

# BUSINESS STUDIES

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Paper 9707/01  
Short Answer/Essay

## General Comments

This Paper proved to be accessible to most candidates although a significant number of candidates were unable to effectively respond to **Question 3** on investment appraisal.

While most candidates were able to confidently and accurately answer **Question 4(a)** many wrote extensively for just 2 marks. A succinct answer of a couple of sentences rather than a mini essay would have given candidates more time for the essay answer.

A very large proportion of candidates chose to answer **Question 5** in **Section B** of the Paper. However the responses to **part (a)** were often not strong. There was a reluctance to come to terms with the essence of this question-“to explain the importance of management for a large business organisation”. Candidates need to focus on the key words in a question such as “importance” in this case, so as not to drift into generalised descriptive answers.

It is also important that candidates relate business concepts to practical and realistic contexts. Many responses to **Questions 1(a)** and **5(b)** were presented in a purely theoretical and idealistic way with little evidence of critical understanding.

It was however pleasing to see that more candidates are developing more substantial conclusions to their essay answers and are attempting to make some evaluative comments in those conclusions.

## **Question 1**

- (a) The majority of candidates were able to demonstrate some understanding of “hierarchy” in the context of an organisational structure. Many candidates were able to describe its relevance to the chain of command and to the way in which power and or authority are distributed throughout the organisation. A small number of candidates however misunderstood the question and confused structural hierarchy with the hierarchy of needs concept as developed by Maslow.
- (b) Many candidates recognised the benefit to both managers and employees of knowing who each was accountable to, or responsible for, and the impact that this could have if and when problems arose. An answer such as “employees know where they are in the organisation and what opportunities exist for promotion. This can be motivating to some employees who are ambitious as they can see the jobs they could do in the future if they work hard and get noticed” is an example of a strong response to this question. However a significant number of answers simply listed potential advantages such as more effective communication and motivation as if they were automatically secured within any hierarchical organisation. Such theoretical/idealistic comments need to be qualified and described as “potential” advantages.

## **Question 2**

- (a) Good candidates gave a clear definition of ‘retained profits’ either by stating that it is profits after interest, tax and dividends have been deducted or by recognising that it is undistributed profit that is kept in the business and used for future investment. Many candidates correctly defined it as being an internal source of finance. Weaker answers seemed to confuse ‘net profit’ with ‘retained profit’ or gave very vague descriptions. Most candidates did however achieve at least 1 mark for a partial definition of retained profits.

- (b) Most candidates had some knowledge of balance sheets with the majority making reference to assets and liabilities and in some cases actually listing them. Good candidates went on to discuss how the balance sheet might be used e.g. by shareholders to see if the capital value of the business was increasing or decreasing in order to determine whether or not to invest. Many candidates recognised that a balance sheet shows the net worth of a business but then did not say what purpose that served. Weaker candidates showed that they were perhaps confused between the content of a balance sheet and that of a profit and loss account.

### Question 3

Many candidates had some knowledge of the payback method of investment appraisal although weaker candidates were confused and their answers often referred to the repayment of debts and the problems of interest payments.

Good answers gave a clear definition of the payback method and then clearly explained possible advantages and disadvantages. The most common answers were that the method is very easy and quick to use and therefore does not require any mathematical or accounting knowledge. Good answers also recognised that it is useful if a business is worried about liquidity rather than profitability. The most common weakness identified was that it does not take account of projects that might have a longer payback period but which in the total life of the project would actually be more profitable.

Weaker answers identified relevant advantages and/or disadvantages but did not explain how or why they were a positive or a negative point. A significant minority of candidates had little understanding of investment appraisal and were unable to approach this question with any degree of confidence.

### Question 4

- (a) Most candidates scored full marks on this part of this question. Many candidates stated more than two ways of measuring a business, demonstrating that many candidates had a very good knowledge of such facts. The main weakness in answers to this question was that lengthy explanations were often given whereas the question merely instructed candidates to "state" two ways. Such an approach wastes valuable time and could detract from time needed later when answering the essay question.
- (b) This was generally well answered with any candidates referring to alternative objectives such as survival, and profit maximisation. Strong answers developed a context such as the development stage of a business, the characteristics of the market or the aspirations of the owners.

### Question 5

- (a) Various approaches were used in answer to this part of this question. Some candidates saw it simply as a motivation question and described how managers might motivate their workforce. Others saw it as a delegation question and simply wrote about the advantages and disadvantages of delegation. Such responses indicated only a partial understanding of this question. However, many candidates did recognise that the question focused on 'the importance of management' and outlined the various functions of management and made effective references to management theorists such as Fayol. Good answers discussed the importance of the management function in the context of a large business and referred to the need to communicate and co-ordinate activities possibly across many departments in order for the business as a whole to work towards a common objective. Many candidates wrote impressively about the need for a clear sense of direction and a strategic perspective in a large business. Some candidates adopted an alternative interpretation of the question and focused on some of the functional management activities such as HR, Marketing, Production and Finance. Such legitimate approaches were accepted and rewarded.
- (b) The majority of candidates were able to demonstrate a clear understanding of the two leadership styles and were also able to offer some analysis of how this might impact on their potential effectiveness. Good candidates went on to make judgements about the various situations when either democratic or autocratic leadership styles might be most effective and made reference to theorists such as Mayo or Hertzberg.

Weaker answers asserted that one or the other would be most effective without offering sound analysis of why that might be so. Such text book answers were simply presented as descriptive information on autocratic and democratic leadership styles. Candidates need to understand and analyse how concepts and theories relate to different real life business and management situations. There may well be times and situations where a democratic approach is not appropriate and where a more autocratic approach is more suitable. Indeed it could be argued that an effective leader needs to mix and match the two styles.

### Question 6

Many of the candidates who attempted this question were able to demonstrate sound knowledge of break-even analysis but fewer were able to link their knowledge to the decision-making aspect of the question or to respond to the “what extent” element of the question. As a result many candidates were awarded marks for good understanding of the concept but failed to gain marks for analysis or evaluative comment. Weaker candidates wrote about being able to tell if the business would make a profit or not; this is not solely the realm of break-even analysis. Weaker candidate could often explain what a break-even diagram contained but could not discuss any implications of using this to make any specific decisions.

Good answers showed an accurate knowledge of the concept of break-even analysis and were able to give sound analysis of the potential implications for business decisions. In addition to that they were also able to clearly link the limitation of the theory to the possible impact for decisions often also offering additional factors that might be useful. Common limitations were the fact that all stock is assumed sold, that the revenue and cost lines might not be linear. Such answers often gave good explanations of why that might not be the case.

An identified common weakness was the lack of accuracy in predictions with stronger candidates explaining some of the circumstances that might cause predictions to be inaccurate and in some cases how that might be avoided e.g. by undertaking some qualitative research.

### Question 7

- (a) There was a great variety in the quality of responses to this question. Many weaker candidates described the functions of the Human Resources department but did not make any reference to the sort of information that might be collected and used by this department. Good answers referred to such information as that contained on application forms, information collected in the appraisal process and training information. Stronger candidates often explained how this could be used to improve the quality of the workforce by analysing any evident weaknesses and perhaps offering further training for example. A limited number of candidates misinterpreted the question and drifted into a discussion of market research.
- (b) This part of this question seemed to present some difficulty for candidates with many answers being very general in nature and not making any reference to any specific form of numerical data. Many candidates concentrated on saying that the numerical data might contain errors but did not attempt to say why that might occur and what could be done about it.

Stronger candidates explained some possible causes of weaknesses in the data such as flawed sampling methods and offered some possible ways in which such difficulties might be overcome, including the addition of a qualitative narrative. The best responses gave specific examples of quantitative data which could lead to wrong decisions being made. There were missed opportunities to use issues and ideas presented in **part (a)** of this question. For example sickness level statistics collected by an HR department might be skewed in a particular month or situation and require qualitative qualification before being used to determine policy decisions.

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Paper 9707/02

Data Response

## General comments

On balance candidates performed about the same as in previous sessions in the paper overall. However, there was a clear distinction between the two questions in terms of candidates' performance. **Question 1** was done less well than Examiners expected. Examiners had expected candidates to relate well to this question as the scenario was one that should be more familiar to candidates than most business situations. The weakness in the answers to **Question 1** was there was far less evidence that candidates could relate to the issues faced by the business. Consistent performance across both questions would have improved the grades of many candidates. There was more evidence than usual of a lack of planning time effectively and this reflected adversely on latter parts of **Question 2**. There was also more evidence of too much time spent on **part (a)** of each question which requires fairly brief answers. **Question 1(b)(ii)** was commonly misinterpreted by candidates but there was no further evidence of linguistic difficulties.

The best approach to answering questions relating to case/data response material is to "get into the minds" of the decision makers within the business. In the instance of **Question 2**, the decision makers were candidates but very few answers adopted this approach.

In all data response papers, the data is intended to be used. Before answering a question it is essential that candidates identify to themselves all of the data in the material that is relevant to that particular question. They should then ensure that they incorporate that data into their answer. "Generic" answers, answers that could apply in many situations, cannot be highly rewarded.

Examples are a very good way of explaining terms. For **Part (a)** of each question they do not need to be drawn from the data response material, although sometimes this can be useful. Examples should be chosen carefully. Terms like "quality" are relative rather than absolute.

## Comments on specific questions

### Question 1

- (a) (i) Many candidates were able to explain the term "stakeholders". It was very pleasing to see that far fewer candidates than in previous sessions confused the term with "shareholders". The best answers provided the range of possible stakeholders in a typical business.
- (ii) Most candidates were able to explain "market research" in general terms. Better answers referred to both the purpose of collecting market related information as well as the main methods of primary and secondary research.
- (b) (i) Many candidates gave the correct answer of \$600 together with an indication as to how the answer was arrived at. It was clear that some candidates had difficulty with the calculation. The commonest mistake was to ignore the opening balance for the month. Where workings were not shown, the method mark could not be rewarded. Another common mistake was to provide the answer of "600" without any indication of the units (\$s).
- (ii) There were very few good answers to this part of the question. Most candidates answered the question incorrectly relating to the reasons for the \$200 cash shortfall. Examiners were looking for an understanding of the practical difficulties for such a small scale business in obtaining finance. The best answers referred to the difficulty that candidates might have in selling shares, borrowing and their own limited financial resources.

- (iii) Candidates, on the whole, have a good understanding of the term “profit” and cash, but many candidates struggled to differentiate the two. While candidates were able to define profits as the difference between revenues and costs and to identify cash as a current asset many candidates omitted to develop how credit purchases and sales provide the fundamental difference. (Cash is the result of cash inflows and outflows whereas profits include all sales and purchases including those on credit). The best answers observed that cash rich businesses may not necessarily be making profits while highly profitable businesses may not have excess cash.
- (c) While it is clear that most candidates have a good grasp of marketing as a topic, and are able to come up with some excellent ideas for marketing the service, fewer candidates are able to relate these ideas to influencing factors. Weakest answers failed to limit their answers to marketing factors. Typical answers came up with largely unsupported ideas for a marketing mix. Those candidates who contextualised their answers were able to pick up marks as they inevitably discussed factors indirectly. The best answers took the key issues from the case (very limited market, customers with limited amounts of money to spend, fierce and large scale competition and so on) to discuss how these would have an influence on the marketing mix. The best answers demonstrated evaluation skills by justifying which were the key factors for Ling. A few candidates made the mistake of thinking that PC produced the products rather than providing a retail service.
- (d) Although there were some very good answers to this part of the question, with many candidates achieving full marks, answers were often disappointing. Examiners had felt that because of the nature of the scenario in the data response material candidates would be easily able to relate to the difficulties that candidates might face in running their own business. The best answers referred to: the limited market (including the impact of holidays), practical problems of running a business in a School, the likely commitment of candidates, limited finance and other issues raised by the data response material. Poorer answers had little context – the difficulties could have related to almost any business.

## Question 2

- (a) (i) While most candidates understood the term “mass marketing”, a significant number of candidates confused the term with “mass production”. Better answers provided an example, most often Coca Cola and drew a distinction with niche marketing.
- (ii) Most candidates had some understanding of the term “quality”. However, although there was plenty of evidence of understanding of various quality control techniques, many candidates ignored the expectations of the customer in determining what quality actually means and hence why it should be controlled.
- (b) (i) Most candidates calculated elasticity correctly as 0.7. The most common mistake was to get the formula upside down, giving an answer of 1.7. A few candidates gave the answer as 0.7% rather than 0.7.
- (ii) Examiners were looking for a depth in understanding of the concept of elasticity. The best answers drew on the inelastic nature of CCs products compared with the elastic nature of their competitors to conclude that CC might adopt a different pricing strategy (skimming) from their competitors (penetration). This was further explained by the likely high level of customer loyalty. A few candidates made the mistake of thinking that a higher price for an elastic product meant higher profits rather than revenues.
- (c) Many candidates found difficulty in contextualising their answer providing very general answers on the role of HRM rather than addressing the specific HRM issues facing CC. A significant number of other answers ignored the HRM dimension to the question. Good answers attempted to compare the home work force with a likely work force in the overseas location, and how such issues could be addressed by HRM. These issues included likely skills levels plus the need for training in such an industry, language and cultural issues, pay levels and organisational problems. The best answers tried to address these problems in terms of retaining the HRM strengths of the existing business including a strong family atmosphere, loyal work force and an ethical approach, and attempted to prioritise the difficulties.

- (d) This question was the least well done on the paper. In part this is a reflection of the fact that it is the last question. Strong answers looked at the balance between behaving ethically (usp, positive impact on customers, employees, the community etc.) and the added costs (negative impact on prices, competitiveness etc.). The best answers attempted to determine whether the benefits were likely to outweigh the costs and often focused on the link between behaving ethically and gaining customer loyalty. A very small number of candidates confused “ethics” with “ethnics”. A common mistake was to confuse ethical behaviour with compliance with legal requirements. Candidates should be clear that ethics is a matter of internal decision (a business can chose whether or not to behave ethically) whereas the law is an external constraint on all businesses.

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Paper 9707/03

Case Study

## General comments

The text and the appendices of this case study paper proved to be very accessible. There were very few problems with misunderstanding the basic issues contained in the text and the quantitative data was effectively used in a good proportion of scripts. There was little evidence of major time constraints even though there is a considerable quantity of written text and numerical data for candidates to read and assimilate. In fact, time management was often of a high standard with very few candidates failing to reach **Section B** or giving a rushed “bullet point” type answer to the essay question.

There were very few examples of candidates misunderstanding the demands of the questions either which suggests that they were clearly worded. This does not mean that all of the answers were very good or were all well focused but the number of answers that seemed to be attempted responses to completely different questions were few and far between.

Variations between candidates’ responses from different Centres were quite substantial – especially with **Question 3** on network analysis. It may be that some Centres do not cover the entire syllabus or they may assume that some topics are unlikely to come up on this paper and focus their teaching on other areas of the syllabus. Both of these are rather unwise strategies.

The key importance of using the case study evidence to apply answers to the particular business being focused on is becoming more widely appreciated and there is increasing evidence that candidates from many Centres are using past examination papers to help prepare for the case study examination. Application to the case is a very important Assessment Objective and when candidates demonstrate this skill effectively then it can lead to a significant uplift in marks.

## Comments on specific questions

### **Section A**

#### **Question 1**

This was generally well done. Many answers gave appropriate reasons for cash flow forecasting and most were able to apply to Tanroh’s business. This application was either in the form of referring to Options A and B and the cash flow forecasts needed for these or in terms of the seasonal nature of his business and the need to make cash flow forecasts in this situation. The weakest answers focused on profit and loss and not cash. Time was wasted by some candidates trying to evaluate the usefulness of these forecasts yet this was not asked for by the command word in the question.

#### **Question 2**

- (a) When candidates understood the true nature of HR and workforce planning there often followed a well explained answer about the benefits of predicting and recruiting an appropriate number of staff with the relevant skills for this option. Some answers failed to apply at all which is a little surprising given the detail in the case study about the qualities and skills expected of employees for this option. There was often scope for further analysis. This could have been in the form of the crucial importance of not employing too many staff – and the serious cost implications of this – or of the strict requirements of the supermarket buyer which could lead to the contract being cancelled with long term repercussions for Tanroh’s business if staff did not perform to the necessary standards.

- (b) Delegation was well understood by a huge majority of candidates. The potential benefits of this were also well understood but these could have been applied more effectively. For example, Tanroh's lack of experience in this new business area could have made delegation particularly important to him. Many candidates also looked at potential drawbacks to delegation but these were often more simplistically explained and, again, not well applied to Tanroh's business or family. Some candidates failed to give a final recommendation or judgement and this limited the number of marks they could gain for evaluation.

### Question 3

- (a) This question led to a great variety of responses and the answers were greatly influenced by the Centre's preparation of candidates on the Critical Path Analysis technique. All candidates from some Centres were able to make a very good – often completely correct – attempt at the network diagram and the calculation of the earliest and latest start times. Candidates from other Centres either left this question out or produced diagrams which demonstrated little genuine understanding of this topic. The most common problems were not starting the whole project from one node, not taking activity C through to the end of the project and misunderstanding of the ways to calculate LFTs.
- (b) Clearly, knowledge of CPA was necessary to answer this question effectively and merely suggesting that activity B should be speeded up did not gain any marks. The best answers recognised that, although B was not initially a critical activity it would become one after this delay. To reduce the length of the time of the critical path would require one subsequent critical activity to be reduced by 1 week – but that this would require a transfer of resources from non-critical activities which might not be fully flexible.

### Question 4

This question led to some very good explanations of the marketing mix and many points were well applied to the case – especially Tanroh's decision between niche and mass marketing. Less effective was the treatment of marketing strategy – which should involve more than just explaining the 4 Ps. A good starting point would have been an accurate definition of a marketing strategy which focused on objectives, mix and marketing budget. This would have focused the rest of the answer on the need for the mix and the budget to be integrated towards meeting these marketing objectives. There were some exceptional answers which did just this. They evaluated the different marketing options carefully and in context and concluded with a recommendation of the key features of a marketing strategy which the candidate considered would be most effective in this case.

### Question 5

- (a) It was pleasing to mark so many correct responses to both parts of this question. In addition, it was noted that many candidates made very good efforts to lay out their working in a clear and logical manner – and this, no doubt, contributed to the chances of successfully completing the calculations. Apart from those candidates who did not have any relevant knowledge to tackle these questions, the major problems were: (i) failure to subtract the capital cost when calculating annual profit for the ARR calculation – and (ii) similarly, not subtracting the capital cost to arrive at the net present value after the cash flows had been discounted.
- (b) The own figure rule applied to this question as candidates were quite able to make some reasonable observations about their results to (a) even if these were not correct results. There were some detailed and well analysed answers to this question. The best answers weighed up the case for both options in turn and recognised that they both had strengths and weaknesses. Interestingly, roughly equal numbers of candidates finally recommended each of the two options so the data was obviously quite well balanced. Qualitative factors were not overlooked either and the contractual constraints imposed by the supermarket buyer were judged against Tanroh's lack of experience with the holiday industry. It is clear that this type of question – which involves the true essence of A Level Business Studies by demanding that candidates take a well judged decision – is appealing to the majority of candidates.

**Section B**

**Question 6**

This was by far the more popular of the two essays. This is unusual as the balance between the two essays is much more even on most papers. There was generally no shortage of relevant knowledge points. Job creation, infant industry argument, balance of payments, raising GDP – these and other points were looked at by most candidates. The two weak areas in many of the answers were: (i) Failure to apply to any country at all. Examiners were instructed to accept any country as a reference point, including Tanroh's own country as the case did contain some specific points about this. (ii) Only one sided arguments were common as very often no consideration was given to the possible negative effects of government support for industry such as the opportunity cost of the funds used or the potential for complacency within the industry gaining protection.

The best answers were very good indeed as they used frequent references to a specific country and used these to weigh up the arguments for and against government support and protection.

**Question 7**

This was not the difficult question that it clearly appeared to be to many candidates. The structure of a good answer might have, firstly, analysed the potential benefits to Tanroh and his business of clear, specific and measurable objectives. These could have been of even greater benefit to him given the expansion plans that he was considering. Secondly, the other factors that could influence the future success of his business should have been analysed. These could have included the price of agricultural goods, the macro-economic climate, market conditions in the tourist industry and so on. Finally, some judgement was needed regarding the relative importance of these factors for the future success of the business compared to the significance of clear objectives. Perhaps, the best conclusion might have focused on the need for flexibility in objective setting under conditions of changing external circumstances.