

2006 Business Management

Advanced Higher

Finalised Marking Instructions

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Business Management – Advanced Higher 2006

NB Throughout the paper marks are given for each relevant point, including description, elaboration, diagrams, or explained examples. No marks are given at this level for mere identification of points.

SECTION ONE

1. *Analyse how the organisation of Weir into five divisions may help it to meet the requirements of customers more effectively*

To gain full marks candidates must discuss a minimum of 2 points.

- Having a regional manager in charge of each division to drive growth and ensure local response means that customers are more likely to get innovative products and a quick reaction to changes in their demand.
- Each division operates on a global scale, ensuring world-wide uniformity of service.
- The inclusion of the “Weir” name in the title of each division means that Weir can meet a wider range of customer needs; since customers can easily identify different branches of the firm; those who have had a satisfactory experience with one division are more likely to purchase from another under the same name.
- The divisions are organised by product, ensuring that each develops expertise in its area, but overlap is deliberately allowed so that they can benefit from each other’s ideas, improving customer service.
- Organisation by product means divisions benefit from economies of scale – eg discounts for buying in bulk – which may mean they can offer their services at a lower cost to customers than rivals can; at the same time divisions’ use of common sources of supply reduces average cost.
- Having specialist core functions such as R&D operating across the whole group enables new products and technologies to be spread throughout the group relatively quickly, thus further enhancing customer satisfaction.

(8 marks)

2. (a) *Force field analysis*

Up to 4 marks for a diagram showing drivers, resistors, arrows to indicate relative importance and assets for change; up to 3 marks each for drivers, resistors or assets for change; up to 2 marks for evaluation of the relative importance of the forces. Maximum of one mark for a list of at least 3 drivers not analysed; one mark for a list of at least 3 resistors, and one mark for a list of at least assets for change.

Drivers

- Lack of co-ordination across the Weir group, leading to companies operating independently of each other
- Weir's interest in many different aspects of engineering
- Need to increase the market share of less important companies
- Global outlook of industries supplied by the group
- High costs of production and low levels of competitiveness and the need to streamline production

Resistors

These are not explicit in the case study. From the strategy it can be inferred that there may be:

- Need for substantial amounts of finance – can Weir afford this in 2001 when the strategy was introduced it faced net debt of £66 million.
- Resistance to change – eg closure of Ipswich plant leading to redundancies – senior managers feeling threatened by leadership development programmes for junior managers; plants used to operating independently having to accept a greater degree of centralised control etc
- Difficulties of managing a huge change which affects the entire company – does Weir have the managerial skills?
- Possible complacent attitude as a result of Weir's "long and successful tradition of engineering expertise"

Assets for change

- Long and successful tradition of engineering experience – built up over 100+ years, including 50+ as a plc
- Name and reputation known worldwide
- Already involved in wide range of engineering products, projects and services (max one development mark for examples taken from case study)
- Recent growth via buying companies and setting up subsidiaries
- New chief executive from Australia with a fresh approach who supports the strategy

NB: Each point must be specific to weir.

(12 marks)

2. (b) *How preparing a SWOT analysis may have assisted in developing a force field analysis*

Examples must be drawn from the Case Study. Maximum of one mark for linking swot analysis to drivers and resistor in general terms without examples. One mark for each specific example from the Case Study of a strength, weakness, opportunity or threat linked to drivers, resistors or assets for change.

- SWOT analysis is a way of assessing of strengths, weaknesses, opportunities and threats (max one mark).
- A SWOT aids evaluation of the significance of drivers and resistors, improving the relevance and accuracy of the force field analysis.
- Any of the SWOT factors may act as drivers or resistors (max 2 marks for examples from the case study); credit pupils who point out that you cannot simply equate strengths and opportunities with drivers, and weaknesses and threats with resistors.
- Listing strengths helps to identify assets for change (max one mark for example from case study).
- Opportunities might point to ways of overcoming resistors and/or identifying drivers.

(4 marks)

3. (a) *Reasons for approach to new investment in China*

- Constructing your own facilities means you can choose any location and purpose build facilities; imbue corporate culture from start etc (max 3 marks for general discussion of advantages of organic growth).
- By setting up its own subsidiaries in China, Weir will be able to put its stamp on them from the start, emphasising the fact that they are new and unique.
- Weir has had problems in the past with companies under different names operating independently; organic growth gives more control from the start.
- China is an “emerging market” so there is likely to be little competition and less pressure on Weir to proceed quickly to maintain its competitive edge.
- The Chinese market is a relatively small part of Weir’s operations, currently accounting for only 7% of turnover; gradual development will allow Weir to “grow” the Chinese market by making use of profits earned in other more established markets.
- Weir may not be able to find a firm with the facilities it needs – it may be that companies in countries such as China and India are not technologically advanced enough to be suitable for takeover, whereas Warman International in Australia was.
- Credit explanations of how ‘crawl, walk, run’ will work.
- No credit for disadvantages.

(5 marks)

3. (b) *Advantages of buying existing companies*

Maximum of 3 marks for a general answer which does not make specific reference to Weir.

- Taking over existing firms is quicker than building from scratch; suitably skilled staff knowledgeable about the language and culture may already be in place; Weir could trade on the other firm's reputation – customer base may be there etc. This could be important if Weir wishes to move quickly into a new market.
- Buying Warman International in Australia helped the Minerals Division to achieve market leadership; passing up the opportunity might have given competitors the chance to move ahead.
- Weir aims at markets where it can be leader or a significant force, many of which are niche markets, where the number of firms operating is likely to be small; therefore taking over other firms may give Weir market dominance relatively quickly.

(5 marks)

4. *Assessment of the effectiveness of Weir's methods of developing employee commitment*

To gain full marks candidates must discuss at least **3** methods. Credit appropriate reference to Maslow, Herzberg etc. maximum of 2 marks per theorist up to a total of 3 marks.

- The methods combine financial (eg rewards system for achieving objectives) and non-financial methods (eg training and development opportunities and consultation).
- The new methods of developing commitment all fit in with the new flattened structure of the organisation; many of the changes have to do with reducing the barriers between management and subordinates – eg increased consultation, more team working, formal and informal meetings – these are likely to increase motivation as employees feel valued and able to contribute more, feel that their opinions are taken seriously and fully understand their individual roles.
- Strong emphasis is put on the development of leadership skills – eg training programmes for senior management, leadership development programmes for junior managers. Training will help managers to adopt a more appropriate leadership style – eg consultative or directional as appropriate - and be better able to adapt it to the needs of subordinates. Development opportunities will motivate junior managers and make them more committed to the organisation in light of the fact that they will be senior managers in future.
- Personal effort and achievement are also stressed – employees draw up personal development plans linking their own goals with those of the firm; Weir is committed to empowering them and helping them fulfil their potential. Recognising employees' personal goals will help to motivate them; employees are much more likely to be committed to development plans to which they have had an input. Offering career development and stating that Weir wishes to help them fulfil their potential will make employees feel valued and so enhance commitment.

(8 marks)

5. *Why the adoption of the Weir Production System was an important part of Weir's strategy*

To gain full marks candidates must discuss at least **3** areas.

- Applying its new strategy to all companies in the group leads to uniformity all over the world and facilitates cross-divisional collaboration eg desalination plant in Chile involving all five divisions.
- The strategy is based on the Japanese model, copied from Toyota, and stresses continuous improvement and “lean production techniques eg cutting costs, eliminating waste, making delivery times shorter”, thus speeding up lead times and reducing costs of production. Weir needs to do this to meet the aim of being a leading supplier in each market it is in.
- The new system requires and will help bring about a change in employee attitudes; the appointment of experienced and successful lean practitioners to key jobs in the group means they can pass their knowledge on, enabling techniques to spread rapidly throughout the divisions; group-wide training programmes ensure that all workers are made aware of standards and procedures. All these will increase the effectiveness of the workforce and enhance performance.
- The new system may lead to increased openings for spending on R&D and make more funds available for R&D; the use of multi-disciplinary teams can develop more innovative production processes and innovative ideas eg the new production system has led to a 60% reduction in stocks at Weir Floway in California and space saving reorganisation of the assembly area in Weir Pumps in Glasgow; organising divisions by product leads to operating efficiencies and economies of scale, speeding up production and reducing unit cost of inputs.
- The new system will help Weir to retain its traditional production base in Scotland.
- The strategy with its emphasis on continuous improvement helps Weir to maintain and sharpen its customer focus.

(8 marks)

SECTION TWO

NB Candidates need not make specific reference to The Weir Group. Those who do should be given credit for doing so. Relevant references to other organisations and suitable examples should also be credited.

6. (a) *Roles of managers in achieving organisational objectives*

One mark for each suitable point, with one mark for each development. Answers which merely describe Mintzberg's roles should gain a maximum of 6 marks. To gain a mark candidates must give examples of **how** each role can help to achieve organisational objectives.

- For each role an indication must be given that the student is aware of what the role involves eg dissemination is passing on both quantitative and qualitative information. A definition is not necessary and the indication may come from a suitable example.
- Each role should be directly related to effective managerial behaviour which will achieve organisational objectives. Answers may also make the general point that Mintzberg merely describes what managers do and says little about how well the roles should be performed.
- Figurehead's role can help others recognise the importance attached by the firm to various activities and assist the firm in gaining co-operation in pursuit of its objectives (eg by being represented on government sponsored committees etc).
- Leading role can help motivate employees and thus enable them to meet company objectives more effectively as well as perhaps being involved in setting them.
- Liaison role – eg building up networks – may help managers gain support for organisational objectives.
- Monitoring can help managers check that objectives are being met.
- Disseminating involves informing staff and others of objectives so that everyone is clear what is expected.
- Spokesman's role is to let members of wider community know what the company is doing, which again may win support for its objectives.
- Entrepreneur's role is to make decisions which will move the company forward and achieve objectives for the future.
- Disturbance handler deals with any problems that arise and ensures that all are focused on the same objectives.
- Resource allocator's role is to decide how the company's resources should be used to meet objectives.
- Negotiator may be part of the process of agreeing suitable objectives.

(12 marks)

6. (b) *Stakeholders' contribution to organisational objectives*

One mark for each suitable point and one for each development, including examples, up to a maximum of 5 for each stakeholder.

NB Answers should explain the process by which stakeholders can contribute to the formation of objectives. Answers which merely identify stakeholders and assert that they have some influence but do not explore how this may be exercised should score a maximum of 4. Up to 5 marks are available for relevant examples from candidates' investigations.

Answers can be structured in several ways eg around different stakeholders or around different ways of exerting influence. The suggestions below adopt the former approach. Other stakeholders would be acceptable but answers should consider whether their influence would be direct or indirect and why.

- Shareholders – they can influence objectives by their actions at company meetings (where they can vote on proposals and speak) and by buying and selling shares. The latter influence is clearly indirect – selling shares may lead to a fall in share price which may cause a firm to review its objectives. The former is more direct (shareholder agreement may be required for certain objectives such as buying other companies) but shareholders are not actively involved in the process of deciding what the objectives should be. They are asked only to agree/disagree with what has been decided.
- Government – it can influence objectives directly and indirectly. It can do so directly by legislation (eg on pollution, disclosure of information) which companies must obey, so companies' objectives must take account of their legal obligations. The Government can influence objectives indirectly (eg by its economic and fiscal policies) – interest rate changes may cause a company to review its sales and profitability targets; financial incentives (eg for investment) may lead to additional R&D expenditure.
- Management – senior management are usually responsible for the day-to-day operation of the company and thus have a key role in setting objectives (which may have to be confirmed by others such as shareholders).
- Board of Directors – it has a responsibility for the overall running of the company and plays a key role in setting long-term direction and strategy. Therefore, it is also important in determining company objectives. Its role may be to confirm decisions actually made by senior executives who may also be members of the Board. Legally, the Board may be responsible for ensuring that a firm has objectives on corporate governance, as statements on this are required in the Annual Report.
- Customers – they can influence objectives indirectly by their behaviour eg by buying or not buying the products or services provided by the company. Market research findings may also influence the direction a company takes.

(13 marks)

7. (a) *Costs and benefits to the UK of overseas expansion by UK based companies*

One mark for each suitable point and one for each development. A maximum of 4 marks should be given for each main reason. An answer which refers solely to benefits or costs should score a maximum of 8 marks.

Possible benefits may include the following.

- Employment prospects for Scots may be enhanced – firms setting up plants overseas may recruit from Scottish Universities and Colleges for jobs all over the world.
- The above may lead to spin-off benefits for the Universities themselves who may be able to recruit a higher calibre of student. It may also help to keep academic expertise in Scotland.
- Scottish multinationals may pass on expertise to others in Scotland – this may include firms who deal with the company, but also covers employees who may move on to work for other Scottish firms and the wider Scottish business community eg through Scottish Enterprise.
- Scotland as a country may benefit from the repatriation of profits and its national income may rise.
- The return of profits may help the UK balance of payments and therefore indirectly help Scotland as a whole.
- Additional jobs may be created in Scotland – eg in company HQ if it remains in Scotland; these are likely to be high quality technical and managerial posts, which could enhance spending power within Scotland. Weir, for example, envisages highly skilled engineering expertise being kept in Scotland.
- Scottish financial institutions and others may gain opportunities which they can exploit eg providing investment advice, merchant banking services etc.

Costs may include the following.

- Employment opportunities in Scotland may be reduced, especially if expansion overseas means that jobs are transferred to countries where wages are lower and/or productivity is higher (Weir may illustrate this).
- Competition from foreign-based subsidiaries will lead to a need for greater efficiency in Scottish based firms, which may in turn lead to change that could be disruptive.
- Investments being made abroad rather than in the UK may affect the balance of payments in the short run, as well as overall future prospects if it leads to a less up to date situation in Scotland.
- There will be a need for additional training and skills development to enable workers to find jobs – this may be particularly important in areas/occupations where jobs have disappeared. Changes in the education system may also be required to produce a higher level of basic skill among people in Scotland.

(14 marks)

7. (b) *Managerial qualities and self-employment*

One mark for saying why a particular quality is needed by either self employed or manager and further marks for justified comparison between the 2. The answer lends itself to examples and these should be given credit. Answers should explain why particular qualities and skills will be helpful and make explicit comparisons between senior managers and self-employment.

Answers which consist of a description of qualities but no explanation or contrast should earn a maximum of 4 marks.

Some possible qualities

- Ability to set a direction for the future – by doing this, an executive can provide a way forward for the company which can provide a benchmark against which to measure progress and make decisions on what actions to take eg which new markets to move into; whether or not to acquire other companies. A self-employed person will have to do the same especially if s/he runs a small business. A self-employed person may not need the same clarity of direction as a large organisation as there may be fewer people to explain it to. Further, a self-employed person has the flexibility to change direction more quickly than a large organisation, so future direction can be less precise.
- Communication skills – a senior manager must not only be able to communicate this ‘vision’ but also have the communication and influencing skills to persuade other managers to get the ideas across to other employees. A self-employed person still has to communicate where s/he is going (eg to attract staff if needed, to gain finance from banks, to attract customers/clients) but there may be less of a need to persuade others to ‘buy in’, as being self-employed is a more independent situation than that of a chief executive.
- Negotiation skills – a senior manager must be able to negotiate with people within the company but, at this level, most negotiation is likely to be with outsiders eg government agencies, companies which the firm may wish to acquire or co-operate with in a joint venture; financial institutions which may provide funds etc. A self-employed person must also negotiate with others – the scale may be different but the basic situation seems very similar.
- Planning and organising – a senior manager must be able to set in motion specific plans for the future and set up an organisation for the company which can make these plans work. Again, a self employed person must plan for the future, but may not need to spend as much effort in setting up a supporting organisational framework – this is because the structure of the organisation with which s/he may be involved is likely to be simple and may consist solely of the person her or himself.
- Monitoring – both the senior manager and the self-employed person must monitor progress against targets. The activity in principle is the same but the scale may be different.

- Representing the company – the senior manager and the self-employed person must both be able to act as a focal point for their organisation (or him or herself) and represent it at meetings and in other interactions with stakeholders. For a senior manager there is likely to be a greater range of stakeholders (shareholders for example) and the situations are likely to be much more public. Senior managers, for example, may be interviewed in the business press.
- Taking decisions – both a senior manager and a self-employed person must take responsibility for what their organisation does and decide on key actions. The difference is again one of scale – in both cases, poor decisions may have adverse consequences and could lead to the closure of the organisation.
- Self-confidence, self-reliance and ability to deal with uncertainty: qualities such as these can help both a self-employed person and a senior manager. However, the operation of these qualities may differ slightly in each case. A senior manager may need them more in relation to others eg to gain commitment, to instil confidence during lean times. A self-employed person may need them more in relation to her or himself eg confidence in her/his own ability and that things will work out. Nevertheless, there are strong overlaps eg a senior manager also needs confidence in his/her ability.

(11 marks)

8. (a) *EU enlargement/e-commerce*

One mark for each suitable point and one for each development. Up to a maximum of 8 per topic. Answers will depend on the choice made but marks should be awarded for:

- Explanation of the term
- General and specific examples of the impact that it may have on firms.

Answers which do not attempt to explain the impact should be given a maximum of 3/6 marks in each case. To gain full marks for either topic at least 3 separate points should be discussed.

EU enlargement

The points made could include the following:

- UK firms face a much wider “domestic” market, which may help firms expand their sales and get advantages of economies of scale etc. in production.
- It should provide export opportunities as tariff barriers and other restrictions with new members have fallen – however, standards of living are not always high in some new members, so the extent of these new openings may depend on the product/service offered by the company.
- EU grants may be available to expand into the new member countries – this may encourage UK firms to set up facilities in new member countries, especially those which are already represented there. The fact that many new members have skilled workers may assist this process. In addition, wage levels are likely to be generally lower than in the UK initially, although they may rise over time with EU membership.
- Firms may face competition from producers within the new member countries – they will have similar expansion opportunities to UK firms and so may become more competitive. This may, however, be a spur to UK firms to seek ways to become more efficient, develop new services/products and open up new markets.
- It may open up sources of recruitment for UK firms which can help them alleviate skills shortages eg First Bus has recruited bus drivers from Poland

Expanding use of e-commerce

- E-commerce refers to business transacted using electronic media, primarily the Internet. It can take various forms, such as B2B (business to business) and B2C (business to consumer).
- It may open up new market opportunities for companies which need no longer be tied to a physical outlet and may reach a much wider market.
- Companies may also be able to enhance the speed and efficiency of supply chain management through electronic links with suppliers and customers, which co-ordinate deliveries, receive orders, exchange information and monitor progress of orders.
- It may also require that companies think carefully about how they relate to customers and other stakeholders – customers, for example, may expect to get information (eg on the status of their orders) at any time; companies may have to consider 24/7 customer support and advice.
- There may be legal implications, such as Data Protection legislation, of which companies must be aware, and which may impose additional costs on the company – eg firms will need to spend time and money on developing secure systems eg encryption of credit card details and protection of personal information this is also necessary to protect such information from being accessed by hackers or damaged by viruses.
- It may affect the nature of competition, which may become much more widespread as suppliers/customers can access firms all over the world; firms may also have to make sure they keep up with other firms wherever they are located; it may lead to new firms such as e-Bay traders.
- The loss of face to face contact, coupled with global competition, means that firms will have to develop new ways of offering customers a personal touch and retaining their loyalty.

(14 marks)

8. (b) *Stages of group development*

One mark for describing a stage and one mark for each justified comment on effectiveness. Award a maximum of 7 marks if there is no reference to effectiveness. Up to 4 marks may be given for each stage of group development but all 11 marks can only be given where all 4 stages are covered and where there is a link between the stages and the effectiveness of a team. A maximum of 9 marks should be given where only 3 stages are mentioned, 6 for 2 stages and 4 for one stage. 'Mourning' and 'Adjourning' are not considered essential stages but credit (one mark each) should be given where candidates refer to them.

- Forming – at this stage project group members are likely to be on their best behaviour, willing to co-operate, anxious to make a good impressions etc. At the beginning, things may look as though they are going well. This is an early stage and the group may perform well but not as effectively as it could do once it has completed the initial learning stages.
- 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. Storming may reduce short-term effectiveness as issues are worked out, but it may lead to improved effectiveness in the long run if it results in strong norms and clear patterns of behaviour and communication.
- Norming – by this stage, group 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 group roles are clarified. The more explicit the norms are, the clearer group members are likely to be about their roles and the more effective the group is likely to be.
- Performing – by now, the 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. It is possible for teams to perform without having fully worked through the storming and norming stages, so performing does not necessarily mean that groups are as effective as they could be.
- Mourning – this stage is sometimes added and covers the situation where the team changes, eg is disbanded or a member leaves. Teams should recognise that they have changed and that the cycle will begin again as a new team begins the forming stage. This may lead to a temporary dip in effectiveness as new norms etc. are established.
- Adjourning – used to describe the end of the performing stage; the task has been accomplished and the team is disbanded.
- Team leaders have to work with these stages and can use them to build and develop an effective team. Each team is likely to go through the stages and will thus encounter times when it may be less effective than others.

(11 marks)

9. (a) *Corporate culture and change.*

One mark for each suitable point, with one mark for each development including examples. A maximum of 5 marks can be given for each point.

Candidates may make some general points such as the following.

- The 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); a task culture may allow people to focus on getting their own job done as effectively as possible within the organisation and this task may be seen as one which changes as organisational circumstances change; a role culture may make change less easy as change often requires that people undertake different roles.
- Change is a constant factor – a company needs to develop an adaptive culture which will allow it to cope with things that are new and not let particular practices to become entrenched.

Answers may also refer to points which indicate the relationship between culture and change. For example, the following aspects of culture may help change.

- Being prepared to change its structure to meet customer requirements helps a firm maintain a focus which encourages change, as things do not settle for any length of time.
- An emphasis on rewarding personal development and excellence can encourage employees to be adaptable and to be prepared for personal change.
- A pattern of regular training of the workforce in new developments helps them to recognise the benefits of change.
- A strong mission or vision with which employees can identify may enhance workers’ trust of management and help them to feel personally involved in the change.
- Empowerment of workers to allow them to solve problems in line with broad company policies can help them to feel more confident to deal with change.
- A rapidly changing environment (eg due to changing technology) leads to people becoming used to change and accepting it as the normal state of affairs.

Cultural aspects which may hinder change

- Rigid job descriptions and person specifications can entrench existing behaviour and make change harder to achieve.
- An attitude that change only occurs every so often can encourage people to believe that things should not be altered.
- A product rather than a customer focus can isolate company personnel from market changes.

(13 marks)

9. (b) *Social responsibility*

One mark for each suitable point, with one mark for each development (including appropriate examples which may come from any suitable organisation). A maximum of 4 marks should be given for each separate point. Answers should make a link between social responsibility and profitability – marks for development points should be given for this. Answers which discuss social responsibility in general terms should gain a maximum of 5 marks.

NB Up to 2 marks may be given for an explanation of social responsibility ie taking into account obligations to wider society. Traditionally “social responsibility” has been seen as less comprehensive than “corporate responsibility” which is concerned with recognising that a company has obligations to all connected to it and thus covers all different stakeholders rather than just those in the wider society, although the modern term “Corporate Social Responsibility” (CSR) blurs this boundary. In light of this, a maximum of 4 marks may be given for discussion of points relating to internal stakeholders.

The following points may lead to improved profitability as a result of social responsibility.

- Social responsibility (SR) can provide benefits in terms of good publicity and getting a good reputation as well as avoiding adverse publicity eg from acting socially irresponsibly. Both should help boost sales and profitability (good answers could point out that this does not necessarily follow and the relationship between sales and profits may be more complex). If rival firms are also perceived as socially responsible, it may prevent a firm losing sales.
- Also, firms with a good reputation may benefit if things do not work out as expected as their previous good reputation may be remembered. This may help firms maintain profitability or recover from a setback.
- SR can help gain customers eg if a company is seen to be environmentally conscious which may, in turn, bolster sales and profits (but see above).
- SR may enable a firm to gain a niche for itself eg CWS and . Fair Trade products such as chocolate.
- SR may attract employees whose commitment may lead to higher productivity, new ideas etc., which could translate into lower costs and thus higher profits.
- SR can enable companies to cope with changing legislation eg on environmental standards and safety requirements – this may enable them to avoid sudden additional costs and, in turn, reduce possible variations in profitability.
- SR can be used in advertising eg to demonstrate commitment to the environment which, as above, may result in higher sales and higher profits. Better answers may point out that the relationship between advertising/promotion and sales is not clear-cut. Also, if advertising would have taken place anyway, the precise impact of social responsibility on profit may be hard to determine.

However, SR may not lead to improved profits.

- It can lead to additional costs – in terms of equipment and staff resources. These costs may make it difficult for firms to compete, especially if other firms (eg in other countries) do not encounter equivalent costs.
- The return on SR may be difficult if not impossible to measure, so any impact cannot be determined.
- It can backfire on firms eg attempts to offer educational material in return for vouchers/proof of purchase have been accused of encouraging unhealthy eating (eg the books for schools promotion run by Walkers Crisps) or of being unfair in terms of the volume of purchases required. This could turn good publicity into bad and adversely influence sales and profitability.
- It may lead firms to ‘take their eye off the ball’ and not concentrate on their key business – this may mean that sales and profitability fall.
- Consumers may become cynical of apparent attempts to be socially responsible and so firms do not benefit.

(12 marks)

[END OF MARKING INSTRUCTIONS]