

Business Studies Trial HSC 2009 Answers

Section II Short Answer Section

Question 21

- a) Management theories are academic notions of observable behaviour seen amongst managers. These behaviours portray different approaches to the role of management within business organisations. Examples include the classical-scientific theory, behavioural and political theories. (1 mark) Leadership styles are a reference to the actual approach to leadership as evidenced by practice. Examples include autocratic, democratic and participative. (1 mark)
- b) Political management theory is not in fact a theory, but rather a description of the informal relationships that people have within organisations. (1 mark) It focuses on 'behind the formal' organisational structures to the uses of power and influence within businesses. (1 mark). As it 'unpacks' the unseen features of businesses it also recognises that people form alliances (or coalitions) (1 mark) and will negotiate and bargain from the positions taken by the coalition (1 mark).
- c) The strengths of political management theory as applied to Shenanighans are that it recognises that the union strength comes from a coalition of employees which represent the interests of employees (1 mark) as well as giving managers an opportunity to understand how the process of negotiating and bargaining should be inclusive of the interests of the employees (1 mark). A weakness of the theory is that it does not guide managers as to the way to manage negotiations between competing interests and positions (1 mark). A further weakness is that political theory is descriptive of behaviour applicable in particular situation – more prevalent with the use of classical-scientific theory in business rather than behavioural (often overlooked). (1 mark)

Question 22

- a) Market segmentation is relevant to each of the marketing strategies as follows:
 - a. Target markets: identifying the common features of groups within markets helps a business to focus its marketing strategies within the marketing mix. (1 mark)
 - b. Product: products can be aligned to the needs of customers in terms of differentiation or offering a standardised range. Position will be important if trying to match consumer expectations with product offerings. (1 mark)
 - c. Price: this must be aligned with the characteristics of the target market, a feature of which will be its expectations and capacity to pay for products. Thus different pricing strategies will be applied to different targets. (1 mark)
 - d. Promotion: the promotions mix will be directly relevant to the target market. Thus, advertising via the mass media might appeal to a younger market, whereas personal selling may be a strategy relevant to older consumers. (1 mark)
 - e. Place: This strategy must be consistent with the rest of the marketing mix and should again be aligned to the expectations of the target

- market. Thus a selective strategy will be applied to higher value products as expected by the purchasers of such products. (1 mark)
- b) The elements of the promotions mix relevant during and economic downturn or recession are:
- **Personal selling:** is relevant in that this mode of promotion is direct and can be used to reassure consumers directly with respect to the utility of making particular purchases (1 mark)
 - **Below-the-line promotions:** These involve a wide range of strategies which are relatively low cost. As such they will appeal to businesses which are feeling the effects of reduced incomes on account of the downturn. (1 mark)
 - **Public relations:** This is a very relevant strategy in times of economic downturn as consumers and societies broadly feel low in confidence. Through engaging public relations strategies the business can get 'free' opportunities for promotion by engaging in activities such as those which benefit the community. (1 mark)
 - **Advertising:** can be very expensive, thus avoided by businesses during a downturn. If advertising is utilised its focus needs to be empathise with the difficulties facing consumers as they find purchasing decisions harder to make. (1 mark)
 - **Opinion leaders:** Whilst the use of opinion leaders can be an expensive option, once engaged the nature of opinion leaders is such that during a downturn consumers are more likely to trust role-models and seek their endorsement for the choices they make. This makes it a relevant promotional option.(1 mark)

Question 23

- a) Current liabilities are those which are due and payable within 12 months. They include any of bank overdraft, creditors or credit card debt (1 mark) whereas non-current liabilities are those which have a repayment term of great than a year such as any of finance leases, term loans and mortgages (1 mark)
- b) The gearing ratio (also used interchangeably with the debt to equity ratio or solvency ratio) is: $\text{Total debt/Total equity} = \$410,000/400,000 = 1.02: 1.0$. This ratio means that for every dollar of funding contributed by the owners from internal sources an additional dollar has been sought from external (outside) parties. (2 marks) This ratio indicates a reasonable financial stability however if the business is affected by the recession then its capacity to repay borrowing may fall (1 mark)
- c) In a downturn businesses try and shift away from debt (external liabilities) and focus on equity (owner-based investment). This is necessary for financial stability. Moreover, as consumer markets exercise caution the income for businesses can fall rapidly meaning the capacity to service debt is reduced. (1 mark)
- i) A rights issue: this is applied instead of seeking debt-funding and is intended to give existing equity holders rights in the distribution of future profits. It also gives greater control of rights-holders over the business. It is therefore a very appropriate strategy to apply during an economic downturn. (1 mark)

- ii) A transfer of debt into equity is normally done when a business does not have the capacity to repay the debt holders. This is a good strategy if it must be applied but is of concern as well as it implies that the business is too highly geared. (1 mark)
- iii) The option of applying an interest rate swap, that is from a fixed to a variable interest rate, is a very good option in a downturn. This is because in a downturn variable interest rates fall. They would be below previous levels and if a business took out a loan while rates were higher then it would have unnecessarily high repayments. Thus the use of a swap will lower the debt servicing costs. (1 mark)

All of the above strategies have the effect of reducing the gearing ratio and helping the business achieve greater financial stability when incomes are unpredictable or falling. (1 mark)

Question 24

- a) Two rights of employers include ANY TWO of: to expect that commercial-in-confidence and trade secrets will be respected, to have employees treat them and the customers with respect, to have employees obey all lawful and reasonable commands, to have employees take due care with their work (1 mark) ; and two obligations include ANY TWO of: to pay the correct wages, to have a safe and healthy working environment, to provide work, to give lawful directions (1 mark)
- b) There are several benefits of casual employment to the workplace. Some of them include: greater flexibility in rostering and staffing which makes a business more responsive to demand (1 mark), lower overall staffing costs as business only pay people as they are required in line with the actual demand, and though hourly rates are higher there are no on-costs (1 mark), greater levels of staff skilling as many casual employees work in other places thus bringing a wider range of work skills to the actual job. This adds value to the work done (1 mark)

Question 25

- a. Exporting increases the size of the business market (1 mark) and therefore will extend the product lifecycle. This is because the exporting option is normally applied in the maturity phase of the product lifecycle as business seeks to grow income. (1 mark)
- b. There are three main forms of payment each with different levels of risk:
 - a. Prepayment by the importer places risk on the exporter who has paid before the exporter has despatched the goods (1 mark)
 - b. Documentary collection evens the risk between exporter and importer as both rely on documented evidence of payment (by the importer) and despatch (by the exporter) (1 mark)
 - c. Paying on open account is riskier for the exporter as the payment comes after receipt of the goods by the importer. (1 mark)

Report Section III

Question 26

<ul style="list-style-type: none">• Student comprehensively addresses the global business expansion options, indicates an appropriate marketing strategy and employment relations options facing Designer Buildings P/L in taking business opportunities• Student writes a well synthesised and well-structured report in report format• Student explores in detail the options available to Designer Buildings P/L managers in the context of the scenario and the given market opportunities	20 - 17
<ul style="list-style-type: none">• Student addresses the global business expansion options, indicates an appropriate marketing strategy and employment relations options facing Designer Buildings P/L in taking business opportunities• Student writes a well analysed and well-structured report in report format• Student explores many of the options available to Designer Buildings P/L managers in the context of the scenario and the given market opportunities	16 – 13
<ul style="list-style-type: none">• Student addresses some of the global business expansion options, indicates an appropriate marketing strategy and employment relations options facing Designer Buildings P/L in taking business opportunities• Student writes well-structured report in report format• Student explores some of the options available to Designer Buildings P/L managers in the context of the scenario and market opportunities	12 – 9
<ul style="list-style-type: none">• Student refers to global business, marketing and/or employment relations issues• Student writes a report• Student refers to some options available to Designer Buildings P/L managers	8 – 5
<ul style="list-style-type: none">• Student may refer to some business issues• Student may make reference to the business/stimulus	4 – 1

Extended Response Section IV

Question 27

<ul style="list-style-type: none">• Student presents a logical, well-structured answer to the question, including detailed reference to case study/ case studies• Student assesses the effectiveness of financial management strategies in response to the change processes in the context of business management• Student assesses the effectiveness of financial management strategies in the context of change	20 – 17
<ul style="list-style-type: none">• Student presents a logical, well-structured answer to the question, including detailed reference to case study/ case studies• Student explains the effectiveness of financial management strategies in response to change processes in the context of business management• Student explains the effectiveness of financial management strategies in the context of change	16 – 13
<ul style="list-style-type: none">• Student presents a logical, well-structured answer to the question, including reference to case study/ case studies• Student describes financial management strategies in response to the change processes in the context of business management• Student describes some financial management strategies and change	12 – 9
<ul style="list-style-type: none">• Student presents a well-structured answer to the question and refers to case study• Student makes reference to financial management responses to change• Student refers to financial management strategy or change	8 – 5
<ul style="list-style-type: none">• Student presents an answer• Student may refer to business• Student may make reference to finance or change	4 – 1

Question 28

Evaluate the extent to which financial management goals and strategies assist business to adapt to and manage change.

<ul style="list-style-type: none"> • Student presents a logical, well-structured answer to the question, including detailed reference to case study/case studies • Student assesses the effectiveness of financial management goals and strategies in assisting business to adapt to the change processes in the context of business management • Student evaluates the extent to which financial management goals and strategies are aligned to the change processes 	20 - 17
<ul style="list-style-type: none"> • Student presents a logical, well-structured answer to the question, including detailed reference to case study/case studies • Student explains the effectiveness of financial management goals and strategies in assisting business to adapt to the change process in the context of business management • Student explains the extent to which financial management goals and strategies of are aligned to change processes 	16 – 13
<ul style="list-style-type: none"> • Student presents a logical, well-structured answer to the question, including reference to case study/case studies • Student describes financial management goals and/or strategies in assisting business to adapt to change • Student describes some financial management goals and/or strategies and links these to change 	12 – 9
<ul style="list-style-type: none"> • Student presents a well-structured answer to the question and refers to case study • Student makes reference to financial management goals and/or strategies • Student refers to change 	8 – 5
<ul style="list-style-type: none"> • Student presents an answer • Student may refer to business or finance • Student may make reference to change 	4 – 1