

Business Studies

Advanced GCE

Unit **F297**: Strategic Management

Mark Scheme for January 2013

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Tick

Subject-specific Marking Instructions**General**

- The paper is to be marked to A2 standard.
- Marking should be positive; marks should not be subtracted for errors or inaccuracies.
- Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily have to pass through all lower levels of response.
- In assessing quantitative answers the “own figure rule” (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- Materials in italics below refer to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- The emphasis throughout this paper should be upon the integration of the material learnt and the context described within the stimulus material. Candidates are expected to treat both in a synoptic manner, considering situations from a variety of perspectives rather than a series of discrete issues by adopting a holistic/multi-disciplinary approach.

Question	Answer	Marks	Guidance																																																																																																																					
<p>1 (a)</p>	<table border="1"> <thead> <tr> <th></th> <th>Sales</th> <th>Trend</th> <th>CV</th> </tr> </thead> <tbody> <tr> <td>2009 Q3</td> <td>10.4</td> <td></td> <td></td> </tr> <tr> <td>Q4</td> <td>6.2</td> <td>24.6000</td> <td></td> </tr> <tr> <td>2010 Q1</td> <td>4.8</td> <td>24.8000</td> <td>49.6000</td> </tr> <tr> <td>Q2</td> <td>3.2</td> <td>24.6000</td> <td>49.2000</td> </tr> <tr> <td>Q3</td> <td>10.6</td> <td>25.0000</td> <td>50.0000</td> </tr> <tr> <td>Q4</td> <td>6.0</td> <td>25.0000</td> <td>50.0000</td> </tr> <tr> <td>2011 Q1</td> <td>5.2</td> <td>25.2000</td> <td>50.4000</td> </tr> <tr> <td>Q2</td> <td>3.2</td> <td>25.2000</td> <td>50.4000</td> </tr> <tr> <td>Q3</td> <td>10.8</td> <td>24.8000</td> <td>49.6000</td> </tr> <tr> <td>Q4</td> <td>6.0</td> <td>24.4000</td> <td>48.8000</td> </tr> <tr> <td>2012 Q1</td> <td>4.8</td> <td>24.2000</td> <td>48.4000</td> </tr> <tr> <td>Q2</td> <td>2.8</td> <td>24.4000</td> <td>48.8000</td> </tr> <tr> <td>Q3</td> <td>10.6</td> <td>24.5000</td> <td>48.9000</td> </tr> <tr> <td>Q4</td> <td>6.2</td> <td></td> <td></td> </tr> <tr> <td>2013 Q1</td> <td>4.9</td> <td></td> <td></td> </tr> <tr> <td>Q2</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q3</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>On the insert, and showing your working, forecast the level of production for Q2 2013.</p> <p><i>CV for Qtr 3 = $(4.35 + 4.60 + 4.49)/3 = 13.44/3 = 4.48$ $(4.4 + 4.6 + 4.5 (OFR) = 4.5 (OFR)$</i></p> <p><i>Qtr 3 February 2011</i></p> <p><i>Forecast trend = 6.2 (allow the range 6.0 to 6.4)</i> <i>Qtr 3 average CV = 4.48</i> <i>Forecast production = 10.68</i> <i>(allow the range 10.48 to 10.88)</i></p>		Sales	Trend	CV	2009 Q3	10.4			Q4	6.2	24.6000		2010 Q1	4.8	24.8000	49.6000	Q2	3.2	24.6000	49.2000	Q3	10.6	25.0000	50.0000	Q4	6.0	25.0000	50.0000	2011 Q1	5.2	25.2000	50.4000	Q2	3.2	25.2000	50.4000	Q3	10.8	24.8000	49.6000	Q4	6.0	24.4000	48.8000	2012 Q1	4.8	24.2000	48.4000	Q2	2.8	24.4000	48.8000	Q3	10.6	24.5000	48.9000	Q4	6.2			2013 Q1	4.9			Q2				Q3				<p>13</p>	<table border="1"> <thead> <tr> <th></th> <th>Correct</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Trend</td> <td>Correct calculation gives 6.15</td> <td>3</td> </tr> <tr> <td>Plot</td> <td>Trend point at 2013 Qtr 3, 6.15</td> <td>2</td> </tr> <tr> <td>Extrapolation of trend line</td> <td>Extrapolation incorporates trend point</td> <td>2</td> </tr> <tr> <td>CV</td> <td>Correct calculation of 4.49</td> <td>2</td> </tr> <tr> <td>Av CV for Qtr 3</td> <td>Correct calculation of 4.467</td> <td>2</td> </tr> <tr> <td>Forecast</td> <td>Adjusts forecast trend by 4.467</td> <td>2</td> </tr> <tr> <td colspan="2"></td> <td>13</td> </tr> <tr> <th colspan="2">Attempt</th> <th>Marks</th> </tr> <tr> <td colspan="2">Attempts to calculate trend</td> <td>1</td> </tr> <tr> <td colspan="2">Attempts to calculate plot new trend</td> <td>1</td> </tr> <tr> <td colspan="2">Extrapolation does not incorporate plotted trend point</td> <td>1</td> </tr> <tr> <td colspan="2">Attempts to calculate CV</td> <td>1</td> </tr> <tr> <td colspan="2">Attempts to calculate Average CV</td> <td>1</td> </tr> <tr> <td colspan="2">Attempts to forecast Adjust trend by Average CV</td> <td>1</td> </tr> </tbody> </table> <p>Remember to apply the own figure rule. A correct forecast trend (so without the application of CV) will score 7 An supported number scores 1 for attempting a forecast</p>		Correct	Marks	Trend	Correct calculation gives 6.15	3	Plot	Trend point at 2013 Qtr 3, 6.15	2	Extrapolation of trend line	Extrapolation incorporates trend point	2	CV	Correct calculation of 4.49	2	Av CV for Qtr 3	Correct calculation of 4.467	2	Forecast	Adjusts forecast trend by 4.467	2			13	Attempt		Marks	Attempts to calculate trend		1	Attempts to calculate plot new trend		1	Extrapolation does not incorporate plotted trend point		1	Attempts to calculate CV		1	Attempts to calculate Average CV		1	Attempts to forecast Adjust trend by Average CV		1
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			Full marks can be awarded to an answer within the range even if there is no explicit calculation of average CV. This must be supported by extrapolation of the trend.

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			Content	Levels of response
(b)	<p>Annualised hours contract would seek to match labour supply to product demand so workers are only at FHL when there is a job for them to do. Better candidates will use the seasonal pattern in the sales data, and their attempt at Q1a, to reflect upon the considerable variability in FHL's activity.</p> <p>Advantages</p> <ul style="list-style-type: none"> If payment is linked to hours actually worked in the period then the cash outflows will more accurately reflect cash inflows from product sales. So, would reduce FHL's short term borrowing costs via an overdraft, so reducing interest expenses in the P&L and so increasing profits without any increase in product output. Given FHL's financial state this advantage is significant Avoids workers being at work but not adding value, so no more being busy doing non-productive work, ie FHL would now be paying workers when they work, not simply for when they are at work Reduces the need for overtime (premium rate) payments, reducing costs. <p>Disadvantages</p>	18		<p>Level 4 (18–12 marks) Discussion is balanced in evaluating the advantages and disadvantages (although a decision as to whether an annualised hours contract should be is NOT required for L4)</p> <p>Level 3 (11–8 marks) Analyses case material to set out the consequences, advantages and disadvantages, for FHL if annualised hours contracts are introduced.</p> <p>Level 2 (7–4 marks) Possible advantages and disadvantages of annualised hours contracts are described without support of the material</p>

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			<ul style="list-style-type: none"> Workers may not be 'available' at such short notice Requires very good and accurate communication between marketing telling the rest of FHL what needs to be manufactured, not just Henry in Personnel but also Operations and Buying so that the right raw materials (including printed packaging) is available for the next weeks planned production (so, MRP important). Hints in the case that internal communication is not good If a payment is salaried then FHL may be, at some times of the year, paying workers in advance. What then happens to any such worker who has a 'payment credit' who then decides to leave? Proposal has come from FHL, so there may well be significant resistance to change from the union who has put forward its own idea about a 'root and branch' reform. If there is resistance, and possible industrial action, then FHL are not in a strong position to hold out. NB Union density Potential impact on shop floor workers morale given the associated redundancies. So, need to consider the local labour market, are FHL in a buyer's market? Would it matter too much if some staff walked away, how readily replaceable are they? Note, there is talk of agency workers which implies the job is not skilled/technical. 			<p>Level 1 (3-1 marks) Identifies knowledge of annualised hours contracts, or identifies advantages and/or disadvantages</p>

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2		<p>Direct taxation is a tax on income. Good candidates will consider both personal income tax and corporation tax.</p> <p>As a loss making business FHL do not currently pay corporation tax, and so any change would have no immediate impact. However, if corporation tax were to rise then the reward for taking the risk of owning a profitable business declines and so some shareholders may well start to question the financial efficiency of their investment, ROE. So, in the longer term FHL may find it more difficult to get further equity injections to keep them afloat. Thus access to capital may have to switch to debt, but given FHL's relationship with lenders this may not be possible. Altogether, a rise in tax may mean FHL find it very difficult to raise capital.</p> <p>Customer base is B2B, but FHL's customers (Tesco, Aldi, M&S etc.) will nonetheless feel the impact through a reduction in household spending due to higher taxes/lower confidence. So, it is likely that demand for product will fall with a time lag. YED data in appendix 2 suggest change in demand will be different across product types. Hence, strategic reaction would be to switch product types with lower income sensitivity (toffee and wrapped sweets) or even the inferior product type (filled bars). Also, focus on export markets but note this requires a different formulation so requires a change not just on the factory floor (shorter product runs, hence more machine downtime as well as the different recipe) but throughout the organisation</p>	18	<p><i>Discussion of VAT, unless sensibly and accurately linked to direct tax, is irrelevant (if direct tax rose then govt may decide to shift the tax take and so balance out the tax take by <u>reducing indirect taxes</u>/(although in the current fiscal squeeze this is very unlikely).</i></p> <p><i>Impact on strategy will depend on</i></p> <ul style="list-style-type: none"> • how much direct taxes rise by • over what time period • whether taxes rise by a change in rates or thresholds, ie if rates increase for high income earners then the sales of toffees may not change a great deal compared to a lowering of the basic tax allowance. <p><i>Consideration, and development, of these factors offers a possible route to evaluation.</i></p>	<p>Level 4 (18–12 marks) Discussion is evaluative in balancing different possible responses by FHL</p> <p>Level 3 (11–8 marks) Case material is subject to analysis in discussing the possible responses by FHL given a rise in direct taxation, eg if Qd falls then FHL should/might....</p> <p>Level 2 (7–4 marks) Shows understanding of direct taxation by, for example, developing a link between it and FHL, eg if taxes rise Qd falls</p> <p>Level 1 (3–1 marks) Demonstrates knowledge of direct taxation by, for example, identifying types of direct taxation, PAYE, Corporation Tax</p>

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3		<p>Different measures of employee contribution to objectives require different methods. For example, to increase labour productivity means (arithmetically) either simply sell more product, or to reduce the size of the workforce. No suggestion that the current productivity is the fault of the employees, rather it is because they don't have enough to do.</p> <p>Candidates should be using Table 2 to reference current levels of effectiveness e.g. breakdown of the relative performance of the seven teams i.e. Team 5.</p> <p>Specific reference to 2014 objectives</p> <ul style="list-style-type: none"> • Accidents; training and discipline. But does FHL have enough free cash to engage in training? Further, there is variation across the seven teams which suggest that the issue of accidents lies at the team level, so possibly a supervisory issue. • Labour turnover; find out why those who do leave and it is not many) do leave. Exit interviews. However, with labour turnover being just 9% at the most from a 22 'man' team is only 2 people. Is this material/ enough to get worried about when there are more pressing issues facing FHL? • Quality; as above, not a major issue. But analyse why some teams can and others can't and then share best practice (benchmark). Might it be due to the different products the teams are asked to make? • Attendance; as with labour turnover. <p>Other issues</p> <ul style="list-style-type: none"> • Improve communication methods. • Appropriate leadership styles e.g. consultative/democratic 	18		<p>Level 4 (18–12 marks) Achieves an overall view having evaluated different possibilities as to how FHL might improve the effectiveness of its employees.</p> <p>Level 3 (11–8 marks) Analysis of material supports discussion of the possible ways of improving employee effectiveness.</p> <p>Level 2 (7–4 marks) Describes how the employee effectiveness might be improved in a generic sense with no use of the explicit context.</p> <p>Level 1 (3–1 marks) Offers knowledge of employee effectiveness by identifying suitable measures/methods</p>

Question			Answer	Marks	Guidance	
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			<ul style="list-style-type: none"> • Improve job security e.g. annualised hours contract, reducing work force to ensure the long term future of FHL. • Financial and non-financial motivation methods. e.g. attendance bonus, job rotation. • Reducing reliability on agency workers might be a way to meet objectives. Permanent staff might be more committed and/or better equipped in terms of training, production skills and experience. • Review of current work patterns, the viability of a night shift? • The impact of the overall shift pattern on attendance, quality, labour turnover and accident levels. • Table 2 demonstrates that the workforce is performing well and so, ultimately, any improvement is subject to the effectiveness of the management. 			

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4		<p>Stakeholder perspective will reflect their relationship with and what they want from FHL. Likewise, beneficial for one is not necessarily beneficial for others.</p> <ul style="list-style-type: none"> Banks; HCC is described as market leader and profitable, so banks may feel there is more chance the £1m owed will be repaid. However, this depends on the health of HCC's own balance sheet. Employees; depends on what HCC plans for FHL are. If HCC close FHL then they lose their jobs. Impact will then depend of individual skill level and any transferable employment skills and the state of the local labour market. Any staff close to retirement may welcome an enhanced voluntary redundancy package HCC might pay whereas FHL will only be able to pay the basic legal minimum should it fail. Shareholders; two groups. Those who want to exit from a loss making FHL may see this as a way to cut their exposure to possible future losses and existing debts. Those who want to 'rescue' FHL may see this offer as derisory and so reject it. However, the £1 offer may simply be an opening bid so there is potential to sell for more. Landlord; is there another tenant able and willing to take over the building. Suppliers; given FHL's liquidity and the fact that HCC are profitable (and so let's assume liquid) they may welcome the sale. However, reducing the number of customers in their market shifts the balance of market power to the customer (Porters Five Forces?), so some suppliers may not welcome the move. Parvin; in the short time she has been there some things are improving. Year on year sales up 5.0% but npm is declining from (3.51%) to (1.42%). Might the sale 	23	<p>FHL has potential to produce £66m pa. In 2011 it produced £25m (37.8%) and so far in on course to sell £26.2m (39.7%). So, FHL represents about 5% (25/500) of the own label market, but could be 13.2% (66/500) of it. FHL is described as fourth largest in the market whilst HCC are the largest.</p> <p>So, reaction of stakeholders very much depends on what HCC's plans might be; is the purchase a route to expansion and further market position or to remove it as a competitor?</p>	<p>Level 4 (23–17 marks) Achieves an overall recommendation having evaluated possibilities, either within a particular stakeholder group or between groups. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 (16–11 marks) Analysis of the case material supports possible consequences for stakeholders if a sale were to take place. Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be</p>

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			<p>trigger her bonus from the bank, if so she may welcome the sale as a quick route to her reward?</p> <ul style="list-style-type: none"> Community; as above it depends on what HCC plans are. Closure would be bad news, but recapitalisation and so security would be good. 			<p>some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 (10–5 marks) Describes how a sale might be impact on stakeholder groups Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 (4–1 marks) Demonstrates knowledge of stakeholders by, for example, identifying different groups. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>

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