



# VCE BUSINESS MANAGEMENT ASSESSMENT TASK Unit 4

## Outcome 1

2017

**Explain the way business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.**

# SUGGESTED ANSWERS AND MARKING SCHEME

### Note to teachers and students

**All completed assessment material (including question booklets) should be collected by the teacher and returned to students upon the completion of Unit 4.**

**Question 1****a. Define the following terms.****3 marks****organisational inertia**

- 1 mark for a precise definition of organisational inertia (not just repeating the term or providing a general/ vague idea of the term).

**Sample answer:** *Organisational inertia refers to a business's inactivity or lack of ability to react to pressures for change. Some members of a business may resist change because it requires moving outside and away from their 'comfort zones'.*

**legislation**

- 1 mark for a precise definition of legislation (not just repeating the term or providing a general/ vague idea of the term).

**Sample answer:** *Legislation is a law or a set of laws made by parliament. Legislation must be complied with, and it can act as a driving or restraining force on a business.*

**globalisation**

- 1 mark for a precise definition of globalisation (not just repeating the term or providing a general/ vague idea of the term).

**Sample answer:** *Globalisation is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers. It can act as a driving force on a business, for example, by providing the business with increased access to markets around the world.*

**b. Distinguish between a proactive and reactive approach to change.****4 marks**

- 1 mark for defining proactive approach
- 1 mark for defining reactive approach
- 2 marks for further explanation that clearly differentiates between the two terms

**Sample answer:** *A proactive approach to change refers to a business initiating change rather than simply reacting to events. This may involve the business exploring the driving forces behind a change and then carefully planning a response. It is very likely that a business that embraces change will improve its competitive advantage and financial performance. By contrast, a reactive approach to change refers to a business waiting for a change to occur and then responding to it. Businesses that fail to anticipate and adjust to changing circumstances, but rather, get swept along passively or get caught unprepared, are unlikely to improve their performance or even survive.*

*The main difference between the two terms is that a proactive approach refers to when a business initiates the change whereas a reactive approach refers to when a business waits and responds to events only when necessary.*

**c. Describe the key principles of Lewin's Force Field Analysis theory and explain how management can make use of Lewin's theory.**

**4 marks**

- 2 marks for describing driving and restraining forces and how they relate to each other
- 2 marks for explaining how management can make use of a Force Field Analysis

**Sample answer:** *Force Field Analysis is a management theory developed by Kurt Lewin. It is useful for planning and implementing change in a business, and for attempting to minimise resistance to change.*

*In his theory, Lewin identified factors (or forces) that influence any given situation. Driving forces initiate, encourage and support the change — they work to assist the business to attain a goal. An example of a driving force is management who may desire an improvement in productivity. Restraining forces are those that push against the change, creating resistance — in other words, they hinder the attainment of a goal. An example of a restraining force is employees who may be reluctant to adopt a change. The current conditions, or status quo, result from these two forces pushing in opposite directions. While there is equilibrium between the two sets of forces there will be no change. For change to occur, driving forces must exceed restraining forces.*

*Management needs to analyse which factors within a situation or affecting a business are driving forces and which factors may be acting as restraining forces. When using Force Field Analysis, management should firstly define the desired change and then map the driving and restraining forces. Each force should then be evaluated and reviewed. Management should decide which forces have some flexibility for change. An action plan for strengthening driving forces and weakening restraining forces should then be devised and implemented.*

## Question 2

Ten Network Holdings (Ten) announced a half-year net loss of \$232 million at the end of April 2017. Shares in Ten Network Holdings fell 40 per cent following the announcement, meaning that the worth of the entire free-to-air television company plunged to \$99.7 million. While Ten's revenue grew by 2.1 per cent to \$314 million, and its market share in the advertising market increased, costs increased by 7.4 per cent to \$349.4 million due to more investment in domestic programming.

Ten's chief executive officer, Paul Anderson, said the network had achieved above-market revenue growth in the first half of 2017 because of "investment in local content and the audience momentum Ten has built in recent years" but this "was not enough to offset the weak conditions in the television advertising market and the Company's increased content and other costs."

In a media release, Mr Anderson revealed that Ten will be commencing a transformation program – codenamed Blue Horizon – to improve all areas of the business. He said, "This whole-of-business program will improve revenues through a range of initiatives that complement the MCN relationship [Ten has a partnership with Multi Channel Network Pty Ltd ('MCN') – a business that is responsible for Ten's advertising interests] and will achieve significant cost savings as previously foreshadowed, most of which will fall in the 2018 financial year onwards."

There were fears amongst employees that the transformation program may lead to the loss of jobs as management at Ten attempts to reduce costs.

Ten also delivered a dramatic warning that it would need to renegotiate and secure its financing of debt, clearly suggesting that its future could otherwise be in doubt. Ten is currently relying on a \$200 million loan from the Commonwealth Bank. It will need to explore whether it can secure another \$250 million to keep it out of receivership. The \$250 million may possibly come from its three main creditors: Lachlan Murdoch, James Packer and Bruce Gordon, or from other sources.

Another issue that Ten needs to deal with is suppliers. It is locked into buying television shows from the United States that do not generate enough advertising revenue to cover their huge costs. The only real successes for the business have been its KFC Big Bash Cricket and I'm a Celebrity...Get Me Out Of Here shows that contributed to its increase in revenue and market share.

Ten's competitors have been disrupting the free-to-air-TV market, and this is only going to increase in the near future. The rise of social media and online streaming services such as Netflix and Foxtel Play has negatively impacted on Ten's performance. Ten's programs are generally aimed at the youth market, meaning that the company is operating in a very competitive area.

**a. Ten Network Holdings is planning a number of changes in order to position the business for the future.**

**Describe how business change has come about at Ten.**

**4 marks**

- 1 mark for demonstrating an understanding of business change (this does not need to be explicitly defined)
- 1 mark for identifying the causes of business change at Ten
- 2 marks for describing how business change has come about at Ten

**Sample answer:** *Business change is the adoption of a new idea or behaviour by a business. Change comes about because of an alteration in the internal or external environments; it could come about because of a change in tastes, expectations, the way things are perceived or a new way of dealing with problems.*

*One cause of business change at Ten is the actions of competitors. Competitors such as social media, Netflix and Foxtel Play have disrupted the free-to-air-TV market. This means that fewer people watch free-to-air-TV, so businesses are less likely to pay networks such as Ten for advertising. This negatively impacts on Ten's financial performance. Ten's financial performance is another cause for business change. The company announced a half-year net loss at the end of April 2017 and issued a warning that it needed to secure financing for its debt. Costs have also led to business change at Ten, increasing by 7.4 per cent due to more investment in domestic programming.*

**b. Analyse Ten's performance using the following key performance indicators:**

**9 marks**

**Note 1:** The use of the task word 'analyse' in the context of this question requires students to explore the relationship between the main features of each key performance indicator and the performance of Ten.

**net profit figures**

- 1 mark for an accurate definition of net profit figures (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining how the key performance indicator will be used by Ten
- 1 mark for applying the key performance indicator to performance at Ten

**Sample answer:** *Net profit figures can be used to measure Ten's performance. Net profit figures are the numbers found at the end of an income statement that reveal the business's net profit, or what remains when expenses are deducted from the revenue earned. A business that has made a profit is considered to have had successful financial performance. Conversely, a low profit or a negative profit, referred to as a loss, suggests that a business could be experiencing several problems, including reduced sales, poor customer service or inadequate management of expenses. Ten will use net profit figures to analyse its financial performance. Ten's half-year net profit figures at the end of April 2017 reveal a loss of \$232 million. This means that its expenses are greater than its revenue and that the business is not performing well financially. The key performance indicator suggests that Ten will either need to increase revenue, or reduce expenses.*

**number of sales**

- 1 mark for an accurate definition of number of sales (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining how the key performance indicator will be used by Ten
- 1 mark for applying the key performance indicator to performance at Ten

**Sample answer:** *Number of sales can also be used to measure Ten's performance. Number of sales is a key performance indicator showing the amount or quantity of goods or services sold in the course of a business's normal operations. If a business did not have access to this performance indicator then it would be impossible to know how many customers were purchasing its products. Ten will make use of number of sales to determine whether or not its strategies are successful. A high number of sales would suggest that strategies are working well; conversely, a low number of sales would suggest that strategies are not working and need to be revised. Ten's sales generate advertising revenue. A growth in Ten's revenue by 2.1 per cent to \$314 million suggests that sales may have grown. [Ten's market share also increased, which may have come about because of an increase in sales by Ten (or an overall decline in total sales across the market, while Ten maintained its value of sales)]. Given that Ten is operating in a declining market, this indicates good performance and that its strategies are working well.*

**Note 2:** square bracketed section is not required for full marks.

**percentage of market share**

- 1 mark for an accurate definition of percentage of market share (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining how the key performance indicator will be used by Ten
- 1 mark for applying the key performance indicator to performance at Ten

**Sample answer:** Percentage of market share can also be used to measure Ten's performance. Percentage of market share refers to the amount of customers buying a business's product as a proportion of the total sales in a market, expressed as a percentage. This performance indicator is calculated by dividing a business's sales (from the market it operates in) by the total sales of all businesses in that market. The result is then expressed as a percentage. A business that increases its percentage of market share would be considered to be performing successfully. Ten will use percentage of market share to analyse how well it is performing in relation to other businesses in the market for television advertising. Ten's market share in the advertising market had increased by the end of April 2017. This means that Ten's share of the total industry sales for advertising has increased, indicating that the business is performing as well, if not better than its competitors. It also suggests that its strategies have had a positive impact on its performance.

**c. Identify and describe two other key performance indicators that Ten might use to evaluate its performance.**

**4 marks**

- 1 mark for identifying a key performance indicator that Ten might use to evaluate its performance (besides net profit figures, number of sales or percentage of market share)
- 1 mark for describing the key performance indicator
- Repeat for a second key performance indicator

**Sample answer:** One key performance indicator that Ten might use to evaluate its performance is the rate of productivity growth. By measuring the change in the rate of productivity (the amount of output produced in relation to the amount of input required in production) in one year compared to the previous year, Ten can determine how efficiently the business is using resources. If Ten's operations area is able to make use of fewer inputs to obtain the same level of output, or if more output is produced from the same input, then productivity should grow from one year to the next.

Another key performance indicator that could be used to measure the success of the changes at Ten is the number of customer complaints. The number of customers contacting Ten to express their dissatisfaction with the business indicates whether or not customers are satisfied with the way that the business performs. An improvement in customer satisfaction would suggest that Ten's performance has improved and could also lead to an improvement in net profit.

Other accepted key performance indicators: rates of staff absenteeism, level of staff turnover, level of wastage, number of workplace accidents, any other key performance indicator relevant to change management at Ten

**d. Define the following driving forces for change and explain why Ten may have considered them before announcing its transformation program:**

**6 marks**

**managers**

- 1 mark for a precise definition of managers (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered managers before announcing its transformation program

**Sample answer:** Managers are the people who have the responsibility for successfully achieving the objectives of a business. They want the business to remain profitable and competitive. Ten would have considered managers before announcing its transformation program, because managers are likely to support the change if they believe that it will result in the business becoming more profitable or will help the business to achieve other objectives.

## competitors

- 1 mark for a precise definition of competitors (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered competitors before announcing its transformation program

**Sample answer:** *Competitors are the individuals or other businesses that offer rival, or competing, goods or services to the ones offered by the business. Competition is likely to result in a business being aware of what its competitors are doing and, therefore, being able to respond to changes quickly. Ten would have considered competitors before announcing its transformation program, because the need to remain competitive would act as an impetus for the implementation of change.*

## pursuit of profit

- 1 mark for a precise definition of pursuit of profit (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered pursuit of profit before announcing its transformation program

**Sample answer:** *Pursuit of profit refers to the effort that a business will make to ensure that its revenue exceeds expenses. Successful businesses will implement changes and improvements in an effort to increase sales, reduce costs and maximise profit. Ten would have considered the pursuit of profit before announcing its transformation program, because profit needs to be sustained over time to ensure that the company can continue to grow. As a public company, profit is very important to Ten's shareholders. Their expectation that Ten will make a profit is likely to act as a drive for the transformation program.*

## e. Define the following restraining forces for change and explain why Ten may have considered them before announcing its transformation program:

**6 marks**

### employees

- 1 mark for a precise definition of employees (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered employees before announcing its transformation program

**Sample answer:** *Employees are the people who work at the business in return for a salary or wage. They may resist change because any alteration to a business and its operations will ultimately impact on them in some way. Ten would have considered employees before announcing its transformation program, because employees may be anxious that they will not be able to adapt to any change or that they will lose their jobs. Because the transformation program could have implications for their workplace conditions and future job security, employees might resist the change. By considering this possible restraining force, Ten can plan for a way to minimise the resistance.*

### time

- 1 mark for a precise definition of time (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered time before announcing its transformation program

**Sample answer:** Time is the period during which something can be done by the business. Sometimes pressures for change will occur quickly and businesses will not have the time to plan changes as efficiently or effectively as they would like. Ten would have considered time before announcing its transformation program, because a lack of time may impact on the program adversely and possibly prevent the business from making the necessary changes. By considering this possible restraining force, Ten can plan for a way to maximise the amount of time available for introducing the transformation program.

### financial considerations

- 1 mark for a precise definition of financial considerations (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for explaining why Ten may have considered financial considerations before announcing its transformation program

**Sample answer:** Financial considerations refer to the cost and revenue issues faced by a business, as well as financing concerns. There are several reasons why Ten would have considered these financial issues before announcing its transformation program. The financial cost of implementing the program may restrain the change. Revenue issues can also act as a restraining force. The high costs of change may affect Ten's profit margin, and the business may consider raising prices. This can act as a restraining force if competitors are not facing the same pressures and businesses price themselves out of the market in which they operate, reducing revenue. A lack of access to finance can also be an inhibitor to change for a business. Issues with obtaining finance may mean that Ten is not able to pay for its transformation program.

### f. Porter's Generic Strategies (1985) focuses on two key approaches to strategic management: lower cost and differentiation.

**Explain both lower cost and differentiation. Evaluate which of these approaches would be the most appropriate for Ten.**

**10 marks**

- 2 marks for an accurate explanation of lower cost
- 2 marks for an accurate explanation of differentiation
- 2 marks for an explanation of the benefits and limitations for Ten in pursuing a lower cost approach
- 2 marks for an explanation of the benefits and limitations for Ten in pursuing a differentiation approach
- 2 marks for an overall statement regarding the overall worth of each approach

**Sample answer:** According to Porter, a business can choose to pursue a competitive advantage through lower cost or differentiation. Lower cost involves providing customers with lower priced goods or services. This approach will appeal to price-conscious customers. To succeed in this approach while still achieving profit, the business will need to operate at a lower cost than competitors. In doing so, it can block any attempts by competitors to increase their market share.

Differentiation involves providing customers with superior value in terms of service (flexibility, speed, quality) or added features compared to lower priced competitors. Customers will value or perceive such a product as being unique and better than the competition. A business that is able to create a product with any of these distinctive attributes will be able to charge a premium price for their product because it will be able to pass costs on to its customers.

There are several ways in which Ten could achieve a lower cost approach. The company could reduce direct and indirect costs, use assets more efficiently or attempt to control prices in its supply chain. Ten could, for example, lower its costs of operating by reducing wages and the



*cost of supplies by sourcing from cheaper suppliers. By making use of a lower cost approach, Ten may become more profitable as it increases its margin — the difference between its costs and its selling price. It may also be able to gain market share. However, in pursuing this approach, Ten may leave itself vulnerable to other low cost media businesses who may undercut its prices and therefore block any attempts to increase market share. Another limitation of this strategy is lower customer loyalty, as price sensitive customers (the businesses advertising during Ten's programs) will often swap brands with little hesitation. A reputation as a lower cost business may mean that some of Ten's customers also associate this with poor or cheap quality. This may result in difficulties for Ten to rebrand in the future.*

*There are several ways in which Ten could achieve a differentiation approach. The company could attempt to improve the quality of its product, make use of multiple branding or develop a niche market. Ten could, for example, improve the quality of its product by providing better support for customers. By making use of a differentiation approach, Ten will be able to improve its connections with customers and build long-term loyalty to its brand and products. If Ten is able to charge a premium price for its differentiated products, then it may be able to make revenue gains. If the business can maintain or improve customer loyalty, then it may be able to gain market share from competitors. However, in pursuing a differentiation approach, Ten may find that competitors copy its strategies and steal its customers. In addition, implementing a differentiation approach will be costly. It may take years before Ten achieves a brand image that sets it apart from its competitors. During that time, consumer tastes or preferences may change. Ten may not have sufficient customer demand to offset higher costs, and this may lead to further losses.*

*Overall, a lower cost approach would seem to be the most appropriate strategy for Ten in its current position. Undoubtedly, this is why the company appears to be pursuing strategies related to this approach. While it does have limitations, the lower cost approach would appear to be the preferred means for dealing with Ten's perilous financial situation. A differentiation approach may involve costs that the company is unlikely to be in a position to afford.*