Past HSC Papers & Detailed Answers 2001–2013 with Topic Index

PLUS
Mark Maximizer Guide

Free-to-download HSC Exam with answers
Business Studies

General Instructions
• Reading time – 5 minutes
• Working time – 3 hours
• Write using black or blue pen
  Black pen is preferred
• Draw diagrams using pencil
• Board-approved calculators may be used
• Write your Centre Number and Student Number at the top of pages 9 and 13

Total marks – 100

Section I
20 marks
• Attempt Questions 1–20
• Allow about 35 minutes for this section

Section II
40 marks
• Attempt Questions 21–24
• Allow about 1 hour and 15 minutes for this section

Section III
20 marks
• Attempt Question 25
• Allow about 35 minutes for this section

Section IV
20 marks
• Attempt either Question 26 or Question 27
• Allow about 35 minutes for this section
Section I

20 marks
Attempt Questions 1–20
Allow about 35 minutes for this section

Use the multiple-choice answer sheet for Questions 1–20.

1. An accountant decides to use the services of a cleaning company for one day per week. What is this an example of?

(A) Development  
(B) Downsizing  
(C) Global contracting  
(D) Outsourcing

2. A factory manager is deciding the best order in which to complete tasks. Which operations process is being carried out?

(A) Monitoring  
(B) Scheduling  
(C) Sequencing  
(D) Task design

3. Free samples of a breakfast cereal are given to supermarket customers to try. For which stage of the product life cycle is this most likely to be an appropriate strategy?

(A) Establishment  
(B) Growth  
(C) Maturity  
(D) Post-maturity
4 Which of the following is the correct sequence for an operations process?

(A) Facilities – controls – waste
(B) Materials – design – product
(C) Information – services – improvement
(D) Human resources – planning – customers

5 Which of the following is an entitlement of Australian employees?

(A) Wage increases every year
(B) Cost of living wage increases
(C) Minimum employment standards
(D) New employment contracts every two years

6 A business develops a shirt made from fabric which never stains or looks crushed. It then runs an advertising campaign to inform people about this product.

What type of approach is this?

(A) Industrial
(B) Marketing
(C) Production
(D) Selling

7 In winter, the number of beach lifeguards employed by a local council is reduced.

What has influenced the transformation process in this situation?

(A) Variation in demand
(B) Variation in visibility
(C) Variety
(D) Volume

8 What would be the best strategy for a business to increase its gross profit?

(A) Use cost centres
(B) Reduce fixed costs
(C) Minimise expenses
(D) Use sale and leaseback
9 Information about four companies is shown in the table.

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff turnover</strong> (% of workforce)</td>
<td>15</td>
<td>11</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td><strong>Output per worker</strong> (products per hour)</td>
<td>8</td>
<td>12</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td><strong>Absenteeism</strong> (average days per employee)</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

Which company is likely to have the best employee relations?

(A) A  
(B) B  
(C) C  
(D) D

10 Sam’s job is to set goals for employees and give them feedback on the achievement of their goals.

What best describes this process?

(A) Dispute resolution  
(B) Job design  
(C) Performance management  
(D) Recruitment

11 Which of the following is an essential aspect of logistics?

(A) Undertaking a skills audit  
(B) Checking the quality of all output  
(C) Materials handling and packaging  
(D) The creation of a budget for new machinery
12 A manager builds relationships with individual employees and encourages their contribution to decision-making in the workplace.

What leadership style is this?

(A) Autocratic
(B) Democratic
(C) Laissez faire
(D) Political

13 Robyn believes her manager has unfairly denied her a bonus. She consults her employee handbook which instructs her to put her complaint in writing and send copies to the manager and the Human Resources department.

What is Robyn doing?

(A) Seeking mediation
(B) Using negotiation
(C) Involving a tribunal
(D) Applying grievance procedures

14 The diagram below shows a critical path analysis for a project.

What is the minimum number of days needed to complete the project?

(A) 10
(B) 12
(C) 17
(D) 33
15 A gym has fitness-conscious office workers as its target market.

What type of market segmentation is this?

(A) Geographic and behavioural
(B) Geographic and demographic
(C) Psychographic and behavioural
(D) Psychographic and demographic

16 The global financial crisis (GFC) caused many businesses to reduce their employee numbers.

What type of influence on human resources was this?

(A) Economic
(B) Financial
(C) Government
(D) Legal

17 A fast food outlet advertises a large soft drink for only 20 cents, knowing that customers will also buy additional items from the menu once they are in the store.

What pricing strategy is this?

(A) Loss leader
(B) Penetration
(C) Price points
(D) Skimming
Use the following information to answer Questions 18 and 19.

### Extract from marketing report for Star Car Pty Ltd

<table>
<thead>
<tr>
<th></th>
<th>Star Car Sales in each country ($)</th>
<th>Star Car’s % of the car market in each country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Country A</td>
<td>10 million</td>
<td>12 million</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Country B</td>
<td>10 million</td>
<td>12 million</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Country C</td>
<td>10 million</td>
<td>10 million</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Country D</td>
<td>10 million</td>
<td>8 million</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
</tbody>
</table>

Note: The price of cars remained unchanged from 2010 to 2011.

18 In 2011 Star Car Pty Ltd’s main marketing objective was to take sales away from its competitors.

In which country was this objective least effective?

(A) A  
(B) B  
(C) C  
(D) D  

19 For the period 2010 to 2011, which of the following statements is true?

(A) The size of the total car market in each country did not change.  
(B) In Country A, both the total car market and Star Car’s market share increased.  
(C) In Country B, both the total car market and Star Car’s market share did not change.  
(D) In Country C, the total car market increased and Star Car’s market share decreased.

20 Which of the following groups would suffer the worst financial impact as a result of an increase in the value of the Australian dollar?

(A) Japanese shareholders of an Australian bank  
(B) Australian producers selling wine to New Zealand  
(C) Australian car makers purchasing inputs from Italy  
(D) American travel agents organising tours for Australians
Question 21 (8 marks)

(a) How might a business benefit when an operations manager acts in an ethically and socially responsible manner? Support your answer with relevant examples.

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(b) Why might a business be resistant to meeting its corporate social responsibilities?

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Question 22 (12 marks)

Balance Sheet for Chalker Pty Ltd
as at year ending 30 June 2012

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>$</th>
<th>$</th>
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</thead>
<tbody>
<tr>
<td>Cash</td>
<td>8 000</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>12 000</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>15 000</td>
<td>35 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Assets</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant and Equipment</td>
<td>33 000</td>
</tr>
</tbody>
</table>

| Total Assets | $8 000 |

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>$</th>
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</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>14 000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Current Liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>20 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Owners Equity</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>15 000</td>
<td></td>
</tr>
<tr>
<td>Retained Net Profit</td>
<td>19 000</td>
<td>34 000</td>
</tr>
</tbody>
</table>

| Total Liabilities and Owners Equity | $8 000 |

(a) Calculate the current ratio (current assets ÷ current liabilities) of this business. Show all working.

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(b) Calculate the debt to equity ratio (total liabilities ÷ total equity) of this business. Show all working.

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Question 22 continues on following page
Question 22 (continued)

(c) Why is it important for a business to control its debt to equity ratio?

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Question 23 (12 marks)

XYZ Ltd produces sports shoes which are worn by elite athletes and the general public in North America. XYZ Ltd is keen to expand into Europe and Asia.

(a) What is ONE possible benefit to XYZ Ltd of using global branding as a marketing strategy?

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(b) Describe TWO physical distribution issues that XYZ Ltd will have to consider as part of their expansion.

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Question 23 continues on following page
The management team of XYZ Ltd is deciding whether to use customisation or standardisation as its marketing strategy for the expansion.

Analyse how marketing and finance would be linked in XYZ Ltd’s decision to customise or standardise.

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End of Question 23
Question 24 (8 marks)

TextMore is a global communications business that is facing increased competition. Management has decided to reduce the size of its factory workforce by 25% but also employ more information technology (IT) specialists.

(a) Identify the TWO human resource processes that will be used in this situation.

(i) ................................................................................................................... 1

(ii) ................................................................................................................... 1

(b) Explain how TWO human resource strategies could be used to effectively manage downsizing TextMore’s factory workforce.

(i) ................................................................................................................... 3
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(ii) ................................................................................................................... 3
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Question 25 (20 marks)

Sunshine Fruit Juices employs 100 people in its Queensland factory and supplies juice to large supermarket chains in Asia and North America. Customers have recently complained that the product has been damaged and bottles have been wrongly labelled.

An increase in industrial disputes has also occurred due to a number of recent workplace accidents and demands from employees for higher wages.

You have been employed by Sunshine Fruit Juices to prepare a report for management on the issues outlined above.

In your report, recommend strategies for human resources and operations that the firm could implement to improve its business performance.
Section IV

20 marks
Attempt either Question 26 or Question 27
Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:
■ demonstrate knowledge and understanding relevant to the question
■ apply relevant business case study/studies and contemporary business issues
■ communicate using relevant business terminology and concepts
■ present a sustained, logical and cohesive response

Question 26 (20 marks)

Why are ethical behaviour and government regulation important in marketing?

OR

Question 27 (20 marks)

How can different sources of funds help a business achieve its financial objectives?

End of paper

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2012 HSC Examination Paper

Sample Answers

Section I Answers  (Total 20 marks)

1. D Outsourcing. The accountant is using the services of a business that specialises in cleaning, rather than employing someone within the business to do it.

2. C Sequencing involves working out the best order in which to complete tasks.

3. A Establishment. Free samples of the new product will raise customer awareness of the cereal.

4. B The manager needs to order materials and work out the appropriate job design to complete the task, which then leads to a finished product.

5. C The other possible answers are options that may be written into employment contracts, but all employees are legally entitled to minimum employment standards.

6. D The business has created a new product with little reference to customer preference and so now must try to sell it to customers.

7. A In winter the beach will be used less and, due to this fall in demand, fewer lifeguards will be needed.

8. A Cost centres will allow the business to source local inputs, reducing cost of goods sold and, thus, increasing gross profit.

9. B Company B has fewer workers leaving and less absenteeism. Its staff are also more productive, all indicators of good employee relations.

10. C Setting goals with employees and providing feedback are part of performance management.

11. C Logistics is concerned with supply and delivery.

12. B Democratic leadership encourages employee participation. If the manager was building relationships to further his or her own ideas, it would be an example of political leadership.

13. D Grievance procedures are the steps to resolving disputes set out in the policies of the organisation.
14. C The shortest amount of time to complete the project is 17 days. Many tasks will be able to occur simultaneously in this time.

15. C Psychographic segmentation refers to dividing the market based on lifestyle choices, such as being fitness conscious. Behavioural segmentation is concerned with such things as usage and purchase occasion and so the gym is targeting workers who can use the facilities before or after work, or at lunchtime.

16. A The downturn in the economy has seen less consumer spending resulting in businesses needing fewer employees.

17. A The business has become the leading seller of a product by selling it at a loss. This is a marketing tool to attract customers to the business.

18. D In country D, both Star Car Pty Ltd’s sales and its share of the total car market have decreased.

19. D Although Star Car Pty Ltd’s sales remain the same, its overall share of the market has fallen, indicating that there must be an increased overall number of car buyers in Country C.

20. B When the Australian dollar rises in value, it makes Australian products more expensive for overseas buyers.

Section II Answers

Question 21

(a) Students should write about the benefits that a business will gain if the operations manager conducts business in an ethically and socially responsible way. An example of this behaviour is needed to gain maximum marks.

A sample answer is as follows:

It is important that the operations of the business are carried out in an ethical and socially responsible way to retain good customer relations and, thus, keep customers. If current and potential customers feel that the business is producing a good or service that wastes resources, for example, or creates unnecessary pollution, or uses child labour, they will not purchase the product. An example of ethically and socially responsible operations is a business having good recycling practices such as paying to have its waste products taken away to be recycled. (4 marks)
(b) Students need to explain the reasons why a business might be resistant to meeting its corporate social responsibilities.

A sample answer is as follows:

Some businesses are resistant to meeting their responsibilities as there is not always a short-term tangible benefit in doing so. Setting up socially and ethically responsible practices is expensive with no short-term increase in profits and, thus, owners and managers will be resistant to this change. In addition, as many of these practices are not a legal requirement, businesses will not always see a need to introduce them. (4 marks)

Question 22

(a) Students need to calculate the current ratio of the business and show their working out.

A sample answer is as follows:

\[
\frac{\text{(current assets)}}{\text{(current liabilities)}} = \frac{35000}{14000} = 2.5
\]

Therefore, the current ratio is 2.5 : 1; that is, for every $1 of short-term debt the business has $2.50 of short-term assets. (2 marks)

(b) Students need to calculate the debt-to-equity ratio of the business and show their working out.

A sample answer is as follows:

\[
\frac{\text{(total liabilities} = 14000 + 20000)}{\text{(total equity)}} = \frac{34000}{34000} = 1
\]

Therefore, the debt-to-equity ratio is 1 : 1; that is, for every $1 debt of the business there is $1 of owner’s equity. (2 marks)

(c) Students need to explain why it is important for a business to control its long-term debt.

A sample answer is as follows:

The higher the debt-to-equity ratio, the harder it will be for a business to pay its long-term debts. As owners invest in a business expecting to gain some financial return, this could lead them to lose confidence in the running of the business and may lead to the loss of existing investors and difficulty in attracting new investors. High levels of debt also make the business vulnerable to a rise in interest rates and, thus, increased repayments. If the debt becomes impossible to repay, the business may find itself forced into receivership, or liquidation, as creditors demand their monies. (4 marks)
(d) Students need to explain the ways in which finance and operations are related, providing relevant examples to support their answer.

A sample answer is as follows:

The relationship between finance and operations is that the finance function will draw up the budgets and source the funds that will allow the operations function to carry out its activities. For example, if the operations department of a toy manufacturing business decides it wants to increase its production of a popular item, the finance department will review funds and draw up a budget to see if finances are available to do this. If the business does not have enough money to do this, the finance department will organise short- and long-term funding to buy supplies and equipment. (4 marks)

Question 23

(a) Students need to put forward ONE benefit for a business of using global branding as a marketing strategy. The answer should relate to the stimulus.

A sample answer is as follows:

Global branding is the use of the business name, symbol or logo on a worldwide basis. For XYZ the marketing strategy has the benefit of being cost-effective, as one advertisement can be used in a number of locations, instead of creating a number of advertisements to suit the different branding used in different countries. (2 marks)

(b) Students need to provide characteristics and features of TWO physical distribution issues that XYZ needs to consider in its expansion decision.

A sample answer is as follows:

As XYZ goes about its global expansion it will have to consider issues to do with distributing its product. One issue is whether to use a selective or intensive distribution channel. While an intensive channel will see the shoes on the feet of many people, it may weaken the image of the product. A second issue is the transportation of the product to the new location; if the business chooses a cheaper option, such as sending the shoes by sea, it can lead to delayed delivery and customer dissatisfaction. (4 marks)
(c) Students need to identify the relationship between marketing and finance and draw out the implications of XYZ’s choice to customise or standardise.

A sample answer is as follows:

The relationship between marketing and finance is that the finance department will budget for and source the funds to finance marketing strategies. A standardised approach to marketing a product is one that assumes there is little difference in consumers of the product around the world: a ‘one size fits all’ approach. In contrast, a customised approach is one that sees the customers of a product as being diverse and uses marketing strategies that reflect those differences.

The standardised approach to marketing is more cost-effective and thus it is easier for the finance department to fund it. However, this approach may not be as profitable in the long run as it may not suit all customers. The customised approach is more expensive but may attract more customers in the long run and, so, be more profitable. Marketing and finance managers need to discuss the possible options, consider forms of funding and decide which approach is the most appropriate for the business and its future success.  

**Question 24**

(a) Students need to recognise and name the TWO human resource processes that are being used by TextMore.

A sample answer is as follows:

(i) Separation  
(ii) Recruitment

(b) Students need to show cause and effect in relation to TWO strategies that TextMore can use to effectively manage the reduction of its factory workforce.

A sample answer is as follows:

(i) One strategy that TextMore can use is to carry out a workplace audit and to look at job design. This will identify which work practices are still relevant in the current production processes of the business. It will allow the business to eliminate inefficient and outdated processes. Employees who have been involved in these jobs can be retrained to carry out more efficient work in other parts of the business. However, some employees will become redundant due to this and will have to be offered a suitable redundancy package.
(ii) Another strategy is to use a participative leadership style in the downsizing process. If employees are included in all aspects of this process, they are more likely to understand the need to reduce staff. It will allow for some employees to propose solutions and to even self-nominate for redundancy. Having open lines of communication with staff will make the separation of employees less stressful and decrease possible grievances. 

(3 marks)

**Section III Question 25** (Total 20 marks)

**Outline of Answer**

In business report format, with relevant business terminology, concepts and information, students should present a sustained, logical and cohesive response which demonstrates extensive knowledge and understanding.

Students should limit their answer to two examination booklets (eight pages).

**Introduction/Executive summary**

Include a short outline of the issues to be covered in the report.

**Body**

This should have a discussion of operations and human resource issues experienced by Sunshine Fruit Juices and provide strategies to solve them. These could include:

**Operations**

- issues of supply chain management; quality management
- strategies of outsourcing; monitoring and controlling; quality management including control, assurance and improvement

**Human resources**

- issues of effective human resource management including the indicators of accidents; levels of disputation and worker satisfaction
- strategies of job design; rewards including monetary and non-monetary and performance pay; workplace disputes resolution including grievance procedures.

**Conclusion**

Provide a short summary of the recommendations provided in the report.
Sample Answer

Executive summary
The following report will provide advice for Sunshine Fruit Juices (SFJ) on the problems it is experiencing in regard to customer complaints and tensions in the workplace. It will provide possible strategies to deal with issues in the key function areas of operations and human resources and, thus, improve its business performance.

Operations strategies
Sunshine Fruit Juices’ customers, large overseas supermarket chains, have been complaining that the fruit juice product has been incorrectly labelled and some products have arrived damaged. This indicates several issues for SFJ, including quality control and delivery problems, all connected with management of the supply chain.

Supply chain management
For any production process to run smoothly, it is critical that inputs are available on time; transformation processes maintain good quality and customers receive the outputs as required. In business this is called the supply chain and is the responsibility of the operations department. Therefore, SFJ needs to work on improving its supply chain management if it wants to fix its problems and maintain a good relationship with its customers.

As the final product is arriving damaged at the customer’s premises, it suggests that the problem lies in the logistical side of SFJ’s supply chain management. Logistics refers to the transportation, inventory, warehousing, material handling, and packaging, and often security of the product. A possible solution here is for SFJ to outsource the transportation and delivery of the product. Outsourcing is where a business may contract out some of its operations to other businesses that specialise in these tasks.

Outsourcing has advantages and disadvantages as can be seen in the following table.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>- The business is able to focus on the core activity of making quality juice.</td>
<td>- Management has less control over the whole production process.</td>
</tr>
<tr>
<td>- Access to professional, expert and high quality service</td>
<td>- It may be difficult to maintain quality of service.</td>
</tr>
<tr>
<td>- Can reduce costs as there is no need to maintain vehicles and drivers</td>
<td>- Loss of jobs and career prospects could lead to low morale amongst workers.</td>
</tr>
<tr>
<td>- Faster delivery times as outsourced provider will concentrate on specialist task</td>
<td>- Security and confidentiality issues</td>
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<tr>
<td></td>
<td>- There may be communication issues which lead to customer service problems.</td>
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</table>
It is important before making the decision to outsource some of its production processes for the management of SFJ to weigh up these advantages and disadvantages. As the product is travelling from Australia to other countries, management will need to select a reliable business that has the specialist skills to deliver the product internationally without damaging SFJ’s reputation.

**Quality control**

The business needs to have stronger quality control methods in the production process to ensure that juices are correctly labelled. Quality control is very important to a business because if the quality of a product is not well regarded by customers, they will not buy the product. Thus, in any business, management has to set strong performance objectives around the design and making of the product and the resources used. Quality should be monitored at different stages of the production process. SFJ seems to be sourcing its inputs well, as there are no complaints about the quality of the juice, but the problems seem to lie in the final transformation processes involved in making the product, indicating a lapse in quality control in this area.

In order to ensure that it is turning out a high-standard product, SFJ must have strategies that involve monitoring, controlling and improving production processes. Monitoring refers to the collecting and analysing of information so that processes can be improved. Control is the process of comparing what was meant to happen against the actual result and finding a solution to any shortfall. As information in the form of complaints is coming in from SFJ’s overseas customers, control processes obviously need to be improved.

The management of SFJ needs to have some way of checking the product at each stage of its manufacturing process so that the good that is delivered to the customer is of the highest quality, with correct labelling. With a focus on continuous improvement, where management ensures an ongoing commitment to improving its product, SFJ should be able to reduce future operational issues.

To fix the immediate problem, concurrent controls should be used as these take place while the production process is happening. These controls should be designed so that employee work activities produce the correct results and conform to the organisation’s standards. Future controls should take a feed-forward nature where inputs, including human resources, are chosen so that they meet the standards necessary for the transformation process. Feed-forward controls allow the business to take a preventative approach to problems rather than have to fix them later.

**Human resource issues**

Tied into the problems in the business operations, the business is also having issues with its employees. Workplace accidents and industrial disputes are both indicators of ineffective human resource management. It is vital that the management implement strategies to promote harmonious workplace relations if SFJ is to remain a viable business with a long-term future.
Workplace health and safety

Workplace health and safety is a mandatory aspect of staff management. There are legal and financial consequences if a business is seen to have placed its employees at risk. In addition, if a workplace is having many accidents, this will affect the reputation of the business amongst all of its stakeholders.

The *Workplace Health and Safety Act* 2011 sets out the requirements which govern the safety of employees in the workplace. It is important for the management of SFJ to be familiar with these so as not to incur legal action. Management has a duty of care to provide the safest workplace possible and should encourage employee participation in doing this. When workers are included in decision making, they are more likely to understand and follow management directives. To this end, by law, SFJ must have a workplace committee that addresses any work-related health or safety issues. If a worker is injured the employer must follow the appropriate legislation to compensate and rehabilitate the employee. For the management of SFJ it is very important to find out why the accidents are happening (worker tiredness, boredom, etc.) and address the problem. The workplace committee will be able to help in doing this. Once these problems are resolved, workplace accidents and industrial disputes should become less frequent.

Wage issues

Employees have also been demanding higher wages, and management must address this problem. It may not be possible for SFJ to afford a rise in wages at this point, especially with the issues with overseas customers, but the business could negotiate with workers to receive non-monetary work benefits instead. The workplace accidents and production issues could be a result of worker boredom. By the greater involvement of employees in job design the business could create more teams, flexible working conditions and multi-tasking within the workplace. This could lead to more motivated and productive employees. If this results in greater profits, employee wage claims can be met.

Grievance procedures

It is important that SFJ has sound grievance procedures as this allows industrial issues to be sorted out as quickly as possible. Grievance procedures are formal procedures generally written into the policies of the business. They set out the steps involved in resolving a workplace grievance and often take the format of a flowchart. If an upset employee knows to whom he or she can direct an issue, it makes the problem a lot easier to resolve. In the light of recent industrial issues, the management of SFJ should review the grievance procedures and make any necessary changes. Once again, it is important that SFJ include employees in this process to make the procedures relevant and workable.
**Recommendations**

Sunshine Fruit Juices have been experiencing problems with both its operations and human resources key functions. In order to resolve these issues and take a proactive approach to any future problems, management must include more quality control in its production processes; outsource distribution to a specialist business; encourage greater worker participation in decision making and understand their responsibilities in regard to workplace safety and grievance procedures. In carrying out these activities SFJ will be able to improve its business performance.

**Section IV Question 26**  
(20 marks)

**Outline of Answer**

This answer could be in either extended-response format or in business-report format. It needs to contain relevant theory, illustrated by a relevant case study/studies, using relevant business terminology and concepts. These can be integrated throughout the response or stand alone after the theory is explained.

To gain the maximum range of marks, the response must:

- present a sustained, logical and cohesive argument which communicates clearly using relevant business terminology and concepts
- clearly show the importance of ethical and legal marketing behaviour
- integrate relevant business case study/studies and business issues examples.

Students should aim to keep their responses to no more than two examination booklets (eight pages).

**Introduction**

Include a paragraph demonstrating understanding of the question by introducing the topics to be covered and the business(es) to be used to illustrate these.

**Body**

This should be a discussion of the need for businesses to market their products legally and ethically. Reference needs to be made to relevant examples from business case studies and contemporary business issues. Answers could include discussion of some or all of the following:

- consumer laws
  - deceptive and misleading advertising
  - price discrimination
  - implied conditions
  - warranties
- ethics—truth, accuracy and good taste in advertising, products that may damage health, engaging in fair competition, sugging.
Conclusion
Provide a short summary of the topic and businesses covered.

Sample Answer

Introduction
All businesses must be aware of both the legal and ethical aspects of marketing their product. Government regulation of marketing involves the laws that cover the making and selling of products. Ethical behaviour concerns acceptable conduct in the marketing of a good or service. Failure to behave legally or ethically will lead to loss of income and reputation. LG, Crumpler and Coca-Cola have all been affected by the implications of ethical behaviour and government regulation.

Government regulation
The *Competition and Consumer Act 2010* (Cth) is the main law governing the marketing of goods and services and applies to just about every business in Australia. The aim of this Act is to protect consumers against undesirable practices and to promote competition amongst businesses. The Act is administered and enforced by the Australian Competition and Consumer Commission (ACCC) and the relevant state and territory consumer agencies; for example in NSW, this is the Department of Fair Trading.

The *Competition and Consumer Act* (CCA) regulates a range of behaviours so as to protect consumers from unfair practices. One of these unfair practices is deceptive and misleading advertising, where a false impression is created in an attempt to attract customers. Examples of misleading advertising include having important information in very tiny writing; advertising special offers for a ‘limited period of time’ when they are actually continually available; broadcasting facts about the benefits of the product that have never been truly tested; and making inaccurate claims about the product’s country of origin.

Bait and switch is an illegal practice which involves advertising a product at a reduced price but, when customers go to buy it, the product is sold out so customers are directed to a more expensive product.

Price discrimination, where a product’s price is different depending on the customer base, is also illegal under the Act. This is seen to reduce competition when a retailer may be provided with stock at lower prices than its competitors. It forces smaller, less powerful businesses out of business. The CCA does allow for discounts when bulk orders are made.

The law also covers the rights of consumers to return a faulty product whether there is a written warranty or not. There is an implied (or unwritten) expectation that a product will be of acceptable quality. By law, customers are entitled to a refund if the product is faulty, does not match its description and/or fails to do the job it is meant to do.
If a business fails to follow the conditions set down by the CCA, the ACCC will take civil proceedings against the business or individual engaged in the wrong conduct.

It is important that businesses realise their legal responsibility in terms of making and selling products, as failure to act within the law will not only lead to legal consequences, but also have an impact on the reputation of the business. LG, a manufacturer of white goods, was found by ACCC to be misrepresenting the energy consumption of its refrigerators. Energy consumption ratings are a factor that attracts customers when purchasing electrical goods, and so LG was considered to be carrying out misleading advertising. The consequences of the ACCC’s ruling was that LG must use an independent tester to test the energy usage of each new model it introduces to the market, pay compensation to affected customers, and offer affected customers a refund or exchange. This not only cost LG money but also created public awareness of the issue and affected LG’s business reputation.

Crumpler, a manufacturer and seller of messenger bags, understands the importance of following legal requirements. The owners of the business believe that the warranty should reflect the quality of the product, and create a consumer confidence in the product. In fact they call it the ‘Til Death Do Us Part’ Warranty. The business’s warranty conditions can be found on their website and advise customers to return the bag to a Crumpler shop either in person or by mail, with proof of purchase, and it will be fixed and returned as soon as possible. This shows that Crumpler understands its legal responsibility in terms of warranties and implied conditions. Customers are attracted to buy the product knowing that it comes with a good warranty.

Ethical behaviour

It is hard to legislate for ethical practices but there is a general belief in society that businesses should do the right thing by their stakeholders. Examples of marketing practices that have been criticised and called unethical include those described below.

Product placement is where a business will pay to have an actor or celebrity wear an item or eat a food in a movie or at a promotional event. This behaviour will influence fans to buy the product.

Creation of needs is where a business will promote a product in such a way that a consumer will feel that they must have it. Stereotypical advertising is where men are always shown using the power tools and women in the kitchen. Sugging is where consumers are approached to carry out a survey, or enter a competition, and then are encouraged to buy something.

In Australia, the Advertising Standards Bureau has the role of ensuring that acceptable advertising standards are followed. It has no legal powers and relies on self-regulation. This means that unethical marketing behaviour continues. However, as in legal requirements, if a business is seen to be behaving unethically, this will have an impact on its reputation and lead to a loss of customers.
An example of a business that was seen to behave unethically is when Coca-Cola hired a popular actress to appear in a series of advertisements to ‘bust myths’ about the effects of drinking Coke and to say things such as ‘coke does not rot teeth’. The advertisements, instead of attracting consumers, deterred customers from purchase as they thought that they were misleading and sent the wrong message to children. Consumer complaints resulted and Coca-Cola withdrew the advertisements.

Crumpler has also been criticised for some of its marketing campaigns where it has been seen to have acted in a less than ethical way. Its ‘Beer for Bags’ promotion (where customers were encouraged—for one week only—to pay for a new bag with beer) was criticised as it encouraged the illegal trade of alcohol and promoted drinking. Crumpler has argued that it is not encouraging drinking but taking alcohol off the street. The promotion and its controversy did create extra publicity for the business but did not necessarily enhance its reputation or expand its product sales into new demographics.

**Conclusion**

Adhering to government regulation of marketing behaviour is important to a business as failure to do so can lead to legal action. As seen in the case of LG, this was a costly experience, whereas Crumpler’s understanding of implied conditions has increased consumer confidence in its product. Failure to follow ethical standards can lead to a loss of reputation and, thus, income for a business. Therefore, it is important that a business understands its responsibilities in these areas if it is to have a successful future.

**Section IV Question 27** *(20 marks)*

**Outline of Answer**

This answer could be in either extended-response format or in business-report format. It needs to contain relevant theory, illustrated by a relevant case study/studies, using relevant business terminology and concepts. These can be integrated throughout the response or stand alone after the theory is explained.

To gain the maximum range of marks, the response must:

- present a sustained, logical and cohesive argument and communicate clearly using relevant business terminology and concepts
- clearly outline the different sources of funds and relate these to the achievement of financial objectives
- integrate relevant business case study/studies and business issues examples.

Students should aim to keep their responses to no more than two examination booklets (eight pages).
Introduction

Include a paragraph demonstrating understanding of the question by introducing the topics to be covered and the business(es) to be used to illustrate these.

Body

This should describe and discuss the different sources of funds and how they help achieve financial objectives with a relevant business case study or examples of issues.

Answers could include discussion of some or all of the following:

• internal sources of finance—retained profits
• external sources of finance
  – debt—short-term borrowing (overdraft, commercial bills, factoring), long-term borrowing (mortgage, debentures, unsecured notes, leasing)
  – equity—ordinary shares (new issues, rights issues, placements, share purchase plans), private equity
• objectives of financial management
  – profitability, growth, efficiency, liquidity, solvency
  – short-term and long-term.

Conclusion

Provide a short summary of the topic and businesses covered and a direct statement of the implications of global expansion methods and the relationship to issues of industrial conflict.

Sample Answer

Introduction

Businesses usually have five main financial objectives. These are profitability, liquidity, solvency, efficiency and growth. The way that businesses achieve these goals involves sourcing different sources of funds. It is important that these funds match their needs, for example, short-term funds to match short-term goals. Woolworths, Ikea and Hi Priority Plumbing are three businesses that have successfully used different sources of funding to achieve financial objectives.

Financial objectives

Profitability refers to the business’s ability to maximise its profits. This is important if a business is to satisfy its investors and exist into the future. In order to maximise its profits, a business needs to monitor its costs and expenses, inventory levels, control its assets and have appropriate pricing policies.
Liquidity is the ability of a business to pay its debts on time. To do this, it must have enough cash, or access to cash, to pay suppliers. If the business cannot do this, it may find that its creditors take legal action, and it is forced into closure.

Solvency refers to the business’s ability to meet its longer term financial commitments. Being solvent, by not having too much debt, reflects the stability of the business and its ability to operate into the future.

Efficiency refers to how effectively a business uses its resources to maintain its profits and financial stability.

Growth of a business is its ability to increase its size in the future. It depends on how the business can use its assets to increase market share and increase sales and profits.

Sources of funds

Internal sources
In order to achieve its financial objectives, a business has access to both internal and external sources of funds. Internal sources can come from the business owners putting more of their own money into the business or from retained profits. Ikea, a Swedish furniture retailer which sells its products around the world, relies on retained profit to meet its goals of liquidity and solvency. Retained profits means that funds are accessible to pay suppliers and to make mortgage repayments and, thus, allow Ikea to meet both short-term and long-term financial requirements.

Being able to use retained profits for these purposes means that Ikea does not have to rely too heavily on debt financing and, therefore, is not burdened by interest payments. This allows Ikea to meet its efficiency objective and, overall, to maximise profits.

External sources
Businesses can also use external sources of funds to meet their financial objectives. One form of external funds is selling shares in the business. This has the advantage of providing an injection of cash into the business; however, this can often take some time to set up, so is only really a solution to solvency issues. Not every business uses this form of financing because of the time factor and it can also dilute the owner’s decision-making power.

A business can use debt financing as an option. This falls into long-term and short-term categories. If a business is seeking to buy property it will take out a long-term loan in the form of a mortgage. The loan repayments are spread over a long period of time and usually have a low rate of interest, meaning that the business is able to make steady repayments and remain solvent. If the business does not meet the required repayments, the lender is able to repossess the property.

Woolworths, an Australian grocery retailer, has made use of mortgages to buy distribution centres around the country. By doing this, it is able to buy and place stock closer to actual stores and reduce transport costs and delivery delays. It has also
reduced the need to rely on intermediary businesses and led to increased customer satisfaction due to reduced time delays in receiving the product. This has assisted Woolworths in meeting its financial objectives of profitability, growth and efficiency. The low interest rate and extended repayment time means that Woolworths is able to control solvency issues.

Short-term loans are for smaller monetary amounts; repayments are spread over a shorter time period, have a higher interest rate and are not usually secured to property. Repaying these loans affects the liquidity of the business and so it is important that a business monitors them closely so that cash flow does not suffer. Loans such as these are often used to pay suppliers. An example of this form of loan is an overdraft, where the bank allows a business draw more money out of its account than is actually there. It does have a high interest rate and so needs to be repaid in a hurry.

The owner of Hi Priority Plumbing, a small plumbing company located in south-west Sydney, makes use of an overdraft to buy his supplies and to pay his contractors. As he usually only receives a deposit from customers at the start of a job, being paid the full amount on completion, he relies on the overdraft to meet cash flow problems and improve his liquidity during this time. If he was not able to do this, his business reputation would suffer and he would not be able to attract new customers and meet his financial objectives of growth and profitability.

Another form of short-term financing for the business is factoring. This is where the business sells its accounts receivables to a business that specialises in debt collection. The factoring business will buy the debts at a reduced amount but the advantage is that it provides an injection of cash into the business that is having collection issues, thus improving liquidity. This provides a business with funds to continue operating and stops the problem turning into a solvency issue.

Woolworths uses a factoring company to collect its accounts receivable. This is a low-risk funding option for Woolworths and allows the business to meet its financial objective of liquidity. Although it costs Woolworths a percentage of repayments to do this, it saves the business the time and effort involved in chasing debtors and allows management to focus on the prime function of grocery retailing. In this way, Woolworths is able to meet its financial objective of efficiency and, overall, to maximise profitability.

Leasing is another short-term form of funding for a business. This allows a business to ‘hire’ an asset over a set period of time. The business has the right to use the asset for a fee which is paid every week, fortnight or month, depending on the terms of the contract. Businesses will take out a lease on property, vehicles and equipment such as photocopiers, computers, refrigeration units and coffee machines.

Leasing has many advantages for a business. As it is an expense, it reduces the taxable income and so improves the net profit. If used for an expensive item, it means that the business does not have to use retained profits or take out a loan for the purchase, and so increases liquidity and reduces any potential solvency problems. If anything goes
wrong with the asset, the owner must fix it and when the product becomes outdated, the business can trade it in for a newer model.

Ikea leases its warehouses and distributions centres in many parts of the world, especially in new markets. It does this because it means that it not using retained profits to purchase property as this will reduce access to ready funds. It also allows the business to move on quickly if the new market proves to be unprofitable. In addition, Ikea leases some of its equipment such as cash registers because it provides the business with the latest technology and remedial action if the machines have a problem. Through the use of leasing as a funding option, Ikea is able to increase profits, grow into new markets, remain liquid and solvent and use its assets efficiently, thereby meeting its financial objectives.

Conclusion

Different sources of funds—internal and external; short- and long-term—play an important role in helping a business achieve its financial objectives. Woolworths, Ikea and Hi Priority Plumbing have been able to match their sources of funds to their business requirements and, in doing this, meet the financial objectives of profitability, liquidity, solvency, growth and efficiency.