (c) (i) Inertia of management: the fear that management may face, by undertaking change.  
(ii) Social responsibility: management may feel that, by downsizing the workforce, it could create ill-feeling in the local community because of the increased unemployment it has made.

### **Question 22**

*The workers and junior management of Turbal Timber and Joinery are not given a role in business decision-making. They are told by senior management to follow directives or face dismissal.*

- *Define the management style at Turbal Timber and Joinery.*
- *Outline the advantages of this management style.*
- *Explain how the role of employees and managers would change if Turbal Timber and Joinery adopted a democratic leadership style.*

The following Topic Outcomes were examined:

- Analyse business procedures and practices and relate management theories to the management styles and organisational structures in a variety of businesses.
- Relate differences in management styles to changing organisational structures.

The following Outcomes were achieved by the majority of candidates:

- Analyse business procedures and practices and relate management theories to the management styles and organisational structures in a variety of businesses.



The following Outcomes were less clear to candidates:

- Relate changing organisational structures to differences in management styles.

### General Comments

The question was well answered by the candidature, who demonstrated a good understanding of management styles and the theories and concepts underpinning them.

Most candidates defined the management style at Turbal Timber and Joinery and outlined the advantages of the style as used in the business referred to in the stimulus material. The better candidates clearly defined the management style, outlined its advantages and were able to explain how the role of both managers and employees would change if the management adopted a democratic leadership style.

### Excellent responses

Here candidates identified the management style used in the business in the stimulus material as being autocratic or authoritarian and gave a good definition of an improved style. They outlined two or more advantages of a change in style, for example, more involvement of employees in the decision-making process and its impact on communication, and explained how it would change the role of BOTH managers and employees.

### Excellent response

- (a) Autocratic: where managers directly control decision-making — workers and supervisors having no say.
- (b) It follows the scientific method, allowing output to remain consistent. It also promotes efficiency (arguably) by limiting the tasks of workers to what they do best (supposedly) ie. work.
- (c) Employees would become involved in the decision-making process, probably by electing representatives to act on their behalf. Managers would consider opinions of workers in this way and make decisions taking that into account.

### Question 23

*KNB Airlines has collected the following information about the methods used by its customers to purchase airline tickets.*

PERCENTAGE OF AIRLINE TICKETS SOLD			
	<i>By telephone booking to KNB Airlines</i>	<i>By Internet booking to KNB Airlines</i>	<i>By travel agent booking</i>
1996	15	5	80
1997	20	10	70
1998	20	20	60

- (a) Describe the type of management control illustrated above.
- (b) Explain TWO strategies that the management of KNB Airlines might introduce in response to this survey.
- (c) Explain ONE advantage and ONE disadvantage of accelerating technology on the internal business environment of KNB Airlines.

The following Topic Outcomes were examined:

- Examine trends in business.
- Interpret appropriate data.
- Identify and describe the ways in which business may initiate and respond to change through the planning, organising, leading and controlling functions of management.
- Predict the consequences of accelerating technology on business.

The following Outcomes were achieved by the majority of candidates:

- Examine trends in business.
- Interpret appropriate data.
- Predict the consequences of accelerating technology on business.

The following Outcomes were less clear to candidates:

- Identify and describe the techniques used by business managers in planning, organising, leading and controlling.

### **General Comments**

Most candidates were able to identify and explain one advantage and one disadvantage of accelerating technology on the internal business environment of a specific business.

The better candidates were able to describe the specific type of control as being a 'feedback control' and explained strategies that could be introduced in response to the survey. Examples of such strategies included extensive promotion on the internet and offering of package deals.

### ***Excellent responses***

Here candidates clearly identified and described the type of management control as feedback.

They used appropriate business terminology to identify and explain two relevant management strategies that could be introduced in response to the survey. These candidates clearly identified and fully explained one advantage and one disadvantage of accelerating technology for the internal environment of KNB. Examples given included increased efficiency, improved customer service, high cost of retraining and lower morale.

### ***Excellent response***

- (a) Feedback control — information flows through Management Information Systems back to managers about business operations after they have occurred.

- (b) (i) Increasing number of telephone bookings requires more operators for bookings; perhaps use a call centre by outsourcing.
- (b) (ii) Concentrate resources on opening up the expanding internet market through setting aside money or borrowing to ensure that the business is fully equipped with the latest/most effective internet technology.
- (c) (i) Advantage: Allows greater access for businesses to the global market, especially in geographically remote Australia eg. via the internet.
- (c) (ii) Disadvantage: High cost of upgrades as business has to keep up with the latest technology to remain viable in highly competitive and technological markets.

**Question 24**

FINANCIAL STATEMENT OF GROVE INDUSTRIES FOR THE YEAR ENDED 30 JUNE 1999		
		<b>\$'000</b>
<b>Sales</b>		500
	<i>less</i> Cost of goods sold	
	Opening stock	70
	Purchases	230
		300
	<i>less</i> Closing stock	110
		190
<b>Gross profit</b>		310
	<i>less</i> Operating expenses	180
<b>Net profit</b>		130

<b>Additional information</b>	<b>\$'000</b>
Sales for the year ended 30/6/98	400
Gross profit for the year ended 30/6/98	248
Net profit for the year ended 30/6/98	80

- (a) *What type of financial statement is shown in the box?*
- (b) *Using both gross and net profit ratios, comment on the profitability of Grove Industries. (Show all working).*
- (c) *Explain TWO ways in which businesses use ratio analysis to assist in financial management.*

The following Topic Outcomes were examined:

- Read and interpret a range of accounting and financial reports used by managers.
- Demonstrate the use of business methods and computational techniques.
- Critically analyse a published financial report.
- Apply business methods and computational techniques to provide information for business decisions.

The following Outcomes were achieved by the majority of candidates:

- Read and interpret a range of accounting and financial reports used by managers.
- Demonstrate the use of business methods and computational techniques in management.

The following Outcomes were less clear to candidates:

- Critically analyse a published financial report.
- Apply business methods and computational techniques to provide information for business decisions.

### **General Comments**

The question was well answered by the candidates.

Most candidates were able to identify the statement as being a revenue statement or profit and loss statement or income statement.

Most candidates calculated gross profit and net profit ratios for 1999. The better candidates calculated these ratios for both 1999 and 1998, enabling them to make appropriate comment on profitability.

Most candidates were able to identify two ratios used in financial management. The better candidates explained the ways in which ratio analysis is used to assist in financial management.

### ***Excellent responses***

Candidates identified the statement as being a revenue statement or profit and loss statement or income statement.

Excellent responses made full use of the stimulus material and correctly calculated gross profit ratios as being 62% for both years and net profit ratios as being 26% in 1999 and 20% in 1998. They explained a decrease in relative costs as being the reason for the increase in % net profit.

Candidates clearly explained TWO ways in which ratio analysis can be used to assist in financial management. For example, liquidity ratios can be used to monitor the specific firm's ability to meet short-term debts, profitability ratios can be used to monitor performance. Other candidates adopted a more holistic approach, indicating the use of ratio analysis in planning, organising, leading and controlling functions of financial management, mentioning benchmarking or trend analysis.

**Excellent response**

- (a) Profit and Loss Statement.
- (b) For 1999:  $GP \text{ ratio} = GP/Sales \times 100 = 310/500 \times 100 = 62\%$   
 $NP \text{ ratio} = NP/Sales \times 100 = 130/500 \times 100 = 26\%$   
 For 1998:  $GP \text{ ratio} = GP/Sales \times 100 = 248/400 \times 100 = 62\%$   
 $NP \text{ ratio} = NP/Sales \times 100 = 80/400 \times 100 = 20\%$

It can be seen that while the Gross Profit ratio has remained the same, Net Profit has increased by 6% from the previous year. This could be due to a reduction in operating expenses.

- (c) (i) Profitability ratios such as those above are used to calculate how profitable the business activities have been and can be compared to standards for an estimation of success.
- (ii) Liquidity ratios are used to compare the current assets of a business to its current liabilities and therefore calculate the business's ability to meet short term debts.

**Question 25**

TAKE TWO PRODUCTIONS LTD					
BALANCE SHEET AS AT 30 JUNE 1999					
<b>Current assets</b>	\$	\$	<b>Current liabilities</b>	\$	\$
Investments	15 200		Bank	10 000	
Debtors	30 000		Creditors	23 000	
Inventory	15 000		Accrued Expenses	30 000	
		60 200			63 000
<b>Non-current assets</b>			<b>Non-current liabilities</b>		
Plant & Equipment	35 000		Loans		14 000
Buildings	100 000				
		135 000			
			<b>Owners' equity</b>		
			Shareholders' funds		
			fully paid	100 000	
			(Authorised capital 400 000 shares of \$1 each)		
			Profit	18 200	
					118 200
		195 200			195 200

*Take Two Productions wants to raise additional finance to expand its movie production business.*

- (a) Identify TWO options for Take Two Productions to raise additional finance.*
- (b) Management is considering extending the business's bank overdraft by \$20 000. Use ratio analysis to comment on the effect of this option.*
- (c) Briefly assess Take Two Productions as a potential investment. Support your answer with information from the Balance Sheet on Page 17.*

The following Topic Outcomes were examined:

- Outline the types of debt, equity and leasing finance.
- Critically analyse published financial reports.
- Demonstrate the use of business methods and computational techniques.
- Apply business methods and computational techniques in decision-making and the problem-solving process.

The following Outcomes were achieved by the majority of candidates:

- Outline the types of debt, equity and leasing finance.
- Demonstrate the use of business methods and computational techniques.

The following Outcomes were less clear to candidates:

- Critically analyse published financial reports.
- Apply business methods and computational techniques in decision-making and the problem-solving process.

### **General Comments**

Most candidates identified two types of finance that could be used by Take Two Productions and were able to identify a ratio that could be used to explain the effect of extending the overdraft by \$20 000. They were also able to make some comment on this business as a potential investment.

The better candidates critically analysed the financial statement and applied appropriate ratio analysis to explain the effect of the increased overdraft and to assess Take Two Productions as a potential investment.

### ***Excellent responses***

In these responses candidates were able to identify debt and equity as being two types of finance.

To explain the effect of extending the overdraft, a variety of liquidity or solvency/gearing ratios were used and appropriate calculations made; examples of these included the quick assets ratio and the current ratio. Candidates then explained the effect that this would have on the business. For example, quick assets do not change, current ratio deteriorated (most candidates assumed current assets do not change).

Candidates identified one or more indicators of investment potential. Examples given included the profitability, gearing or liquidity of the business. Balance Sheet

information was used to provide a valid assessment of the business as a potential investment.

***Excellent response***

- (a) (i) Issue further shares (equity finance).  
(ii) Obtain a long term loan from a bank (secured by assets of the business).
- (b) Current Ratio = CA/CL = 60 200/63 000 = 0.96:1  
With \$20 000 overdraft = 60 200/83 000 = 0.72:1

The current ratio should ideally be 2:1. Even without an additional \$20 000 overdraft, the business does not have enough assets to cover short term financial obligations (liabilities). Therefore they should explore a different option — not an overdraft.

- (c) Return on Owner's Equity is currently 18.2%. While the current ratio needs to improve, gearing and leverage are quite good with a debt to equity ratio of 0.65:1. When compared to a current rate of return of about 5% offered by banks for term deposits, the return of 18.2% looks to be very favourable. As a potential investment I would support this business.

**Question 26**

*Jim and Sonja own and manage a business that produces computer games. They lease a warehouse where they design, manufacture and store the games prior to delivery throughout NSW. In recent months their overheads have increased dramatically, largely due to increases in rent and utility costs. In addition, poor sales over the Christmas period have resulted in idle stock.*

*Jim and Sonja's financial adviser has suggested they reorganise their activities by introducing a Just-in-Time management system.*

- (a) *What is a Just-in-Time management system?*
- (b) *Explain the internal changes required to implement a Just-in-Time management system.*
- (c) *Explain how a Just-in-Time management system could improve business performance for Jim and Sonja.*

The following Topic Outcomes were examined:

- Identify a variety of business procedures and practices and their underpinning theories.
- Identify and describe the ways in which a business may initiate and respond to change through the planning, organising, leading and controlling functions of management.
- Predict probable consequences of a course of action taken by management to the business, society and the environment.

The following Outcomes were achieved by the majority of candidates:

- Identify a variety of business procedures and practices and their underpinning theories.

- Predict probable consequences of a course of action taken by management, to the business, society and the environment.

The following Outcomes were less clear to candidates:

- Identify and describe the ways in which a business may initiate and respond to change through the planning, organising, leading and controlling functions of management.

### **General Comments**

The question was well answered.

Most candidates described the Just-in-Time management system as a method of inventory/stock control and were able to identify and explain one internal change required to implement this system in a business. They also identified one way in which a Just-in-Time system could improve the business's performance.

The better candidates identified possible applications for a Just-in-Time management system and clearly explained two or more internal changes required to implement the system. They also identified and clearly explained one or more ways in which a Just-in-Time management system could improve the business's performance.

### ***Excellent responses***

Candidates clearly defined Just-in-Time as a method of stock/inventory control and, in many cases, noted the scheduling of production to cycles in demand.

Excellent responses correctly identified and explained TWO or more internal changes required to implement a Just-in-Time management system. Examples of internal change included more regular stocktaking, monitoring lead time for orders/deliveries and implementation of new technology.

Candidates identified and clearly explained ONE or more ways in which a Just-in-Time management system could improve the business's performance. Excellent responses clearly identified relevant performance indicators, eg liquidity of working capital, customer satisfaction, cash flow and profitability.

### ***Excellent response***

- (a) J-I-T is an inventory control system whereby raw materials and component parts arrive at the business 'Just-in-Time' to be used in production, keeping costs to a minimum.
- (b) Jim and Sonja may need to restructure their business, reorganise their plant layout, or relocate to smaller premises in implementing J-I-T. High rent is causing an increase in costs; by implementing J-I-T they will need smaller premises — employees may need to be laid off and distribution and transportation systems will need to be reassessed.
- (c) J-I-T will significantly improve business performance. Floor space will be saved, storage costs will be reduced and efficiency will improve. They will be able to relocate to premises with cheaper rent. Stock will be available on demand, therefore stock will not be sitting idle. Profitability, sales, and cash flow will all improve for Jim and Sonja by implementing J-I-T.



## Section III – Essay Questions (50 marks)

### General Comments

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

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

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

In preparing for the examination, candidates must be familiar with the general Course Outcomes and the specific Topic Outcomes as well as the areas of study involved.

### Popularity of Questions – 2/3 Unit (Common) Paper

Candidature: 15 656

Topic	Questions	% frequency questions	% frequency of options
Business Law	27	3.6	12.4
Business Law	28	8.8	
Industrial Relations	29	3.7	13.4
Industrial Relations	30	9.7	
Marketing	31	42.1	85.4
Marketing	32	43.3	
Small Business Management	33	64.1	88.8
Small Business Management	34	24.7	

N = 15118

### Marking of Section III

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

The marking criteria are compiled by Senior Markers from extensive reading of a large number of scripts from a variety of centres. Realistic, useable criteria are established which are tested in a pilot marking phase. Re-assessment and re-adjustment of the criteria occur to ensure that all types of responses are accommodated and that the selected criteria constitute a valid and equitable means of discriminating between responses. Pilot marking not only tests the criteria but also compares the marking standard individually and between groups.

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

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

### 1999 HSC Business Studies 2/3 Unit – Essay Question Marking Guide

Extended Responses	Short Responses	%	Guidelines
MARKS 20–18	MARKS 10–9	10	Excellent (A range) <ul style="list-style-type: none"> <li>– Clear reasoning, explicit</li> <li>– Scholarly argument</li> <li>– Evidence of a variety of data sources</li> <li>– Illustrative examples to support argument</li> </ul>
MARKS 17–14	MARKS 8–7	20	Above Average (B range) <ul style="list-style-type: none"> <li>– Consistent</li> <li>– Factually correct</li> <li>– Explanatory</li> <li>– Attempt to justify generalisations</li> </ul>

Extended Responses	Short Responses	%	Guidelines
MARKS 13–8	MARKS 6–4	40	Average (C Range) – Somewhat descriptive but relevant to question – Some useful factual data – Conclusions consistent with argument given
MARKS 7–4	MARKS 3–2	20	Below Average (D Range) – Little use of factual data to support generalisations – Conclusions inconsistent with data or argument or no conclusion given
MARKS 3–1	MARK 1	10	Poor (E Range) – Absence of factual data – Much irrelevant material – Incoherent or incomprehensible – Restatement of question – No relevant facts

### Question 27 – Business Law

*Phil purchased a second-hand bicycle from 'As Good As New Bikes'. Above the cash register was a sign that read 'caveat emptor'.*

- Discuss the implications of 'caveat emptor' on the relationship between buyers and sellers.*
- Outline how laws regulating the sale of goods and services provide protection for consumers.*
- Phil wants to return the bike as he believes it was falsely advertised. Explain the legislation governing misleading conduct and how this situation could be settled.*

### General Comments

Many candidates had difficulty with outcomes related to identifying business situations with legal implications, understanding and applying appropriate legal principles to new and everyday business situations, and analysing the legal implications of business decision-making.

Most candidates explained that 'caveat emptor' means 'let the buyer beware', but few appreciated the fact that current legislation such as the *Fair Trading Act NSW (1987)* overrides this for registered businesses. Many candidates, therefore, were unable to discuss effectively the implications for the relationship between buyers and sellers.

Most candidates explained some aspects of key legislation, particularly the *Trade Practices Act (Cth 1974)*, and outlined how they provided protection for consumers.

Many candidates explained legislation governing misleading conduct, but few explained how this specific situation could be rectified.

### ***Excellent responses***

Candidates explained the meaning of ‘caveat emptor’ and discussed in detail the implications of this for the relationship between the buyer and seller. Candidates explained current legislation such as the *Trade Practices Act* and the *Fair Trading Act*, and how this overrides ‘caveat emptor’. The better responses outlined, in detail, how laws regulating the sale of goods and services provide protection against false advertising, faulty goods and other problems. They discussed the *Fair Trading Act* for a company and for registered businesses in NSW. They also explained how this dispute could be settled by using a variety of methods ranging from litigation to alternative dispute resolution methods.

### ***Outstanding response***

#### (a) ‘Caveat Emptor’

This is an ancient principle that was formerly the only real source of protection to buyers within the consumer sphere. ‘Caveat Emptor’ or ‘Let the buyer beware’ was applied to those parties buying goods or services that were ordinarily for personal, domestic or household use. The state’s unwillingness to enter into the lives of everyday citizens (except where there had been a breach in the King’s peace, or the State wanted taxes), meant that, unless a warranty had been made out, if a good was faulty, then it was ‘bad luck’.

However due to an increasingly global market place, with a huge variety of foreign goods, and the recognition that ‘caveat emptor’ was not the fairest policy that could be applied, the State has now introduced a number of pieces of consumer protection legislation.

Due to the fact that consumers will vary in age, capacity, intelligence and culture and that the difference between a contract between individuals and that between a large business and an individual, varies greatly, the law now provides a number of consumer protection laws including:

- Sale of Goods Act 1923 (NSW)
- Trade Practices Act 1974 (Cth)
- Fair Trading Act 1984 (NSW)
- Credit Act 1984 (NSW)
- Consumer Credit Code (NSW)
- Consumer Credit Administration Act 1995 (NSW)

The law also now provides a number of mechanisms which a consumer may use if a breach of this legislation occurs, including mediation, arbitration and litigation. Furthermore, a variety of remedies, including damages, injunctions, specific performance orders, and the rescission of contracts are available to compensate a wronged party.

Despite the fact that formal mechanisms are now in place to govern the relationship between buyer and seller, it is still important for the buyer to use ‘caveat emptor’ when purchasing, and exercise their right not to buy, as any course of redress is time consuming, traumatic and costly.

Although ‘caveat emptor’ is still very relevant to buyers, it now has little relevance to sellers. The Sale of Goods Act 1923 (NSW) includes a series of implied terms which exist within all consumer contracts and cannot be excluded. Therefore, although the owner/manager of ‘As Good as New Bikes’ cautions his customers to ‘beware’, and buy at their own risk, they still owe the consumer the proper standards of duty of care — such as that goods fit the description by which they are sold, are of merchantable quality, and are fit for the purpose.

- (b) There are many laws which are able to provide protection for consumers:
- The Sale of Goods Act 1923 (NSW) was enacted primarily to codify all the terms that were previously being implied into contracts, these include:
    1. That the seller has the legal right to sell the goods.
    2. That the buyer has the right to quiet possession, as found in *Rowlands vs Divall* 1923.
    3. That the goods are of merchantable quality, as given in *Donaghue vs. Stevenson* 1932.
    4. That goods are reasonably fit for the purpose for which they are bought, given in *Grant vs Australian Knitting Mills* 1936.
    5. Goods match the description by which they are sold, found in *Re Moore and Co vs Landauer and Co*, 1921.
    6. Goods provided in connection with a service are fit for the purpose.
      - The Credit Act 1984 also provides protection for consumers, whereby a consumer has entered into a contract which allows them to receive specified goods, and to pay for the goods in instalments or at some time in the future, and to pay a charge for the credit. It governs credit sales, loans, and continuing credit contracts and specifies that:
        1. The provider of credit must be licensed.
        2. The amount of credit must be disclosed in dollars and cents.
        3. The rate of interest will be disclosed.
        4. In certain times of hardship, the debtor must give relief.
        5. The debtors must be made aware of their rights and obligations under the credit contract.
          - The Consumer Credit Code also protects consumers, in presuming that all credit contracts will be regulated under law, so long as that the amount borrowed is greater than \$200 and has been lent for 62 days.
          - The Consumer Credit (Administration) Act 1995 also protects consumers, in that it removed the licensing system of credit providers, changing it instead to a complaints based system, governed by the Department of Fair Trading. It also attempts to take a proactive stance in assuming that

businesses use appropriate standards of diligence, honesty, fairness, and expertise in their operations.

- Lastly, the Trade Practices Act 1974 (Cth) contains two main sections which are relevant to the protection of consumers. Part (V) of the Act regulates business activities which may reduce competition within the consumer sphere, and cause a customer an unfriendly environment. Such practices which are regulated include:

1. Price fixing as in *TPC vs David Jones (Australia) Pty Ltd (1986)* whereby two or more competitors agree to ‘fix’ the price of an object in order to charge more than it is worth.
2. Mergers
3. Monopolisation

(The above two factors are not allowed as they sometimes allow one business to dominate an industry completely; for example, the Australian Consumers and Competition Commission refused a merger between Coca Cola Amatil and Schweppes Cadbury earlier this year, as it would dominate the carbonated drinks market).

4. Resale Price Maintenance
5. Exclusive Dealing
6. Third Line Forcing

Part (IV) of the Act specifically targets methods of misleading and/or deceptive conduct.

S.52 states that a business shall not make false representation in the supply or in connection with a good or service. Other services outlaw bait advertising and pyramid selling.

These pieces of legislation protect consumers, not only as a preventative measure, through the requirements of occupational licensing and by making sellers aware of their obligations, but as a reactionary measure, in allowing civil action to be taken through either mediation, arbitration or litigation for a breach.

- (c) Under the Sale of Goods Act 1923 ‘As Good as New Bikes’ has an obligation to provide Phil with a bike which matches the description ‘as good as new’ (if this is the main line of the advertising used).

Under part (v) of the Trade Practices Act 1974 (Cth), S.52 also states that a seller may not make false statements or representations, such as that the bike is ‘as good as new’, in line with the supply of goods and services, if they are, in fact, not true.

If Phil believes he has been wronged, and suffered some loss as a consequence, then he may wish to pursue the matter through civil action. If the seller has been found to have used misleading advertising, then Phil will be liable for damages, or will be able to rescind the contract.

Phil may choose to attempt to resolve the matter in the civil court of law. This is a rather outdated method, which involves lawyers debating the claims made by each party as to what the infringement has been, and then awarding damages, an injunction, specific performance order, or that the contract be ‘set aside’ on the ‘balance of

probabilities'. It is an unpopular technique of dispute resolution, and should be used as a last resort as it is costly, public, slow, rigid and time consuming.

Phil may instead wish to settle the dispute through mediation. This occurs using a trained negotiator. Although the decisions made are not legally binding, the mediator helps the parties to come to terms with the dispute themselves and may address issues that would not be heard in court. It is also fast and cheap.

Lastly, Phil may also wish to settle the dispute through commercial arbitration. This method involves the use of a third party, who may have some expertise in the matter of the dispute, and semi-formal court proceedings. The decisions are made swiftly, and are binding; it is advantageous in that it can be done at any time to suit both parties.

Other methods of dispute resolution that may be used include:

- structural case settlement
- conciliation
- binding expert determination
- independent expert appraisal.

### **Question 28 – Business Law**

*Teresa and Alison operate a partnership making and selling jam. A reduced supply of fruit has resulted in a fall in sales. Alison purchased a large supply of glass jars that must be paid for within 30 days. The funds are not available to meet this expense. Teresa was not consulted when Alison bought the jars and insists that Alison pay for them out of her personal savings.*

- (a) *What is a partnership? Outline the legal issues involved in the formation of a partnership.*
- (b) *Explain the legal consequences arising from Teresa and Alison's situation.*
- (c) *Teresa and Alison do not want this situation to result in court action. Explain the alternative procedures that Teresa and Alison could use to resolve this situation.*

### **General Comments**

All Topic Outcomes were examined in this question, although many candidates had difficulty in achieving Outcomes that required identifying business situations with legal implications, understanding and applying appropriate legal principles to new and everyday business situations, as well as reaching conclusions involving business law.

Most candidates explained the term 'partnership' and outlined the legal issues involved in the formation of a partnership.

Many identified the situation described as being a dispute that had arisen between partners in a business undertaking. Others identified the situation as a dispute that had arisen between the partners and suppliers of glass jars.

The majority explained some alternative dispute procedures, excluding litigation. The better candidates suggested methods of resolving the dispute identified in part (b).

### ***Excellent responses***

Candidates identified all parts of the question, and used appropriate legal terminology throughout the question. They outlined the legal issues involved in the formation of a partnership, such as registration of a business name with the Department of Fair Trading and the requirements of a partnership agreement.

Many explained the legal consequences of a dispute between the partners by referring to the *Partnership Act* and a possible partnership agreement. Some excellent responses also explained the consequences of a breach of contract, if either partner were unable to pay for supplies ordered.

Many candidates explained alternative procedures for resolving the dispute within the partnership, such as mediation, arbitration or dissolution of the partnership, while others identified possible bankruptcy proceedings resulting from a dispute with the supplier of the glass jars.

### ***Outstanding response***

#### Partnerships

Perhaps one of the most important decisions a business owner makes is which legal structure is most appropriate for his or her enterprise. Each has its benefits and its drawbacks so an entrepreneur must choose carefully. Increasingly partnerships are chosen for a variety of reasons.

Many business enterprises begin life as a partnership. Partnerships have existed for many centuries and were first legally recognised when large explorations were being made in Old Europe. The 'Houses' attempted to spread their risk by uniting in their expeditions. Today this spreading of risk and increasing the pool of knowledge is still considered the main advantage of a partnership.

A partnership is defined by the Partnership Act (1892) as a 'relationship in which two or more people work together in view to make a profit'. In modern Australia a partnership can have between two and twenty people but businesses whose prime function is of a certain professional nature such as architects, doctors and lawyers these numbers can increase to 100, 200 and 400 respectively.

A partnership is not recognised by the law as a separate legal entity. The business and its owners are considered one in the same. This has several consequences on the legal structure, as outlined below:

1. Each partner has unlimited liability

All debts incurred in the name of the business are liable to be paid by any owner's of the business, regardless of who created the debt. If these debts cannot be paid out of the assets of the business personal assets of the owners including cars, houses and boats may be seized and sold to pay the debt.



2. The partners are liable for the acts of the business.

Because a partnership cannot sue or be sued each partner can be sued for the acts of the partnership. This precedent was established in the case of *Polkinghorne v. Holland* (1934) where the court ruled that each partner was responsible for the negligent misrepresentation of the partners. Therefore all partners of the business are liable for the actions of one partner. For this reason it is very important that entrepreneurs enter into a partnership only with a person they trust.

For a partnership to form certain conditions should be met. Of course it is important that all partners understand their rights and duties within the relationship and for that reason it is advisable to create a partnership agreement before entering a business. The partnership agreement will set out the rights and duties of partners, contributions, returns and general method in which the enterprise will operate. It should also set out how a partnership will end. If a partnership agreement is not formally made in writing then only the provisions under the Partnership Act (NSW) (1892) shall be in force.

A partnership must register its name with the Department of Fair Trading if the business name does not contain the full names of partners. A business name will be placed on the Business Name Register as outlined in the Business Names Act 1984, which helps consumers identify the owners of the business name. Generally, a new business name will be granted as long as no other business in the state is known by the name and it is neither offensive or misleading.

Once a business has been legally recognised it must fulfill other legal requirements expected of it such as:

- complying with zoning laws made by local government as set out in the Local Government Act
- complying with occupational health and safety procedures
- paying taxes as required to State and Federal governments
- complying with legal requirements with employees such as compulsory superannuation etc
- adhering to the pollution and environmental controls monitored by the Environmental Protection agency and other semi-government institutions.

The profit generated by a partnership is typically split between the partners according to the contribution each has made into the business in terms of capital. Therefore the legal responsibility to pay taxes falls to individual partners who are taxed at rates depending upon their level of income. These rates can be as high as 48.5%, higher than the corporate tax rate of 36%.

Each partner acts as an agent of the business. Essentially an agent acts on behalf of the principals ie. the partnership and, therefore, other partners and carries out legally binding agreements. In the case where Alison has purchased jars she has done so as an agent of the business and therefore Teresa, her partner, is legally responsible for the expense, along with Alison. Under the laws of agency and cases such as *Polkinghorne v. Holland*, the fact that one partner was not consulted about the purchase does not matter. Therefore under the common law both partners are liable for this debt.

Unfortunately Teresa and Alison's business does not have the funds to meet this expense. If the business cannot raise the revenue through the sale of some of its assets

then because of the partnerships unlimited liability the personal assets of the owners may be at risk.

If the dispute between Alison and Teresa was not resolved then the partnership would almost certainly end. A partnership may end voluntarily or involuntarily. In this case the partners may agree to break up the business or the business may cease because it can no longer operate at a profit. However the debt must still be paid.

The business creditor, the glass supplier, is another business entity which needs the income from the sale in order to continue to operate smoothly. Bad debts are a significant cost for small businesses and therefore the supplier will be trying hard to get his payment. However if Alison and Theresa do not agree to solve this problem the supplier will never see his money. If this is the case, the supplier might use the court system and attempt to get the court to order payment through the sale of personal assets of Teresa and Alison. Should the debts be too large to be met by personal assets then Alison and Teresa are at risk of being declared bankrupt.

A bankruptcy is normally only declared if a outstanding debt of over \$1500 has not been paid for over six months. Furthermore an 'act of bankruptcy' must take place where the debtor for example sells assets in order to avoid his responsibilities or leaves his home, business or country. A bankrupt would then have his/her assets taken by the court and sold until the debts were reached. The bankrupt could not gain access to debt finance of greater than \$1000, nor operate a business for the period of the bankruptcy, which is typically three years.

Of course, Teresa and Alison will try to avoid the prospect of bankruptcy. In particular Teresa is adamant that she should not be liable for the debt Alison created. Unless this precise situation has been specified in the partnership agreement, this dispute could be costly and damaging to both the partners and the business.

Litigation is the traditional manner in which two parties settle their business disputes. Unfortunately this is costly and time consuming. In the modern small business environment a small business owner cannot afford to be away from work for long periods of time. Furthermore Teresa and Alison have indicated they do not want to be involved in any court action. Therefore Alison and Teresa should consider one of the many alternative dispute resolution techniques available to them.

At this moment Teresa and Alison have ruled out litigation and it appears that negotiation has failed. Therefore Teresa and Alison should consider arbitration, mediation or one of the numerous smaller methods.

Mediation is a popular form of dispute resolution which was set out in the Community Justice Act, (NSW). Essentially an independent third party which both parties agree on, is appointed to listen to both parties and attempt to get them to reach a compromise. Mediation is cheap and often effective, but if mediation does not reach a successful outcome, arbitration can be used.

The Commercial Arbitration Act outlines a method of dispute resolution where an independent third party, normally a tribunal or professional arbitrator listens to both parties cases and makes a legally binding decision which applies to both parties. In this process typically no lawyers are used and evidence is allowed without the rules of evidence in the Court system. For this reason arbitration is becoming increasingly popular, because of the cheaper cost and quicker results. Of course the binding decision in the case is likely to be favoured by only one party so it may cause disappointment.

Other alternative dispute procedures are emerging which could help Teresa and Alison. These include:

1. Early neutral evaluation – An independent auditor looks into the problem as early as possible and attempts to solve the problem with minimum change to either party.
2. Expert appraisal – An expert in the legal profession will evaluate the problem from a legal viewpoint and provide the probable outcome of litigation.
3. Mini trial – Like litigation but less formal, cheaper and less time consuming.
4. Rent-a-judge – Hire a judge to rule on the dispute.
5. Facilitation – Parties who agree on many points can use a facilitator in order to let the two parties come to a mutually benefiting solution.

Teresa and Alison, who while having this dispute, are friends and partners would be best in attempting mediation or facilitation. These methods are cheap and non confrontational.

These dispute resolution procedures are designed in order to solve problems which arise in business and with careful planning and diligence will solve Alison and Teresa's dispute.

### **Question 29 – Industrial Relations**

*The roles of trade unions, employer groups and governments in the Australian industrial relations system have changed in response to evolving economic and social beliefs about wage determination.*

- (a) *Outline the current roles of Australian trade unions, employer groups and governments in the wage determination process.*
- (b) *Discuss the economic and social beliefs and values that underlie the current wage determination processes in Australia.*
- (c) *Evaluate the advantages and disadvantages of the current wage determination processes for Australian businesses.*

### **General Comments**

Most candidates achieved the Outcome relating to the nature and role of the parties in industrial relations; they assessed the economic influences on industrial relations but were more confident in outlining the roles of trade unions and governments rather than those of employer groups. They experienced difficulty in assessing the influence of beliefs and values and social influences on industrial relations. Many failed to distinguish between beliefs and values.

In part (c), most candidates identified some advantages and disadvantages of the current wage-determination process, but from a variety of perspectives more often than solely for Australian businesses.

### ***Excellent responses***

Excellent responses clearly outlined the current role of trade unions, employer groups and governments in the wage-determination process. These changed roles included, for example, a greater or lesser role for trade unions and employer groups, and a

changed role for government in terms of creating legislation in a changed industrial relations environment.

Candidates identified and discussed a range of economic influences such as increasing efficiency and international competitiveness, and social influences, such as more harmonious working environments, and award safety beliefs that underlie the current wage-determination process.

The advantages of the current wage-determination system were evaluated in relation to their impact on Australian businesses. The advantages included more effective dispute resolution and improved employer/employee relationships, while the disadvantages included possible exploitation by both employers and employees. Candidates related these to businesses in terms of costs, harmony and productivity or other benefits.

### ***Outstanding response***

#### Executive Summary

Industrial Relations refers to the relationship between employers and employees in relation to employment practices and conditions. Traditional industrial relations recognised the active roles played by Trade Unions and Employer Associations operating within a framework of Government legislation. The move towards Enterprise Bargaining and subsequent labour market decentralisation has seen a dramatic shift in the way wages are determined and thus a dramatic decline in the active roles undertaken by third parties.

#### Current Role of Trade Unions in the Wage Determination Process

Following the Federal Coalition government's move to a more decentralised wage determination process based on individualism and self regulation the roles and responsibilities of trade unions have been significantly curtailed.

#### Trade Unions

Trade unions are an association of employees who join together to negotiate wages, terms and conditions of employment with their employers. Trade unions came into being around the time of the Industrial Revolution and represent employees before industrial tribunals and at wage cases.

Most trade unions are affiliated with the ACTU – Australian Council of Trade Unions which is the peak union body representing over 90% of trade unionists.

#### Workplace Relations Act 1996 (Cth)

The 1996 Workplace Relations Act is the key legislation impacting upon trade unionists in industrial relations at the Federal level. The WRA 96 focused on three main objectives:

1. Award Simplification
2. Introduction of Individual Workplace Agreements
3. Limiting the involvement of third parties in the industrial relations process.

Following this legislation trade unions have experienced significant changes.

Firstly, several new clauses were introduced which significantly decrease the power of unions and right to industrial action.

- Compulsory union membership is no longer legal while ‘reference to unionist clauses have disappeared’.
- Unions right to strike has been significantly curtailed and is limited to the ‘protected period’ while an agreement is being negotiated.

Greater flexibility has been introduced into the industrial relations system and provisions making non-union enterprise agreements more attractive have been instituted.

The WRA 96 divides workers into three streams:

1. Industrial Awards for those who do not negotiate enterprise agreements.
2. Certified Agreements between unions and employers at the workplace level.
3. Aust. Workplace Agreements — individual contracts generally negotiated without union involvement.

While the majority of certified agreements are still negotiated with unions this is no longer mandatory. Traditionally unions played a significant role in industrial tribunals given special standing to represent employees at industrial tribunals. However, this is no longer so.

Unions still however play a significant role in certified agreements and in representing employees reliant on safety net increases through the National Wage case.

#### Role of Employer Associations

Employer Associations – employer associations such as the Business Council of Australia represent employers at industrial tribunals, provide advice to employers on industrial matters and lobby the government on their behalf.

Like trade unions, employer associations are struggling to justify their existence with the move towards enterprise bargaining.

Traditional industrial relations saw the role of employers restricted. However, there is now a greater involvement of employers negotiating individually at the workplace level.

The Australian Small Business Council represents small business in industrial relations. Many employer associations now see their role as providing employers with information on enterprise bargaining.

#### Role of Government

In previous years the role of the government has been central in industrial relations. The Labor Government used the Prices and Incomes Accord with the unions in order to influence industrial relations and maintain wage restraint.

The Coalition Government’s focus on enterprise bargaining and decreasing role of third parties has seen the role of the Government significantly reduced, favouring a system determined by market forces of demand and supply.

The Government’s central role is in determining the framework for industrial relations, awards, etc. However, their main concern is on implementing further reforms to decrease the role of government in influencing the wage determination process.

## Role of the AIRC

The role of the AIRC has been significantly altered in the award simplification process. The AIRC's powers have been curtailed to '20 allowable matters' dealing with pay rates, sick leave etc. However, they have lost jurisdiction over matters outside these '20 allowable matters'. The AIRC's right to intervene in industrial disputes has been reduced to matters of national economic significance. A government set up body the 'Employment Advocate' is now responsible for AWAs. The AIRC still has a significant role in awarding safety net increases for awards however.

## Economic Beliefs Underlying the Current Wage Determination Process

There are several economic beliefs or benefits associated with the move towards a more decentralised system of wage determination.

Firstly, the Government maintains that its industrial reforms have led to greater flexibility in the labour market, and see the growth in enterprise agreements as favourable.

There is a strong belief held by supporters of the Workplace Relations Act that microeconomic reform of the labour market has led to greater efficiency, productivity, performance and economic development.

Decentralisation of the labour market has led to a decrease in real unit labour costs (averaging 4%) and an improvement in Australia's inflation performance (1.6% average underlying over the course of the business cycle). This is well within the RBA's inflation target. The use of productivity performance measures in guiding wage adjustments and paved the way for productivity increases (well over 2%) and also for a sustainable level of economic growth.

It is common belief that a more decentralised wage determination system leads to improvements in Australia's economic performance enhancing the international competitiveness of firms and thus making a positive contribution to Australia's CAD in the long term.

## Social Beliefs

There are many social beliefs however that underlie the current wage determination process. Namely, opponents of the WRA 96 see the reforms giving too much power to employers and unions with strong bargaining power. They see employees with little bargaining power as losers. It is also considered that the reforms are leading to greater wage differentials impacting negatively on the distribution of income and wealth in Australia. The reforms have also been criticised for leading to the elimination of many conditions and entitlements previously enjoyed by employees.

The decentralisation process has led to increasing wage differentials with employees on individual work contracts averaging 4-5% wage increases whilst those reliant on safety net increase has averaged a mere 1-2%. Many social groups such as ACOSS see this as harmful to the distribution of income and wealth and a cause of increased poverty.

It has been claimed by trade unionists and social welfare groups that the decentralisation process has led to the creation of a 'working poor' with employment but below the poverty line.

Another major social belief underlying the current system is the increase in casual/part-time employment at the expense of full-time employment, a reflection of employers desire to decrease costs.

#### Advantages of the Current Wage Determination Process for Australian Businesses

There are numerous benefits for businesses as a result of the recent award simplification and decentralisation of the labour market.

- The streamlining of awards to ‘20 allowable matters’ has introduced greater flexibility into the labour market and made the process simpler for business in that they now only have 20 matters to deal with. Workers are now encouraged to seek improvement outside these 20 allowable matters through improvements in productivity, thus a benefit to firms. The restrictions on industrial action for trade unions has been of benefit to employers in that there is less probability of industrial disputes causing harmful stoppages to the production of goods and services.
- The focus of industrial relations is now in the hands of employers/ees in developing effective efficient enterprise agreements to help the firm to best achieve its goals.
- There is greater involvement and cooperation between employers/ees thus eliminating the traditional ‘us versus them’ approach, with employees more committed to the outcome.
- Recent industrial developments in the workplace such as profit-sharing and advocating employee participation in decision-making has greatly improved employee morale, reduced absenteeism/labour turnover and led to a more effective, harmonious industrial environment.
- The use of productivity performance measures in guiding wage adjustments had improved Australia’s productivity performance enhancing the international competitiveness of businesses leading to greater profits, market share and expansion into overseas markets.

#### Disadvantages of the Current Wage Determination Process for Australian Business

- The move towards decentralisation and a movement away from a formal procedure for settling industrial disputes administered by the AIRC has led to lengthier industrial disputes and implementation of enterprise agreements illustrated by the Star City Enterprise Agreement which totalled one year from the time the negotiations began to the time the Agreement was finalised. This can have negative impacts on business leading to greater disruption in the production process brought about by industrial action, disharmony in the workplace leading to increased absenteeism, labour turnover and other forms of covert industrial action.
- The movement to a decentralised system of wage determination has seen the responsibility shift away from the AIRC and back to the Courts (illustrated by the ‘98 Waterfront Dispute). This can lead to protracted legal action if disputes arise which is complex, legalistic and costly to businesses.

### **Question 30 – Industrial Relations**

*With reference to an industrial dispute you have studied:*

- (a) *describe the nature of the conflict and the events that led to the dispute;*
- (b) *discuss the industrial actions taken by the employer and by the employees to resolve this dispute;*
- (c) *evaluate the effectiveness of the dispute resolution processes, including the wage and non-wage outcomes.*

### **General Comments**

Most candidates achieved the two Outcomes relating to the causes of industrial conflict and types of industrial action and the dynamic nature of industrial relations.

Candidates chose a variety of industrial disputes ranging from large-scale disputes, such as those on the waterfront and mining disputes, to localised disputes.

Candidates who chose a dispute which had not been resolved found it more difficult to evaluate the effectiveness of the dispute-resolution process. Those who chose a less significant dispute found it more difficult both to discuss the industrial actions taken and to evaluate the effectiveness of the resolution processes.

Most candidates identified both wage and non-wage outcomes, but had some difficulty in interpreting the nature of a conflict, and the evaluation of the dispute-resolution process itself.

### ***Excellent responses***

Excellent responses identified the nature of such disputes in terms of the mistrust between employers and employees or the conflicting objectives of the respective parties. They discussed both the events leading to the dispute and a range of industrial actions taken. These included grievance procedures, direct action and commission/court actions in relation to the specific dispute.

The effectiveness of the dispute-resolution processes were evaluated in terms of a wide range of wage and non-wage outcomes such as downsizing, improved productivity, changed work practices or workplace culture or in terms of the processes themselves.

### ***Outstanding response***

In 1998, a large scale industrial dispute developed on the Australian waterfront. The dispute which was to have lasting ramifications on the way industrial conflict has been handled in the past, and how it will be handled in the future, became a bitter test of will power for Patricks Stevedores, the Federal Government, and organised labour in Australia. Furthermore, the dispute became a bitter battle for the hearts and minds of all Australians as it tested their sense of a 'fair go'.

The waterfront dispute involved five parties:

1. Patricks Stevedores
2. The Maritime Union of Australia
3. The Federal Government



4. The Australian Council of Trade Unions and the International Transport Federation
5. The National Farmers Federation.

The conflict arose from a number of areas including:

1. The unwillingness of both parties to co-operate in negotiating on a wide range of issues.
2. The change that Patricks wished to implement including changes to:
  - Working Hours
  - Rosters
  - Manning Levels
  - Overtime Levels
  - Wages

Patricks wished to implement these changes because a report into the working conditions on the Australian waterfront by the Productivity Commission found:

1. Rigid job classifications leading to a large number of demarcation disputes (lack of multiskilling = low productivity).
2. Low productivity on the waterfront — 25% of all ships unloading at Sydney, Melbourne and Brisbane were being held up for four or more hours. Furthermore, Australian Port Charges were two to three times higher than overseas. Cost benefits of \$50 per container load were identified, a net saving of \$100 million a year.
3. Changes in Patricks management policy — this included an operation in Dubai, to train non-union workers as well as the significant company restructuring that took place, effectively taking contracting out of employees control.
4. Ten flawed work practices. This included the belief that by cutting manning levels by over 50%, productivity could improve dramatically. (In the early 90's, 420 million was invested in the waterfront effectively cutting manning levels by half and increasing productivity but it was felt this was not enough).
  - The deep mistrust between the employees and the employer
  - The flawed work rosters —including 'order of the pick' and 'shift premiums' with average wages of \$62 000 to \$101 000, the waterfront workers were in the top 5% of Australian wage earners.

When the MUA found out about the operation run by the NFF at Webb Dock No. 5 to train a non-union workforce, industrial action began.

- (b) A number of industrial actions were taken during the dispute in the form of overt tactics and covert actions. Overt actions included:
- Wildcat Strikes
  - 48hr Rolling Strikes — 48 hours long to circumvent the 72 hour rule of section 127.
  - Blockades

- Pickets.

The strikes were accompanied by pickets with many of these picketers creating a blockade in order to prevent Patricks operating. The pickets were also accompanied by extensive media coverage.

Patricks overt tactics included:

- Lockouts
- Dismissal of entire workforce.

The covert tactics in place by the MUA employees included:

- Sabotage/theft
- Low morale/low productivity
- High labour turnover/obsolescence.

As the employees initiated strikes, Patricks was issued an injunction under section 127 by the Court (after using section 166a as a fast track to common law). The MUA also used section 122 to get Chris Corrigan (Patricks CEO) to give evidence under oath. As the dispute continued Patricks locked its workers out and dismissed them, and brought in its non-labour workforce. Patricks also sought an order for the MUA to lift its blockade and this was granted, but only limited attempts were made to remove the blockade due to its size. The Federal Government meanwhile had hired consultants to support Patricks along the way as it wished to increase Australia's international competitiveness. The ACTU was enlisted by the MUA in order to enlist support, and this was found in the form of the International Transport Federation, however, the threat of widespread industrial action in the form of sympathy strikes was thwarted by the restoration of sections 45 D and E into the Workplace Relations Act (1996) from the Trade Practices Act (1974).

The MUA finally appealed to the Supreme Court arguing a case of unlawful conspiracy against the Maritime Union of Australia employers. Justice North heard the case and found 'an arguable case of unlawful conspiracy'.

- (c) On June 2, 1998, the industrial dispute was settled and was conditional upon the ACCC dropping the secondary boycotts case against the MUA, the MUA dropping its conspiracy case against the Federal Government and the reinstatement of the MUA workforce at Patrick Stevedores.

From this point, the two parties resolved the issues highlighted in the report:

1. Manning levels were cut by over half
2. 'Order of the pick' eliminated
3. 'Shift premiums' eliminated
4. Patricks committed itself to a progressive pay rise over the next three years.

Although these resolutions were made they were not entirely effective as the deep mistrust between management and workers still existed in the workplace, and it was then felt that the end did not justify the means as the costs of the conflict were so significant including:

1. Financial Costs:

- The costs to the economy were estimated to total \$500 million. The cost each day that a ship was held up was \$30 000.
  - The MUA workers lost wages while on strike although were paid \$250 p/week by the MUA Strike Fund.
  - Importers/exporters lost important markets.
  - Companies reliant on imports lost important sales/clients.
  - Patricks had to pay for legal fees and for fines incurred from the ACCC.
  - Redundancy packages for MUA workers (funded by a levy on containers).
  - Lost productivity.
  - Loss of goodwill.
2. Personal costs:
- Stress
  - Loss of jobs
  - Uncertainty about where to turn
  - Loss of wages
3. Social Costs:
- The dispute caused a rift in the community.
  - The violence on the waterfront involved children.

#### Costs to the Wider Community

The overall cost to the community was \$500 million, and this was reflected through increased price of goods as well as through taxes.

#### International Costs:

- Australia's international image as a high conflict/low productivity nation was amplified and hence we are regarded as an unreliable nation.
- The loss of international agricultural markets.

The waterfront dispute was clearly necessary to end a ten year stalemate between employees and management, and to induce change that would effectively increase our ability to compete at an international level (world's best practice). However, it is quite evident that the ends did not justify the means, and a resulting 'lack of impetus' will reduce the future motivation of management and staff to bring problems to a head.

### Question 31 – Marketing

#### KIDZGAMES

*In response to increased competition, the management of Kidzgames Ltd have just completed an analysis of the market opportunities for their best-selling product, TRIVIANET, a CD-ROM trivia game. As part of a SWOT analysis they have evaluated the external influences in the market for their product.*

- (a) *Briefly explain why a business, such as Kidzgames Ltd, would analyse its market.*
- (b) *Identify and discuss the internal and external influences that Kidzgames Ltd would consider in evaluating its product and its market.*
- (c) *For a business you have studied, critically assess the implementation and monitoring of its marketing plan.*

#### General Comments

Most candidates identified why a business analyses its market, examining it through the Outcomes requiring candidates to describe the steps involved in successfully marketing a product, and showing understanding of the role of marketing in a business.

In part (b), many candidates described the influences on Kidzgames, often including irrelevant influences. Many had difficulty in discussing how the business would relate such influences to evaluating its product and market. The better candidates discussed in depth a range of influences such as social trends, new technology and competition.

Part (c) required candidates to refer to a marketing plan for a business and to assess its implementation and monitoring. Few candidates answered this section clearly, with many describing only a business marketing plan.

Those who correctly answered this part of the question made judgements about the implementation and monitoring of the marketing plan. They discussed monitoring processes or control mechanisms such as sales figures, ratio analysis and market share to evaluate the implementation and monitoring of the marketing plan.

#### *Excellent responses*

In these responses candidates addressed the questions, using a report format, and explained that analysis of the market is ongoing and of vital importance to the success of a marketing campaign for a business such as Kidzgames.

In part (b), candidates used supporting examples, extensively evaluating appropriate internal and external influences linked to Kidzgames' product and market. They explained how strategies such as monitoring of economic conditions and financial trends in the business may be used to determine if changes are needed in product, market or segmentation.

In part (c), the better responses referred to a marketing case study, and critically assessed both the implementation and monitoring of the marketing plan. Here candidates suggested the use of production controls, customer liaison and feedback controls in the implementation phase. Monitoring of sales figures, market share, sales per client and comparison with previous performance periods was recommended in

the monitoring of the marketing plan. Candidates also assessed marketing-mix strategies such as product distribution, and suggested improvements such as the use of e-commerce and the internet.

### ***Outstanding response***

#### Executive Summary

Marketing refers to finding out what consumers want and providing these goods and services at the right time, price, quantity and place. To be able to meet the ever changing expectations of consumers, businesses such as Kidzgames Ltd or Flair Bathroom Products P/L need to constantly analyse and evaluate its market and products. One method of achieving this is through identification and discussion of the internal and external influences on the business. To be successful, the business must also implement and monitor its Marketing Plan. The following report will provide this.

#### (a) Analysing the Market

- The most vital step in the planning process, or monitoring process of any business is accurately gauging the size, location and other characteristics of its market. It is essential for the continued success of a business that it continues to monitor its market, and therefore be aware of any changes that might be taking place.
- It is important that a business know the geographics, demographics and psychographic features of its market, in order for the business to maintain an effective marketing mix. These market characteristics are subject to change, and in addition, the business' share of the market may be affected by an increase in competition.
- Regular analyses of a business' market allow it to maintain an effective and relevant marketing mix, and thus achieve both the marketing objectives and strategic goals of the business.

#### (b) External Influences

- The most important external influence on Kidzgames is market actions of its competitors. New competitors may enter the market with a new product that is superior to the one that Kidzgames is selling resulting in a dramatic decline in pre-tax revenue and profit. Similarly, existing rivals such as Sony might alter or update their product, differentiating it to the extent that it encroaches on the firm's market share. This could be achieved through a physical alteration or a perceived alteration through advertising and promotional activities.
- Another important external influence is that of the discovery of new technology. Technological advances could make the firm's product obsolete, for example digicasting technology. Alternatively, technology might help in production methods or distribution methods. For example the development and acceptance of the internet and its applications as a means of direct selling and electronic administration and distribution. Considering that Kidzgames are in the computer-related industry, they should definitely be developing an internet site with e-commerce capabilities. Legal considerations are another important factor in Kidzgames' market, with the government currently considering the need for

increased regulation in the information technology sector, although the Federal Government has declared Australia a free-trade-e-commerce zone.

- The economic climate in which Kidzgames is operating is one of strong growth and consumer spending, however it would be wise to consider that this situation will not last indefinitely. It would be necessary to consider the effects of an economic downturn on revenue and thus the liquidity and solvency of the business.
- It seems likely that an interest rate rise may soon occur, which the business should consider before any expensive product development or market development strategies are implemented.
- From a social point of view, the computer literacy of the nation continues to rise as does the computer literacy of children. Therefore as the general market for computer-related products increases, it would be hoped that the market for Kidzgames would also be growing.
- Unfortunately the sales of Kidzgames' CDROMs suffer an external threat in the form of software piracy, which is a very negative technological and legal issue/influence upon the company. Compact disc copying machines (CD burners) are becoming increasingly common, and this should be an important consideration to Kidzgames. They should look at updating their product to include some sort of protection against this illegal infringement of copyright.

#### Internal Influences

- In relation to expanding its market via the internet the managers need to consult with the owners/shareholders of the business and determine if this is an acceptable new path for the business to pursue. It could also mean that it is necessary for new staff to be hired, existing staff retrained, or some processes to be outsourced. Both the owners and employees may be resistant to this change, especially if Kidzgames is a small or micro-business.
- In considering updates to the product, it will be necessary for management to consider whether the business has the necessary funds, or if it can acquire the funds, what funds source will be used, and how this will affect the performances of the business. It may be that in considering the payback period for investment in new technology management finds it would be advisable to maintain the business' current direction for a little longer. However, as the business is suffering under increased competition, management should seriously evaluate the viability of implementing an update of the product or the marketing strategy.

#### (c) Implementing and Monitoring the Marketing Plan

- Flair Bathroom Products P/L manufacture bathroom vanities, taps, rails and other bathroom accessories from their Western Sydney plant.
- The pricing strategy for Flair is based on a combination of cost plus, but they have modified the price of their products above the prices of competitors in order to maintain the high quality image that they have attained. Due to the oligopolistic nature of the market, and the extensive degree of quality differences between rivals, this is a good strategy for the business to pursue. It allows for profit margins to be maintained on all products, while maintaining the business' reputation. They give discounts to bulk buyers such as department stores and hardware stores in order to keep their business. A short credit period

is allowed for all businesses (30 days), however, preferred retail customers have a slightly extended period due to their status as favoured clients. Although this pricing, credit and discount policy may seem unfair towards single business clients, the preferred retailers contract is confidential, thus preventing any disputes from arising. To ensure that Flair's products are maintaining their price-position in the market, regular monthly checks are performed on clients and competitors. This allows Flair to monitor competitors' pricing, and the pricing of their retailers.

- Flair products are of the highest quality using expensive timber from around Australia, and special adhesive foil (for the vanity tops) imported from Japan. All finished products are checked before being distributed and the owner/manager regularly personally inspects production processes and finished products. This is a laudable practice and engenders some degree of pride into the workers.
- Flair manufactures its products in Western Sydney, and has 3 delivery trucks with full-time drivers employed to distribute to the customers. For the larger clients, deliveries are made to a storage facility, where the retailer takes on the responsibility of getting the product to the customer. For single orders the trucks deliver straight to the customer. While this combination does allow for greater efficiency of distribution from Flair's point of view, it doesn't allow total quality control of the product, as the retailer could damage it. Considering Flair's reliance on its goodwill and reputation, I would suggest that they strike a new deal involving increased freight expenses with their larger clients. Another problem with this aspect of the marketing plan is that there are no established means of monitoring distribution efficiency and lack of damage; other than customer complaints. A method of recording the number of deliveries made and kilometres travelled as well as random follow-up calls to customers would be a good method of control.
- Flair does have a promotional brochure available to retail clients, and an on-site display at the factory. Apart from this, all advertising is undertaken by the individual retailers. (Initially, clients were established via direct approach). Considering the scarcity of competitors, and superior quality product, this minimalist approach appears quite sufficient.
- Flair recently implemented an internet site that provides information on its products and the business itself. It is aimed mainly at retail clients, and as yet has no facility for e-commerce. I believe this is the next step that needs to be taken, as the business has the funds and already has some computer and internet-experienced employees.
- The market share, sales and sales per client are analysed monthly and compared with each other and the same month in the previous year as well as previous months. This is quite an efficient system of monitoring the marketing objectives.

### Question 32 – Marketing

*As the total market for many products is extremely large, most businesses choose to focus their marketing attention on a target market.*

- (a) Explain the role of marketing in achieving business goals.*
- (b) Explain how a physical and a behavioural method can be used to segment a market.*
- (c) For a business you have studied, evaluate the relevance of its marketing mix to its target market.*

### General Comments

Most candidates explained the importance of marketing in achieving business goals (eg sales, profit, growth) and as a link between a business and its customers. They explained the role of marketing in achieving these goals, and outlined physical and behavioural methods of segmenting a market.

Many candidates described a business and outlined its marketing mix in part (c), referring to the four Ps (Product, Price, Place and Promotion), and linked elements of the marketing mix to the target market. Others used prepared marketing plans and did not relate them to the question; they described the marketing mix of a *product* rather than that of a *business*, or relied on small business case studies which limited their scope to linking the marketing mix to the target market.

Businesses commonly discussed included Jamberoo Recreation Park, Sprite, Parker's Pretzels and the Imax Cinema.

Few candidates evaluated the relevance of the marketing mix of the selected business to its target market.

### *Excellent responses*

In these responses candidates described a business which allowed them to evaluate the relevance of the marketing mix to its target market.

Often writing in report style, candidates wrote detailed responses, using appropriate terminology throughout. Business goals were identified and the role of marketing in achieving these goals was explained.

Candidates distinguished between physical methods (eg size, location, demography) and behavioural methods (eg purchase occasion, usage, loyalty) and, using examples, explained how these methods were used to segment a market.

Detailed case studies were used to integrate the concepts of marketing, business goals, target market, market segmentation and marketing mix.

The better responses identified, described and related elements of the marketing mix to the target market. They also evaluated the relevance of the mix in terms of the marketing plan's success, leading to increased sales, profits and market share.



### ***Outstanding response***

#### Executive Summary

This report examines the role of marketing in achieving organisational goals. It also details the way a business can segment its market according to a physical or behavioural method. This report also evaluates the relevance of David Jones Ltd's marketing mix to its target market.

#### (a) The Role of Marketing in Achieving Business Goals

Marketing can be defined as 'a system of business activities designed to produce, promote, price and distribute want-satisfying goods, services or ideas to consumers in order to achieve organisational goals'.

Marketing, as mentioned in the definition, has a crucial role in assisting a business in achieving its goals. The most important function of marketing is that it provides a link between a business and its target market. Each and every business has a set target market, and, through marketing, a business can discover the needs and wants of this market, and then distribute products or services to satisfy those needs and wants. Without marketing, a business is not directly in touch with its market and will find it difficult to determine which products will be successful in the market place.

Marketing objectives and strategies form part of the overall business plan. The marketing objectives are generally highly specific, measurable, achievable, realistic and timed, and include:

- Increase market share (eg. by 10%)
- Increase profit (eg. by 5%)
- Develop a new range of products

These objectives are derived from the overall business plan and goals, yet are more specific in how exactly they will achieve business goals. The overall business goals are often quite general, yet the marketing process takes these goals and breaks them down into achievable targets and determines the best way to achieve them. Without this marketing process, business goals would never be fully achieved.

The overall business goal of any business (apart from non-profit organisations) is profit. Profit is the bottom line in every businesses operation. Marketing is the process which allows this goal to be achieved. A business may have an excellent product, but if consumers are unaware of it, a satisfactory profit will not be achieved. This satisfactory profit is reached primarily through the marketing effort, which plans, prices, produces, positions and distributes the product in order to generate a high level of profit for the business.

Many businesses have the goal of consumer awareness: they wish consumers to be aware of the product and the business it is derived from. Marketing makes this goal possible, particularly through promotion.

A business may have a good product, but unless it is positioned well in the marketplace, the overall goals of a business may not be achieved. Marketing helps to achieve these goals, through placing customers first, adopting a sales promotion approach and implementing a production approach, which improves the positioning of the product in the marketplace.

Generally, the role of marketing is to provide a link between a business and its target market, allowing the business to correctly price, place and distribute its product to achieve its business goals. While other areas of management are also important in achieving these goals, marketing is crucial.

(b) Physical Basis for Market Segmentation

As mentioned in the stimulus, the total market for many products is extremely large. As a result, businesses employ the use of market segmentation which involves dividing a market according to certain characteristics. This allows the marketing mix and overall marketing effort of the business to be highly effective.

One way in which a market can be segmented is through its physical characteristics. For many businesses, particularly David Jones, this is crucial.

A market can be physically segmented according to several characteristics. Age plays a large role, as many products are targeted at specific age groups. Income and wealth are also important, with certain products being aimed at people with a certain level of income. Location is also an important factor. No-Frills products, for example, are distributed more heavily at Franklins stores in lower income areas than other areas. Another example is surf wear, which is aimed at people who live in coastal areas. Lifestyle factors are also important in physically segmenting a market. Certain products are aimed at single parents or those who work full-time or those that are extremely interested in leisure and entertainment.

These physical bases for segmenting a market are heavily used by many businesses, particularly when developing a marketing mix for specific products.

Behavioural Basis for Segmenting a Market

A business can also segment its market according to behavioural aspects.

One major way of doing this is through categorising customers on their purchase occasion. This is why advertising for particular products increases at times such as Christmas and Father's Day.

A second way of segmenting a market on a behavioural basis is through determining the user loyalty of particular customers. Some customers purchase products repeatedly, and this is a good method to use when segmenting a market.

The usage rate of a product is also important. Some products have a high usage rate eg. toilet paper, while others have a low usage rate. The rate at which a product is used by consumers is another good method for segmenting a market.

Many people buy products for specific benefits, and this is another way a business can segment its market on a behavioural basis. Some may buy a product for the prestige it brings, for example.

The behavioural basis for segmenting a market can be highly advantageous for a business trying to satisfy its customers.

(c) David Jones Ltd. The relevance of the marketing mix to its target market.

David Jones Ltd is a large retailer, with close to twenty stores Australia-wide. The target market of David Jones is the over 35, wealthy, high income earners with a high level of money to spend.

David Jones marketing mix is highly relevant to this wealthy target market. As the store aims to position itself as a prestigious retail outlet, all efforts within its marketing mix must match accordingly.

#### Product

- David Jones stocks over 100 well known brands, as well as its own private label.
- The brand name of these products is highly important in positioning the store as an exclusive retailer.
- David Jones prides itself on the packaging of its products. Those products made by other manufacturers are also generally wrapped in attractive David Jones paper and placed in the easily recognisable David Jones bag.

#### Price

- David Jones uses market-skimming pricing in most areas of its stores. Products are generally highly priced to correspond with their quality and prestige.
- David Jones uses meet-the-competition pricing with its electrical and homeware goods.
- David Jones also offers bi-annual clearance sales to clear stores of old inventory. End of season sales are also held.
- David Jones's credit card is a highly effective marketing tool. 36.4% of David Jones sales are made on this card.
- David Jones offers special deals, including 'six months interest free' occasionally.

#### Promotion

- As David Jones is attracting a high-income, professional market, its advertising is placed in such newspapers as the 'Sydney Morning Herald' and the 'Good Weekend'. Television advertising is also used for special events, during such shows as 'Sale of the Century'.
- David Jones's internet site does not yet allow online shopping but is a valuable source of consumer information.
- David Jones, being a public company, receives a large amount of exposure due to publicity. This is not always good publicity, but provides consumers information as to what is happening with the store.

#### Place

- There are almost twenty David Jones stores located Australia-wide. Two new stores are set to open in Melbourne shortly, and on 20/10/99, David Jones purchased Perth retailer Ahern's and will open its first store in WA in 2002.
- All David Jones products are generally available at all its stores.
- It maintains a selective distribution approach.

This marketing mix is extremely relevant to the target market of David Jones. All aspects of its marketing mix are designed to position this retailer as exclusive and prestigious, and thus attract its target market. David Jones products are of extremely high quality, including their private label. The brand labels in the store are fashionable

and prestigious. The pricing of David Jones products is affordable and reasonable for their target market and the bi-annual clearance sales provide an opportunity to extend their target market. David Jones promotion is placed in areas accessible to the target market, and designed to lure the consumer into the newly refurbished David Jones stores. David Jones stores are located in areas that are full of high income earners which form the target market, and the products are selectively distributed to those outlets.

#### Conclusion

The marketing mix is extremely relevant to the target market, and supports David Jones efforts to position and promote itself and its products, as high quality, prestigious and exclusive.

### **Question 33 – Small Business Management**

*Dennis and Dale have recently moved to a country town and purchased an existing fruit and vegetable shop. In taking over the business they have:*

- *retained all current employees;*
  - *established a bank account with the local bank;*
  - *joined the local Chamber of Commerce.*
- (a) *Outline the benefits of purchasing this business rather than establishing a new fruit and vegetable shop.*
- (b) *Explain how government regulation influences the operation of this business.*
- (c) *Describe effective management practices that Dennis and Dale could adopt to ensure the continued success of this business.*

#### **General Comments**

The Outcomes relating to candidates' understanding the factors contributing to a successful business and those involved in establishing a small business were implicit in the question. The majority identified some benefits of purchasing an existing business, but were less able to compare and contrast these benefits with those involved in establishing a new business. Many listed the advantages and disadvantages of setting up a new business and of purchasing an existing business; the better candidates, however, related the chance of success as being greater in buying an existing business with a proven trading record.

Part (b) addressed general outcomes rather than specific Topic Outcomes. Here candidates were less prepared for discussing the influence of government regulations on the operation of the business. They had greater knowledge of the regulations affecting the establishment of a business, but this was of little relevance to the question. Many also tended to list, rather than explain, the role of government regulations.

In part (c) candidates discussed Topic Outcomes, in particular management practices contributing to the ongoing success of the business. Many described general management practices required, some even referring to Core Topic practices such as Total Quality Management or management styles. Many did not, however, relate their response to the stimulus or the tips it offered, such as the use of external advice/support and local networking available through the local Chamber of

Commerce. The use of the term ‘describe’ effective management practices in part (c), did not assist the better candidates to move into the thinking needed to assess ‘effective management practices’ for this question.

### ***Excellent responses***

Candidates approached the question analytically, integrating statistics, business terminology, concepts and theories appropriately, and related their response at all times to the stimulus.

In part (a) excellent responses outlined the advantage of buying an existing business in a country town rather than setting up a new one. They effectively argued the advantages of buying an existing business rather than setting up a new one, and some referred to the high risk factors associated with small businesses.

In part (b) candidates explained how a wide range of government regulations, such as the *Trade Practices Act*, anti-discrimination/EEO, Occupational Health and Safety, and Industrial Relations legislation, impinge on the operation of a small business, often indicating its impact on costs and time involved in administration.

They described a comprehensive range of management practices including marketing, operations, financial management, staffing, risk and customer relations, and related these to continued success of such a business.

### **Question 34 – Small Business Management**

*With reference to a small business you have studied:*

- (a) *explain how its business plan has been used to achieve its prime function;*
- (b) *discuss the impact of the internal and external business environment on its business plan;*
- (c) *analyse the ways in which the business plan has been modified in response to changes in the business environment.*

### **General Comments**

Here candidates displayed a broad understanding of the Outcomes of the Small Business Management topic and the Core topics.

From the Topic Outcomes, candidates were required to demonstrate an understanding of the techniques of small business management and the development of a business plan for a small business. From the general Course Outcomes candidates recognised the impact of change in the external business environment (3.2), identified and described ways in which business may initiate and respond to change (4.1) and appraised the dynamic nature of businesses (6.1).

This combination of Outcomes proved difficult for many candidates, a number of whom had difficulty in clearly demonstrating the link between the business plan and in achieving the prime function, with reference to their case study. Instead they often wrote a descriptive overview of the specific business plan, and identified general ways in which it has been modified in response to changes in the business environment. Candidates were able, nevertheless, to identify a range of internal and external influences on the business.

### ***Excellent responses***

In these responses candidates analysed each part of the question, applying a wide range of business concepts and appropriate business terminology in their responses, as well as effectively integrating an appropriate case study.

Candidates clearly explained the ways in which a specific business plan is used to achieve the prime function of the specific business. In discussing the impact of the internal and external business environment on the business plan, they clearly explained the impact of a range of relevant factors influencing the business, including staff training, use of technology, economic influences and social forces.

In analysing the ways in which the business plan has been modified in response to changes in the business environment, candidates focused on specific strategies (for example, specific steps to overcome the actions of competitors or changes in economic conditions).

### ***Outstanding response***

#### Introduction

'Trust Us Pty Ltd' is a scaffolding hire company based in Botany, NSW. It has a staff of 44 casual and full-time labour employees and 5 full-time; and 2 part-time administrative staff. The company leases, erects, maintains, dismantles and transports scaffolding, fencing, screw props and meshing for major construction companies such as 'Civil and Civic', 'Multiplex' and 'Lendlease Corporation'. It has 14 vehicles fully owned and 3 leased four-wheel-drive vehicles. Turnover for the 1998-1999 financial year was approximately \$12.5 million (AUD) up from \$9.8m in 1997-8.

#### (a) Business Plan

The company's director, John Smith, conceived the company in 1986 and developed the first business plan, which he maintains was essential to the systematic and structured growth his company has seen over 13 years. The prime function revolves around hiring products in scaffolding, and the labour required to transport and operate it. The mission statement stipulates that the most efficient and safe practices are used in giving their customers the utmost satisfaction in all of the scaffolding and building product requirements.

John Smith notes how a clear, concise prime function means that the company does not lose sight of what it originally set out to achieve. It has been widely documented that a good prime function and a well structured, constantly updated and dynamic business plan will:

- keep management focused on the main game.
- motivate employees by giving them clear and realistic goals and objectives.
- form a sound basis for analysis and the controlling function.
- enable dynamic and forward thinking short, medium and long-term plans.

The company's business plan contains strategic plans and outlooks for a 5 to 8 year period and includes all its future needs, in short, medium and long run scenarios.

- Human Resources
- Purchasing and Replacement Products

- Finance
- Training (also in HR)
- Product (Hire and Sales)
- Administration.

It also contains a detailed SWOT (Strengths, Weakness, Opportunities and Threats) analysis which is updated every six months to a year in a meeting where all labourer and administration employees, and the director discuss in a collegial manner, any changes that may need to be made. This worker input means a more focused and more motivated employee base.

(b) The Impact of the Business Environment

Over thirteen years, there have been many influences which have shaped the way the organisation has developed.

Internal Influences: The transition to a company from a partnership was made in 1990 due to the huge growth and large monetary dealings encountered by the company. To safeguard himself and two other partners, who are now executive officers, they adopted a private company structure to take advantage of limited personal liability and a more structured style of business.

Staffing requirements also influenced the way the future of Trust Us was shaped. The initial HR planning in the business plan proved to be too conservative in the wake of Sydney's Olympic win in 1993. External HR consultants were used and the labour-base was doubled in 1994 from 16 to around 35.

External influences have had by far the greatest effect on Trust Us P/L's business plan and outlook.

Government workplace regulation meant a substantial review of HR because of new Workcover regulations. This meant higher expenses and so the business plan was changed to reflect these costs. Cashflow statements and budgets were also revised at the same time.

Economic influences meant the directors could accurately forecast booms and recessions in accordance with a rough business cycle lasting about 12 years from peak-to-peak. These swings in economic activity are especially prevalent in the construction industry. The business plan allows for more part-time labour to be hired during booms and unutilised labour 'culled' in slow periods.

Institutional influences have had a major effect on how the company's business plan is used. The construction industry unions are amongst the most powerful in Australia and so the company must strictly conform to welfare, remuneration, and occupational health and safety requirements. This strict approach is echoed in the overall goals and objectives, and values contained within the business plan.

The Olympics are perhaps the single greatest influence the company has experienced in its 13 year history. The associated boom in construction has seen unprecedented staff and turnover levels. In 1993 after we 'won' the right to host the games in 2000, the medium-run tactical plan was reworked to take into account the massive construction boom leading up to the games. The tactical plan also currently forecasts a large period of low activity after the games so the HR requirements were for temporary part-time workers. This provision for a slow down after the games

exemplifies the importance a business plan can have in forecasting the needs of the business and helping it plan for all contingencies.

(c) Changes to the Business Plan

It is widely agreed that the biggest change in the business environment of the Australian construction industry over the last two decades is the Sydney 2000 Olympic Games. The director of Trust Us Pty Ltd foresaw the need in 1993, after the announcement, to drastically modify the business plan in anticipation of this change.

The Olympics was then a medium term objective and so initial planning was to ensure adequate labour and materials would be available for the projects.

The human resource needs were considered and it was decided that the majority of new employees had to be short-term, so they were only used until the Olympics in September 2000. A recruitment adviser was contracted who advised them of their needs and responsibilities. Unions were also consulted because the matter related to employee labour.

Product supplies needed to be adequate for the demand that was to be encountered. Early orders for new scaffolding, equipment and vehicles were placed. This preventative move ensured the company was able to meet demand.

It was also decided that administration had to be updated with computer management information systems. The administration plan was changed with a short-term goal of a dedicated office and administration property with full computer control. Trust Us currently leases a property in Sydney's Woollahra for this purpose.

Conclusion

Trust Us P/L's business plan has ultimately helped organise and structure the rapid expansion and maturity of a business that might have otherwise been very hard to control. The use of goals, objectives and tactics helps keep the small, albeit highly dynamic management team focused and efficient. The short-term plans for 0-6 months, medium-term plans for 6 months to 7 years and long-run plans for 7-plus years give a very clear and structurally sound framework for future expansion. If the directors and management continue to show the same response to the business plan as has thus far been displayed, the company will prosper well into the next century.



## 3 Unit Additional

### General Comments

In 1999, 3087 candidates presented for 3 Unit Business Studies. The quality of responses continues to improve, with candidates writing extensive responses to address the concepts and issues posed by the question as well as their understandings of specific questions.

### Marking of 3 Unit (Additional)

The marking of 3 Unit extended responses is identical to that of the 2/3 Unit extended responses.

### Popularity of Questions – 3 Unit (Additional)

Candidature: 3087

Topic	Question	% Frequency of Questions	% Frequency of Options
Business and Technology	1	13.0	13.0
Business and Technology	2	6.1	6.1
Financial Markets	3	10.6	10.6
Financial Markets	4	4.4	4.4
Human Resource Management	5	45.3	45.3
Human Resource Management	6	43.1	43.1
Production Management	7	15.8	15.8
Production Management	8	1.2	1.2
International Business	9	26.8	26.8
International Business	10	37.1	37.1

N = 3087

### Question 1 – Business and Technology

*The Internet has provided opportunities for businesses to expand their markets and to access an ever-increasing base of information about their external business environment. At the same time, such new technologies are costly and expose businesses and societies to external threats.*

- (a) *Outline the roles that information technologies can play in improving the productivity and profitability of a business.*
- (b) *Explain the contributions that information technologies can make to the efficient management of business information.*
- (c) *Evaluate the impact on the labour market of the increasing use by business of information technologies.*

#### General Comments

Most candidates outlined the various roles that IT plays, such as CAD (as a storage of design information), in improving the productivity and profitability of a business. Some candidates, however, listed and described examples of technology such as the internet, e-commerce, CAD, CAM, mobile phones. The better candidates explained how the investment in IT may initially decrease productivity and profitability (for example, the expense in retraining staff and the time taken to achieve maximum productivity).

Some candidates had difficulty in showing how IT can increase the efficiency of management; for example, by saving time. The majority discussed the impact of information technology on the labour market in terms such as ‘de-skilling’ and ‘redundancies’. Some did not refer specifically to information technologies and discussed technology in general. Few candidates used the stimulus material as clues for their response.

#### Excellent responses

In these responses candidates used the stimulus material, supporting their responses with examples from a range of case studies. They recognised the long term nature of investment in IT and its impact on productivity and profitability. Many explained how IT can contribute to more efficient management of business information in terms of accuracy, speed of analysis, detailed reporting on functional areas of management such as production, human resources, finance and accounting. Some candidates used the POLC model of management to identify the efficiency gains in the different functions of management. They evaluated their impact on the labour market, discussing such things as the need to retrain, restructure and develop a policy for downsizing.

#### Outstanding response

- (a) Relationship between Information Technology and the Productivity and Profitability of Business

Businesses are continually investing in new information technology, technology that enables the efficient communication between business, customers, suppliers, markets and staff, providing them with an increase in business profitability and productivity as

the business becomes more responsive, efficient, effective and able to quickly respond to the dynamic business environment.

Information technology plays an increasingly important role in improving the productivity and profitability of a business, including:

#### Wider access to information

Through information technology such as networked computer systems, businesses are able to communicate to both staff, suppliers, customers and support services immediately and efficiently reducing time in physically needing to approach these departments. Increased time efficiency leads to more productive activities and greater output of work creating a more profitable business.

#### Providing Management Information

Information technology such as email, management information systems and the internet have provided businesses with an ever-increasing base of information about the external environment. The internet, through the combination of web browsers, integrated computer systems and electronic mail enables managers and staff alike to access a wide array of information from international and domestic markets. This information is essential to business performance. Such is evident at Iron Mudgee Farm, where the implementation of the internet has enabled managers to access information on export market prices, soil conditions and meteorological information. This is crucial to the productivity decisions of the farm's use of resources and has led to efficient, effective management and increased profitability. The external environment can also be analysed and threats and opportunities overcome and exploited.

#### Market Access

Information technology has enabled businesses to respond and access markets in an international sphere. It is essential that businesses expand and innovate and embrace new technology to enable them to be internationally competitive and survive and remain profitable. The internet has enabled businesses to operate through electronic commerce, the paperless transaction of sales via computers and gain market potential in both the domestic and international field. An increase in market share leads to increases in sales and therefore an increase in profitability.

#### Effective Production

Information Technology has increased business efficiency and productivity considerably resulting in increased profitability and organisational success. New technology such as electronic data interchange and electronic funds transfer has enabled businesses to keep accurate track of stock through networking with suppliers and having integrated delivery and supply schedules programmed into computer systems. Through effective stock control, resources are used to their maximum potential and the business productivity is increased.

Information technology is expanding at a rapid rate and continues to have a significant effect on business profitability and productivity. Its role is to increase business performance and enable the corporate goals and objectives to be reached.

- (b) Management is concerned with maximising the resources of the business to enable them to achieve their corporate goals and objectives. Information technology plays a significant role in relation to the efficient and effective

management of business information which in turn determines the profitability and performance of the business. This can be seen through the four functions of management:

#### Planning

- Information technology (IT) has enabled businesses to plan the efficient operations and functions of business activities. Management information systems have contributed to efficient analysis of business information enabling managers to make accurate decisions as to business activities.
- The internet has contributed to the efficient external analysis of the business environment enabling management to discover potential threats and opportunities and plan in advance for these occurrences. Business information from international markets can be obtained and analysed in relation to management activities.
- Information technology provides management with the opportunity to analyse potential profits and losses of particular strategic plans and activities including management information systems and the internet.

#### Organising

- Management can use I.T. to organise stock, processes and procedures of the business. Electronic funds transfer (EFT) and electronic data interchange (EDI) have enabled managers to network with suppliers and organise efficient stock delivery and imports through the Just in Time Technology Process. This enabled business information to be efficiently organised through the use of scanners indicating stock sold and particular purchases on particular dates. This information derived from the IT systems can organise marketing plans to specific customers and indicate possible products that need to be phased out or deleted.

#### Loading

- Business information needs to be communicated to staff and associated businesses. The use of electronic mail, mobile phones, intranet technology systems has enabled managers to efficiently communicate to staff immediately establishing a flexible and responsive business environment. This is evident in firms where the networking of computers enables management to indicate new production schedules to staff and receive information back immediately as to the activities of staff.

#### Controlling

- IT systems are essential in the management control of business information. IT systems enable management to calculate budgets, financial ratios and profitability indications can be effectively determined through MIS systems and JIT technology. Computer systems can analyse business expenditure and record incoming sales and track staff payouts to determine if the business is exceeding budgets or if forecasts are not as high as actual figures. These controls provide the management with immediate information to respond to problems before they become detrimental.

IT has contributed to the efficient management of business information and enabled businesses to remain responsive and adaptable in the ever dynamic business

environment. However such systems come with negative implications that must be addressed before implementation.

(c) Impact on the Labour Market of the ever increasing use of IT by businesses.

The labour market of businesses using IT has been affected by this introduction of technology in both positive and negative ways. Human resources are often the business' best asset and important to business success. It is essential for managers to determine the possible impact technology will have before developing strategic implementation plans. Such impacts include:

– Skilling

The implementation of IT has led to a more multiskilled workforce with more skills required in using the equipment and responding to the needs of such new procedures. This is needed to maximise the benefits from the introduction of expensive IT.

– Job Satisfaction

New IT has increased job satisfaction and enrichment as employees take on new skills and challenges.

– Deskilling

IT systems such as computers and the internet along with increased efficiency in the business environment has led to many skilled experts being replaced by systems and staff having to accept lower positions due to skills no longer being needed.

– Flexibility

Telecommuting has given staff an opportunity to work from home through computer networks, Email and the increased use of new IT systems.

– Inertia

Staff often resist technology as it may mean their work activities need to change, established procedures are changed by new systems and old established habits are no longer required.

– Training

Staff will need to acquire new skills to adapt to the technology and be able to utilise it. This will increase skills but may be resisted by staff who are unhappy about extra time needed to be spent training.

– Organisational Change

The increasing access to information to IT has led to managers cutting out middle management and creating leaner, flatter organisational structures. This may mean staff positions have changed, new relationships need to be established and positions of power and promotional potential may have been removed. Amalgamation of departments has also created redundancies and the impact on staff unemployment is increasing.

New IT is increasing dramatically and bringing both positive effects to the business including profitability and productivity, increased market share and efficient communication but there are also issues to be considered with staff, risk, costs and privacy threats that may prove to be very important for the business.

## Question 2 – Business and Technology

- (a) *Outline the role of innovation in the growth and development of technology used by business.*
- (b) *Explain the relationship between investment in technology and business productivity and profitability.*
- (c) *Refer to TWO businesses you have studied. Evaluate the impact of technological change on these businesses and analyse management's response to technological change.*

### General Comments

Question 2 was similar to Question 1. Candidates outlined the evolving nature of technology and evaluated its impact on two case studies. Many had difficulty with the concept of innovation and its role in the growth and development of technology used by business. They were also less aware of the fact that productivity and profitability may initially fall due to the huge investment often needed to introduce new technology, such as the cost of capital equipment, software, staff training. While most candidates referred to two case studies, often only one was described in depth. The second case study comprised either a brief example or was very descriptive, with little evaluation and analysis of management's response to technological change.

### *Excellent responses*

Candidates defined innovation and discussed the importance of research and development in areas such as information technology and linked it to product and sometimes business life cycles.

Candidates discussed the effects of the introduction of a range of technologies such as bar codes, scanners and networking computers (LAN, WAN and GAN). They discussed the initial cost involved, eg the need to retrain, and/or the loss of productivity. Candidates then explained how these technologies also led to long-term gains in profitability and productivity.

Candidates evaluated and analysed the impact of technology and management's response in two case studies. Candidates analysed impacts on labour and organisational structure in terms of downsizing and redundancy resulting from technological change. They also discussed positive outcomes such as more effective communication, product innovation and a more pro-active management style.

### *Excellent response*

- (a) Innovation is the improvement of existing products and processes, or the development of new products and processes that add value. Innovation is the force driving the growth and development of technology, and has been present in varying degrees in the Industrial Revolution (1760-1830), and all subsequent stages of technological development. The role of innovation is to:
  - replace product's with finite life cycles
  - create a sustainable competitive advantage for a business
  - develop processes that add value and improve quality.

Innovation has been consistently present in the following major stages of growth and development of technology:

- The Industrial Revolution (1760-1830) – the capital from centuries of European expansion, and the drive for creativity and improvement, and more productive processes fuelled the development of specialisation. Under this process, a task such as manufacturing a pin, was divided into 18 sub categories, allowing 48 000 pins instead of 20 to be produced daily.
- Mechanisation – Innovation was responsible for the evolution of mechanisation, which resulted in machines replacing individual skills on a larger and larger scale. This ultimately led to the establishment of textile mills, steam driver technology, electrification and the decrease in costs of production.
- Mass production and automation – Eli Whitely’s design of the assembly technique in 1798 was refined by Henry Ford in 1913. Consistently, this method of mass production at lower unit costs due to large volumes, has become more and more innovative. In the 1990’s, the final step in this process is the replacement of labour with innovative manufacturing technology such as robotics.

Innovation may be the result of :

- a desire to beat competition
- creativity
- the changing costs of raw materials and labour markets which demand more innovative products and processes
- customer demands
- the intent to increase profitability as a result of product enhancement.

Innovative practices stem from either:

- Research and development (R & D)
- reverse engineering – the analysis of competitor’s products, and creation of new and better imitations
- continuous incremental improvements – Total Quality Management (TQM) in practice
- the purchase of the licence, patent, copyright and trademark to an innovative product or process designed by someone else.

Innovation is imperative if technology is to be consistently develop and become more sophisticated. It is the force responsible for the continual technological growth and development that drives the world.

- (b) Technology can dramatically improve a business’ productivity and profitability provided it relates to that organisation’s mission statement and prime function. Prior to investing in technology, management should:
- assess the technological requirements of their organisation
  - conduct a strategic ‘audit’ or stocktake on existing technology, and decide if the acquisition of new technology would enhance existing processes or products

- assess the training requirements for human resources if new technology is to be purchased
- conduct a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis, on the acquisition of technology, to see whether it will enhance the organisation's sustainable competitive advantage
- assess financial capacity to ascertain whether the acquisition of often highly expensive technology is, in fact, possible, given financial constraints.

Investment in technology is vital if a business is to:

- survive
- maintain a sustainable competitive advantage
- overcome the weaknesses of the finite life cycle of products.

Naturally investment in technology will be dependent upon:

- capital availability – the financial capacity of the business.
- the industry – certain industries are more technologically driven than others, and will require a higher degree of investment in technology simply for an organisation to survive. For instance in the computer industry, continuous investment in technology is necessary not just to remain profitable and productive, but in order to continue operating.
- competitors' levels of technology – if competitors have advanced technology then the organisation may need to invest in order to compete.

Technological investment will correlate with:

- productivity – advanced technology in the primary sector such as sensors in soil, biotechnology, and the use of satellite images to identify the most fertile and arable land, will lead to improvements in the yield per hectare. In the secondary industry, technology such as computer-aided manufacture (CAM), and computer-aided design (CAD) will greatly improve the speed of the production process and enhance productivity. Technology can achieve a symbiotic relationship with labour, and does so in quick response (QR) technology in the service industry. The results are greater output, sales, and thus productivity.
- profitability – technology can significantly reduce the cost per unit of output by decreasing wastage, labour requirements and physical demands. This in turn will increase productivity. Technological investment in fact, can be responsible for profitability increases of over 20%, according to the Australian Bureau of Statistics (ABS).

(c) The impact of technological change at Jesse Apparel (PTY LTD) and Fairfax Printers (PTY LTD):

Brief overview – Jesse Apparel is a clothing designer, manufacturer and wholesaler, producing girls' and ladies' clothing and located in Surrey Hills. Fairfax Printers is a printing company responsible for the productions of the Sydney Morning Herald (SMH) and the Financial Review. It is located in Chullora. Technological change has impacted upon these businesses in the following ways:



- Organisational change – both organisations made significant technological acquisitions in 1997, and since then have become more flat in their structures. Technology has fostered increased communication between senior level management and employees, and led to the elimination of unnecessary levels of middle management. Jesse's implementation of a management information system (MIS) has eliminated the need for staff to do paperwork, and has removed the labour demands for administration. At Fairfax, advanced microwave communications and 4 new cables have eliminated the need for staff to courier messages between Chullora and the Darling Park editorial centre. The result has been downsizing by as much as 15% at both organisations, and broadened spans of control.
- Impact on labour – in production areas at Jesse Apparel, some staff functions have become obsolete. For instance, Computer Aided Manufacture (CAM) has reduced the need for a supervisor of quality control, as quality control is built into the manufacturing process. At Fairfax, structured unemployment has also occurred, as staff involved in unloading trucks have been replaced by laser guided vehicles — this temporarily reduced workplace morale.
- Multiskilling – Although technology at both businesses has, in some cases, deskilled workers in certain functions, in a vast majority of cases it has triggered the development of new skills. Training programs at both Jesse and Fairfax for a 2 week period enabled the workforce to become multiskilled. At both businesses, employees can now operate production technology and fulfil their job description.
- Worker satisfaction – Due to multiskilling and investment in training that resulted from the technological upgrade, 86% of Jesse employee's reported increased job satisfaction. Robotics have eliminated more menial tasks, and are responsible for cutting fabric and dyeing it at Jesse, this means employee's jobs are less monotonous. At Fairfax, the new 25 metre high Roland tower presses have removed the necessity for workers to scrub conveyor belts and do other menial tasks.
- Resistance to change – Although both organisations faced some employee apprehension initially, this was overcome through training, outplacement services to downsized employees also prevented loss of morale at the workplace.
- Technology agreements – Both companies abided by the 'Termination, Change and redundancy case' of 1984 to ensure employees received sufficient notice prior to redundancy.
- Working at home – at Jesse Apparel, technology has made telecommuting possible. The US invention recently acquired — 'the Palm Pilot', and the use of Wireless Applications Protocol (WAP), has enabled employees to access their computer terminal at work, yet work from a comfortable environment.

Management has responded effectively to technological change by:

- implementing Total Quality Management (TQM), which complements technological acquisitions at both organisations and encourages continued improvement.

- utilising training – by training employees to operate technology at Jesse and Fairfax, management eliminated the degree of adverse response to change and addressed worker demands for multiskilling.
- Provision of outplacement services – prevented loss of morale of remaining workers and allowed technological transitions at both companies to be smooth.

Technology has raised Jesse's profitability by 20 %, and Fairfax's by 17.3%. It has contributed to both organisation's ongoing competitiveness.

### Question 3 – Financial Markets

*Johnson Engineering is a successful large manufacturing business in a very competitive market. Its success relies heavily upon established links with a small number of suppliers. In recent years it has paid impressive dividends to its shareholders. It has also accumulated a significant amount of undistributed profits. Management is considering the options available for the future application of these excess funds. Management has concerns about the net present value of long-term capital investments.*

*You are the financial manager for Johnson Engineering. You are asked by the Board of Directors to prepare a report outlining the investment options for these excess funds. Your report should include:*

- a description of a range of investment options;*
- a comparison of these investment options;*
- an evaluation of the techniques that could be used to assess capital expenditure decisions.*

#### General Comments

This question related the Financial Markets option to the Skills and Knowledge Outcomes of the syllabus. Most candidates were able to describe a range of investment options, though few candidates were able to compare them adequately. In responding to the first and second parts of the question, many candidates used prepared answers on investments and their characteristics. This led them to cite instruments such as Futures and Options, without fully explaining their relevance to a business such as Johnson Engineering.

Many candidates identified a range of investment options available to Johnson Engineering, but very few recognised the dilemma faced by a capital intensive business concerned with the present net value of long-term investments, ie whether to stick with, or change, its prime function; or to ‘park’ funds temporarily in financial investments until the outlook for capital investment became clearer.

In the third part of the question few candidates were able to use capital evaluation that could be used to assess investment decisions. The majority referred only to risk/return and/or liquidity/marketability considerations, sometimes only briefly.

#### *Excellent response*

Here candidates answered all parts of the question in depth. They presented a comprehensive range of investment options, including shares, bonds, commercial bills and notes, skilfully comparing them in detail. They accurately described several capital evaluation techniques and also referred to risk and return considerations. Some cited the option of takeover/merger in the context of horizontal/vertical integration.

These responses were written in report form. Candidates effectively evaluated the investment options that could be utilised by Johnson Engineering, recognising the need to appraise capital expenditure options, using techniques such as accounting rate of return, internal rate of return and payback period.

### ***Outstanding response***

To Johnson Engineering:

Trading in financial markets involves the use of those funds which are currently surplus to your immediate spending needs. In your case, this is the result of a business operating surplus. There are a range of investment options available to you, with the 3 main areas including:

1. Financial instruments
2. Capital expenditure
3. Mergers and takeovers.

Financial instruments are those investments tradeable on financial markets. A wide range of criteria must be considered when investing including: amount to be invested, economic cycle, operating cycle, and economic life of the asset.

Returns available for such investments include:

1. Explicit interest rates
2. Capital gain/loss
3. Discount/premium
4. Dividends.

Every investor must consider the following factors when investing in financial instruments including:

1. Yields
2. Risk
3. Negotiability
4. Pricing
5. Parties involved
6. Liquidity
7. Unique features.

An investment decision is often called portfolio management. This is used to manage your investments, and achieve a balance between risk and return. A number of different investments usually balances out the risk, but the exact mix depends upon your perception. An aggressive 'bullish' investor would have a large proportion of high risk investment whilst a 'bearish' person would prefer low risk investments such as blue chip companies — well established, reliable.

There are a range of investments available on the market including:

1. Equity – shares, convertible notes and trusts offer various returns but are quite risky in some cases.
2. Short term debt – promissory notes, treasury notes and commercial bills. Promissory notes and T-notes are similar but T-notes are more secure and have lower yield.
3. Long term debt – debentures, T-bonds, and unsecured notes — usually fixed interest and fixed period with access to higher returns.

4. Derivatives – swaps, options, warrants and futures. Involve hedgers who look to minimise risk and speculators who aim to profit from risk.

As well as considering this risk/return trade off, investors must consider the yield curves of various securities. A yield curve is an illustration of the dynamic relationship between time to maturity and yield values of securities. It reflects market expectations of interest rate movements as a result of economic conditions. ‘Riding the yield’ curve allows for profitable decisions if correct.

Capital expenditure involves investment in capital investment projects. These aim to:

- (a) increase production levels
- (b) raise productivity and efficiency
- (c) replace old equipment
- (d) introduce new technologies
- (e) introduce new products
- (f) expansion into new markets
- (g) establishment of a joint venture.

Many considerations such as net present value (NPV) and internal rate of return (IRR) must be considered, and will be addressed later in this report. First I will draw your attention to the third major area of investment, mergers and takeovers.

A merger is where two or more firms combine operations and there is no clear purchaser. These occur through friendly arrangement of management of either firm. Takeovers may be hostile as resistance from managers/directors of the submerged firm is common when another firm takes over operations. Mergers and takeovers must be considered as a viable option for the following reasons:

1. Synergy – where the sum total is greater than the individual parts. This can result from:
  - (a) operating economics – bulk buying, distribution efficiencies.
  - (b) financial economics – the larger firm may be able to borrow at a cheaper rate, carry a higher debt to equity ratio.
  - (c) marketing economics – the cost of advertising/promotion is reduced if shared between the two companies.
2. Maximise tax advantages – tax liability of larger firm may be offset by a merger/takeover.
3. Acquisition of unique talents – copyrights, patents may entice mergers/takeovers.
4. Acquisition of undervalued company – when a company is in financial trouble a window of opportunity may exist to purchase it at below its asset value.
5. Diversification.
6. An alternative to paying dividends.

Financial instruments would be a riskier investment than mergers/takeovers but could also provide access to higher returns. The risk/return trade off is an important consideration. Mergers or takeovers will be successful if the above conditions are met,

as well as contributions from each firm provided in the deal, with similar purposes. Mergers/takeovers may fail when:

- (a) the takeover is hostile
- (b) the takeover price is too high, depleting financial resources
- (c) failure to properly evaluate the other firm.

Capital expenditure projects have a number of factors in determining their viability. The net cash investment — money that has to be outlaid, the net cash flow, the net cash investment less the returns recorded from that investment, and the economic life of the asset — the time the company can expect to earn cash from an investment, may influence your decision to undertake this investment.

Other factors include:

1. Time value of money – money has differing values depending upon when it is received due to:
  - (a) default risk – cash flow may not be received.
  - (b) inflation – changes dollar's purchasing power.
  - (c) interest – money invested earns interest.

2. Discounted cash flow – the future value of a single cash flow can be calculated by:

$$FV = PV (1 + i)^n$$

where:

- FV = future value
- PV = present value
- i = interest rate
- n = number of periods

The present value must be determined if referring to future cash flow. Expected cash flows at some time in the future must be discounted back to the present value. Discounted cash flow analysis is the single most important technique used by financial managers:

$$PV = \frac{FV}{(1 + i)^n}$$

Although it may seem complex it is useful in determining which course of action to undertake, particularly if their periods are different.

3. Payback period – the amount of time it takes for the investment to recoup its initial outlay.

These methods are all primitive techniques, and must be supplemented by more sophisticated techniques which are:

1. NPV – the net value of future cash flows less the initial outlay. The difficulty with this method is estimating future cash flows. For this reason it is avoided, with many decisions poorly based.

In considering capital expenditure investments, you must calculate NPV. This is done through estimating future cash flows and discounting them by the investors required rate of return. If NPV is positive, accept, if it is negative then reject.

Because of the difficulty in estimating future cash flows, long term projects are more risky as there is more room for miscalculations. Risk is an important factor that must be considered in calculations. This is usually achieved by increasing the interest rate, which implies a bigger discount on cash flow and can affect your decision.

NPV provides a consistently sound method of determining the best course of action to undertake, and works well even for projects with different economic lives and capital outlay.

2. IRR – similar to NPV in that it allows for the time value of money. It can be calculated through:
  - (a) trial and error
  - (b) computer simulations.

The IRR is the interest rate which yields an NPV of 0. The project which yields the highest IRR would be considered the best. If discrepancies arise in calculations over NPV and IRR, then NPV would be the preferred method of decision making.

I hope this report has assisted you in making your investment decision. From the advice outlined in the report you should be able to make an effective decision on which capital investment project you could undertake through the use of NPV and IRR. I also hope it helps you decide which option to choose from — financial instruments, capital expenditure or mergers and takeovers. You should now be aware of the risk and advantages from each and be able to make an educated decision.

#### **Question 4 – Financial Markets**

- (a) Describe the role of the institutions below in the Australian financial markets.
  - Australian Stock Exchange
  - Australian Securities and Investment Commission (formerly Australian Securities Commission)
  - Reserve Bank of Australia
  - Department of Treasury
- (b) Explain how the Australian Stock Exchange and the Australian Securities and Investment Commission influence a company when it incorporates publicly.
- (c) Evaluate the alternatives that listed companies have for raising additional funds.

#### **General Comments**

Many candidates found this question difficult. It required them to demonstrate a high degree of institutional knowledge. The majority described only general features of the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission (ASIC). Many identified ASX's role in providing a primary and secondary market for securities and of the general regulatory functions of ASIC and Treasury's role in helping to formulate the government's fiscal policy. Few candidates

cited Treasury's debt management functions. Candidates had a better knowledge of the Reserve Bank of Australia, but some were unable to distinguish between its role in financial markets and its other roles. Many candidates referred to its role in controlling inflation, but few were able to describe the technique it employs to execute this function. Some candidates cited the Reserve Bank's responsibilities for prudential supervision of banks, a function that passed to the Australian Prudential Regulation Authority in mid-1998.

In referring to the influence of ASX and ASIC on an incorporating public company, many candidates did not refer to the need to meet the ASX listing requirements, sometimes repeating the information they had given in Part (a) of the question. Many candidates were not able to distinguish clearly between the functions of these two bodies which have a complementary influence on listed companies.

A number of candidates described a range of fund-raising alternatives for listed companies, though fewer candidates were able to evaluate them sufficiently. In responding to part (c) of the question, many drew on prepared answers on investments and their characteristics. This led them to cite instruments such as Futures and Options without always explaining fully their relevance as a source of finance for a company that is incorporating publicly. A smaller number of candidates described the alternatives as investment outlets for funds.

### ***Excellent responses***

Candidates answered all parts of the question in depth. They accurately described the major roles of:

- ASX as a primary and secondary market for securities, recognising its regulatory/monitoring role over listed companies.
- ASIC as primary supervisor of companies, financial advisers and ASX in terms of the Corporations Act, eg as regulator of prospectuses for primary issues of securities, identifying/prosecuting insider trading or other deceitful conduct.
- RBA in implementing monetary policy through its influence over the overnight cash rate, banker to the Commonwealth, buying/selling foreign currency, agent of the Australian Government in issuing Treasury notes and bonds.
- Treasury (Federal) in advising government of financial and other consequences of fiscal policy, managing government debt.

Candidates explained the need for a new public company to comply with the requirements of (a) ASX (only if company is listed) — to meet criteria such as having a minimum number of shares on issue, providing accounts and directors' reports twice a year, keeping ASX informed of material developments, (b) ASIC — to register, in order to obtain a company number, to get authority for any prospectus that it may issue to raise equity or loan funds from the public, lodge annual reports and accounts.

Candidates analysed in depth several fund-raising avenues for listed companies, including ordinary and preference shares, debentures, secured and unsecured notes, overdrafts, commercial bills, promissory notes, options, warrants, sales of surplus assets, factoring, trade credit.

Most responses were written in report form.



### ***Excellent response***

Finance is the management of money, and financial markets are where the surplus funds of individuals, businesses and governments are traded. There are a number of major participants in financial markets:

- (a) The Australian Stock Exchange (ASX) acts as a common trading area for company and individual funds. It provides the link that allows companies to raise capital in a simple process, and allowing investors to purchase shares and other instruments commonly traded. The ASX also allows various 'users' the ability to compare share values of each company easily.

One of the ASX's other roles is to allow foreign investment into Australia. Without this common trading ground, foreign investors would face great difficulty in purchasing Australian financial instruments. The ASX itself is a company trading on the stock exchange, profiting from the fees it charges to obtain 'real time' share values, other fees from stockbrokers (e.g. subscription) and charges to companies who wish to be on the ASX.

The ASX also plays a minor regulatory role in that it has certain standards that companies must fulfil.

The Australian Securities and Investment Commission is the institution who is primarily responsible for the regulation of all incorporated enterprises. The ASX has delegated authority to make binding decisions and rulings on legal issues concerning enterprises. Its role in Australian Financial Markets is to firstly establish minimum standards for trading institutions so that investors have increased security in their investment choices. Secondly, it also investigates past incidents involving unlawful or deceiving conduct of (usually) companies actions.

The ASIC also monitors certain aspects of trusts (eg. unit trusts, property trusts) and other investment areas once again with the primary intention of benefiting individual investors and society as a whole.

The Reserve Bank of Australia (RBA) is the means through which the Commonwealth Government uses its monetary policy. The RBA greatly influences the strength and severity of cycles in financial markets. The RBA does this through influencing the level of cash in the economy, which in turn adjusts the interest rate level. The interest rate level has historically been a large determinant of the investment levels in an economy.

For example, if the RBA wanted to loosen monetary policy, or decrease the interest rate levels, through its domestic market operations it would encourage the banks to sell back their securities by adjusting the official rate. This would have the effect of increasing the amount of money in the economy, lower interest rates and most likely increase the trading activities on financial markets.

The RBA also acts as a 'bank to the banks', it monitors the performance of major institutions and their gearing levels and lends money to banks that have difficulties. This is the regulatory role of the RBA.

The Department of Treasury (at both federal and state levels) is responsible for issuing either treasury notes or treasury bonds. These are methods of the government also influencing financial market activities, but also is a method of raising revenue for government activities. Treasury notes are short term debt securities issued by the

NSW government, and are traded on the money market. Treasury bonds are issued by the federal government and are long term debt securities, eg. three, five, ten years.

(b) Companies who choose to list on the ASX must be public companies (eg. Ltd). Although the process has been simplified by the first and second Corporate Law Simplifications Acts, the process is still fairly expensive.

The ASIC requires that public companies follow the usual procedures for forming a proprietary company, and a number of other requirements that allow listing on the ASX. Public companies must issue prospectuses, annual reports to shareholders and must also complete a number of financial accounting requirements that need to be submitted and checked by the ASIC. The ASIC obviously influences public companies by the various regulations in place, but it also has the power to investigate 'suspect' operations or after complaints about companies to the ASIC.

The ASX also imposes, to a lesser degree, restrictions and standards on public companies trading on the ASX. The ASX also charges companies a significant amount for the privilege of being on the exchange. The ASX requires companies to follow procedures that are specifically set out by the ASX, in relation to issuing of shares, rights, options etc.

The ASX and ASIC influence the activities of public companies trading on the ASX with the goals of increasing competition, but foremost is the protection of individual investors.

(c) Besides raising finance through the issuing of shares, there are a number of methods by which companies can raise funds.

A 'hybrid' method is through convertible notes, an instrument that provides the borrower the choice of accepting full payment plus interest, or converting a pre-determined amount of shares at their current market value – this provides a bonus for the company if their share prices rise, they are not actually paying for their debt, just gaining further ownership.

Companies can also use promissory notes and commercial bills, usually company to company deals, as a method of managing finance.

Companies, especially finance companies, are also using debentures and unsecured notes as a means of raising additional funds. Debentures offer asset backing to the value of investment, and usually offer a return greater than banks. Unsecured notes, as the name implies, are not backed by assets, and therefore have a higher interest rate for investors. These are usually considered as long term debt securities.

Companies can also raise funds through ordinary loans and mortgaging. Another common method is through applying for venture capital – loans for specific (sometimes risky) projects.

## **Question 5 – Human Resource Management**

*Using case studies to illustrate your answer:*

- (a) *describe the components and effects of motivation in the workplace;*
- (b) *compare the effectiveness of a range of monetary and non-monetary motivators that are used by human resource managers;*

- (c) *evaluate the impact of different theories of motivation on the management strategies related to job satisfaction, employee performance and business profitability.*

### **General Comments**

This question proved challenging for many students, who had difficulty in identifying the components of motivation and, instead, often described the role of motivation, its importance and effects on the workplace.

Many candidates identified monetary and non-monetary motivators, but had difficulty in comparing the motivators and their effectiveness. Theories of motivation were often described and generally linked to job satisfaction, employee performance and business profitability.

Part (c) proved difficult for most students, as it required analysis of too great a number of issues. Only the better candidates applied theories to their case studies and evaluated the impact of each on management strategies.

Candidates often answered the question by using only one detailed case study.

### ***Excellent responses***

Here candidates described in detail components of motivation, such as interesting jobs (enhanced by multiskilling, job rotation, job design), training, development rewards and performance appraisal, and linked them to career pathing, physical working environment and relationships with co-workers. Candidates described in detail how motivation contributes to business profitability, for example, through lower absenteeism, lower staff turnover, high morale and increased productivity.

Candidates compared the effectiveness of an extensive range of monetary and non-monetary motivators such as salaries, bonuses, commission and fringe benefits, explaining how they can lead to poor performance and lack of profitability. Most candidates explained that a combination of monetary and non-monetary motivators is required in a properly integrated rewards system.

The impact of the process and content theories of Maslow, Herzberg, McLelland and Locke on management strategies in two case studies were evaluated. Candidates related the management strategies used to job satisfaction, performance and business profitability.

### ***Outstanding response***

#### **Executive Summary**

The following Human Resource Management (HRM) report will be examining one of the five main functions of this medium, motivation. Motivation is adopted by business's in the hope that it will maximise employee performance by creating job satisfaction. This report will specifically discuss:

- (a) the components and effects of motivation in the workplace
- (b) the effectiveness of monetary and non-monetary motivators utilised by HRM and
- (c) the impact of different theories of motivation on management strategies related to:

- job satisfaction
- employee performance
- business profitability.

This discussion will make reference to:

- Fairfax printing plant, Chullora
- NRMA
- Dartbrook Coal Mine.

(a) Components/Effects of Motivation in the Workplace

Motivation, principally, can be divided into two main groups:

- intrinsic – the motivation an employee finds within themselves, out of job satisfaction, etc.
- extrinsic – also referred to as environmental, meaning those factors exterior to the employee, including reimbursement, status and reward.

Most businesses adopt a mixture of these two factors to best motivate employees. While it may seem that money would be the chief motivator for most employees, a recent US study by leading HR consultants the Hay Group showed that out of 50 factors, wage/salary was the least important to employees, and the most important was learning new skills.

As such, motivation in the workplace should focus on the intrinsic rewards that employees receive. An example can be found at Fairfax printers. Rather than just concentrating on one factor of production, employees are multiskilled, that is, can perform a variety of different tasks in the production process. As such, the employee can witness the finished product. This instils a sense of achievement, an intrinsic motivator in each worker – rather than see their actions as usual and repetitive, they see it as part of a greater process, with a finished product to aim towards.

Another example is the 360 degree feedback policy found at NRMA. With the knowledge that not only superiors, but peers and subordinates will be conducting performance appraisal, each employee is likely to be motivated to exhibit world's best practice in each factor in their job. It is also important to note that performance appraisal is used by many businesses to motivate staff as from its results arise opportunities for promotion, pay increase (both extrinsic) or more responsibility (intrinsic).

Motivation should be a combination of intrinsic and extrinsic factors and should aim to increase job satisfaction, thereby encouraging employees to work at their highest level of capability.

(b) Effectiveness of monetary/Non monetary motivators

Monetary motivators are those that are principally concerned with the monetary reimbursement of employees. Examples include wages, salary and overtime. Although estimates suggest that 80% of Australian workers are paid by award wages (those set out as the minimum allowable for such a position), it is interesting to note that, in line with government initiatives each business discussed in this report has adopted enterprise agreements to pay its employees. For example, at Dartbrook, the employees, all whom are experienced miners, know that their salary has external

equity, that is, compares well with other mining companies. This encourages the employee to recognise that their employers are 'doing the right thing by them', and are therefore likely to put more effort into their work.

However, as the Hay study discussed earlier in this report would suggest, HRM should not simply increase the wages of their HR to motivate them to perform at their best. Rather they should also adopt non-monetary (NM) motivators. Examples include company cars, health funds, and paying for private school fees (a technique widely adopted by the Australian Defence Force). Many non-monetary motivators were initially utilised by businesses as a method of increasing an employee's reimbursement package, but not going up an income tax bracket. The government recognised this and introduced the Fringe Benefits Tax to counter such attempts.

Non-monetary motivators can be quite simplistic, and work very well. For instance, the Fairfax plant operates 24 hours. The employees who worked the night shifts were quite perturbed that during their breaks, nothing any good was on television. Fairfax then paid for paid television to be connected. The results were increased productivity at night, as employees stayed more awake and alert. Compare this to the cost of upping each employee's pay packet by as little as \$1000 p.a., and the results quite clearly support the adoption of non-monetary motivators.

At NRMA, the non-monetary motivators are unique to their business, in that they offer a 10% reduction on insurance, and honorary membership. They also, however encourage continued employee education and will pay some tuition and expenses of employees, for example, deciding to do a masters at university. This motivates an employee to improve their skills and therefore be able to perform better for the organisation. Such improvement of skills could not be found in traditional monetary motivators.

As such, non-monetary motivators are usually more effective, as they are both more cost efficient, and can make tangible improvements on employee performance.

(c) Evaluation of Impact on Different Motivational Theories on:

– Job Satisfaction

All businesses in this report to an extent have adopted Maslow's Needs Hierarchy. This states that employees have different needs, ranging from 'essential' to 'bonus':

Lower order:

- psychological needs
- security needs
- social needs

Higher order:

- esteem needs
- self-actualisation

With the reimbursement packages already discussed in section B of this report, the two lowest needs are easily met. Esteem needs are met at Dartbrook in that everyone wears the same uniform, and, as such, a sense of equality ensues, and workers are more likely to feel satisfied in their jobs. Self actualisation refers to when an employee feels they are at their peak. This is achieved at Fairfax by encouraging employee 'ownership' over the process, and developing career paths for each

employee, ensuring they are both satisfied with what their job is doing for them now and in the future.

– Employee Performance

By adopting Vroom's Expectancy Theory, the NRMA has redistributed its reimbursement to employees. Exit interviews suggested that employees saw inequity in the distribution of rewards in the NRMA. As such, a new pay structure was adopted, where those who achieved the goals were paid more. This is in line with Vroom's theory that those who work hardest expect to be rewarded. It encourages all employees to attempt to meet business goals.

– Business Profitability

By adopting such theories, each business has seen an increase in its profitability:

- Fairfax's introduction of technology enabled an increase of profitability. By adopting these theories, employees were not alienated by the new technology.
- NRMA has seen a great decrease in staff turnover, as employees stay motivated (it was at 36%).
- Dartbrook has seen its profitability remain constant at a time of upheaval in the coal industry, and great union interference.

### Conclusions

Businesses should adopt motivational theories in order to ensure staff are working at their peak ability. NRMA, Fairfax and Dartbrook all display the advantages to be found in offering a range of motivators.

## Question 6 – Human Resource Management

*Well-trained and highly skilled employees contribute to business profitability. The process of replacing such employees is both expensive and time-consuming.*

*You are the human resource manager in a large business employing highly skilled technicians. Prepare a report that:*

- *outlines the laws affecting human resource acquisition and development;*
- *compares the costs and benefits of training your own staff with the alternative of employing trained and experienced staff from outside your business;*
- *describes the management practices that you would employ to maximise the value of dollars spent on training and development.*

### General Comments

Most candidates outlined laws affecting HRM acquisition. Few, however, outlined the laws relating to development. Some candidates included the Training Guarantee Levy but did not know that it is now defunct; the better candidates separated acquisition and development.

Candidates outlined the cost and benefits of internal and external training. Some, however, were unable to compare the cost and benefits of training a business's own staff with those of hiring trained personnel.

Most candidates either concentrated on a few management practices, such as performance appraisal, mentoring, feedback, analysis of staff productivity and induction programs or outcomes of training, such as high productivity through improved competence, high morale, more satisfaction, low turnover and low absenteeism.

### ***Excellent responses***

Candidates here analysed each part of the question in depth, demonstrating a knowledge of key HRM concepts and using appropriate business terminology. They outlined a number of laws relating to acquisition and development, compared the costs and benefits of internal/external training and described a range of management practices. In most cases candidates referred to the stimulus material and highly trained technicians, outlining a range of specific laws affecting HRM acquisition including Equal Employment Opportunity, Anti-Discrimination, and Industrial Relations legislation and development, eg EEO and OH and S.

The monetary and non-monetary costs/benefits of training existing staff and employing trained and experienced staff in terms of morale, time, workplace culture, downtime and costs versus improved performance were compared equally well.

Candidates described management practices that would maximise the value of expenditure on T and D such as effective induction, performance appraisal, performance based rewards (individual and organisational), training programs and internal promotion policies.

### ***Outstanding response***

An effective human resource manager is one who continually meets the needs and wants of their employees. A business with a satisfied staff is one whose human resources management is effective.

#### Human Resource Acquisition and Development

This part is a vital part in the operation of the business. The laws that affect human resource acquisition and development include:

- (a) Sex Discrimination Act: when employing/selecting people to meet the job required, no discrimination should take place regarding their gender.
- (b) Equal Employment Opportunity: every person must be granted equal opportunity of employment.
- (c) Anti-discrimination Act: this prohibits any discrimination during acquisition based on their race, age, religious beliefs, gender, political beliefs and marital status.
- (d) Affirmative Action: this law affects human resource acquisition and development in a way that women are granted equal opportunities of work, pay, etc.
- (e) The Occupational Health and Safety Act: this legislation, upon acquisition and development must be provided in order to ensure a safe working place for all employees.

Therefore, when employing highly skilled technicians, the laws affecting human resource acquisition and development must be considered.

### Costs and Benefits of Training Own Staff

The continued costs of training current staff members include:

- Continued training on occupational health and safety (OHS).
- Costs of job rotation. When training a current staff member to complete different tasks, cost is involved.
- Always/continually training staff. The Keating government, when in operation, stated that all employers must spend at least 10% of their profit to continually train staff members.

Associated with costs, there are benefits in training current staff members. These include:

- Staff already know how to complete the majority of the work involved.
- Less costs or no costs in advertising for new employees.
- Staff are already familiar with the business' practices and rules.

### Costs and Benefits of Employing Trained and Experienced Staff

Costs involve:

- Paying for the employees status (ie. they are already skilled, so higher pay may be required).
- Making sure the staff from outside the business are aware of the business' practices and culture.
- Trained and experienced staff from outside the business may not be able to follow any rules/regulations of current business, thus costs must ensure that they can do so.
- The staff may not be skilled or experienced in the 'technician's' business, so costs must be taken into account there.

Benefits involve:

- Staff are already trained.
- Can put a different mentality in the new worker's mind.
- Can make them comply with the business' rules and regulations.

After comparing the costs and benefits of training my own staff with the alternative of employing trained and experienced staff from outside the business, I came to the conclusion that training my own staff is more effective, because although the costs involved are slightly higher, the benefits compensate for such costs.

### Management Practices that need to be adopted

To be an effective human resource manager, I must adopt certain management practices to ensure the satisfaction of my staff, and to also maximise the value of dollars spent on training and development. Such practices include:

- Performance appraisal: To continually analyse the worker's performance would benefit both me and the employee as I, for example, am aware of what weaknesses occur, and the employee may be able to strengthen their weakness.



- Providing occupational health and safety (OHS): This ensures that a safe working environment occurs, and not only is it a law that must be enacted in every business, it also motivates employees in their development stage as they will feel safe and protected.
- Providing mentors: Having a ‘buddy’ present to outline the business practices to new employees is part of the induction process. This allows the employee to know more about the business, and also provides a friendly environment.
- Providing provision for welfare: If new employees need, for example, counselling or child-care services, then these must be provided to ensure greater motivation in the training and development stage, in turn maximising the value of dollars being spent.
- Feedback: Allowing for feedback after the training and development stage allows me to determine what aspects I must alter or fix to ensure greater satisfaction and training.
- Analysing staff productivity: Determining whether or not the staff or employees’ output matches the costs being spent on training and developing the staff is also another management practice that I would use to ensure the maximisation of the value of dollars spent on training and development.
- Providing both on-the-job and off-the-job training: This management practice allows the employee to experience the job in reality (on-the-job training) and to learn more about what requirements must be met, ie. through videos, etc. (off-the-job training).
- Use an induction program: This introduces the employee to the business and outlines what needs to be done, and the business’ practices. If employees are dissatisfied with what is being offered, they can then resign before further training and development costs take place.

Therefore, all the management practices that I would use to motivate employees as well as ensuring that the business is making profit, would ensure maximisation of the value of dollars spent on training and developing technicians.

### Conclusion

An effective and useful human resource manager is one whose staff is satisfied with the job requirements, and one whose business is simultaneously making a profit. The training and development stage in human resource acquisition is the most vital stage, as it is here where employers must make the best impression they can in order to maximise the value of dollars being spent.

### Question 7 – Production Management

*Many companies are aiming to reduce the time between product design and production because of the advantages of being first in the marketplace with a new or improved product. Maintaining product quality is equally essential for long-term success.*

- (a) Outline the aspects that need to be considered in product design.
- (b) Examine the issues that need to be considered in planning for production.

- (c) *Explain why quality assurance is important and assess the methods of achieving and maintaining quality control.*

### **General Comments**

Candidates outlined issues to be considered in the design process, such as price, aesthetics, packaging and practicality, and explained some issues to be considered in planning for production, such as building in quality assurance to provide confidence for the customer. Most candidates explained aspects of a quality assurance system and described some of the methods used to achieve quality control.

### ***Excellent responses***

Here candidates outlined a range of aspects, such as price, aesthetics, practicality, usefulness, industry standards, packaging and legal requirements, that needs to be considered in product design.

They examined a number of issues in considering planning for production, including forecasting, integrated quality control, plant layout, work stations, types of production and evaluating capacity.

Candidates explained the importance of quality control as an audit of all the processes in a manufacturing business that are designed to give certification or accreditation and that lead to increased confidence in customers. They also assessed the methods of achieving and maintaining quality control.

In the excellent responses, quality control was interpreted as a quality program involving control, assurance and total quality management. A wide range of methods was explained, including inspection (proactive and reactive), measurement (involving a range of statistical techniques), removal of errors from the manufacturing process and accreditation. Other responses included TQM techniques such as quality circles, quality partnerships (between manufacturer, supplier and customer) and the development of a quality culture in the business through employee training.

Candidates paid particular attention to the question descriptors such as ‘outline’, ‘examine’, ‘explain’ and ‘assess’ and answered all parts of the question, using relevant production terminology.

### ***Outstanding response***

The design of a product determines the production process, product quality as well as overall human resource decisions, and is therefore an important procedure involved in production management. The design is finalised through the ‘Research and Development’ and ‘Marketing’ departments, prior to being handed over to the production manager. The link between product design and the production manager is the creation of new ideas by the enhancement of old ideas.

Aspects needed to be considered when designing a product include:

- Price

Where pricing strategies need to be considered at all stages of the life cycle of the product. Pricing strategies include:

- market penetration
- market skimming

- product imitation pricing.

The particular strategy chosen depends on the nature of the product, as well as the size and growth rate of competitors in the industry. The price of the product needs to be critically analysed through marketing and research processes, due to the fact that it helps to ‘position’ the product in terms of other products in the market, and creates an ‘image’ in the eyes of the consumer, which accordingly affects future potential sales.

- Usefulness and Practicality:

The usefulness of a product design is determined by the demanded quantity by consumers of the product. The ‘practicality’ of the design can be measured in two ways:

1. Through the cost of the design in allowing it to be marketed effectively, and being attractive to consumers at the point of sale.
2. The ability of it to meet consumer needs.

- Packaging:

This not only involves decisions for the material to be used, but safety requirements of the design as well. Also, legal requirements should be analysed, to ensure safety to consumer, as well as compliance with law.

The package of the product should prove to be attractive to the consumer and also list all necessary information (such as ‘use-by dates’). The design should be practical in terms of handling and storage, as well as cost of manufacturing and transportation during distribution of the final product. Engineering departments of the firm should be consulted to assess the suitability of the packaging design and whether or not current equipment needs to be altered to produce the packaging requirements.

- Aesthetic Appeal:

This is what society perceives to be of ‘good taste’ or ‘beautiful’. Aesthetic appeal is a particularly important aspect of design when products directly relating to ‘personal image’ are concerned (eg. deodorants, other health and beauty products).

- Legal Requirements:

All legislative restrictions to product design should be kept in mind when designing a product, and the design of a product should be set within the confines of the law. Requirements concerning safety, environmental awareness and health in general, are of particular importance. The product should not be degradable to the environment and should promote social justice and ecological sustainability. In fact, the actual ability of the product to sell on the market is heavily influenced by the degree to which it is ecologically sustainable and this has been particularly relevant in the past few years, as Australian manufacturing companies have the need to become more competitive in global markets. An example of the design of a product’s being altered was found when ‘McDonalds’ altered the packaging materials (ie. polystyrene) of their hamburgers, due to the fact that it wasn’t environmentally friendly. They changed it to brown paper and cardboard, to show that they were ‘environmentally aware’ and abided by all legislative influences.

- Industry Standards:

There are self-regulatory additions to legal requirements and involve the design being safe for consumers for that particular industry, and also meeting the criteria and

objectives of the particular firm. Industry standards help to critically analyse the extent of quality which needs to be integrated in product design — so as to meet the strategic goals and objectives of the firm. Also concerns health issues and needs and wants of consumers.

‘Planning’ for production is a highly crucial process of production management. It involves the following issues:

– Forecasting:

Which involves estimating future requirements in the production for a product. There are three types of forecasting methods, which help to make budgeting decisions for material requirements, capital requirements and cost requirements:

1. Economic forecasts – this involves the predicted level of economic activity, and its potential impact on production.
2. Technological forecasts – involves the new methods of production and new technological advances to be in the future. In order to remain in line with competitors, production managers must employ this type of forecast and improve technology.
3. Demand forecasts – these are predicted consumer demanded quantities and trends for future production.

These forecasts can either be qualitative or quantitative in nature:

- (a) Qualitative: involves the use of expert advice or ‘intuition’ to predict forecasts.
- (b) Quantitative: involves using budgets, statistics and math models to make forecasts. Also, industry benchmarks of the past may be used.

– Types of Production:

The type of production reflects the degree of planning required:

- (a) One-off production (‘jobbing’)

This requires highly skilled workers and a large volume of workers. Also, there are very low amounts of inventory kept at the actual workplace. Minimal inventory planning is required.

- (b) Batch production

This requires planning for a fairly large workforce which centres around work and adequate inventory should be available and planned for. It is ‘worker-centred processing’ and requires planning for adequate employees and inventory at all times.

- (c) Mass production

This type of production requires planning for a fairly semi-skilled workforce and therefore a large degree of motivation for the workers and communication between workers and management. It requires management to ‘drop the status symbols’ in order for workers to feel accepted and motivated and thus increase production. Also, inventory is only required at particular times, and thus JIT (Just in Time) inventory control should be planned for. There should also be adequate planning for high costs for technology used.

(d) Continuous production

Involves planning for investment for specialised technology and also high stocks of inventory and a motivated, low-skilled workforce. Inventory control is once again JIT and planning for production should be adequate enough to ensure no bottlenecks in production (which would distort the whole production process and cause loss of sales). Also, planning should ensure enough to be produced to meet consumer demands.

- Plant Layout (including legal requirements):

Plant layout includes any of the three types of layouts:

- Fixed position – for large items
- Product orientated
- Process orientated.

The layout of the plant should meet all safety and health requirements and working conditions should be run in line with OHS (Occupational Health and Safety) procedures.

- Evaluating Capacity:

The degree to which the firm can produce at full capacity, at its most efficient level should be determined. Economics of scale should be considered.

- Work Stations:

Should be allocated so that workers are not only ‘stuck’ to the one job, but productivity is enhanced by ‘job rotation’. Work stations should meet all health and safety requirements and employers need to be aware of the ‘duty of care’ that they have toward employees — ensuring adequate workplace clothes to be provided and all health and safety regulations enforced.

- Task Allocation:

This should be planned according to the forecasted demand of sales requirements, as well as the skills and attributes of workers. Workers’ skills need to be assessed and accordingly, tasks allocated. ‘Multi-skilling’ is a new feature of task allocation, increasing the mobility of labour thus increased the ability to move within different tasks on shop floor. Floor ‘substitutes’ should be planned in times when a position is vacant. This ensures minimal distortion to production.

Quality of the 90s is a very important issue in production management. ‘Quality Assurance’ ensures methods of achieving quality standards within the production and ensures that all consumer demands are met to the firm’s best ability and therefore the firm stays competitive in the market.

‘Quality Controls’ are measurement techniques used to assess the quality of a product, and we must realise that quality of a product should be integrated and given importance at all stages of production — from design, through to the sale of the product. Methods for achieving quality control are:

- Statistical Process Control – which involves taking a sample lot and assessing the differences in variations in quality. The variations are later eliminated, to increase quality.

- Quality Circles – which are groups of workers and management aiming to achieve quality together – as a team. Ideas are given and team work is encouraged (groups of 6 to 12 employees, monitored by a supervisor). Communication between management and workers is enhanced.
- Total Quality Management (TQM) – which involves the idea of continuous improvement at all stages of production, therefore enhancing quality at all times and refining quality checks (Quality Control).

### **Question 8 – Production Management**

*Chocolate Factory Ltd currently makes 500 tonnes of chocolate a year. It has identified a new market niche for animal-shaped milk chocolates for children. However, the manufacture of these chocolates requires a significant change in its production process.*

- (a) *Identify issues to be considered in planning for production if Chocolate Factory Ltd were to upgrade its process.*
- (b) *Describe the alternatives available to Chocolate Factory Ltd for supplying these animal-shaped milk chocolates to the market. Analyse the impact of these alternatives on the internal and external stakeholders.*
- (c) *With reference to a manufacturing business you have studied, describe the changing nature of its production process.*

### **General Comments**

Candidates found this question difficult. The majority identified issues to be considered in planning for a production upgrade from a variety of perspectives. They often described aspects of supply, such as dispatch, scheduling, production and assembly. Some described alternatives for supply, such as consideration of a JIT system and options for storage of inputs. Few candidates linked the alternatives and their impact on stakeholders.

Case studies generally described the changing nature of the production process in a business, emphasising the use of changes in technology.

### ***Excellent responses***

Excellent responses identified and outlined a range of issues that should be considered in planning for an upgrade in the production process for Chocolate Factory Ltd. Issues included the need for forecasting, types of production, plant layout, capacity, work stations and task allocation.

A range of alternatives for supply were discussed, some relating to purchasing, production scheduling, dispatch and storage of inputs. Required changes in organising, leading and controlling of the production process were identified. Candidates analysed the impact of these alternatives on the internal and external stakeholders such as suppliers, customers, employees and managers. Impacts given included the retraining of staff, restructuring and closer relations with suppliers required for the introduction of new systems such as Just-in-Time systems.

Using a manufacturing case study, candidates described the changing nature of most aspects of the production process. The increased emphasis on integrated quality control, changing technology, the need for ongoing training and closer relationships with suppliers were the most commonly described aspects.

Excellent responses answered all parts of the question well and incorporated relevant production terminology.

***Outstanding response***

- (a) Chocolate Factory Ltd (CF) is a chocolate company which has identified a new market niche for animal shaped chocolates for children. Chocolate factory is currently making 500 tonnes of chocolate a year. However it is experiencing great changes in its production process.

CF in upgrading the production process must consider various issues such as:

1. Forecasting

Forecasting will be an essential element in making this decision. The costs and benefits of such an expansion will need to be analysed and evaluated. The information needed to be forecasted includes:

- Cost of all new machinery to equip the plant
- Cost of extra employees for the plant
- Cost of training
- Estimated sales
- Estimated ROI
- Estimated market share.

Such information will be necessary in the planning stage.

2. Type of Production Process

There are four types of production processes. These are:

- Continuous
- Mass
- Batch
- One Off or Jobbing.

The production manager of Chocolate Factory will have to decide which he feels is the most appropriate for these animal shaped chocolates.

3. Plant Layout

This is yet another decision to be made by the production manager. The selected layout could be chosen in relation to what suits the current plant format, fitting in with all the other chocolate product areas.

4. Quality

Quality is a key feature in the production of chocolate as it is such a competitive market. Plans need to be made to ensure that the quality of the product will be maintained throughout the entire production process. The production manager may

consider adopting such strategies as TQM or VAM. The production manager may also consider developing quality circles and the like.

- (b) Some alternatives that are available to Chocolate Factory Ltd for supplying these animal shaped milk chocolates to the market are, with expansion of plant and equipment a greater number of units could be produced and therefore distributed very effectively to the national market. At current locations the national market could be reached with local or state markets being covered more effectively. One alternative that is to be considered is that of offshore development.

In regards to the last alternative management and employees could be greatly affected in that if offshore development did occur, their jobs may be at stake as the same job could be cheaper in the offshore plant. Investors in the business would have less say and control over the direction of the business if it were to move offshore. Despite units being sold cheaper if offshore production did occur, the national market may not respond as well to the product if it is not made in that country. On the other hand offshore production may increase return on investment to its stakeholders as increased productivity results in greater profitability.

The Chocolate Factory Ltd has two alternative options to producing the new product. It can:

- Jointly produce the new product with another chocolate company, sharing the production process.
- Outsource production of the product to another company who can do so.

Both of these options would have the following effect on stakeholders:

Internal:

- Management does not have complete control over production of the product.
- Shareholders may lose some confidence in management ability.

External:

- Customers may not be pleased that they cannot be guaranteed Chocolate Factory Ltd quality or that a competitor has produced the chocolates.
- The business that is used to outsource production becomes a stakeholder of Chocolate Factory's marketing plan for the product.
- Loss of consumer confidence in Chocolate Factory.
- Consumers may have to pay more for the chocolates than if Chocolate Factory Ltd had produced them.

External stakeholders will also feel an impact no matter which option Chocolate Factory Ltd decides upon.

If the option of developing a niche market goes ahead, customers may feel as if they are losing their favourite chocolate, and having new chocolate put in its place, people may be hesitant to buy the new product as they remain loyal to the old.

Suppliers might feel as if their supplying to that business is unstable, which might break a good relationship which they may have had (currently).



Loyal customers of the product may think that their product is being replaced by a fancy new one. This may make them feel discouraged about staying loyal to that particular brand of chocolate.

Other customers may think that it's good to see a new product by a company with a good reputation.

The impacts which will fall upon all these people will need to be considered before the production process is changed.

The supplying of the animal milk chocolates will mean that a JIT system will need to ensure that the highly perishable chocolates are distributed quickly and not left idle, thus reducing expenses on waste. This will have an effect on distributors who need to regularly come to the factory to deliver chocolate on time. This will also mean suppliers will need to be efficient and reliable to ensure the JIT method is maintained and no stoppages occur.

(c) At Coca Cola Bottlers (Northmead) the changing nature of production processes has enabled their production of soft drinks to be more efficient.

- The changes of technology and equipment has meant that they can produce 2300 cans of soft drink a minute whereas they used to produce only 500. The change of technology has meant all employees have become multiskilled to be able to carry out all the processes of the production process such as:
  - regular testing on variation of batch
  - maintenance of equipment
  - evaluating/monitoring for safety.

The employees are highly trained TAFE credited to ensure that the quality is assured.

The changes in the production process such as the use of the Just in Time system, the increase of technology and use of computer aided manufacture (CAM) has meant quality has been integrated into every aspect of production thus reducing waste and costs.

Coca Cola Amatil has used TQM to ensure every aspect of production is of quality, ensuring that the consumer has an excellent quality product.

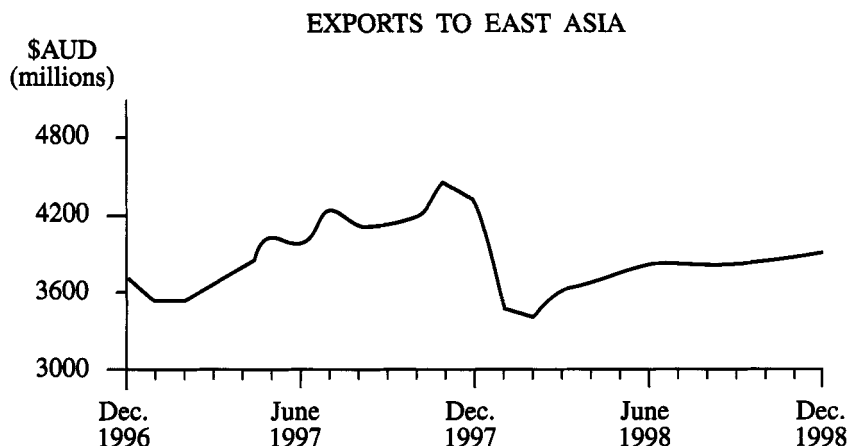
Although these changes have brought a reduction in employees, now only one employee is in charge of each two machines. This has reduced labour expenses.

This has led CCA to build plants in overseas markets such as Indonesia, where labour markets are cheaper, allowing Coca Cola Bottlers to increase their profits.

The use of JIT has reduced the inventory levels and idle stock, thus helping increase profits.

Therefore the changes such as technology, sophisticated equipment, multiskilling of employees, use of JIT philosophy has increased production and reduced cost. This has all lead to CCA producing a more efficient, better quality product to ensure their customers' satisfaction. Thus these changes have allowed the business to be more environmentally friendly as wastes are reduced, allowing them to be more ethical toward society and to the demand of their customers.

### Question 9 – International Business



- (a) Outline the changing direction and composition of Australia's trade in the 1990s.
- (b) Identify and explain financial influences that have affected the direction and composition of Australia's trade in the 1990s.
- (c) Explain influences, other than financial, on Australia's trade with East Asian countries in the 1990s.

#### General Comments

Most candidates described the changing composition and direction of Australia's exports, although they were less familiar with changes in the direction and composition of Australia's trade in the 1990s. The majority referred to the Asian financial crisis and the better candidates explained the effect of this series of financial events on Australia's exports.

The majority identified a range of non-financial factors, eg economic, cultural, political, legal and business practices, and were able to discuss in general terms their importance to exporting businesses. They were less able to explain how these factors specifically influenced trade with East Asian countries in the 1990s. The inclusion of exports only in the stimulus material may have contributed to the general lack of attention to trends in imports and foreign investment.

The question's focus on the 1990s limited the responses of some students who were unable to support their comments with recent data and examples. The reference to East Asian countries created uncertainty among the candidates, with few willing to nominate specific countries in their responses.

#### Excellent responses

Candidates provided a brief historical overview of the nature of Australia's trade patterns and focused their comments on the 1990s. They supported their responses with relevant, accurate and recent statistics relating to changes in the direction and composition of Australia's trade.

Candidates outlined the sequence of events involved with the Asian financial crisis. In particular, they explained how the resultant fluctuations in the exchange rate adversely affected Australia's competitiveness in relation to Asian countries, yet created opportunities for trade with Europe, North America and other regions.

Candidates identified a range of non-financial factors and explained their impact on trade with Asia in the 1990s. Few excellent candidates, however, referred specifically to East Asian countries.

***Outstanding response***

- (a) Throughout the early 90's, a large proportion of Australia's international trade has been directed towards South East Asia. Australia's largest export partner was Japan who accounted for 22% of Australian exports. Second to this was Korea who received 9% of Australia's exports. In total, the Asian region accounts for 59% of Australia's total exports.

The reasons for increased trade with the Asian region are vast. Firstly the UK joining the EU in the 50's left Australia without a major trading partner, as the EU openly discriminates against non-members. Asia itself has been growing rapidly and had a high demand for agricultural and mineral products. In these areas Australia holds a competitive advantage and has therefore moved towards the Asian region.

Other reasons for adopting increased trade with Asia include Australia's involvement in trade agreements such as APEC and ASEAN along with many bilateral agreements.

Other factors include the close geographic proximity of Australia to the region, which has been noticed to be a competitive advantage. The adoption of Just in Time inventory has also affected the export of items such as foodstuffs to the region. Realisation of the same time zones has also promoted trade.

Decreased transaction costs in Asia along with better communication have promoted trade in the region. This has also been enhanced by lower transportation costs.

Trade with the Asian region was rocked in the 1997 and 1998 period due to the Asian financial crisis. High levels of debt in the region led to declining investor confidence. As a result of this, many economies in the region experienced negative growth rates, particularly large trading partners with Australia such as Japan, Korea and Thailand. Poor growth and economic recession in the region caused the demand for Australian exports in Asia to drop.

Subsequently, the Australian dollar experienced a rapid depreciation due to the floating exchange rate. This depreciation allowed Australian exporters to target American and European markets as a result of improved competitiveness from the depreciation. The largest and most evident move was that of Australian lamb which experienced high sales in the US. As a result of these high sales, a tariff was in place against Australian lamb to the US.

Recoveries of Asian markets have led to improvements in the Australian dollar and increased economic activity in the region. This has allowed exporters to move back to their old markets in the Asian region.

Trade to European destinations in the 90's has been severed due to EU discrimination and protection policies. Australian exports have experienced the effects of protectionism in the US such as increasing tariffs and therefore has influenced trade.

The composition of trade in the 90's has moved largely from primary industries to manufacturing. Agricultural exports have declined greatly, while the export of STMs and especially ETMs have increased. The services export sector has also experienced high growth. Such areas include tourism, education and insurance which have been popular with Asian consumers.

- (b) The greatest financial influence of Australia's composition and direction of trade in the 90's was the Asia crisis. Lacking investor confidence, the region experienced in many cases, negative economic growth and recession.

This caused demand for Australian exports to decrease and subsequently the Australian dollar depreciated. The Australian economy was largely untouched by the crisis except for the Australian dollar which allowed exporters to change their direction of trade.

Due to the Australian dollars depreciation Australian exporters experienced improved international competitiveness as they were enabled to offer lower prices. Exporters moved away from the Asian region and moved into other areas.

Many exporters subsequently moved towards the US who is a very large consumer of agricultural products. They also moved to South America with increased trade with nations such as Brazil.

Although still subject to the protection of the EU, exporters still directed trade to the area due to the Asian crisis. Manufacturing products and tourism experienced only a slight decrease in sales as a result of the economic crisis.

The ability to adapt to this crisis was solely due to the Australian dollar. There was however initiative shown on behalf of businesses who realising the situation, set themselves to target other markets.

Generally, decreased transaction costs in the Asian economies resulted in improved trade with the area in the early 90's. Lower costs of dealing with Asia provided an incentive to exporters.

The composition of trade did not change that significantly as a result of the crisis. Primary exports such as agriculture and minerals did however experience growth due to the ability to target new mass markets from increased price competitiveness.

Manufacturing and the service sector did experience a slight decline due to the crisis. Manufacturing industries lost demand from their niche markets and did not have the ability to adapt as well to the new markets.

Education and tourism experienced a large decline as they are greatly reliant on the Asian region. Subsequently however the tourism sector was able to target other markets such as the US and Europe in an attempt to compensate for lost sales.

Australian trade internationally adapted greatly to the Asian economic crisis through changing the direction of trade. This was allowed for by the floating Australian dollar, micro economic reforms and increased business flexibility as a result.

- (c) Trade with Asian countries is influenced greatly by non financial factors.

Cultural differences play a large role and must be overcome by Australian exporters. Religion and lifestyle affect the demand for products and consumer patterns in the Asian economies.

Political action in the region also has a large influence on trade. Protection and political instability can greatly inhibit trade, such as Indonesia who due to their unsettled political climate have decreased their opportunity for Australian exporters.

The demographical aspect of Asian countries plays a large influence on Australia's trade. The size and distribution of population plays a great role as these countries are greatly different to Australia. These must be overcome.

Racial factors affect Australia's trade with Asian countries. The most important racial factor is communication which is a barrier to trade in the region.

Export to the Asian region however has been greatly promoted by the Federal Government. The formation of trade agreements and alliances have promoted free trade in the Asian region.

Multilateral trade agreements such as APFC and ASEAN have provided large scale action by many countries to encourage the development of free trade in the area. Bilateral agreements have been made with countries to also assist access for Australian exporters. Such agreements exist between Thailand, Japan, Korea and Taiwan.

Australian government has also promoted trade in the region by reduced protection measures. These have made businesses more competitive and led business culture to become outward looking in Australia.

Assistance has also been provided by the government to promote exports. Such forms of assistance include investment allowances, tax concessions, depreciation allowances and development grants. Such an example of this financial assistance given by the government is the EMDGS scheme.

Exporting to the region has also been influenced by government agencies. Some agencies such as Ausindustry and Ausaid along with the Australian Manufacturing Council have encouraged business to become internationally competitive.

Other agencies have provided assistance to exporters such as Austrade and EFIC which provide information, planning and risk management for Australian exporters.

Other agencies such as the Australian Market Development Task Force and the innovative agricultural marketing program aim to extend Australia's free trade capacity and market Australian exports overseas.

Trade in the Asian region has also been influenced by factors such as close geographic proximity to Asia and the same time zones which have assisted and encouraged Australian exporters.

The growth of these Asian economies led to their adoption by Australian exporters, but due to the Asian crisis led to a decline.

The adoption of JIT systems and better management practices have also influenced Australian exports to the region.

Easier access and the opportunities of Asian markets have attracted many Australian exporters in the goals of aiding business goals through expansion.

### **Question 10 – International Business**

- (a) *Discuss why it is increasingly important for Australian business to expand internationally.*
- (b) *With reference to a business you have studied:*
- (i) *discuss the expansion strategy adopted to enter a major Pacific market; and*
  - (ii) *evaluate the risks of expanding internationally.*

#### **General Comments**

Question 10 drew on Syllabus Outcomes and the question required students to recognise that Australian business is increasingly committed to links with the world economy. Students were required to use a case study to discuss the expansion of a business into a major Pacific market. Most candidates responded well to all parts of the question.

They discussed the increasing importance of overseas markets for Australian businesses in terms such as increasing globalisation and the need for increased competitiveness. Candidates referred to a relevant case study and often explained its expansion strategy in detail.

Candidates experienced difficulty in part (b) (ii) where only the best responses evaluated the risks of international expansion. Other candidates described the risks, but they were less able to link them to their case study.

#### ***Excellent responses***

Candidates discussed in detail a range of reasons to show why it is increasingly important for Australian businesses to expand internationally. They recognised the new era of globalisation and freer production and financial markets that made the push by Australian businesses to greater international competitiveness imperative. Candidates also identified specific reasons for expansion, including government incentives, diversification and competitive pressures, and related these to broader economic reasons such as the Current Account Deficit.

In part (b) candidates demonstrated their depth of knowledge of their case study. They discussed specific expansion strategies adopted by a business, such as a joint venture, to enter a Pacific market. They evaluated a range of risks in expanding internationally, including economic, financial, cultural and social factors. Candidates assessed the impact of these risks on the case study and suggested ways in which such risks may be managed.

#### ***Outstanding response***

- (a) It has become increasingly important for businesses to expand internationally for a number of reasons. These include:
- The desire to pursue new markets, and achieve higher levels of sales. Due to the limitations of domestic markets, international markets such as those in Asia represent large markets in which to generate strong levels of sales.

The reasons these markets are attractive include:

- cheap labour can be taken advantage of, especially in China and India. Large populations provide for a significant customer base, such as the Japanese market which purchases 23% of Australia's exports each year.
  - The Asian region is also important for businesses due to the fact that it accounts for 40% of world trade each year, coupled with this it is in close proximity with Australia which makes it attractive for businesses when expanding internationally.
  - Another reason why international expansion is important is in order to diversify one's product and customer base — this can help reduce the risks involved in limiting oneself to one market.
  - International expansion also allows a business to achieve economies of scale, meaning it can reduce overhead costs by increasing production volumes.
  - With a number of recent trade agreements and multilateral and bilateral trade alliances, such as ASEAN, APEC and CERTA, overseas trade is now less regulated and a reduction in protectionist policies has occurred. This has made it easier for countries such as Australia to expand internationally. One significant improvement has been the reduction in protection barriers to agriculture, which was achieved by the World Trade Organisation (WTO), formerly GATT, at the Uruguay round. This has made it easier for Australia, a traditional agricultural exporting nation, to export rural products overseas.
  - Another reason for the importance of international expansion has been in order to offset persistent current account deficits and foreign debt. By focusing on exports, Australian businesses can contribute to the growth of our economy. The Australian Federal Government has an agency called Austrade, which provides grants, market research and support to businesses expanding internationally.
- (b) A business that has expanded into a Pacific Rim market recently has been Southcorp Wines Pty Ltd. Southcorp, based in South Australia, has a 50 000 barrel red wine maturation facility which provides bottled red and white wine. In order to achieve higher levels of sales and pursue new opportunities, Southcorp has expanded into the UK, New Zealand and Asia. But it has been the US market which has been its most successful.

Southcorp adopted the following expansion strategies in order to be successful:

- Identified its target market. Southcorp did a customer profile in which it was realised that 55% of wine buyers in the US are women. This contributed to such strategies as targeting housewives in its advertising who shopped at supermarkets where the product was being sold.
- Southcorp, in order to work out the characteristics of the US market, entered into a joint venture in California. This allowed Southcorp to use local knowledge about the wine market and focus on the most effective ways of selling their product.
- In order to generate large levels of sales, Southcorp established itself in all 51 US states. This has allowed it to effectively push its product across the US market from one state to another and has created a distributional network through which it can sell its product.

- Southcorp also took advantage of low levels of competition in the US market, which had been due to the fact that US vineyards had suffered from a disease — phylloxera — which had destroyed grape crops. This gave Southcorp a competitive advantage over its competitors, who in the US included Kendal Jackson Chardonnay USA and Therring Leaf Chardonnay USA.
  - Southcorp also established that the US market was culturally similar to ours, in terms of lifestyle, food and drink consumption and religion. This made it easier for Southcorp to be successful in the US as it had a good idea of the social and cultural aspects of the market.
  - Southcorp also used, in order to be successful, a number of product and price skimming strategies. It created its own competition by using a number of brand names — Lindemans, Coonawarra, Penfolds, Seppelt, Wynns and Seaview. Southcorp also made note of the prices of other import wines from Germany, France and Italy. Southcorp priced its wines more expensively than that of its competitors and also cheaper. This created the belief among its customers that its own wines were both cheaper in price and at the same time others were of a higher quality than that of their competitors.
- (c) For Southcorp when they were expanding internationally, there were a number of risks they had to overcome. These included:
- Economic risks
  - Financial risks
  - Political risks
  - Social risks
  - Cultural risks, and
  - Legal risks.

Economic risks included the value of the Australian dollar against the US dollar and how currency fluctuations could offset profit levels. In order to protect against these currency risks Southcorp has used hedging as a means of protection. Another economic risk is that of inflation levels rising, resulting in a fall in domestic demand. Fortunately for Southcorp, inflation levels in the US are at their lowest levels for decades.

Financial risks for Southcorp included taxation rates which may have posed problems for Southcorp when repatriating profits back to Australia. Other financial risks were interest rates which if at a high level would have seen a fall in domestic spending. Financial risks also included the methods of payment which wholesalers/retailers in the US were going to use to pay for the wine. These included such methods as clean remittance, selling on an open account and international factoring.

Political risks for Southcorp included civil strife, government regulations/restrictions on imports and government attitudes to foreign investments. Luckily for Southcorp, the US economy is a stable one and protection levels on wine are not at excessive levels, restricting the volume of wine exports. This made it easier for Southcorp to distribute its product.



Social risks include customers attitude to overseas products as well as the size of the wine market in the US. For Southcorp the US is the second largest wine importer in the world behind the UK. This also reduced any risks involved in expansion.

Cultural risks included things such as language, religion etc. These were very similar for Australia and did not pose problems. Also the fact that the legal age for alcohol consumption in the US is 21, may have posed a problem. But due to the large market (180 million people of drinking age above 21) there was adequate demand for Southcorp's product.

Southcorp used a number of strategies to expand internationally, which would contribute to its success and also overcame a number of risks in the process.