CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

9707/11 Paper 1 (Short Answer/Essay), maximum raw mark 40

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 **(a)** A contract of employment can be defined as a document setting out the terms and conditions relating to the job of an employee (details such as work hours, rates of pay, holiday entitlement etc.).

- Full definition – sound understanding **[2]**
- Partial definition – limited understanding **[1]**

(b) The advantages for employees include:

– certainty about specific conditions of service, e.g. hours of work, pay rates, holiday entitlements, redundancy conditions, disciplinary codes (any of these or similar could be explained and developed as a separate advantage)
– clarity about the responsibility of both employee and employer and the protocols that exist in the business
– provides a framework for a legal solution to issues e.g. unfair dismissal

- Sound explanation of **two** advantages for an employee. **[3]**
- Sound explanation of **one** advantage or partial explanation of **two**. **[2]**
- Partial explanation of **one** advantage or statement of **two**. **[1]**

2 **(a)** Buffer inventory is defined as a minimum level of stock (inventory) safety level that should be held in order to meet a sudden increase in demand or an interruption in supply.

- Full definition – sound understanding **[2]**
- Partial definition – limited understanding **[1]**

(b) If inventory is not managed effectively then problems may occur such as:

– stock out
– out of date stocks may be held if an effective stock rotation system is not used
– stock wastage may occur with inefficient inventory storage system
– inventory might be too high – high storage costs and opportunity cost of capital tied up

- Sound explanation of **two** reasons. **[3]**
- Sound explanation of **one** reason or partial statement of **two**. **[2]**
- Partial explanation of **one reason** or simple statement of **two**. **[1]**

3 Answers could well initially define the terms in the question:

– **tertiary sector businesses** are those that provide **services** to consumers and other businesses such as banking, hotels, tourism, retailing and transport
– **differentiation** is the process of making a product or service so distinctive that it stands out from competitor products/services in the perception of a consumer

Given these definitions the reasons why tertiary sector businesses try to differentiate their services could include:

– to establish and gain market share
– to establish and maintain a reputation
– to persuade customers to pay a particular price for the service
– to create an exclusive purchasing environment
– to create a unique selling proposition (USP)
– to survive and thrive in a very competitive environment
– to establish a perceived difference amongst consumers for services that are essentially much the same

- Sound explanation of why tertiary businesses might differentiate their services. **[4–5]**
- Explanation of why differentiation is important to businesses with some limited reference to tertiary businesses. **[2–3]**
- Limited reference to tertiary businesses and/or differentiation. **[1]**

4 (a) Retained profit is the profit left after all deductions including tax and dividends to shareholders have been made and is kept/reinvested in the business.

- Full definition – sound understanding **[2]**
- Partial definition – limited understanding **[1]**

(b) The capital expenditure requirements of a partnership might be considered to be relatively small as compared to those say of a plc. Nevertheless for a partnership, capital expenditure for say installing a new IT system might well require significant external financing. 'External' sources to fund such capital expenditure could include:

– new partner/s investing
– hire purchase
– sale/lease back of assets
– medium/long term loan
– Government grants/allowances
– borrow from friends

- Sound explanation of **two** relevant external sources of finance. **[3]**
- Sound explanation of **one** relevant external source or partial explanation of **two**. **[2]**
- Partial explanation of **one** relevant external source or simple statement of **two**. **[1]**

5 **(a)** Primary market research is expensive and time consuming but is designed to produce information/intelligence directly related to the needs of a business – potentially more valuable than secondary market research.

- a new business may have little experience and information relating to a market, customers and competitors
- secondary research may be very general and unsuitable for a new business
- primary research may give a new business specific insight into potential customers – which to target etc.
- it could support a business plan and impress investors
- it is expensive and few new businesses may be able to afford it

Good answers will address the context of a **<u>new</u>** business.

- Analysis of the importance of primary research to a new business. **[7–8]**
- Good explanation of the importance of primary research to a new business. **[5–6]**
- Limited explanation of the importance of primary research. **[3–4]**
- Little understanding of new businesses and/or primary research. **[1–2]**

(b) Market research may well be a significant item of business expenditure. It is therefore, vital that such expenditure is cost effective. Answers should address **how** cost effectiveness might be achieved. Measures could include:

- establish and review clear objectives for market research expenditure
- ensure that these objectives are connected to corporate business objectives, e.g. maintain profit margins
- ensure the most relevant and cost effective methods are used, such as electronic means of contacting large numbers of customers
- ensure that the market research is well designed and focused
- consider the most efficient way to conduct the research – self-directed, outsourced to professionals?
- control the market research budget and seek to measure the impact of activities
- use lower cost methods – social media/secondary research
- strong answers may well address effectiveness as well as cost

In the long term, the cost effectiveness can only be assessed <u>after</u> the expenditure, but in the short term the actions listed above can be effective.

- Evaluative comment on how a business might make its market research expenditure cost effective. **[9–12]**
- Analysis of how a business might make its market research expenditure cost effective. **[7–8]**
- Discussion of how a business might make its market research expenditure cost effective. **[3–6]**
- Limited understanding of market research expenditure. **[1–2]**

6 Employee participation in the management of a business is often considered to have a number of advantages, such as:

– employee worth and sense of ownership
– new ideas and feedback for management
– higher motivation for employees and higher productivity
– greater acceptability to change
– more teamwork, problem solving opportunities
– more effective communication in the organisation

However

– employee ideas may not be practicable/realistic
– employees may lack the confidence and experience to take part
– employees may become more inflexible in sticking with their own ideas
– organising participation can slow down production and decision-making
– employees may be unwilling to take part
– managers may need re-training
– issues of security and confidentiality
– can increase bargaining power of employees
– it may blur the lines of responsibility and accountability

So there are advantages and disadvantages – may well depend on the way it is carried out and the approach taken by a company – profitability may improve or may be reduced.

- Evaluative comment on the desirability of employee participation in the management of a profit maximising business. **[17–20]**
- Analysis of the desirability of employee participation in the management of a profit maximising business. **[13–16]**
- Good discussion of the desirability of employee participation in the management of a profit maximising business. **[11–12]**
- Discussion of the desirability of employee participation in the management of a profit maximising business. **[5–10]**
- Limited understanding of employee participation. **[1–4]**

7 (a) Ethics is concerned with moral guidelines. A business may decide to act in compliance with the law but go no further.

– it may decide that its business is the business of making profits, producing goods and services, and employing people – not ethical/social responsibility activities
– a business may decide it cannot afford to be ethical
– the aim is survival, growth and profitability – if that requires compromises on employee terms and conditions, or treatment of suppliers for example, then so be it!
– a low priority may be given to any objective or activity that is not directly contributing to the bottom line
– the pressure to establish more positive ethical standards may be relatively weak in the business (by Government or pressure groups)
– a business may be a business in an ethically under-developed industry or country with few ethical objectives or aspirations

- Analysis of why a business might not behave ethically. **[7–8]**
- Good explanation of why a business might not behave ethically. **[5–6]**
- Limited explanation of why a business might not behave ethically. **[3–4]**
- Little understanding of business objectives/activities and/or ethics. **[1–2]**

7 (b) Candidates can either give theoretical examples of unethical business practices and/or provide actual examples of companies suffering reputational damage due to unethical or alleged unethical conduct (e.g. Enron, News of the World, or own country examples).

Candidates may well discuss different types of unethical business behaviour such as:

– poor working conditions for employees or suppliers
– dishonest sales techniques
– environmentally unfriendly production methods
– bribery and corrupt operating policies
– misleading financial reports

Such unethical business practices could lead to:

– loss of trust in the company by customers and employees
– legal action may result, leading to compensation and damage to reputation
– poor publicity affects market standing
– the brand is tarnished
– investors and potential investors respond negatively
– the value of the company can seriously deteriorate leading to liquidation, merger or takeover

- Some evaluative comment on how unethical business behaviour could damage the reputation of a company. **[9–12]**
- Analysis of how unethical business behaviour could damage the reputation of a company. **[7–8]**
- Discussion of how unethical business behaviour could damage the reputation of a company. **[3–6]**
- Limited understanding of unethical business behaviour. **[1–2]**