

2003 Business Management

Advanced Higher

Finalised Marking Instructions

Business Management – Advanced Higher 2003

NB Credit should be given for any relevant and accurate point or example. Answers which make strong reference to examples drawn from Robert Wiseman Dairies plc should be rewarded.

Marks may not be carried over from one section to another

SECTION 1

1. (a) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 3 marks should be given for each point discussed.

- The milk market is static and achieving a higher rate of growth means moving into other markets.
- RWD has a very large share of the Scottish market and further expansion in Scotland was not possible – RWD is keen to expand and must go outwith Scotland to do so.
- Expansion can mean higher profits eg if it allows the company to exploit economies of scale.
- RWD's customers were expanding into England and, to retain contracts, it had to do the same. Similarly, English based supermarkets were expanding in Scotland and RWD had to start negotiating for contracts covering Scotland and England.
- RWD deals with large supermarkets and larger size can give it more bargaining power.
- The strategy fits in with vision to become the leading supplier of fresh milk in the UK.

6 marks

(b) 1 mark for explaining a suitable criterion and 1 mark for a reason to justify its use. An additional mark may be given for the development of a point. To gain full marks, at least two criteria should be explained and justified. A list of suitable criteria with no explanation should earn a maximum of 3 marks.

- Rate of growth of sales – a key aim of the expansion is growth and sales are an important way to measure growth (eg the company itself can provide accurate data and it takes account of successful bidding for supply contracts).
- Comparison of sales between Scotland and England – as noted above sales in general are a good measure of performance but this criterion explicitly identifies the relative growth of the English market. When sales in England overtook those in Scotland in 2001, the company saw this as a milestone because their aim has been to succeed in England.
- Profit – this can show the extent to which the expansion has earned money for the company. It is a plc and requires good earnings to maintain stock market credibility. Operating profit has risen but return on operating profit has not shown an upward trend.
- Efficiency measures eg speed of delivery to customers; cost of processing milk – measures like this enable RWD to check whether it is achieving its aim of maximum efficiency. RWD operates in a very competitive market and measures like this are an important way of monitoring how effectively the company is able to compete with rivals.

6 marks

2. (a) Up to 4 marks for a suitable force field diagram ie drivers, resistors, different size of arrows to show relative importance, assets for change. (ie 1 mark for each). No mark should be given for arrows pointing in the wrong direction.

Up to 4 marks for drivers and resistors. 1 mark for each suitable point (including mention of assets for change), with 1 mark for a development of a point if appropriate.

Candidates who do not mention assets for change should gain a maximum of 7 marks.

- Drivers include need to gain a foothold in southern England; become a national company; build on expansion in Manchester; limited possibilities of expansion in Scotland; increased ability to bid for large supermarket contracts etc.
- Resistors (none of which seemed to have materialised) include costs of building the dairy, fear of not gaining sufficient business in the South of England, danger of overstretching, possible consequences if supply contracts were lost etc.
- Assets for change were company commitment to expansion into England; its previous experience of building a new dairy; its status as a plc enabled funds to be available etc.

8 marks

- (b) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 3 marks should be given for each point discussed.

- Managers have to plan for such an expansion – this includes raising finance, finding a suitable site, making arrangements to ensure that timing of new production dovetails with existing arrangements, ensuring suitable staff are recruited and trained etc. Managers could use planning techniques like Critical Path Analysis (CPA).
- Managers must devise methods to monitor the progress of the project eg planning techniques can be used to check that target dates etc have been met; regular reports can be submitted; reports can be submitted when exceptions occur etc.
- Managers must set up a suitable organisation for the project eg a project team headed by a project manager. The team can be given suitable responsibility and made accountable for progress.

All the above are linked and candidates can be given credit for pointing this out. Credit may also be given to candidates who make use of a suitable model eg Fayol in their answer.

An answer based on Mintzberg would be acceptable ie one that was based on the need for managers to deal with different kinds of people, to gather and process information and to make different types of decisions.

A maximum of 2 marks should be given for relevant theory.

6 marks

3. 1 mark for each suitable point, with 1 mark for each development of a point. Marks should be evenly divided between the two parts ie a maximum of 4 for part (i) and a maximum of 4 for part (ii).

(i) **Profit sharing scheme:**

- Staff gain an allocation of shares based on how well the company has performed and this may be related to the amount of effort put in by staff. In this sense it may encourage staff to work harder as it can be seen as a financial incentive. Receiving a share bonus may also make staff feel that their efforts are recognised (cf. Herzberg) as they are now stakeholders in more than one sense. However, the link between individual effort and company profit may not be strong. Also the sum of money involved may be small (employees who wish to get actual cash will have to sell their share allocation) and, as a result, it may be a less effective motivator than other financial bonus schemes.

(ii) **Schemes like Employee of the Year**

- These depend on recognition of work done (Herzberg again but also Maslow's esteem needs) and giving employees a sense of achievement. They can be an important way of demonstrating that employees are valued, especially when the schemes are taken seriously and deserving employees are successful. However, it is possible that employees may become cynical and also only a few people may be successful (but others may be able to share in any success). Again there may be a limited link between effort and the award.

8 marks

4. (a) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 3 marks should be given for each point discussed.

- Becoming the leading supplier of milk in the UK will require the company to obtain finance for new dairies etc. As a family business, it was previously reliant on family members and other associates who would probably be unable to provide the much larger sums needed.
- Acquisitions are a key plank of RWD's strategy and they, too, require funds which are likely to be more than family members can provide. Some acquisitions may be of companies which already hold a stock exchange quotation and the process of both obtaining and integrating such companies may be easier if RWD is also a plc. As a plc, RWD is committed to abiding by Stock Exchange rules on acquisitions which again may present possible problems when it acquires, or seeks to acquire, new companies.
- Being a plc can give more publicity to RWD as it gives the company a higher profile. Its expansion strategy may benefit from this.
- As a plc, RWD may itself be subject to a take-over bid.

6 marks

- (b) 1 mark for each suitable point and 1 for each development of a point. To gain full marks, at least two difficulties should be discussed.

- Wiseman family may lose control of the business – at present this is unlikely as family members own 53% of the shares but differences of opinion between family members in companies are possible and one family member could decide to sell some shares. RWD itself may become vulnerable to a take-over bid because a potential bidder would now be able to buy its shares (but this seems unlikely at present – see previous point).

- RWD must publish fuller details of the company – some companies find this an onerous burden and would rather keep relevant information less public. For this and other reasons some companies which have gone public have reverted to private companies.
- RWD's performance will be subject to much greater public scrutiny eg in the financial press and this may lead to adverse publicity.
- RWD may attract the attention of another company which becomes an active minority shareholder (as a full take-over is not possible) and seeks to influence the company through this.

4 marks

5. 1 mark for each suitable point, with 1 mark for each development point. To gain all 6 marks, candidates must mention at least one benefit and at least one drawback.

- Benefits include development of specialist expertise eg in knowledge of the market; ability to exploit economies of scale and new technology eg in bottling; giving the company a clear focus eg it does not need to concern itself with other dairy products, its internal organisation can be more streamlined as it is concerned solely with one area of activity; marketing and publicity campaigns can be based on milk and RWD can focus on this segment of the market only and tailor its messages accordingly, which may have helped it build up a brand name with a consistent image.
- Drawbacks include inability to compete across the board with rivals like Arla; future growth prospects are tied to one market, milk, which is static; cannot get spill-over effects from marketing and advertising for other products; lack of diversification may make the company vulnerable to any changes in the milk market or to loss of milk supply contracts with supermarkets.

6 marks

SECTION 2

6. (a) 1 mark for each suitable point, with mark for each development of a point. A maximum of 3 marks should be given for each separate reason. As a rough guide, the marks should be equally allocated to the classical school and the human relations school but up to 9 marks may be given for either one of them.

For each school a discussion could be given which defines the term, explains the issues relating to it and points out the legacy of it to the current situation.

- Classical school is based on scientific management and emphasises efficiency eg to find the best way of doing a particular job. It is associated with writers like Fayol and Taylor.
- Associated with bureaucracy and measurement of what workers did eg work study.
- Issues are that it is seen as promoting boring, unskilled work; treating workers like machines; emphasising management control over what workers did; worker motivation depended entirely on financial rewards; inappropriate for modern conditions where many jobs done by machines, workers have rights guaranteed by legislation; many jobs are in the service and do not lend themselves to measurement etc [organisations without people].
- However, targets/measurement remain highly significant (especially as information can be computerised); emphasis on processes has origins in scientific management.
- Human relations school as a reaction to classical school and focused on importance of social factors and human behaviour (eg Mayo). By taking account of workers needs eg by providing good working conditions management could achieve higher productivity. Neo human relations school developed knowledge of psychological factors which influenced how people worked (eg McGregor's Theory X and Theory Y, Maslow).
- Issues are that this school recognised importance of formal organisation and non-monetary factors but ignored issues of how wishes of individuals could be aligned to that of the organisation [people without organisations] and over-simplified complex issues of what happened at work [eg one size fits all].
- However, teams/group behaviour, leadership style, communication and participation remain significant concerns in business.
- Subsequently, develops such as systems approach and contingency theory have attempted to address issues of these two approaches.

14 marks

- (b) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 4 marks may be given for each point discussed. Credit should be given for points which apply to a family business but also apply to business as a whole.

- Many businesses start as family businesses eg Stagecoach, Sainsburys.
- Family members can build up expertise of the business of the company as they have been exposed to it all their lives. May expect to work in the business and obtain relevant training etc to fit them for the jobs they can do.
- Family members may be more loyal to the business and committed to making it successful eg prepared to do a wide range of jobs. Corporate culture may be closely linked to family values and this can provide a strong business culture.
- Family members may know each other well and thus build strong working relationships

- Family may be inward looking and become complacent – often family businesses recruit outsiders to give a broader view.
- May be conflict between family members, family feuds etc. Often are related to succession issues when a significant family member leaves the business.
- Some family members may be unwilling or unable to fulfil the role designed for them in the business.

11 marks

7. (a) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 3 marks should be given for each separate reason. As a rough guide, up to 5 marks may be given for either foreign direct investment or acquiring existing companies. Credit should not be given where a point is merely the opposite of one already credited.

- Building new facilities enables a company to establish its own business practices and it does not have to instil them in new companies – this may be important where the company has a particular philosophy or wishes (like RWD) to use up to date technology (eg to gain economies of scale).
- Building new facilities means that problems of integrating a new company into the existing structure are minimised.
- Building new facilities means things can be taken at the pace the company can cope with (eg RWD started with a dairy in Manchester).
- Acquisition allows a large presence to be built up very quickly eg RWD has bought dairies to gain both suppliers and customers.
- Acquisitions bring access to local management and their experience and knowledge of local conditions etc which reduces the chance of mistakes.
- Acquisition may be cheaper than building own facilities so that chances of being overtaken by others as a new business builds up are reduced.

9 marks

(b) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 9 marks may be given to each concept. Answers will depend on the choices made but marks should be awarded for:

- Suitable definition of the concept
- General examples to illustrate the use of the concept
- Specific examples of how RWD may use the concept
- eg market segmentation is grouping customers together according to common characteristics so that each group can be separately targeted and the product tailored to meet the needs of the specified segment. In many ways RWD exemplifies undifferentiated marketing as the same product is used for the same purposes by many different consumer groups eg adverts are aimed at the population as a whole and RWD has concentrated on building a generic brand using its distinctive packaging. However, within this RWD segments its market into ways to gain benefits of targeting different groups. One way is segmentation by different kinds of bulk purchasers/distribution channels for milk (ie places from which individual consumers obtain milk) ie supermarkets, independent shops, schools and hospitals, doorstep delivery. Each market is different and RWD can tailor what it does to the requirements of different groups eg different types of packaging for supermarkets, Neighbourhood Shop of the Year competition. Another is segmentation by the needs of individual customers eg 'Fresh 'N' Creamy' aimed at customers who wish full cream milk for breakfast; 'Fresh 'N' Lo' semi-skimmed milk; flavoured milks.
- eg e-commerce refers to business transacted using electronic media, primarily the internet eg B2B, B2C, C2B. It is a growth area in business which may

open up new opportunities for RWD. It may be able to utilise the benefits of e-commerce through links with suppliers and customers like retail outlets eg by co-ordinating milk collection; by receiving orders from customers; exchanging information between depots and dairies; maintaining links with suppliers like TetraPak. All these may help the company save on costs and monitor its activities. It is possible that it could sell milk products directly to final customers but this seems unlikely given its product range.

- eg human resource planning can be used to identify future employee requirements eg in fast growing areas of work. It can help the company plan recruitment of all employees and the skills required of them; it can help in planning training programmes; and in developing new managers. If company is expanding, it can also show how many new recruits will be needed. Can be linked to placements as they could be matched to employment requirements.
- eg budgetary control may be important in ensuring that new investment projects stay within the projected financial targets, especially in the building of new dairies like the one at Droitwich Spa. Budgetary control can also be valuable in keeping track of spending during the development phase of a project. It can help identify the need for corrective action, ensure costs do not over-run, that managers are meeting the targets set for them. Monitoring and control are essential aspects of management (see Fayol) and budgetary control is one way in which this function can be exercised.

16 marks

- 8. (a)** 1 mark for each suitable point, with 1 mark for each development of a point. Up to 4 marks may be given for each stage of group development but all 12 marks can only be given where all four stages are covered. A maximum of 10 marks should be given where only three stages are mentioned, 7 for only two stages and 3 for one stage.

- Forming – at this stage project team members are likely to be on their best behaviour, willing to co-operate, anxious to make a good impression etc. In the early stages, things may look as though they are going well.
- Storming – at this point disagreements start to appear as members have gone beyond the early stages of finding out about each other. There may be heated arguments about what to do and how to do it as members test each other out.
- Norming – by this stage, team members have begun to develop ways to work together and have resolved some of the conflicts in the storming stage. Group norms begin to be established as roles within the team are clarified.
- Performing – by now, group has a clear way of working which suits all members. They are now able to operate as effectively as possible as they have procedures for reviewing work etc.
- RWD's management team may be influenced by all of these – implication is that they have successfully negotiated them all eg there are lingering resentments from the storming stage; team members fully understand group norms from the norming stage.
- Adjourning – where group breaks up or changes

12 marks

(b) 1 mark for each suitable point, with 1 mark for each development of a point. A maximum of 3 marks can be given for definition and up to 4 marks can be given for each point. An answer which discusses change and how to introduce it will only gain marks if it includes relevant points on the link between culture and change.

- Corporate culture can be seen as the 'way we do things around here'.
- Different cultures may make it more or less easy for organisations to adapt to change (eg Handy's power, role, task and person) eg task culture may allow people to focus on getting their own job done as effectively as possible within the organisation
- Ability to cope with change is a constant factor; company needs to develop an adaptive culture which will allow it to cope with things that are new and not let particular practices become entrenched.

Methods of building such a culture include:

- Being prepared to change its structure to meet customer requirements this helps it maintain a focus which encourages change as things do not settle for any length of time. (as RWD has done).
- Emphasis on rewarding personal development and excellence can encourage employees to be adaptable and to be prepared for personal change (eg RWD's employee of the year).
- Training of workforce in new developments (eg RWD and new technology) so that benefits of are recognised.
- Strong mission or vision with which employees can identify (again RWD have this)
- Empowerment of workers to allow them to solve problems in line with broad company policies.
- Participative management style

13 marks

9. (a) 1 mark for each suitable point, with 1 mark for each development of a point (including appropriate example which may come from RWD or elsewhere). A maximum of 3 marks should be given for each separate benefit.

- Explanation of corporate responsibility ie recognising that a company has obligations to all connected to it ie an attempt to address the needs of different stakeholders. Can be seen as more comprehensive than social responsibility which is concerned with taking into account obligations to wider society.
- Corporate responsibility can provide benefits in terms good publicity and getting a good reputation as well as avoiding adverse publicity eg if things do not work out as expected.
- Can help gain customers eg if company is seen to be environmentally conscious.
- Can enable companies to cope with changing legislation eg on environmental standards and safety requirements.
- Can be used in advertising (eg RWD has adopted regulations more quickly than required such as IPPC).
- Community involvement can also benefit wider social and economic environment eg involvement with community organisations.

10 marks

(b) 1 mark for each suitable point, with 1 mark for each development of a point. Answers should clearly identify different stakeholders and a maximum of 5 marks should be given for each stakeholder discussed.

- Shareholders – may claim that corporate responsibility adversely affects profits as the company incurs higher costs than otherwise. As a result dividends are less. On the other hand, corporate responsibility may increase profits eg if it results in higher productivity among the workforce; higher sales of products.
- Community as a whole – it may benefit from company initiatives and finance enabling activities to be conducted which may not otherwise have taken place. On the other hand, the independence of organisations may be compromised and they may be accused of having been 'bought off'. Also it is the company which chooses who benefits so some organisations may lose out.
- Government – may receive less in taxes (if profits fall or if tax breaks are obtained) and companies may attempt to pre-empt legislation (eg company may claim that its environmental standards are satisfactory and so legislation is not needed). However, company financial support may allow funds to be diverted elsewhere as government finance is not needed (eg computers for schools projects).
- Employees – may feel more motivated and work harder if company is seen to be looking after their interests. May also gain opportunities for self-development through company initiatives eg community projects. However, may be a substitute for lower wages etc.

15 marks

[END OF MARKING INSTRUCTIONS]