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# **Introduction to Business**

**NQF**

## **Subject Examiner's Report**

**Unit Title:** Introduction to Business

**Unit Code:** 1.1 IB

**Session:** June 2016

### Question 1:

- (a)** A furniture manufacturer is experiencing increased demand for its range of products. In order to satisfy this demand, it is planning to introduce flow production methods in its factory. Explain the advantages and disadvantages of flow production. **(13 marks)**
- (b)** (i) Define the term 'quality circles'. **(4 marks)**
- (ii) Explain how quality circles may help to improve the quality of furniture produced by the company. **(8 marks)**

### Mark scheme

#### Instructions to markers

- (a)** – It is important that the candidates answer in the context of a small furniture business. Answers that deal generally with flow production systems with no reference to the context can only be rewarded a maximum of 10 marks. For each advantage or disadvantage in context award up to 3 marks each. (Maximum for part (a) – 13 marks)
- (b)** – Up to 4 marks for an accurate definition.
- (c)** – This part requires answers in context applied to a small furniture manufacturer. Reward valid suggestions with 1 mark plus a further 2 marks for development. If no context then maximum of 6 marks.

#### Suggested answer

**(a)** The manufacturer might face the following advantages and disadvantages when changing to a flow production system.

Advantages might be:

- The increased output level can create economies of scale such as purchasing economies. Raw materials and components can be bought in bulk at much reduced cost thus reducing the unit cost of the finished product.
- The increased output at a lower cost will allow the firm to service a larger market opening up the possibility of expansion.
- Flow production should enable the firm to achieve higher quality and fewer rejects.
- Flow production should reduce costs allowing the firm to be more competitive with its prices.

Disadvantages might include:

- A change in labour requirement might mean redundancies and compensation payments for some of the workers. The remaining staff may feel less secure and have lower morale.
- The skill level required to operate more automated systems is often much lower, which might demotivate multi-skilled workers.
- As systems become more mechanized and automated the work tends to be more monotonous.
- A change to flow production often requires a large initial investment of funds
- More investment is required in preventive maintenance as the production system becomes more mechanized.
- A more intensive marketing campaign is needed to ensure a sustainable larger market demand for the product. This in itself will be more expensive.
- Production and sales might be interrupted in the changeover to flow.

**(b)** A quality circles is a discussion group made up of volunteers to discuss production problems or quality issues. The circle is often composed of factory floor workers and as such is motivational. Reference to the origins with Toyota can also be rewarded.

**(c)** Suggestions could involve better design of the furniture, better use of materials, less waste or speeding up the production process. References to the impact of changes on the product, its market or sales levels can also be rewarded as development.

**Total Maximum Marks for Q1**

**25 marks**

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## 1. Comments on learners' performance

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This question was generally poorly answered with many candidates having very little knowledge of production methods and quality circles. Answers were often very descriptive and in part (b ii) the scenario was often ignored.

## 2. Mark scheme

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See above

## 3. Recommendations

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There will always be a question on production methods and candidates must ensure they understand the different types of methods used by organisations, and the advantages and disadvantages of each method. If a case scenario is used it is important to link answers to the scenario to gain extra marks.

### Examiner's tips

In a 3 part question make sure your answers take into consideration the number of marks available eg. for a 13 mark question your answer must have more depth than say a 4 mark question.

## Question 2:

**(a)** Identify the differences between:

(i) The secondary sector and the tertiary sector

**(4 marks)**

(ii) Production inputs and outputs

**(4 marks)**

(iii) Primary market research and secondary market research.

**(4 marks)**

**(b)** A young, ambitious graduate wants to run her own business. Explain to her the advantages and disadvantages of operating as a franchise.

**(13 marks)**

### **Mark scheme:**

#### **Instructions to markers**

**(a)** Award up to 3 marks for defining both of the terms, plus 1 extra mark for explicit or implicit difference. If defining only one term a maximum of 2 marks. Reward the use of relevant examples (1 mark each term). The maximum of 4 marks can be gained by defining both terms plus explaining the difference or defining both terms and providing an example.

**(b)** Award up to 3 marks for defining a franchise then 1 mark for each benefit or drawback identified and up to 2 marks for development.

#### **Suggested answer**

**(a)** (i) Firms in the secondary sector convert the raw materials into finished goods (car assembly, electrical goods manufacturer, house builder etc.) whereas firms in the tertiary sector are concerned with the provision of services (for example insurance, banking, transport and leisure activities). The difference is the stage of production.

(ii) 'Inputs' are the four factors of production (land, labour, capital and managerial ability) that a firm requires in order to produce. Reward examples such as raw materials, machinery, buildings, computers, packaging and labour. The end product of the production process is the 'output' for example a car, mobile phone, CD player, clothes, food, bricks etc.

(iii) Primary research is the gathering of first hand data that is specifically relevant to a firm's products, consumers or markets. This is carried out by fieldwork. It is a time-consuming activity and is quite expensive to carry out but it does, however, provide more accurate data on a firm's market and products. Secondary research, however, is information that already exists and can be gathered from second hand sources such as reference books, government statistics and market intelligence reports. Such data is often available free of charge but has not been collected for the specific needs of any individual business. Although it is cheaper and quicker to collect it might not provide such accurate information as primary research.

**(b)** A franchise is an agreement where one person (the franchisee) purchases from another (the franchisor) the right to sell a patented product or service using a well-established framework and method. For the young graduate the benefits of a franchise are:

- The product is already proven in the market place and is known to the customer which will reduce the need for initial advertising and marketing
- She will receive expert help from the franchisor before, during and after set-up.
- The franchisor will provide on-going training and advice to overcome the franchisee's lack of experience.
- The franchisor will provide a standard procedure for administration, basic bookkeeping, financial planning, stock control and personnel management.
- The franchisor provides the advantages of bulk buying and mass advertising in return for the franchise fee.

The drawbacks of a franchise are:

- She may feel constrained by the regulations imposed by the franchisor.
- She must pay a percentage of all sales to the franchisor which will reduce her profit margin.
- She is restricted to the franchisor for all of the main purchases thus reducing the opportunity for special offers.

**Total Maximum Marks for Q2**

**25 marks**

## 1. Comments on learners' performance

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Generally this question was well answered with candidates having a good knowledge of the related syllabus. However candidates that scored poorly were not aware of many of the business terms used in the question. Also a number of candidates for part (b) gave the advantages and disadvantages of running a business and not a franchise which meant 13 marks were lost.

## 2. Mark scheme

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See above

## 3. Recommendations

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It is important for candidates to ensure they revise all of the syllabus before sitting the exam and be able to define all business terms mentioned in the syllabus. It is also important to ensure that the question is fully understood before attempting the question. Understand what the examiner is looking for in an answer.

### Examiner's tips

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Ensure you are able to define all business structures and be able to give some advantages and disadvantages of each structure.

### Question 3

(a) Explain **any three** of the following terms, giving an example of each:

- (i) Competition based pricing
- (ii) Product differentiation
- (iii) Niche market
- (iv) Marketing mix

(12 marks)

(b) Explain, and illustrate with a diagram, what is meant by the product life cycle.

(13 marks)

#### Mark Scheme:

#### Instructions to markers

(a) Up to 3 marks for explaining the term and providing a relevant example, development or full explanation.

(b) In the diagram award 2 marks for correct labelling of the axes (A and B), 1 mark for a correct PLC line and 4 marks for labelling the PLC correctly with the four parts of the cycle (C, D, E, and F). A maximum of 7 marks.

The remaining 6 marks awarded for describing the four stages of the product life cycle (birth, growth, maturity and decline). Up to 2 marks for each stage to a maximum of 6 marks.

#### Suggested answer

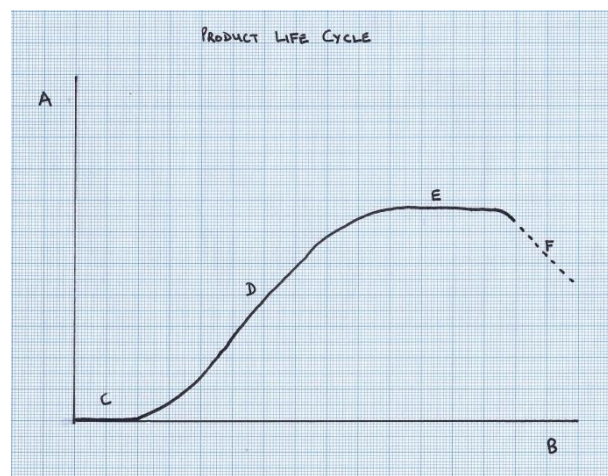
(a) (i) Competitor pricing or competition based pricing involves the setting of a price for a product or service based on the prices charged by competitors. The market usually has low product differentiation, where all producers are basically price takers e.g. the market for petrol.

(ii) Product differentiation is the extent to which consumers perceive one product as being different from its rivals. A highly differentiated product is one that is distinctive with no acceptable substitutes e.g. Apple hope the new i-pad will be highly differentiated and therefore merit a premium price. Differentiation can be achieved either by product advantages or through psychological factors such as branding and advertising e.g. Coca-Cola.

(iii) A niche market is a relatively small and identifiable segment of a larger market. They are often overlooked by large firms therefore they are attractive to small businesses as they face less competition and can charge premium prices. For example made-to-measure clothing is a niche market and tailors can charge a higher price for their clothes than mass produced items.

(iv) The marketing mix is the combination of four major tools of marketing (price, product, promotion and place) used by a business to influence the behaviour of consumers.

(b)



A=Sales

B=Time

C=Birth or Development stage

D=Growth stage

E=Maturity stage

F=Decline stage

In the birth or development stage the product is new to the market, sales are often slow and there is a high failure rate. Cash flow will be negative as money is spent on research and development, market research, product launch and setting up the initial production line. The majorities of ideas for new products never reach the launch position and of those that do many are withdrawn when initial sales are low. For those goods that survive, the growth stage brings rising sales as consumers become aware of the product. This results in an improved cash flow especially as economies of scale are enjoyed with the higher output level. Competitors may launch similar rival products thus curtailing the rate of growth as the market becomes segmented by the different brands. The maturity stage is characterised by a levelling off in sales and a more stable market share. The product is now well established and provides a steady cash flow for the business. Eventually the product will enter the decline phase of the life cycle where sales fall usually caused by changing consumer tastes, new technology or the introduction of new products.

**Total Maximum Marks for Q3**

**25 marks**

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### **1. Comments on learners' performance**

Generally this question was well answered with candidates having a good knowledge of the various parts of the syllabus mentioned in the question. In part (b) most candidates were able to illustrate the diagram but failed to explain the terms which meant marks were lost. Again candidates that scored poorly demonstrated a lack of knowledge of the syllabus.

### **2. Mark scheme**

See above

### **3. Recommendations**

Again it is important candidates can define all business terms that are covered in the syllabus. It is also important to understand the 'lead' words in the question e.g. 'Explain, and illustrate....'

#### **Examiner's tips**

There will always be a marketing question so it is important again to be able to define these marketing terms.

## Question 4

- (a) Describe the role of the HR department within an organisation. (8 marks)
- (b) Explain the following work-related terms:
- (i) Overtime (3 marks)
  - (ii) Shift working (3 marks)
  - (iii) Labour turnover (3 marks)
- (c) Explain two advantages and two disadvantages of 'off the job' training. (8 marks)

### Mark scheme:

#### Instructions to markers

- (a) Up to 3 marks for each role fully explained to a maximum of 8 marks overall.
- (b) Up to 3 marks for each term explained.
- (c) 2 marks for each advantage or disadvantage

#### Suggested answer

(a) HR stands for Human Resources. This department aims to make the most efficient use of a firm's employees in order to achieve the organisation's goals. The work of the HR department includes the recruitment, selection, training, motivation and payment of all staff within a business. In brief the main functions are:

- Employee resourcing - the planning, recruitment and selection of staff
- Employee development - the induction and training of staff using 'on the job' and 'off the job' training
- Employee relations - reconciling conflict between employees and the employer and relations with worker organisations such as Trade Unions.

(b) (i) Overtime is working beyond normal working hours. It allows a firm to increase production without employing more staff. It is particularly useful for special orders or for firms that have seasonal demand. Employees are usually rewarded by extra payments for overtime working such as 'time and a half' or 'double time' when paid hourly.

(ii) Shift working refers to regular work that takes place during non-standard hours, such as a morning shift (e.g. 2 a.m. to 8 a.m.) or a night shift (8 p.m. to 2 a.m.).

Shift work is essential for firms that have expensive capital machinery requiring high capacity utilisation. Workers can be rotated around the shifts alternating between morning, afternoon and evening shifts. This allows production to be continuous while not committing an employee to the same 'unsociable' shift on a permanent basis.

(iii) Labour turnover is the rate at which employees leave a business. In its simplest form labour turnover can be calculated using the equation:

$$\frac{\text{Number of employees leaving}}{\text{Total workforce}} * 100\%$$

(c) Off-the-job training can be defined as all forms of training apart from that at the immediate work place. One advantage is that an external course is usually delivered by experts who are particularly skilled and experienced at delivering the subject in a professional and understandable manner. Another advantage is the opportunity to network with employees of other companies and to share experiences. This can be invaluable and might lead to long-term exchanges of views and ideas.

The main disadvantage of external courses is the financial cost of the course together with travel and hotel charges. The overall benefit has to be greater than the financial cost. A second disadvantage is the employee's absence from work. While the worker is absent, his or her colleagues have to take up the work load or the firm has to hire another person for the period of absence, thus adding to the financial cost e.g. the use of supply teachers.

Overall the advantages must outweigh the disadvantages for off-the-job training to be used in place of on-the-job training.



### 1. Comments on learners' performance

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Generally part (a) and (b) of this question was well answered by most candidates. However part (c) was poorly answered. A majority of candidates just gave the advantages and disadvantages of training and not 'off the job' training which meant 8 marks were lost.

### 2. Mark scheme

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See above.

### 3. Recommendations

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There will always be a question on Human Resources and again it is important to be able to define all HR terms

#### Examiner's tips

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It is important to make sure you read the question a few times. This will help to ensure you fully understand what is required in the question, and not just make assumptions.

## Question 5

**(a)** Using examples, explain the following financial terms:

- (i) Fixed costs (3 marks)
- (ii) Debtors (3 marks)
- (iii) Current assets (3 marks)
- (iv) Net profit (3 marks)
- (v) Gearing ratio (3 marks)

**(b)** For each of the following situations, recommend the most suitable source of finance, giving reasons for your recommendation:

- (i) A company with a cash flow problem which is having difficulty collecting its debts. (5 marks)
- (ii) A private limited company wishing to upgrade its fleet of cars. (5 marks)

### Mark Scheme:

#### Instructions to markers

**(a)** Up to three marks for each term explained. Reward the use of examples and/or equations.

**(b)** Allow one mark for explaining what a cash flow problem is. Ideally candidates should recommend factoring as the preferred method but reward other short or medium term solutions where suitably explained. 4 marks for describing the form of finance and/or explaining why the source should be used. The upgrading of vehicles can be viewed as a long-term project that requires a long-term injection of capital. Leasing or bank loan should be the candidates' favourite choice but allow share issue as an alternative solution. 1 mark for a suitable choice of finance and up to 4 marks for expansion.

#### Suggested answer

**(a)** (i) Fixed costs are costs that do not vary in the short-term when a firm alters its level of output.

Examples of fixed costs include rent, rates, insurance and depreciation.

(ii) A debtor is a firm or individual that owes money because they have bought goods or services but have not yet paid for them e.g. a customer buying goods by instalments. A creditor, however, is a firm or individual to whom money is owed for goods or services already provided e.g. raw material suppliers who only invoice firms on a monthly basis.

(iii) Current assets are anything owned by a business that is likely to be turned into cash during the year.

Typical current assets are stock, debtors and cash.

(iv) Net profit is sales revenue less all the operating costs of production including indirect costs such as insurance, rent and advertising. Accept Gross Profit less indirect costs such as insurance, rent and advertising for 2 marks.

(v) Gearing measures the proportion of the capital employed that is provided by long term lenders. The gearing ratio is calculated using the equation:

$$\text{Gearing} = \frac{\text{Long term liabilities}}{\text{Total Capital Employed}} * 100$$

**(b)** (i) Where the debtors are reliable it is possible to use factoring to solve the problem. A factor is a specialist company that provides finance for up to 85% of a firm's debts. In return the factor collects the total debt when due, subtracts its charges and pays the balance to the firm. This allows a business access to the majority of its cash immediately.

Negotiating longer trade credit. This will allow a firm to receive goods and materials for an agreed period without payment. The aim is to collect money from debtors before the creditors require payment.

Approaching a bank for an overdraft. Interest is only paid on the amount used and is a flexible source of cash. However, it is an expensive form of finance and can be recalled on demand by the bank.

(ii) Leasing - A leasing company can provide a business with new assets such as vehicles without having to buy them outright. The leasing company 'rents' the assets to the business for an agreed monthly payment. At the end of the leasing period the vehicles are returned to the leasing company and can be replaced with more modern versions. This allows a business to renew its vehicles without having to find large amounts of capital.

Bank loan – a loan for at least five years to enable the expansion to generate sufficient profits to repay the interest and capital. Security would be required and capital repayments made over the life of the loan together with interest payments at the current commercial rate.

Share issue – as a limited company the business could issue further shares either to existing shareholders or new investors. This will dilute the ownership of the business but it provides a permanent injection of capital without the need for interest or capital repayments. Investors would, however, expect a return on the investment in the form of dividends.

**Total Maximum Marks for Q5**

**25 marks**

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### **1. Comments on learners' performance**

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This question was not a popular question. Generally those that did choose this question gave poor answers. Little knowledge was evident in part (a) and in part (b) candidates were not able to apply their answers to the case scenario.

### **2. Mark scheme**

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See above

### **3. Recommendations**

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Again there is often questions on finance terms and how sources of finance can be used for different scenarios. It is important these terms can be defined and how different sources of finance can be used by organisations.

#### **Examiner's tips**

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If finance terms are learnt and you are able to define them, this can often give you sufficient marks for a 'pass' in the question.

## Question 6

(a) Explain what is meant by the terms:

- (i) Diversification
- (ii) Exchange rate
- (iii) Interest rate

(3 marks)

(3 marks)

(3 marks)

(b) Using PEST analysis, explain how external factors can affect a business.

(16 marks)

### Mark scheme:

#### Instructions to markers

(a) Award up to three marks for each term explained.

(b) One mark for each influence identified and up to three marks for further development.

#### Suggested answer

(a) (i) Diversification is the spreading of business risks by reducing dependence on one product or one market. Product diversification involves the creation of a range of products so that a decline in the sales of one can be off-set by rising sales in other products. Market diversification is selling the same product in a wide variety of markets e.g. selling in Europe, Asia, Africa and the Americas.

(i) An exchange rate is the value of one currency expressed in terms of another. So £1 may be worth \$1.55 and €1.33. A currency that is getting stronger or appreciating is a currency that is going up in value against another. So £1:\$1.5 moving to £1:\$1.8 means the pound is getting stronger. Conversely a currency that is becoming weaker or depreciating is a currency that is going down in value against another. So £1:\$1.8 moving to £1:\$1.5 means the pound is getting weaker. The exchange rate is important for businesses and consumers who buy raw materials from abroad or export goods.

(iii) In its simplest form the interest rate is the price of borrowing money or the reward for lending it. The amount charged is usually expressed as a percentage of principal amount borrowed or deposited. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher.

(b) A business can be influenced by economic, political, social and technological factors. These are external factors over which a firm has no control. The business must, however, recognise these changes and adapt accordingly.

The economic climate can greatly affect a business. In a recession the general level of demand falls which will limit the ability of the firm to sell its goods at their full price. In the UK the recession of the early 1990s resulted in around 62,000 firms closing in a single year. Another economic factor is the amount of competition and the behaviour adopted by competitors. A firm making a similar product may adopt a price cutting policy. This will demand a response from all other firms otherwise they may lose market share. In a similar way a business must also be aware of changes in consumer taste. New products entering the market can quickly erode sales and in some cases make a product redundant. For example in the music market the vinyl record has been largely replaced by the cassette and increasingly by compact disks. The government has also a great influence on business activity. In the first place it dictates a legal framework within which the business must operate. Laws regarding health and safety, labelling and packaging and the protection of the consumer all add costs on to the product. Governments also influence businesses through their taxation policy. Indirect taxes on goods and services have the effect of raising prices. Direct taxes are levied on company profits. Changes in taxation, therefore can affect a firm's market and the level of reward that can be earned for the risks taken in business.

Technological changes can be the most significant external factor. New products, new methods of manufacture and new materials can be developed which may change the market completely. Many products are now made from hardened plastic rather than wood or steel. The use of the microchip has revolutionised certain industries enabling customers to have mobile phones and mobile music players (iPods, iPhones, MP3 players etc). The car industry makes full use of robotics in order to eliminate the need for labour and to ensure a higher quality product. Changes like these affect a firm's market and each business must adapt to the opportunities or be left behind by more progressive firms.

Finally the business is affected by changes in society. Where the population is ageing the pattern of demand will alter. There will be a greater emphasis on the provision of health care and leisure activities for the elderly. Similarly an economy with an expanding, younger population will experience rising demand for

children's clothes, childcare facilities and schools. As well as demographic changes there may be alterations in society's attitudes. Many people are now more environmentally friendly and want products and firms to reflect this. Consumer opinion has forced firms to abandon trade involving endangered species and the production of goods that leads to the destruction of the rain forests. Failure to recognise change and to adapt can lead to the decline and eventual closure of a business.

**Total Maximum Marks for Q6**

**25 marks**

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### **1. Comments on learners' performance**

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This was not a popular question and those candidates that did attempt gave very descriptive answers to part (a). Part (b) was worth 16 marks and most candidates answers lacked the depth and analysis needed to answer a 16 mark question.

### **2. Mark scheme**

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See above

### **3. Recommendations**

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Economic style questions will always be part of the exam and again it is important to learn these terms. PEST analysis is also a popular style question so candidates should be able to give an analysis on how the external environment impacts on organisations or industries, using PEST analysis.

#### **Examiner's tips**

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Learn economic terms and be able to define what these terms mean to a business.

## Question 7

(a) Explain what is meant by the terms:

(i) Break-even output

(3 marks)

(ii) JIT

(3 marks)

(iii) Kaizen

(3 marks)

(b) Identify and explain four economies of scale that might be available to a business as it grows.

(16 marks)

### Mark Scheme:

#### Instructions to markers

(a) Up to 3 marks for each term fully explained. Where appropriate reward the use of equations or suitable examples.

(b) Award one mark for each economy identified and up to a further three marks for development. Restrict marking to the first four economies mentioned.

#### Suggested answer

(a) (i) Break-even is the output level at which a firm's revenue just matches its fixed and variable costs, earning neither a profit nor a loss. For newly established firms this is one of its first goals so that it can survive. It can be calculated using the equation:

$$\text{Fixed cost} / \text{Selling price} - \text{variable cost}$$

(ii) 'Just-in-Time' (JIT) manufacturing is a production system under which raw materials, work-in-progress and finished products are delivered at the precise time they are needed.

Advantages to a manufacturer from its introduction of JIT include the following:

- Improved cash flow since money is no longer tied up in stocks
- Reduced waste from obsolete or damaged stock
- Reduced cost of handling stock (space, shelving, security, store personnel etc.)
- Less space required for stock holding therefore more available for production
- Relationships with suppliers is improved
- Workforce are given more responsibility and encouraged to work in teams or 'cells'. This should improve motivation.
- The manufacturer should be able to meet deadlines sooner and make deliveries on schedule

Disadvantages associated with the introduction of JIT include:

- The need for reliable and flexible suppliers who can deliver on time despite the heavy traffic associated with a large city
- Increased ordering and administrative costs
- The process is more at risk of supply breakdown
- Economies of scale such as bulk buying might be lost
- Requires highly skilled planning and control

(iii) Kaizen is a Japanese term meaning 'continuous improvement'. It is a means of improving performance by involving all employees in the suggestion and implementation of small changes. The cumulative effect of these changes, often the idea of shop floor workers, is a steady rise in productivity, a fall in the reject rate and the raising of quality. The main advantage of this approach is the positive motivation achieved by the inclusion of the entire work force and the reduced costs of production that can be passed on to consumers in the form of lower prices and to workers in the form of higher wages.

(b) Economies of scale are the cost reductions gained through expanding the level of output. A small company expanding could take advantage of any of the following economies:

- Purchasing economies – larger output provides more scope for bulk buying and obtaining better discounts and more favourable credit terms.
- Marketing economies – a wider range of promotion and advertising is possible since these costs can now be spread over a larger output. Specialist advertising agencies can be used to design more effective, better-targeted campaigns.
- Financial economies – financial institutions often regard larger firms as less of a risk and are therefore willing to offer loan capital at more favourable rates of interest.

- Technical economies – a larger-scale plant costs proportionately less to build than a smaller one. Larger firms can also afford to apply the idea of ‘division of labour’ more effectively with the employment of specialist staff.
- Managerial economies – the ‘division of labour’, when applied to management, allows the employment of specialists in the functional areas of marketing, finance, production, purchasing and human resources.
- Risk-bearing economies – diversification can lead to greater security by not being reliant on one product, market, consumer or supplier. A range of products can be marketed internationally so that recession in one area will not adversely affect the whole organization.

Any **four** of the above economies would be acceptable.

**Total Maximum Marks for Q7**

**25 marks**

### **1. Comments on learners’ performance**

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This was not a popular question but generally those candidates that tackled this question gave reasonable answers to part (a) but in part (b) candidates did not take into consideration the number of marks that were available. Answers lacked depth and analysis for a 16 mark question.

### **2. Mark scheme**

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See above

### **3. Recommendations**

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In a question that has four parts it is important to take into consideration marks available for each part. For instance three parts of the question has 3 marks available and the remaining part 16 marks. Therefore the 16 mark question must have more depth and analysis than the 3 mark question. The lead words for the 16 mark question were ‘Identify and explain’.

#### **Examiner’s tips**

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Make sure ‘lead words’ in the question are understood and ensure you are aware of the number of marks available for each part of the question.

## Question 8:

- (a) Identify and explain three business objectives. (9 marks)  
(b) Distinguish between shareholders and stakeholders. (4 marks)  
(c) Discuss two business situations in which stakeholder interests might conflict. (12 marks)

### Mark scheme:

#### Instructions to markers

- (a) One mark for each objective stated (e.g. survival, profit maximization, market growth) and two marks for developing or explaining the objective.  
(b) Award up to 3 marks for defining both of the terms plus an extra 1 mark for explicit or implicit difference. If defining only one term a maximum of 2 marks. Reward the use of relevant examples. Maximum 4 marks  
(c) Award up to 2 marks for identifying an area of conflict e.g. an increase in wages affecting shareholder profits. A further 4 marks for developing the description of the conflict.

#### Suggested answer

(a) One basic business objective is 'survival'. To achieve this the business must reach break-even where total costs are met by total revenue. Likewise 'market growth' is a business objective often adopted once survival has been reached. It can involve geographical growth into new areas or growth into diversified products. Profit maximization is an attempt to reach the output level where the difference between Total Revenue and Total Cost is the greatest. Other objectives equally valid would include sales maximization, break-even or market leader.

(b) A stakeholder is any individual or group that has an effect on or is affected by a business or organisation. This might include groups such as employees, owners, trade unions, customers, pressure groups and competitors. Some management theorists believe that it is beneficial in the long run for firms to recognise the views of these groups and to include their objectives in the decision making process. A shareholder, however, is a part owner of a business who has invested funds in the purchase of firm's shares. Shareholders have a right to vote and to attend the annual general meeting. The profits are distributed among shareholders in the form of dividends.

(c) One situation where conflict might arise is between employees attempting to obtain a wage rise and shareholders wanting a growth in profits. Employees concerned with obtaining higher wages and better working conditions would increase the running costs of a business. A shareholder, on the other hand, wants to keep costs to a minimum as they have invested funds in the business in order to generate profits. At first glance these objectives appear to be incompatible, as better pay would reduce the profit available for shareholders if there were no associated increase in productivity. The key to reconciling the objectives is to link the increase in rewards to improvements in output so that both parties benefit. A second situation of conflict could arise between management and suppliers. One task of management is to ensure that costs are kept to a minimum. In the past this has often resulted in a policy of negotiating with several suppliers to force down the prices of raw materials and components through competitive tendering. This has led to conflict, as the suppliers are themselves attempting to make a profit and so might respond by reducing the quality or reliability of their products in an attempt to restore profit margins. The modern view is to engage in long-term 'partnerships' with single suppliers who will offer discounts in return for guaranteed custom.

**Total Maximum Marks for Q8**

**25 marks**

#### 1. Comments on learners' performance

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This was a popular question and generally candidates gave good answers to part (b), but parts (a) and (c) were poorly answered. In part (a) many candidates did not understand what 'business objectives' were, and in part (c) did not understand how stakeholder interests might conflict.



## 2. Mark scheme

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See above

## 3. Recommendations

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Candidates must ensure they understand the types of business objectives that organisations can have, and be aware how stakeholder conflicts can occur e.g. staff want higher wages but owners want increased profits; hence a conflict – higher wages means reduced profits.

### Examiner's tips

A 25 mark question might include a 4, 9 and 12 mark question. Make sure your answer takes into consideration these marks i.e. a 12 mark answer should have more depth than say the 4 mark question