



ADVANCED
General Certificate of Education
2019

Business Studies

Assessment Unit A2 1

assessing

Strategic Decision Making

[ABU11]

FRIDAY 24 MAY, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for GCE Business Studies.

Candidates should be able to:

- AO1** Demonstrate knowledge of terms, concepts, theories, methods and models to show an understanding of how individuals and organisations are affected by and respond to business issues.
- AO2** Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues.
- AO3** Analyse issues within business, showing an understanding of the impact of external and internal influences on individuals and organisations.
- AO4** Evaluate quantitative and qualitative information to make informed judgements and propose evidence-based solutions to business issues.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17 or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17 or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations. If a candidate gives the correct answer without showing their working out, full marks should be awarded.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either 3 or 4 levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

- Level 1: Quality of written communication is basic.
- Level 2: Quality of written communication is good.
- Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 3 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a very high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

Where there are four levels of response, quality of written communication is distinguished as follows:

- Level 1: Quality of written communication is basic.
- Level 2: Quality of written communication is satisfactory.
- Level 3: Quality of written communication is good.
- Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

1 (a) (AO1, AO2)

Explain the term Key Performance Indicators using an example from Ntry Ltd to illustrate your answer.

Definition – [2] marks available (AO1)

Key Performance Indicators are quantifiable measures used to evaluate the success of a project/area of a business. It is a measure of performance.

Explanation – [2] marks available (AO2)

Examples from the case study might include the number of:

- New customers per month.
- Output per employee or shift and product reject rate.
- KPIs can be used as part of a target setting process to evaluate how successful Ntry Ltd has been in meeting its objectives in a range of departments/areas.
- Ratio's as a basis for performance.
- Good explanation; good application [4]
- Good explanation; basic application [3]
- Basic explanation; good application [3]
- Basic explanation; basic application [2]
- Good explanation; no application [1]
- Basic explanation; no application [0]

Valid alternative answers will be credited. [4]

(b) (AO1, AO2)

Explain how the 'power' and 'task' elements of Handy's model of organisational culture might be applied within Ntry Ltd.

Organisational culture encompasses the values and behaviours that define how an organisation operates.

Candidates should explain how the 'power' and 'task' elements might be applied within Ntry Ltd.

Power culture – At the moment the predominant culture would be the power type. All the control is concentrated in the hands of the Green brothers. This enables them to make swift decisions but also means that they tend to ignore rules and procedures. Few rules and regulations. Power held by Jack and John.

Task culture – Under John's new proposals the culture type would shift to being task based. There would be a matrix structure in the business. Employees would be organised into teams with expertise drawn from functional areas. Individuals would become more highly motivated as all opinions are taken on board to get the task completed and power would be shifted accordingly.

- Good explanation; good application [5]–[6]
- Good explanation; basic application [3]–[4]
- Basic explanation; good application [3]–[4]
- Basic explanation; basic application [1]–[2]
- Good explanation; no application [1]–[2]
- Basic explanation; no application [1]
- No explanation; no application [0]

Valid alternative answers will be credited. [6]

AVAILABLE
MARKS

10

2 (AO1, AO2, AO3, AO4)

Evaluate the need for contingency planning within Ntry Ltd.

- Sets out What Ifs? Helps Ntry Ltd. plan for unexpected events. Contingency Planning involves planning to deal with a range of events that may or may not actually happen. By having thought about possible scenarios beforehand, it is more likely that a company such as Ntry Ltd would be better prepared to deal with them.
- By having contingency plans Ntry Ltd would be able to ensure that it has resources ready to deal with any action by a foreign competitor designed to win market share from Ntry Ltd. The case study states that this was not the case previously when a competitor launched an advertising campaign.
- Currently, there is uncertainty over the future of one of Ntry Ltd.'s main wood suppliers. It would be wise to undertake contingency planning now so that production does not suffer if supplies are disrupted in the future.
- There are currently several ongoing disputes with employees and Jack envisages problems in motivating employees to undertake training so that they can operate the new machines. Contingency planning would allow Ntry Ltd to prepare so that production can continue as efficiently as possible.
- However, Jack is concerned that the day to day running of the business might suffer if time is taken up with contingency planning.
- Ntry Ltd may be beginning to experience liquidity problems as indicated by the current ratio. It may not have enough finance or be able to spare resources to undertake contingency planning.
- It may be unwise for Ntry Ltd to waste resources preparing for events that may never happen such as the supplier going out of business.
- Gives greater confidence to managers. Due to it being an a Ltd managers are involved more.

Level 3 ([11]–[15])

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the benefits and drawbacks of contingency planning.
- Appropriate use of relevant source material, coming to a fully supported argument.
- Well-focused and sound analysis.
- Highly appropriate, clear and logical evaluation.
- An excellent quality of written communication.

Level 2 ([6]–[10])

A good response demonstrates:

- Good knowledge and understanding of the benefits and drawbacks of contingency planning.
- Mostly appropriate use of relevant source material to support the analysis.
- Good analysis of relevant issues.
- Mostly appropriate, clear and logical evaluation.
- Good quality of written communication.

Level 1 ([1]–[5])

A basic response demonstrates:

- Basic knowledge and understanding of the benefits and drawbacks of contingency planning.
- Basic use of relevant source material to support the analysis. Some references to source material may not be appropriate.
- Basic analysis of relevant issues.
- Basic evaluation.
- Basic quality of written communication.

Answers not worthy of credit **[0]** marks.

Valid alternative answers will be credited.

[15]

AVAILABLE
MARKS

15

3 (AO1, AO2, AO3, AO4)

Evaluate the performance of Ntry Ltd during 2018 using appropriate performance ratios from **Table 2**.

| AVAILABLE MARKS |
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|--------------------|

Gross Profit Margin 35% (2018) 33% (2017)

- The Gross Profit Percentage has improved from 33% to 35%. This is significant in that it was achieved in a period when Ntry Ltd had to deal with a foreign competitor, so the business is appearing to be controlling its revenue, material costs and stocks well.

Net Profit Margin 12.4% (2018) 12% (2017)

- The Net Profit Percentage also increased from 12% in 2017 to 12.4% in 2018. However, although this represented an improvement in profitability if expenses were controlled then the net profit % should also have increased by 2% to 14%. Ntry Ltd needs to be careful because there is still a significant difference between this and the Gross Profit Percentage, i.e. 1.6%. This may indicate that some costs including marketing costs, for example, are too high.

Return on Capital Employed. ROCE 9.1% (2018) 8.2% (2017)

- The Board of Directors can assess the profitability of the Ntry Ltd using the ROCE ratio. This appears healthy at 9.1% and is up from 8.2% in 2017. It would need to be compared to similar businesses or to targets set to get a meaningful interpretation though.

Current Ratio 1.4 : 1 (2018) 2.1 : 1 (2017)

- The Board of Directors can see that the current ratio has worsened from 2.1 : 1 in 2017 to 1.4 : 1 in 2018. This may indicate that there is a liquidity problem in the business, a decrease in cash at bank caused by possible Dividend pay-outs. This may make the proposed new expansion very difficult as it will require £11m. However, many businesses operate effectively with a current ratio well below the recommended 2:1

Gearing Ratio 52% (2018) 37% (2017)

- The Gearing ratio has worsened from 37% in 2017 to 52% in 2018. This may place the business in difficulty if interest rates rise which will in further profit decreases. However, Ntry Ltd, is now regarded as being highly geared so this may present difficulties. The £11m investment could increase the gearing ratio if they obtain a bank loan. However, a share issue may alleviate that problem.

Earnings Per Share 16p (2018) 15p (2017)

- Earnings per share are up from 15p per share in 2017 to 16p per share in 2018. Shareholders would be happy with this and it is pointed out that dividends are currently much greater than what could be achieved by earning interest in a bank account. However, it may be too high to guarantee that there will be enough funds in the business to undertake future investment.
- However, it needs to be noted that the ratios do not take account of qualitative factors within Ntry Ltd such as the poor workforce morale or possible problems concerning retraining workers to use the new machinery.
- The ratios do not reflect external factors such as the state of the economy which may have impacted upon the performance of Ntry Ltd.

Level 4 ([16]–[20])

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the various financial ratios.
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis.
- Appropriate use of relevant source material, coming to a fully supported argument.
- An excellent quality of written communication.

Level 3 ([11]–[15])

A good response demonstrates:

- Sound and accurate knowledge and understanding of the various financial ratios.
- An appropriate, clear and logical evaluation, based on focused analysis.
- Mostly appropriate use of relevant source material, coming to a supported argument.
- A good quality of written communication.

Level 2 ([6]–[10])

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the various financial ratios.
- A suitable, appropriate evaluation, based on reasonable analysis.
- A sometimes-appropriate use of source material, coming to a partially supported argument.
- A satisfactory quality of written communication.

Level 1 ([1]–[5])

A basic response demonstrates:

- Basic knowledge and understanding of the various financial ratios.
- Basic evaluation, based on limited or no relevant analysis.
- References to source material may not be appropriate.
- A basic quality of written communication.

Answer not worthy of credit **[0]** marks.

Valid alternative answers will be credited.

[20]

20

AVAILABLE
MARKS

4 (AO1, AO2, AO3, AO4)

Evaluate the implications of a growth strategy for Ntry Ltd.

- More motivated staff/managers due to the growth of Ntry Ltd.
- Ntry Ltd might be able to take advantage of internal economies of scale that would arise from the purchase of the new machines. These might include technical, marketing or financial economies. These will reduce per unit costs and increase profits for the business.
- Ntry Ltd will be able to 'significantly increase its output and sales'. This will lead to increased market share and profits for further investment and dividends to its shareholders.
- The investment in new machines will improve the corporate image of Ntry Ltd and make it easier to reach new customers in foreign markets and attract new domestic and foreign customers and employees in the future.
- However, there may be difficulties in acquiring finance for the proposed £11million expansion. Profits have not been retained and the business has had to rely more on borrowing recently.
- There will be a need for Ntry Ltd to retrain workers to operate the new machines. This may prove difficult as there is currently discontent in the workforce due to many issues. Extra pressure on employees.
- Although Ntry Ltd may hope to benefit from economies of scale, there may also be significant dis-economies of scale such as poor internal communication which serve to push up costs.
- The change of culture which occurs because of the reorganisation of the workforce into a matrix structure may not be as effective. There would be a transfer of power and control away from the Green brothers and this might mean that decisions take longer to make and are less effective.

Level 4 ([16]–[20])

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the implications of growth.
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis.
- Appropriate use of relevant source material, coming to a fully supported argument.
- An excellent quality of written communication.

Level 3 ([11]–[15])

A good response demonstrates:

- Sound and accurate knowledge and understanding of the implications of growth.
- An appropriate, clear and logical evaluation, based on focused analysis.
- Mostly appropriate use of relevant source material, coming to a supported argument.
- A good quality of written communication.

Level 2 ([6]–[10])

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the implications of growth.
- A suitable, appropriate evaluation, based on reasonable analysis.
- A sometimes appropriate use of source material, coming to a partially supported argument.
- A satisfactory quality of written communication.

AVAILABLE
MARKS

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding of the implications of growth.
- Basic evaluation, based on limited or no relevant analysis.
- References to source material may not be appropriate.
- A basic quality of written communication.

Answers not worthy of credit **[0]** marks.

Valid alternative answers will be credited.

[20]

AVAILABLE
MARKS

20

5 (AO1, AO2, AO3, AO4)

Evaluate the usefulness of the Net Present Value method of investment appraisal as an aid to decision making in Ntry Ltd.

| AVAILABLE MARKS |
|--------------------|
| |

- NPV is a quantitative method that allows Ntry Ltd to see that the proposed investment should go ahead as it has a positive NPV of £2,954,250.
- NPV takes account of the time value of money by using a discount factor (5%) to allow it to convert all the future cash inflows to their present value over a period of 7 years, where they can be compared to the initial cost of the investment.
- NPV allows Ntry Ltd to take account of all future cash inflows in reaching the decision as to whether the investment in machines should go ahead. This gives it an edge over the payback method of investment appraisal. (Payback period works out at 4 years).
- NPV allows Ntry Ltd to compare and rate alternative investment projects. Jack may wish to carry out an investment appraisal for the other machines which require less labour.
- However, there is considerable difficulty in calculating/predicting accurate cash inflows so far into the future. The machines are estimated to last at least 7 years. This may make findings less accurate. This takes time.
- There is no guarantee that the 5% discount rate applied by John Green will be the same over the lifetime of the machines, i.e. 7 years. Why 5%, the rate of inflation is 2% in 2018 but can increase/decrease over the next 7 years.
- Although the proposal to buy the machines has a positive NPV, the £2,954,250 needs to be considered against the £11 million initial costs and the fact that the largest cash inflows take place after four years.
- Ntry Ltd needs to take account of the qualitative factors which may influence the outcome and profitability of the proposal. For example, difficulties motivating employees to undertake training for the new machines or the arrival of more foreign competitors.
- NPV doesn't focus on speed of return.

Level 4 ([20]–[25])

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the implications of NPV.
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis.
- Appropriate use of relevant source material, coming to a fully supported argument.
- An excellent quality of written communication.

Level 3 ([14]–[19])

A good response demonstrates:

- Comprehensive and relevant knowledge and understanding of the NPV method.
- Appropriate use of relevant source material, coming to a fully supported argument.
- Well-focused and sound analysis.
- Highly appropriate, clear and logical evaluation.
- A good quality of written communication.

Level 2 ([8]–[13])

A satisfactory response demonstrates:

- Good knowledge and understanding of the NPV method.
- Mostly appropriate use of relevant source material to support the analysis.
- Good analysis of relevant issues.
- Mostly appropriate, clear and logical evaluation.
- Satisfactory quality of written communication.

Level 1 ([1]–[7])

A basic response demonstrates:

- Basic knowledge and understanding of the NPV method.
- Basic use of relevant source material to support the analysis. Some references to source material may not be appropriate.
- Basic analysis of relevant issues.
- Basic evaluation.
- Basic quality of written communication.

Answer not worthy of credit **[0]** marks.

Valid alternative answers will be credited.

[25]

Total

**AVAILABLE
MARKS**

25

90