

# LEADING EDGE BUSINESS STUDIES 2007 TRIAL HSC ANSWERS

## MULTIPLE CHOICE QUESTIONS

- |    |   |     |   |     |   |     |   |
|----|---|-----|---|-----|---|-----|---|
| 1) | B | 6)  | C | 11) | C | 16) | B |
| 2) | C | 7)  | C | 12) | B | 17) | B |
| 3) | B | 8)  | A | 13) | A | 18) | D |
| 4) | D | 9)  | D | 14) | A | 19) | B |
| 5) | D | 10) | C | 15) | D | 20) | A |

## SHORT ANSWER QUESTIONS

### Question 21

- a) Primary market research involves research that is initiated by a business because the information they seek is not available from existing sources. Secondary market research involves the use of information that already exists in reports, financial statements and other forms of data.
- b) Market research would be very useful for William as the basis for segmentation will be decided by the nature of the various markets that he will service. Demographic aspects (such as the age of and gender of people in different areas), psychographic factors (such as the appeal that live comedy has to particular people), behavioural factors (such as the number of times people seek outside entertainment) and geographical factors (such as the actual physical location of the intended area of work) will all determine the business success that William will have.

### Question 22

- a) Ecological sustainability refers to an approach to resource use that aims to utilise them in such a way as to ensure future generations have equal access to such resources.
- b) Three ethical and/or legal responsibilities of global business are:
  - a. ecological sustainability (see (a) above), including abiding by all environmental laws,
  - b. obeying all labour laws including to abide by the minimum standards of labour not only as set by national laws, but from an ethical perspective as set down by the International Labour Organisation (ILO), and
  - c. Abiding by all taxation laws and avoiding unethical practices such as transfer pricing or utilising tax havens in order to avoid taxation in the higher taxed nations that the business trades in.

- c) Two strategies that could be applied by GME to demonstrate ethical responsibility are:
- a. To abide by the laws in every nation in which they trade. More, GME managers could apply a general statement of minimum practice with respect to taxation, labour and the environment. In this way it could still take advantage of regulatory differences whilst applying an internal standard of working that would be above the very minimum as ascribed by the law in the individual nations
  - b. The GME managers could apply the principles and protocols espoused by the UN through its various mechanisms – such as the ILO, environmental treaties and intellectual property protection (if applicable) and any principles arising with respect to accounting standards.

### Question 23

- a) The statement is called the Balance Sheet (formerly called 'Statement of Financial Position').
- b) The liquidity is determined using the liquidity ratio (also called the Working Capital Ratio, WCR, or the current ratio):

$$\text{Current assets/current liabilities} = \$170,000/\$75,000 = 2.3 : 1.0$$

This is higher than the generally accepted benchmark of 2:1 and therefore, on the surface a very sound result. Closer inspection reveals that the actual level of cash is too low whilst stock levels are too high, therefore this could indicate that the business could carry lower levels of stock, thus lowering the amount they draw from creditors (those who are suppliers).

- c) The solvency is determined using the debt to equity ratio:

$$\text{Total debt/total equity} = \$195,000/\$195,000 = 1.0 : 1.0$$

This is above generally accepted levels of around 0.5 : 1.0, and is also lower than the industry average which stands at 0.8 : 1.0. The slightly high ratio is not too much of a problem though. If required, managers could sell and lease-back the building, applying funds derived from the sale to the mortgage. Lastly, if this business is experiencing significant growth then the ratio is well within the range experienced by many listed companies on the ASX in periods of growth.

### Question 24

- a) Credit risks arise from a number of sources. When a business trades across national borders then it may be dealing with businesses that it does not know. This can create financial risks and uncertainty on the basis of lack of knowledge. Businesses in this situation face credit risks. They will often seek the help of an independent financial assessor who has experience assessing the credit risk of businesses and applying a credit rating to those businesses. Goldings could minimise credit risks by seeking the information available from such credit ratings agencies. They could also trade only in nations with very secure financial systems and stable governments. Golding could trade only in nations which themselves have a high credit rating. Finally, Goldings could use insurance in order to minimise the risk of losses on transactions.
- b) Derivatives can be used as a hedging tool to minimise the risks of financial uncertainty. Such derivatives include futures (options and swaps – both interest rate swaps and currency swaps). Futures enable businesses such as Goldings to fix the present spot rate so that it applies to some future time when the business intends to convert currencies. Options are a form of future that allows the businesses to decide whether to take the previously agreed rate or whether to exercise the right (option) to vary the rate where there will be a favourable financial outcome for the business to do so. Insurances can also be taken out by the business as it can reduce risk in the event of unanticipated currency fluctuations.

### Question 25

- a) Costs of industrial disputes are generally incurred during the actual dispute whereas the benefits generally flow after the settlement of the dispute. The actual costs and benefits are personal, financial, social, political and international.
- b) A social cost would be the effect on the local businesses arising from the loss of income due to the strikes. When workers lose incomes then the flow on effect is felt by other businesses. However, once the conflict is resolved then there should be greater levels of certainty, thus enabling the wider society to operate with greater certainty than would have been characteristic prior to the unrest.

# Leading Edge Trial HSC Business Report Outline

Managing change would involve the following steps:

- Identifying a need for change
- Setting achievable goals
- Creating a culture of change
- Applying change models such as Lewin's unfreeze/change/refreeze model which is premised on an understand of driving and restraining forces

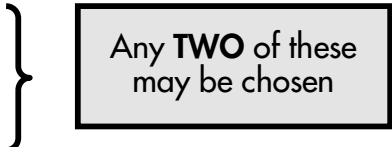
However this process must be in the context of the merger between two businesses with differing approaches to management.

Challenges arising would relate to resistance caused by:

- Cultural incompatibility arising from the application of different management theories in the merging businesses – they need to decide which theory to apply. Probable option would be classical-scientific given that the merger would be for financial reasons
- Financial costs arising from redundancy, retraining, removing duplication
- Staffing issues arising from a loss in career opportunities and de-skilling

## Two marketing strategies that may be applied

There are 4 possible strategies that could be applied:

- Product
  - Price
  - Promotion
  - Place
- 
- Any **TWO** of these may be chosen

However a good response would make reference to brand mix and therefore should have product as one of the two strategies.

Also, any strategies are premised on the notion of a well defined target market (market segmentation).

The strategies must be linked to change as follows:

The business must decide whether it wants to operate at the prestige end of the market or at the lower end. Strategies must be consistent with this decision. Alternatively the business could actually develop two brands but distinguish them in the market. Either way, the strategies are:

- Product – with an emphasis on branding (including logos), positioning (determining where in the minds of consumers they are to lie) and 'packaging' (an intangible concept for a service)
- Price: can adopt a split strategy:
  - Penetration pricing for low-end products
  - Market skimming for high-end products
- Place: where consumers can access their print and electronic media – should be fairly *intensively* accessible – on-line, through mobile phone, newsagencies and wherever there s TV coverage
- Promotion: Various options from
  - Advertising (they own many outlets therefore quite available despite the costs that would normally be associated with this)
  - Below-the-line promotions such as sponsorships of charity and through the use of opinion leaders

Successful change will be characterised by greater stability, increasing financial returns and stable- growing market share.

## Outline for Extended Responses

Must integrate the use of case study into **structured responses** (may be in the form of a business report) framed around the following:

### Question 26

#### **Effective employment relations**

This is measured by the rate of employee turnover, quality of product and work processes), number of strikes and rate of employee unrest (disputation) and absenteeism.

Effective employment relations can be encouraged through the use of rewards (financial and non-financial), training and development (improving minimum standards of labour), use of team structures, flexible working conditions, use of inclusive staffing systems (polycentric and geocentric)

#### **Effective financial management**

Revenue controls: sales and pricing policy, controls on current assets and current liabilities

Cost controls: through expense minimisation – relates to lowering labour costs, operating costs and regulatory (compliance costs) through globalisation.

#### **Global business success**

Achieved through measuring growth in profitability, increases in efficiency, liquidity and solvency. Students should be able to provide statistical evidence to support their case study (eg NPR has grown from 12% to 18% in the past three years as a result of the changes).

### Question 27

#### **Financial control**

Control of revenue – through sales mix, pricing policy (may vary according to product line, geographical location), setting sales objectives and revenue targets (by region)

Cost controls: the aim is to minimise expenses – globalisation and the expansion across international borders should reduce costs of labour, regulatory costs (compliance costs) and operating costs.

#### **Employment relations success**

This is measured by the rate of employee turnover, quality of product and work processes), number of strikes and rate of employee unrest (disputation) and absenteeism.

Effective employment relations can be encouraged through the use of rewards (financial and non-financial), training and development (improving minimum standards of labour), use of team structures, flexible working conditions, use of inclusive staffing systems (polycentric and geocentric)

**Global business success**

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