



2007 Business Management

Advanced Higher

Finalised Marking Instructions

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Business Management – Advanced Higher 2007

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. *Acquisition has been Johnston Press's preferred method of growth. Explain why this method has been particularly suitable for the company.*

To gain full marks candidates should explain a minimum of 3 points. Max 4 marks for relevant points not specifically related to the Case Study.

- The fact that many newspapers are “well established and have been in existence for some time” acts as a barrier to entry, making it difficult for JP to break into the market by bringing out its own titles; acquiring existing companies gives it a strong market presence relatively quickly.
- Acquisition has enabled JP to expand quickly eg in Scotland, England and Ireland; to enter markets as market leader eg Yorkshire; covering such a wide geographical area would be difficult if not impossible through organic growth.
- Acquisition may have enabled JP to get financial benefits quickly – eg before it took over RIM in 2002 it forecast that the takeover would result in savings of £9 million by the following year; this could help to account for the 33% increase in pre-tax profits in 2003.
- Acquisition suits JP's structure because it is easy to assimilate new companies into a central/local arrangement; the newly acquired newspapers can continue to serve their local market as before but functions such as printing are now administered centrally by JP; this minimises the amount of change for both the acquired companies and JP.
- Acquisition has enabled JP to enter new areas such as Letterbox Direct.

(8 marks)

2. *Analyse possible ways in which Johnston Press's use of information and communications technology may increase its profitability.*

To gain full marks candidates should analyse a minimum of 3 points. Award one mark for each explanation of an aspect of JP's use of ICT that would increase profitability; a development mark may be awarded for more precise explanation of how that aspect would lead to an increase in revenue and/or decrease in costs.

- JP "has a locally oriented website for each area in which it publishes" – this means anyone logging on to the site will see details of their local paper and may be persuaded to buy it, leading to an increase in revenue.
- Editors are given freedom to let their website reflect "the concerns and interests of its local area. For example, newspapers often run local campaigns" – finding out about one of these via the website might stimulate purchase of the paper and hence increase sales revenue.
- JP's Customer Relations Management system uses information from websites to help it "match customers and advertisers more closely" – if the market is more accurately targeted, this could lead to increased newspaper sales – eg as the biggest advertising category is in connection with employment, more job seekers might buy JP's publications.
- JP has developed classified websites for jobs, cars and property, which may mean that people use the websites as substitutes for newspapers, especially as many of the same advertisements are carried; the printed word may seem dull compared to interactive Internet sites; this means that, although the circulation of newspapers may drop, the company's profitability is maintained due to revenue from advertisers.
- Advertisers such as estate agents gain from software enabling them to load information direct on to JP's website, which will make them more likely to use JP, again increasing revenue.
- Because JP has a common template for websites and a common newspaper sales system it gains economies of scale, leading to reduced average cost.

(8 marks)

3. (a) *Explain the benefits to Johnston Press of its policy of empowering its editors.*

To gain full marks candidates should explain a minimum of 2 points.

- Empowerment means that each editor can determine content and editorial approach; this is vital to fit in with JP's philosophy of "Life is local"; editors need to have freedom to report on their local areas; their first hand knowledge of their areas will help to identify topics for local campaigns eg the Glenrothes Gazette's campaign for a war memorial, campaigns against closing schools by the Southern Reporter and the Midlothian Advertiser (max one example).
- Empowerment motivates; editors appreciate being given responsibility and may do more to meet local needs than strictly required by their job – eg the editor of the Cumbernauld News chairing public meetings re the upgrading of the A80 trunk road – which will benefit the reputation of the publications the editors represent.
- Closer links being formed by editors with local communities are likely to result in more information being made available to editors by members of the local community, so local relevance is further enhanced, leading to increased newspaper sales, more advertising revenue, increased profits.

(6 marks)

3. (b) *Assess the motivational effects of the other measures used by Johnston Press to develop employee relations.*

To gain full marks at least 3 points should be assessed. Award a maximum of 4 marks if only advantages or only disadvantages are discussed. Up to 2 marks may be given for appropriate reference to theories of motivation.

- The Share Incentive Scheme gives employees the incentive of gaining free shares if financial targets are achieved; this will motivate them to work hard to achieve the targets; being owners as well as employees means they receive dividends based on the profit levels attained by their efforts; ownership may increase employees' commitment and loyalty to the firm; the scheme is easy to understand, and fair insofar as it links the reward to the number of hours worked; however offering bonuses would put money more directly in workers' pockets; shares have to be sold to realise their full value and if the annual receipt of shares comes to be taken for granted it may lose its motivational effect.
- Inviting employee input to the 4 key "People Values" demonstrates JP's trust in its workforce, particularly as these are the company's core beliefs; employees are much more likely to be committed to values they have helped to develop than those imposed from on high; the values are motivating in themselves – eg "act with integrity" implies that employees can expect to be treated fairly; "open and straightforward" suggests that management will be honest and transparent in its dealings with them, "value everyone's contribution" indicates that even someone at the lowest level of the organisation is important to its success; however the people values are meaningless unless actually put into practice in the daily experience of employees; if management attitudes and actions seem to contradict them they may even be demotivating.
- Team briefings and employee forums are also ways of involving employees in the decision making process; company results briefings can motivate by acknowledging the contribution of employees to the results; briefings and forums may lose their motivational effect if they come to be seen as a means of communicating information and getting suggestions or feedback about decisions made by senior management rather than as genuinely empowering workers to make decisions themselves.

(6 marks)

4. (a) *Using force field analysis, discuss Johnston Press's decision to buy RIM.*

Award a maximum of 2 marks for a diagram showing drivers, resistors, arrows of varying lengths pointing towards each other, and assets for change. (If any of these is omitted, award one mark.) To gain full marks candidates should discuss at least 3 points. Award a maximum of 6 marks if only drivers or only resistors are discussed.

Drivers

- Opportunity to reinforce JP's position as a leading player in the UK market by acquiring 53 new titles.
- Chance to acquire a prestigious daily newspaper: the Yorkshire Post, giving JP a higher profile and a boost to its reputation.
- Consolidation of its position in Scotland by the addition of new titles.
- Opportunity to establish a significant presence in Yorkshire and Lancashire, which would extend geographical coverage in the UK.
- Predicted savings of £9 million, leading to an increased rate of return.

Resistors

- Cost – £560 m – 6 times the group's profits in 2002, leading to a cash outflow of £493,320 (but see below).
- Need to deal with 250 job losses – redundancy payments, time for negotiation, effect of redundancies on morale etc.
- Managerial time and effort to change the organisational structure and establish JP's culture in the new division.

Assets for change

- Strong financial position – net assets and profits show a steady upward trend from 2000.
- Long experience of successfully integrating acquired companies.

(8 marks)

4. (b) *Explain the reasons for Johnston Press's decision to buy companies in Ireland.*

To gain full marks candidates should explain a minimum of 3 points. Award a maximum of 2 marks for general points about acquisitions.

- The UK market is static; JP did not wish to expand further into Europe, judging this to be too risky.
- The newspaper advertising market in the ROI grew by 15% in 2004-5 – important as advertising is by far JP's biggest source of revenue.
- Consolidation of local newspapers had been less in Ireland than in mainland UK; this made it easier for JP to become a major player fairly quickly.
- JP had recently gained a foothold in the Irish market thanks to its acquisition of Score Press; although this was a Scottish firm most of its titles were in Ireland.
- JP had a strong financial position – pre-tax profits of £150 m in 2004 were not far short of the cost of the acquisition.
- High speed and low cost of travel to Ireland owing to its proximity to the UK.

(6 marks)

5. *With reference to Exhibit 1, examine the ways in which Johnston Press has chosen to divide up its organisational structure.*

To gain full marks at least 3 methods of grouping should be examined.

The structure combines functional, geographical, product and technological grouping.

- Functional – Finance and Human Resources are centralised; benefits are that overall control of costs can be maintained and overseen by senior management, company wide HR policies eg on recruitment, redundancy etc can be developed.
- Geographical – the 8 regional publishing divisions cover the whole of the UK – though not Ireland (why?); each division can concentrate on meeting local needs, develop in depth knowledge of its area, leading to greater responsiveness to market changes; this method is in tune with JP’s philosophy of “Life is local”.
- Technological – Publishing Divisions, Printing Division, Electronic Publishing, IT – division by process enables JP to concentrate expertise where it is most needed, employing highly specialised staff and machinery.
- Product – JP Ventures – non-local newspapers have very different product features from local ones; having a separate division is appropriate to develop expertise; separate cost centres allow senior management to track and compare profitability between divisions.

(8 marks)

NB Candidates need not make specific reference to the case study on Johnston Press. Those who do should be given credit for doing so. Relevant references to other organisations and suitable examples should also be credited.

SECTION TWO

6. (a) *A distinctive feature of the UK is that, in addition to being the home of several multinational companies, it also acts as a host to many foreign multinational companies. Examine the benefits this combination may bring to the UK.*

A maximum of 3 marks should be given for each separate point. Up to 8 marks may be given for discussion of each of the areas covered by the question ie benefits as a home country and benefits as a host country – no marks when it is unclear whether a specific benefit relates to the home or the host country. Credit highly candidates who specifically discuss the benefits of having a combination of home-grown and foreign MNCs.

Benefits to UK as the home country

- The creation of additional jobs in the UK eg at the MNC's HQ – these may well be high quality technical and managerial posts which enhance spending power within the UK.
- Spin-off benefits for universities and other educational establishments which may be able to recruit a higher calibre of student; similarly, training companies may be able to generate more business.
- The passing on of the MNC's expertise to other companies and organisations in the UK eg directly through employee training or indirectly if employees move to other organisations.
- The UK benefiting from the repatriation of profits and a rise in national income, with beneficial effects on the UK Balance of Payments.
- UK financial institutions and others gaining opportunities which they can exploit eg providing investment advice, merchant banking services etc.

Benefits to UK as the host country

- Increased employment opportunities for UK residents – although these may not always be high level jobs as they may be filled by nationals from the country where the MNC is based.
- Spin-off effects for others as a result of higher spending – which may create further employment opportunities.
- Boost to other companies eg suppliers who may gain new contracts.
- MNCs bringing new techniques to the UK which may lead to increased efficiency as they are likely to filter through to other companies in the UK.
- A potential rise in UK exports, which may benefit the Balance of Payments (which will also benefit from increased investment in the UK by overseas based organisations).

(14 marks)

6. (b) *Effective leadership is essential to the achievement of a firm's objectives. Analyse the factors that might affect a manager's leadership style.*

A maximum of 4 marks should be given for each separate point. A maximum of 4 marks should be given to answers which consist solely of descriptions of different styles of leadership and do not consider the factors which influence leadership style. One mark may be given for a definition of contingency theory.

- Characteristics of the leader – these are illustrated by trait theory. This suggests that leadership style may be affected by characteristics such as initiative, decisiveness, self-assurance, assertiveness, desire for financial reward.
- Attitude of the leader – this could be explained by Theory X and Theory Y. Theory X can be associated with an autocratic style because leaders see workers as inherently lazy and needing someone to motivate and control them. Theory Y may be linked to a more participative style because leaders see leadership as creating the right conditions under which employees can achieve their own objectives.
- Behaviour of the leader – this is associated with both democratic and autocratic styles of leadership, depending on whether leaders see people or the task as more important.
- Task to be achieved – this is often linked to an autocratic style because leaders see their role as getting the task completed. The nature of the task may also be important eg urgent tasks may demand more authoritarian approaches while tasks that require creativity and where there is no clear way forward may lend themselves to a more participative approach.
- People for whom the leader is responsible – this is often linked with a democratic leadership style as the leader is seen as consultative and anxious to maintain good working relationships. However, the style chosen may depend on factors like the experience of those being led (inexperienced people may require more guidance), the skills and capabilities of the led (the higher skilled and more capable they are, the more they can be left to themselves and/or they can be involved in decisions). In some cases, a laissez faire style may be suitable.
- Situation in which the leader operates (Hersey & Blanchard) – this is linked to the task and the nature of those led eg “telling” is appropriate for low maturity employees.
- Organisational context – a bureaucratic organisation may encourage a more autocratic leadership style, while an entrepreneurial approach may lead to more democratic leadership eg an organisation with a policy of empowerment is likely to require that leaders adopt a democratic style.

(11 marks)

7. (a) *Globalisation has increased international competition. Discuss ways in which firms might make use of information and communications technology to enable them to face this challenge.*

Answers must make a link between ICT and globalisation. A maximum of 4 marks should be given for each main factor.

A maximum of 2 marks may be given for an explanation of globalisation ie the increasingly global nature of the business environment as companies operate on a world-wide basis. Local differences and national boundaries become less significant. UK firms may need to cope with these changes even if they are not themselves operating globally.

ICT developments have contributed to globalisation but UK firms may use ICT to face the challenge.

- Internet – may be used in several ways eg improved co-ordination between companies and customers and within companies; immediate communication with customers and others; the provision of banking and other financial services which may enable companies to manage customer accounts etc; the Internet may also help companies to scan their environment and keep up to date with developments which may affect them.
- Intranet – companies can set up an internal Internet type system which can manage e-mail etc and enable swift communication between all parts of an organisation wherever they are located – eg in the car industry workers in different countries can collaborate on the design of new models, leading to better quality products and enhanced competitiveness.
- E-commerce – B2C may help firms sell to customers all over the world, while B2B may enable firms to access suppliers in different countries (which can lead to lower costs).
- Logistics – firms can now monitor the progress of orders worldwide which enables them to keep track not only of goods/services going to customers but also of supplies coming to them. This can also lead to greater efficiency which can help firms exploit economies of scale and compete with rivals based in other countries (this can apply to firms which do not have significant global operations as well as those that do).
- Video conferencing – this can enable firms to have meetings in real time involving participants from across the world. This can help maintain communication within the company as well as co-ordinating different activities. It can also be used for conferences involving several companies.

Many of the above are inter-connected (eg B2C may well be undertaken by a company website on the Internet). Credit should be given where candidates recognise links like this.

(11 marks)

7. (b) *Assess the possible impact of each of the following on UK firms seeking to expand abroad.*

- *European Monetary Union*
- *Transfer pricing*

Answers should explain what each factor is (maximum 2 marks) and then indicate how it may have an impact on companies seeking to expand abroad. A maximum of 3 marks should be given for each separate impact. Up to 8 marks may be given for discussion of each area.

European Monetary Union

EMU is the framework for the euro which has not been adopted by the UK. Issues thus revolve around the case for and against the euro.

Impact on firms

- They may incur transaction costs because of the need to exchange currencies since the UK is not in the eurozone; they may incur costs also as a result of adverse currency movements, particularly if these are unpredictable.
- They may find it difficult to compare prices of suppliers or gain contracts with other firms (as all prices would be in euros) – this may for example make it harder for firms to source cheaper supplies.
- The above may make it less straightforward to invest in the EU, so UK companies may look elsewhere to locations outwith the eurozone, or become more reluctant to expand abroad because they cannot readily locate relatively close to the UK.
- Uncertainty over UK membership of the eurozone may deter some firms from investing in EU countries.
- Companies may be able to benefit from the exchange rate of the euro against the pound eg if the pound is strong, investing in the eurozone may be relatively cheap and the disadvantages above may not arise.
- Firms may also invest in eurozone in the expectation that the UK will join and they will gain benefits eg of stable exchange rates, no conversion costs etc.

Transfer pricing

Transfer pricing refers to the figure used when goods or services are transferred from one branch of a multinational company in one country to another branch of the same MNC located in another country eg prices charged by a subsidiary for supplying goods to the main company. A transfer price is determined by the company and not influenced by market forces as it relates to an internal transfer of goods or services.

Transfer pricing may impact on firms in the following ways

- It may lead to a reduction in the tax paid on profits eg a MNC may fix high transfer prices on goods/services coming from branches based in high tax countries. By doing so the costs of production in the high tax country will be increased, narrowing profit margins and so reducing the final tax payable. On the other hand, a MNC may set low prices for goods/services coming from low tax countries – this reduces costs of production. This will make profits higher in those countries than they would otherwise have been but the amount of tax to be paid is relatively small, so the overall tax payable by the company is minimised.
- MNCs can manipulate prices for goods sold eg if the MNC sells goods from a central point. In this case, it must fix a transfer price which the central department will pay to the producing branch. This may be high for low tax countries (as this will boost profits) and low for high tax countries (to reduce profits and thus pay less tax).
- The net effect is an increase in profit after tax for MNCs. This, in turn, may enable the company to increase investment, spend more on research, expand more widely, pay bigger dividends to shareholders etc.
- These strategies may be influenced by the effect they may have on the MNC's standing in a particular country eg if it is seen as evading taxes it may get adverse publicity; if it is seen as a significant contributor to taxation revenue it may improve relations with government.
- Transfer pricing may also have an impact in that it can be used to influence managerial behaviour and the development of the company eg managers in one subsidiary can be given an incentive to buy from another branch by a low transfer price or to sell to another branch by a high transfer price.

(14 marks)

8. (a) *Many new business startups fail within their first year. Analyse ways in which the UK Government may influence the success or failure of such organisations.*

Up to 4 marks for each main influence. To score full marks at least 4 separate areas should be considered. Marks should only be given where points are explained. Examples should be credited but only when they develop the basic point.

- Monetary policy – eg rise in interest rates can cause small firms to incur additional costs (on money borrowed from banks etc) which may affect cash flow and profits; this may be particularly relevant for small firms who may face higher interest rates. This may make it harder for firms to survive especially if it upsets the forecasts on which the start-up decision was based. A fall in interest rates may have the opposite effect.
- Fiscal policy – eg changes in taxes such as income tax and VAT can affect disposable income and purchasing power and thus demand for products; changes in corporation tax may directly affect the payments that small firms have to make and influence their profit, although very small firms may be exempt from corporation tax; partners and sole traders will be negatively affected by increases in income tax. As above this may make it harder or easier for firms to continue depending on which way taxes have changed.
- Changes in legislation – eg on employment, discrimination, consumer protection, health and safety – some of which may come through the EU. These may require that a firm adopt particular production techniques (eg in food and hygiene industries or in electronics). This may lead to increased costs (eg in suitable equipment, management time in organising operations, greater paperwork), reduced flexibility (eg working time directive) and this may have knock-on effects on sales, profitability and ability to compete. The success/failure of a small firm may be affected by how well it copes with any changes and how big their effects are (eg additional costs which may be less easy for small firms to absorb).
- Government policy on small firms – the government regularly introduces initiatives to help small firms. They vary from time to time but include easier access to finance; rent free premises; grants for training, equipment and services such as free broadband. All these are designed to help small firms through the early periods when expenditure may be high but the firm is still building up its market. Their intention is to reduce the failure rate of small firms.
- General government policy could affect firms eg healthy eating campaigns may affect some food and soft drinks companies – this may help some but not others (an organic food company may benefit for instance); quality accreditation initiatives may require that time be spent on paperwork; enlargement of the EU may lead to increased competition.

[NB The above can be presented in several different ways. Answers which repeat the same point eg for different aspects of legislation; different government initiatives should not be treated as making different points.]

(14 marks)

8. (b) *Discuss the extent to which the roles and qualities required to be an entrepreneur may differ from those required to be a manager.*

Up to 3 marks may be given for each separate point. The answer lends itself to examples and these should be given credit. Answers should explain why particular qualities and skills will be helpful. Answers which consist of a list of qualities but no explanation should earn a maximum of 4 marks.

Answers could be based on Mintzberg and/or Fayol and credit should be given for suitable references to them. Differences between a manager and an entrepreneur may depend on the level a manager works at and the type of organisation in which s/he works. A CEO in a large innovative company may be very similar to an entrepreneur, although the scale of activities may be different. Mintzberg's managerial roles, for example, include the role of entrepreneur. The difference between the role of a first line manager in a large organisation and an entrepreneur may be greater because a manager may face greater constraints.

- Planning (Fayol) – this may be a critical function of manager's job as a manager is likely to have to develop specific plans for the future. Entrepreneurs must do this as well but they may not have to work within an organisational context – so managers must make sure that their plans dovetail with company policy and with the plans of other managers.
- Setting a direction for the future (may be Fayol's commanding and Mintzberg's leader and entrepreneur role) – entrepreneurs must do this eg decide which markets to target but it may be that only senior managers (or the CEO) do this.
- Monitoring (Fayol's control and Mintzberg's monitor role) – both managers and entrepreneurs must monitor progress against targets.
- Organising (Fayol) – entrepreneurs must set up a framework for their organisation which can make their plans work. This may apply to senior managers also but lower level managers are likely to work within a framework set for them.
- Communication skills – entrepreneurs and managers both require these qualities but for managers there may be more need for Fayol's co-ordinating and Mintzberg's dissemination roles while entrepreneurs may make more use of Mintzberg's spokesperson role as they need to deal with customers, bank managers etc.
- Negotiation skills (Mintzberg's negotiation and liaison roles) – both require these skills but for managers it may be more to deal with people inside the company (eg members of their team) while an entrepreneur is more likely to deal with outsiders eg government agencies; financial institutions which may provide funds etc.
- Representing the company (Mintzberg's figurehead role) – this a critical requirement for an entrepreneur but one which only very senior managers need eg at meetings with shareholders and other stakeholders.

- Decision making skill (Mintzberg's decisional roles including resource allocation and disturbance handling) – both managers and entrepreneurs will need to possess this quality as both require to decide what resources will be needed and what to do if things do not work out as expected.
- Self-confidence and ability to deal with uncertainty – qualities such as these are particularly important to entrepreneurs as they have to rely on their own resources. Very senior managers may be in a similar position.
- Self reliance – this may be particularly important for entrepreneurs who have to rely on their own judgement and may not have the support networks which managers may be able to make use of within an organisation.
- Creativity/Innovation – entrepreneurs need to be able to spot gaps in the market and identify suitable business opportunities. This may also be true of senior managers but managers lower down the organisation are likely to have to work within organisational policy. Their skills are making sure that what has been decided is carried out effectively.

(11 marks)

9. (a) *Change is constant in the modern business environment. Discuss how the features of the corporate culture of an organisation may influence its ability to accept change.*

A maximum of 4 marks should be given for each separate point. Answers should make a reasoned link between culture and change. Answers which discuss either organisational culture or change but not both should gain a maximum of 6 marks.

Organisational culture may help employees to accept change in several ways.

- An entrepreneurial culture (see Handy's power culture) emphasises fast movement, customer focus, taking new opportunities – as a result employees accept change as the normal state of affairs.
- A person culture (Handy) may encourage personal development which, in turn, may lead employees to be adaptable and to be prepared for personal change – this may help them cope with company change which could be seen as part of their personal development.
- Both the above may be associated with continuous improvement or customer focus, both of which may lead employees to look for change and thus take ownership of it – again change may be a constant factor but the company is geared up to doing things that customers want and is ready to expect it.
- Cultures like the above may be associated with democratic leadership styles in which employees participate in critical decisions – in this way they can feel part of changes which take place.
- A task culture is job or process oriented – it emphasises getting the job done; it is extremely adaptable as teams or task forces are formed for a specific purpose, then reformed; gives people a high degree of control over their work; consequently copes well with situations of change where speed of reaction is important.
- Becoming a learning organisation may be part of a culture for change. Learning organisations are ones which take opportunities for learning (eg from past experience; from tackling new problems). Again, change is seen as something which is normal.

Features of the organisational culture that may make it less easy for employees to accept change.

- In a role culture (Handy), the emphasis is on the roles that employees fulfil – this could inhibit change as roles can become entrenched and employees feel threatened if their role changes and therefore resist any attempts to change it; in this culture change is not seen as normal and employees are generally unaccustomed to it; the more bureaucratic the organisation, the more entrenched such attitudes are likely to be.
- In a person culture the emphasis on the individual and their objectives can hamper recognition of the overall objectives of the organisation and make it difficult to coordinate change across the organisation.

- An autocratic management style may also make it harder for employees to accept change as they are likely to have it imposed upon them without discussion or consultation. In these circumstances, employees may not know why change is required or what the consequences of it may be. They may also be sceptical about whether management is committed to providing support during the change process.

(13 marks)

9. (b) *Explore how pursuing a policy of corporate social responsibility might influence the marketing and operations functions of a firm.*

Answers should make a reasoned link between social responsibility and the marketing and operations functions – marks for development points should be given where answers do make this link. Answers which discuss only marketing or operations but not both should gain a maximum of 7 marks.

One mark may be given for an explanation of corporate social responsibility ie taking into account obligations to all an organisation's stakeholders.

Corporate Social Responsibility (CSR) may influence operations in a firm in several ways.

- CSR may attract employees whose commitment may lead to higher productivity, new ideas etc which could translate into lower costs, more socially responsible ways of working (eg energy saving) etc.
- CSR may in general be a stimulus to innovation and new working methods eg Amazon use recyclable boxes for delivering books.
- CSR can enable companies to cope with changing legislation – eg on environmental standards and safety requirements which may affect the operations of the firm in terms of how things are produced or services are provided – this may enable firms to avoid sudden additional costs and, in turn, reduce possible variations in profitability.
- CSR could lead to additional costs in terms of equipment and staff resources. These may have knock-on effects on the efficiency and effectiveness of the operations function eg it may lead to pressure to reduce costs elsewhere. This may be particularly so if increased costs may make it difficult for firms to compete with rivals, some of which may be located in lower cost countries.
- CSR could also influence the actual products or services which an organisation provides and this may influence the way the operations function operates.
- CSR may encourage firms to treat employees generously eg by providing better working conditions and higher wages, thus motivating them to increase productivity.
- CSR may influence marketing in a firm in several ways.
- CSR can be used in advertising and public relations eg to demonstrate commitment to the environment which, as above, may result in higher sales and higher profits. In this way CSR may affect the type of advertising used. However, consumers may become cynical of apparent attempts to be socially responsible, limiting the benefits to firms.
- CSR may provide publicity opportunities which firms can exploit – this may help them build a good reputation which may feed though into general advertising etc.

- CSR may help firms avoid adverse publicity so that the marketing function is not required to defend the organisation from criticism but can focus on presenting a positive image – this could help to improve the effectiveness of the marketing department as well as making its overall task easier.
- CSR may backfire on firms eg attempts to offer educational material in return for vouchers/proof of purchase have been accused of encouraging unhealthy eating and/or of being unfair in terms of the volume of purchases required – eg Cadburys was accused of hypocrisy when it ran a campaign offering sports equipment in return for the consumption of large amounts of chocolate. This could turn good publicity into bad and adversely influence sales and profitability.
- CSR may affect the types of advertising and promotion used eg it may open up opportunities in environmentally conscious magazines.
- CSR may bring about free publicity eg reports in newspapers of CSR activities.
- CSR may affect prices of goods and services – eg they may rise and this may have an impact on other parts of the marketing mix (eg consumers may be prepared to pay a higher price as they feel that this is worth doing because the firm is socially responsible).
- CSR may enable a firm to gain a niche for itself which it can exploit through its marketing eg CWS and green products.

(12 marks)

[END OF MARKING INSTRUCTIONS]