



GCE

Business Studies

Unit **F297**: Strategic Management

Advanced GCE

Mark Scheme for June 2014

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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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2 Annotations

Abbreviations, annotations and conventions that are used in this Mark Scheme vary from paper to paper. The following annotations are available for this paper.

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Correct
x	Incorrect
?	Not sure what the candidate is trying to say or it does not make sense. It can also be used with a level descriptor when considering BOD
BOD	Benefit of doubt given
L1, L2, L3, L4	Levels of response awarded at this point
OFR	Own figure rule
TV	Too vague
NAQ	Not answered the question
NUT	Not used the context (generic)
REP	Repetition. The candidate has merely restated what has already been said and so no further credit given.
SEEN	The page has been seen. This can be used on pages where material is written but no other annotation is appropriate.
BP	MUST be placed on each blank page

Highlighting is also available to highlight any particular points on the script.

~~**EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION**~~

3 Subject-specific Marking Instructions

~~Highlighting is also available to highlight any particular points on the script.~~

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Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white by the examining team or by the centres.

[Only the following questions should be annotated with ticks to show where marks have been awarded in the body of the text: Question 1(a)]

IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE LEVELS ARE REACHED.

~~EVERY PAGE, INCLUDING BLANK PAGES (use the SEEN annotation), MUST HAVE SOME ANNOTATION~~

Question	Answer	Marks	Guidance																																																																	
1 (a)	<p>Using the data in Appendix 1, calculate <u>two</u> solvency and <u>two</u> shareholders' ratios for APSL for the financial year ended 2013.</p> <table border="1"> <thead> <tr> <th>Ratio</th> <th>Formula</th> <th>Data</th> <th>Outcome</th> <th>Accept</th> </tr> </thead> <tbody> <tr> <td colspan="5">Solvency</td> </tr> <tr> <td>Gearing</td> <td>$LTL/CE \times 100\%$</td> <td>1700/ 5356</td> <td>31.7%</td> <td>32%</td> </tr> <tr> <td colspan="5">OR</td> </tr> <tr> <td>Debt equity</td> <td>LTL/Equity</td> <td>1700/3656</td> <td>46.49%</td> <td>46%</td> </tr> <tr> <td>Interest cover</td> <td>PBIT/ Interest</td> <td>895/ 82</td> <td>10.9 x</td> <td>11x</td> </tr> <tr> <td colspan="5">Shareholders</td> </tr> <tr> <td>Earnings per share</td> <td>Net profit after tax/ shares in issue</td> <td>643/ 750</td> <td>£0.857</td> <td>£0.86</td> </tr> <tr> <td>or Earnings per share*</td> <td>Net profit before tax/ shares in issue</td> <td>895/3656</td> <td>£1.193</td> <td>£1.19</td> </tr> <tr> <td>Dividends per share</td> <td>Dividends payable/ shares in issue</td> <td>129/ 750</td> <td>£0.172</td> <td>£0.17</td> </tr> <tr> <td>Dividend Cover</td> <td>Net profit after tax/dividends</td> <td>643/129</td> <td>4.98</td> <td>5</td> </tr> <tr> <td>Return on equity</td> <td>Net profit after/Equity investment</td> <td>643/3656</td> <td>17.6%</td> <td>18%</td> </tr> <tr> <td>or Return on equity*</td> <td>Net profit before tax/Equity investment</td> <td>895/3656</td> <td>24.48%</td> <td>24% 24.5%</td> </tr> </tbody> </table>	Ratio	Formula	Data	Outcome	Accept	Solvency					Gearing	$LTL/CE \times 100\%$	1700/ 5356	31.7%	32%	OR					Debt equity	LTL/Equity	1700/3656	46.49%	46%	Interest cover	PBIT/ Interest	895/ 82	10.9 x	11x	Shareholders					Earnings per share	Net profit after tax/ shares in issue	643/ 750	£0.857	£0.86	or Earnings per share*	Net profit before tax/ shares in issue	895/3656	£1.193	£1.19	Dividends per share	Dividends payable/ shares in issue	129/ 750	£0.172	£0.17	Dividend Cover	Net profit after tax/dividends	643/129	4.98	5	Return on equity	Net profit after/Equity investment	643/3656	17.6%	18%	or Return on equity*	Net profit before tax/Equity investment	895/3656	24.48%	24% 24.5%	13	<p>Do NOT reward three shareholder ratios. Do NOT reward three solvency ratios</p> <p>*For earnings per share and return on equity ratios award two marks per ratio for net profit before tax</p> <p>Do not accept Current Ratio or Acid Test</p> <p><i>NB. Remember to apply the own figure rule</i></p> <p>Correct value (with no supporting method) = 3 marks per ratio. Maximum of 3 marks x 4 =12 marks</p> <p>Correct form (% £ pence) for all attempted ratios (gearing, debt equity, dividend per share, earnings per share, return on equity) =1 mark</p> <p>1 mark for ratio name OR ratio formula Plus 1 mark for correct use of Appendix1 data for the formula stated by the candidate.</p>
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1	(b)	<p>Discuss how an increase in UK interest rates might affect the achievement of APSL's strategic objectives.</p> <p>From Q1a 2013 Gearing is 31.7% (or debt equity ratio 46.5%). Interest cover = 10.9x 2012 values are 38.9% (or 63.6%) and 17.6x less exposed to interest rate changes. Objective of reducing debt means exposure is set to fall. Gearing links to ROE; high gearing magnifies the impact profits have on ROE.</p> <p>Increase in interest rates -Increases cost of debt</p> <p>-Makes investment less attractive for APSL and its customers</p> <p>-Less demand, objective may switch from growth</p> <p>-If the proposed relocation is to be financed by debt then as interest rates rise this becomes less likely.</p> <p>-May impact on sterling, causing an appreciation, so reducing costs of imports but harming export competitiveness.</p> <p>-May delay achievement of objectives by 2018.</p> <p>Link to objective of 15% of sales exported. But direct exports not the only exposure to ex rates APSL has.</p> <p>If £ rises look at which currencies it rises against. If \$ then reduction in sales to US, so focus more on EU</p>	18	<p>Impact on strategic objectives will depend on how much interest rates rise by and over what time period. Consideration, and development, of these factors offers a possible route to evaluation.</p>	<p>Level 4: 18-12 marks Discussion is evaluative in balancing different possibilities</p> <p>Level 3: 11-8 marks Case material is subject to analysis in discussing the possible effect of rising interest rates upon strategic direction.</p> <p>Level 2: 7-4 marks Describes how interest rates might affect APSL No context required.</p> <p>Level 1: 3-1 marks Demonstrates knowledge of interest rates or objectives</p> <p>Defaults L4 =15 L3=10 L2=6 L1=2</p>

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2	<p>Evaluate the extent to which stakeholders are likely to view APSL as an ethical business.</p> <p>Ethics – a moral code Stakeholder – a person or group with an interest/influence in the business.</p> <p>Shareholders Here the owners are the managers and so set the ethical framework (Appendix 2). They should therefore be content that APSL is ethical</p> <p>Employees Paid above regional rates. Paid an hourly rate, not an exploitative piece rate. Treated as adults, get to decide how to enjoy their reward. Staff are inducted and trained But, no mention of any company pension, or consolation about a relocation</p> <p>Customers Such as the car manufacturer are unlikely to contract with APSL if it feels APSL is not ethical. That they do suggest they feel APSL is ethical. Consideration of Appendix 2</p> <p>Farmer Gilman Blames APSL for fly tipping so his view may be negative. NB whether the waste originated from APSL or not, it is this stakeholder's current perception which matters and forms his view.</p> <p>Local community. If Appendix 2 is reality and not rhetoric then community likely to feel positively. Also, seeking to reduce impact on the</p>	18	<p>NB. The question does not ask for a candidate's view as to whether APSL acts ethically.</p> <p><u>Examples of possible routes into L4</u> Where a candidate considers:</p> <p>That a stakeholder's view will depend upon -What their relationship is with the company. -What their objectives are.</p> <p>The long term implications of legal proceedings by Farmer Gilman and/or bad publicity impacting on the views of other stakeholders.</p> <p>The impact on the view of employees' when/if the relocation to Hull is announced.</p> <p>The impact on the view of employees'/community in terms of how APSL manage the introduction of the third shift.</p>	<p>Level 4: 18-12 marks Discussion is evaluative in balancing different possible viewpoints.</p> <p>Level 3: 11-8 marks Case material is subject to analysis in discussing ethics, showing clear consequential reasoning which explicitly links it and stakeholders.</p> <p>Level 2: 7-4 marks Shows understanding of ethics by describing how different stakeholders may view APSL No context required.</p> <p>Level 1: 3-1 marks Demonstrates knowledge of specific stakeholders or business ethics.</p> <p>Defaults L4 =15 L3=10 L2=6 L1=2</p>

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			<p>ecological environment through waste recovery and new materials. Depends on how much the local community knows about APSL's policies. This might be influenced by employees in the community.</p> <p>Suppliers. 50% of COGs is raw materials, so 2012 = £5.11m spent on raw material. Assume all £2.5m trade creditors are raw material suppliers then creditor payment period is 178 days. For 2013 £6.52 spent on raw material. Assume all £2.83m trade creditors are raw material suppliers then creditor payment period is 158 days. Infers APSL are paying quicker, so creditor are likely to view APSL as ethical</p> <p>Former owners. Why wasn't the MBO team working like this as managers, why did they wait to transform APSL only after the buyout? Was this a breach of their fiduciary responsibilities?</p>		<p>Consideration of energy recovery scheme, and some analysis via ARR or PBP based on stated assumptions, offers a route to L3</p>	

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3		<p>Peter is keen to expand the business by employing a third shift (line 114). Discuss how APSL might effectively manage this change if Peter's idea were to be adopted.</p> <p><u>First, Peter needs to create the climate for change (unfreeze).</u> Persuade key stakeholders, question assumes that both Kate and John are supportive.</p> <p>Focus on factory floor employees. Communication via internal consultative committee or time to bring in the TUs (TU as a force of good)?</p> <p>Explain why change is needed. Plant close to capacity, Grow or whither. Whither, threat to jobs.</p> <p>Growth via third shift or relocation. Third shift less disruptive, no threat of redundancies.</p> <p>Change only effects some of the workforce, not all, only need some to agree to nights</p> <p>Get office staff support; the new shift is no difficulty for them, but relocation is!</p> <p><u>Once need is accepted, implement (change – stage 2)</u> Ask for volunteers for new shift? All three shifts need the same productive capability so can't fill the new shift with raw recruits.</p> <p>Incentivise staff to work nights. But a pay differential may cause difficulties if all three shifts do not rotate i.e. move away from two day shifts and one night shift.</p>	18	<p>The question does not ask whether a third shift is a good idea, nor does it ask candidates to consider the merits of a third shift rather than a relocation.</p> <p>The question does not ask for an analysis of the impact of the change.</p> <p>This change is internal and controllable, so crisis management is not appropriate. Contingency plans are not relevant.</p>	<p>Level 4: 18-12 marks Recommendation is clearly strategic being supported by case evidence and the sequence of stages for managing change is reasoned and justified.</p> <p>Level 3: 11-8 marks Case material is subject to analysis in supporting possible stages in the management of change</p> <p>Level 2: 7-4 marks Describes how management of change might be effectively achieved. No context required.</p> <p>Level 1: 3-1 marks Demonstrates some knowledge of the process of managing change</p> <p>Defaults L4 =15 L3=10 L2=6 L1=2</p>

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			<u>Consolidate change (refreeze – stage 3)</u> Monitor and evaluate that the change has brought about the desired outcome. Change becomes embedded and the new norm.			

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4*	<p>Albion Aerospace wants to order 60 Flaxiboard doors (line 134), but at the same price as it currently pays for plastic doors. Should APSL accept this order? Justify your view.</p> <p><u>Financial/cost evidence</u> Flaxiboard doors more expensive (materials up, need more labour and machine time), yet the price is the same, so profit is less.</p> <p>However: -Does the order deliver a contribution?</p> <p>-The size of the order has insignificant impact on labour, material costs and production time (see following table).</p> <p>Quantitative evidence-Flaxiboards</p> <table border="1" data-bbox="293 850 987 1334"> <tbody> <tr> <td>Weight per unit</td> <td>21.7% lighter</td> </tr> <tr> <td>Production time per unit</td> <td>33.3% higher</td> </tr> <tr> <td>Material cost per sq. m</td> <td>80.0% higher</td> </tr> <tr> <td>Material cost per unit</td> <td>40.8% higher</td> </tr> <tr> <td>Production time for 60 units-plastic</td> <td>270 minutes/4.5 hours</td> </tr> <tr> <td>Production time for 60 units-Flaxiboards</td> <td>360 minutes/6 hours</td> </tr> <tr> <td>Difference in total production time</td> <td>1.5 hours higher</td> </tr> <tr> <td>Total material cost of 60 units-plastic</td> <td>£40.50</td> </tr> <tr> <td>Total material cost of 60 units-Flaxiboard</td> <td>£57.02</td> </tr> <tr> <td>Difference in total material costs</td> <td>£16.52 higher</td> </tr> </tbody> </table>	Weight per unit	21.7% lighter	Production time per unit	33.3% higher	Material cost per sq. m	80.0% higher	Material cost per unit	40.8% higher	Production time for 60 units-plastic	270 minutes/4.5 hours	Production time for 60 units-Flaxiboards	360 minutes/6 hours	Difference in total production time	1.5 hours higher	Total material cost of 60 units-plastic	£40.50	Total material cost of 60 units-Flaxiboard	£57.02	Difference in total material costs	£16.52 higher	23	<p>Do not forget that this question is marked out of 23</p> <p>Peer-QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect the final mark given.</p> <p>Level 4 can be achieved by candidates arriving at an overall recommendation at the end of their response.</p> <p>No decision award at the bottom of the level attained by the candidate.</p>	<p>Level 4: 23-17 marks Achieves an overall recommendation having evaluated whether to accept or reject the order. <i>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.</i></p> <p>Level 3: 16-11 marks Analysis of the case material supports possible decision. <i>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 some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</i></p> <p>Level 2: 10-5 marks The response made is descriptive. No context required. <i>Some simple ideas have been expressed in an appropriate context. There are likely to be</i></p>
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		<p>-Quality may improve with further training, so compliance rate might rise from 90%</p> <p>- Can APSL negotiate a higher price with AA? Flaxiboard doors have higher added value (lighter, don't burn) so potential for an increase in price</p> <p>Other considerations</p> <p>-Reject the order and possibly risk losing AA as a customer.</p> <p>-However, APSL hold AA's tools for the plastic doors, so can't AA easily walk away</p> <p>-Are there competitors to whom AA could turn?</p> <p>-Can APSL squeeze their supplier and so get a lower unit cost?</p> <p>-Use this order to showcase the technology to other customers. Features of Flaxiboard not restricted to aerospace. So, possible promotional order.</p> <p>-Yes this once, but insist that any future orders are at a higher price to reflect APSL's higher costs. Supplier-customer; symbiotic relationship, there is no gain to AA if insisting on a low price causes the failure of APSL.</p> <p>-How does this order, and any future business, sit with APSL's objectives? Is there an exploitable strategic advantage to it e.g. market leader, USP, PR, CSR etc.</p> <p>-Consider the very small scale of this order, only 60 units equates to a tiny fraction of APSL's production time.</p>			<p><i>some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</i></p> <p>Level 1: 4-1 marks Offers an unsupported response <i>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.</i></p> <p>Defaults L4 =20 L3=14 L2=8 L1=3</p>

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