



2007 Business Management

Higher

Finalised Marking Instructions

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Section 1

1. *Identify the problems of the Tourist Industry in Oban. You should use the following headings. (Please identify problems only, solutions will not be credited.)*

- *Marketing*
- *Finance*
- *Human Resources*
- *External*

Marketing

- Main asset, the town's waterfront is not being used properly.
- No promotion to attract tourists from UK and worldwide.
- Lack of moorings for yachters to tie up and walk ashore (product).
- Lack of car parking facilities (product).
- Not enough attractions to entertain tourists (product).

(Accept last 3 in either marketing or external).

- Lack of accommodation during busy spells.
- Competition from Dunstaffnage and Ardfen.

Finance

- Businessmen unwilling to invest any more money.
- Training is continually carried out due to high staff turnover, proving costly.
- Lack of vision from the local council means missing out on trade from yachters and losing out on profitability.
- Variable levels of demand makes cashflow forecasting difficult or affects project.
- Loss of income due to marketing issues (finance or marketing).

Human Resources

- Difficulties in utilising staff during busy spells.
- Lack of experienced workers in the area.
- Hotel and tourist industry is not appealing due to short term contracts.
- High staff turnover in industry.
- Increased staff costs from training/overtime etc – 1 max

External

- Weather is less appealing than other areas of Europe.
- Lack of American visitors due to threat of terrorism.
- Access to North Pier is difficult.

(10)

Max 3 per heading

Watch for repetition

2. *The local council are carrying out a consultation exercise with stakeholders. Describe how 4 different stakeholders of the local council could influence the council's future plans.*

Award one mark for a correct description of the influence of any 4 of the following stakeholders of a local council.

- Local Business Owners – could raise concerns regarding investment in the area and suggest areas for improvement/development.
- Community/Council Tax Payers – petition local council over matters they are unhappy with to prevent similar problems in the future. Meet with their councillors to bring up topics that they are unhappy with.
- Council Employees – provide a good service through working efficiently, no absences, put forward good suggestions for improvement of services, go on strike.
- Council Managers – at regular meetings can discuss staffing levels, suggest areas of investment, areas needing improved to provide a better service, ensure objectives are met.
- National Government – take action if council overspends, legislation, eg, recent recycling laws could force local council to take action in certain areas.
- Elected Councillors – decide on policy and strategic objectives of the council, make decisions whether to accept or reject suggestions, set level of council tax, decide on areas for improvement/investment.
- Suppliers – offer better discounts, quality materials at good prices.

(4)

Local community/Council taxpayers/Customers = same

4 different influences

Do not accept Investors

Wrong stakeholder to influence – no marks

3. *Alan MacLeod, the owner of The Eeusk Restaurant, is an entrepreneur. Describe the role of an entrepreneur in a business.*

- **Develops** a business idea.
- Combines the factors of production (land, labour, capital and enterprise).
- Take the risk of losing their initial investment if the business idea fails.
- Use their initiative to make decisions on finance, hiring staff, etc.
- Delegates responsibility to managers or staff.
- Decide the strategic and tactical objectives of the organisation.

(4)

No marks for Role of Manager - POCCC

4. *A gap in the tourist market for yachters exists in Oban. Tony Cox, owner of Oban Yachts, could attempt to target this market.*

(a) *Explain the term niche marketing.*

- When a gap in the market has been identified and little competition exists.
- Companies aim a specific product/service at a small market segment.
- Attempt to build up expertise in that area.
- Little competition exists in that area.
- Can be risky as only a small group of specialised customers exists.

(2)

(b) *The local council are trying to attract tourists to Oban with worldwide marketing of the area. They will need to consider many external factors that could influence the industry.*

Describe external factors that could influence the effectiveness of a marketing campaign.

- Political factors – terrorism, government legislation.
- Economic factors – inflation, exchange rates affecting tourism, recession.
- Social factors – changes in population distribution, ie, ageing population, smaller families, women into work.
- Technological factors – e-commerce, use of e-mail and internet for marketing.
- Environmental factors – changing weather patterns, storms, more rain.
- Competitive factors – competition from European and other UK resorts.

Max 3 per factor
No marks for list

(6)

Description of factor, example or how it affects the marketing campaign.

5. (a) *Explain why firms can have a healthy profit but experience cash flow problems.*

- Too much money tied up in stock.
- Unwillingness to borrow due to high interest rates.
- Owners take large drawings from profits.
- Customers taking too much time to pay.
- Customers allowed too much time to pay.
- Allowing customers to have a high credit limit.
- Difficulty in raising finance.
- Purchasing large amounts of Fixed Assets (high capital expenditure).

(4)

(b) Describe how an organisation could make use of:

- a production budget
- a sales budget.

- To plan ahead for production/sales.
- Provides targets for sales.
- Actual figures can be compared to target figures.
- Allows co-ordination of production quantities to match anticipated sales.
- Budgets have to be adhered to which helps control expenditure.
- May highlight areas of high costs which can be reduced.
- Targets from budgets can be used as motivational tools for sales staff.

Watch for repetition.

(4)

6. (a) Describe the changing patterns of employment that have occurred in the UK during the past 20 years.

- Decline in full time workers with move to more part-time and short term contracts.
- Firms now have core workers and outsource or sub-contractors for non core activities.
- Increase in service/tertiary sector employment and decline in traditional manufacturing industries.
- Increase in women in full or part-time employment.
- More women in managerial posts.
- Increase in number of older workers due to aging population and changes in pension laws.
- Homeworking/Teleworking.
- Smaller firms.
- Career changes more common.
- More people are self employed.
- Changing in patterns of working hours, eg, annualised hours, flexi-time.
- People choosing to work abroad.

(4)

(b) *The Eeusk Restaurant has a problem with high staff turnover. This requires frequent induction training.*

(i) *Describe the term induction training.*

- When a new member of staff is given training when they start a job.
- New employees will learn relevant aspects of the organisation's mission, culture, policies, procedures and methods of working.

(1)

(ii) *Outline the benefits of induction training.*

- New employees are integrated more quickly into the organisation.
- Provides a good image for the company to both the new employee and prospective employees.
- Is motivational for the new employee as they feel welcome.
- Should allow the new employee to be more productive in a shorter time scale.
- Induction Training is an essential first stage of an employee development programme.
- Should make a new employee feel more comfortable in a new post.
- Health and Safety issues can be cleared up.
- New employees are aware of their surroundings and working area.

(4)

7. *Some organisations use a flat rate system to pay employees. Describe other types of payment systems.*

Time Rate

- Workers are paid per hour, eg, £10 per hour, for each hour they work.
- Used in manual jobs, and is simple to calculate.
- Pays for the actual time spent at work and not for output.

Piece Rate

- Employees are paid for the amount of work they do.
- Paid an agreed rate for every item they produce and is payment by result.
- Is an incentive to produce more items.
- Employees have no basic pay to fall on if machinery fails.
- Can sometimes sacrifice quality for output.

Commission

- Is a reward for the amount of a product or service sold to customers.
- Can be paid on top of a basic salary.
- Paid as a percentage of the products sale value.

Overtime

- Normal hourly rate plus an increase for extra hours worked.
- Is an incentive to work more than the contracted hours.

Bonus Rate

- Employees are paid a basic rate with a bonus on top for meeting agreed targets.
- Is an incentive to produce more or work harder.

Annualised Hours

- Employees are paid assuming a basic working week of 37.5 hours.
- Employees receive the same amount each week/month.
- May have to work longer some weeks/months or less in others depending on demand.

(4)

Max 2 per system

8. *Many organisations choose to delayer. Explain the benefits of delayering to an organisation.*

- Saves money on expensive managerial salaries or employee wages.
- Leads to better communication due to less layers for information to pass through.
- Employees are more motivated as they are empowered to make decisions.
- Can respond quicker to market changes.
- May improve productivity.
- Decision making is faster due to fewer layers.

(3)

(50)

No marks for diagrams

[END OF SECTION ONE]

Section 2 SOLUTIONS

1. (a) *Organisations continually try to obtain primary information about the market in which they operate.*

Describe the advantages and disadvantages of 3 types of field research an organisation could use to obtain primary information.

One mark for either an advantage or disadvantage of each method. Max 3 for each method.

Personal Interview

- Allows 2 way communication and encourages answers.
- Misunderstandings can be ironed out.
- Can be an expensive method.
- Home interviews tend to be unpopular with consumers.

Telephone Survey

- Is fairly cheap.
- Response is immediate allowing large numbers to be surveyed quickly.
- Hostility to the person making the call is common as people do not like being disturbed at home.

Postal Survey

- Is cheaper method than street survey as it does not require trained personnel.
- Questions need to be very simple and easily understood.
- Response rate is very low.
- Free gifts are used to increase the return rates.
- High design costs.
- Wide range of views and opinions.

Hall Test

- Gives consumers the chance to see or try a product and to be questioned on their opinions of the product.
- Is often used in supermarkets and wholesalers.
- Fairly cheap method.
- Can be difficult to analyse qualitative information.
- Consumers often give favourable replies simply to be polite.

Consumer Audit

- Can be accurate information on consumer buying patterns which can be used to predict consumer trends.
- Is a very expensive method as many consumers receive payments to complete diaries.
- Consumers get fed up quickly resulting in a high turnover of respondents and inaccurate data.
- Consumers may not complete the journals accurately or on time.

Test Marketing

- Allows for the product to be amended or improved before national launch.
- Saves the cost of a national launch if the product does not receive good reviews in the test market.
- Regional tastes may not represent the nation as a whole.

Observation

- Provides accurate quantitative information.
- There is no direct contact with the customers.
- Cannot clarify any situations or ask for explanations.

(8)

(b) *Explain the various means of sampling that could be used to obtain a cross section of views when carrying out market research.*

Award one mark for each correct point.

- Random Sampling – individuals are pre-selected at random and an interviewer makes calls to those people from the list.
- Lists can come from the electoral register or telephone directory.
- Can be difficult to carry out as once the people are selected they must be interviewed.
- This means the interviewer must continually try to contact the person.

- Quota Sampling – instructions are given as to the number of people to interview and in what characteristic they should be from, ie, married or single, each different income group.
- The researcher must then find the correct number of people in each category.
- It is cheaper than random sampling.

- Stratified Sampling – the sample is divided up into segments based on how the population as a whole is divided up.
- This makes a random sample more representative of the population as a whole.
- For example, income groupings will be divided up closely to match the national percentages of each income group.

Max 3 if just one method.

(4)

- (c) (i) *Discuss the ways in which divestment and demerger can assist the growth of an organisation.*

CAN ALL BE POSITIVE

- Divestment allows an organisation to sell off minor areas of their business and concentrate on the core activities of the organisation.
- The areas sold off are often the less profitable areas.
- This increases funds available for growth in the core activities.
- The actual funds from the sale can be used to expand the core activities.

- De-merger allows an organisation to split into two separate organisations to raise cash for investment.
- The organisation can then concentrate on its core activities.
- Cost cutting should make it more efficient and therefore able to expand.

(4)

- (ii) *Describe other methods of growth.*

- Horizontal Integration – firms producing the same product/service combine together.
- Reduces admin costs.
- Allows for economies of scale.
- Can allow firms to estimate competition or be more competitive.

- Vertical Integration – firms at different stages in the production process in an industry combine together.
- Forward vertical integration is when a business takes over a customer.
- Backward vertical integration is when a business takes over a supplier.
- Allows firms to cut out middle-men and increase profits.
- Firms can then control supply and distribution of the product.

- Conglomerate – firms in difficult industries combine.
- Reduces the risk of failure.
- Makes for a larger and possible more financially secure business.

- Merger.
- Takeover.

- Internal Growth – firms open more outlets.
- Increase number of products or services to customers.

(5)

Max 3 per method.

(d) *Describe how organisations such as The Prince's Trust, banks and Local Enterprise Agencies could provide assistance to a new business.*

- Provide training for startup businesses.
- Can give advice on many different areas of a business.
- May give grants.
- Business managers will give advice on financial planning.
- Preparing a business plan.
- Loan or overdraft.
- Can give advice on setting up a business.
- Provide useful local contacts.
- Taxation.

(4)

Accept any organisation eg lawyers for legal advice, etc.

2. *Organisations group their activities in a number of different ways.*

(a) *Distinguish between the following 3 types of organisational groupings:*

- *Product/Service Grouping*
- *Customer Grouping*
- *Technological Grouping.*

Product/Service Grouping

- Products or services are grouped together in divisions or departments within a different product range.
- This allows for each separate division to be more responsive to customers requirements and trends in its area.
- Specialism can be developed in each division.
- It is easier to identify parts of the organisation that are under performing.
- Duplication of resources and personnel across each division.
- Can cause competition within each division of the one organisation.

Customer Grouping

- The organisation is grouped around different customer types.
- This allows each division to offer a unique service to each segment or customer type.
- Builds up strong customer loyalty due to the personal service given to each type of customer.
- There are high staff costs.
- Duplication of functional departments exists.

Technological Grouping

- Manufacturing companies can group their business around the technological or production process that exists.
- Specialism can occur within each process.
- Can reduce wastage and costs.
- Only an option for very large organisations who have different products with similar production processes.

(9)

Accept answers where no attempt at linkage is made – ie candidate describes and gives

information about one grouping before moving onto another OR as script 1 (attempt to link made)

Do not award marks for repetition between groupings.

(b) *Public sector organisations are owned and controlled by Central Government.*

(i) *Describe 2 strategic objectives of a public sector organisation.*

- To provide an efficient service.
- To make effective use of funds.
- To improve society.
- To serve the public interest.
- To stick to agreed budgets.

(2)

(ii) *Identify 2 sources of funding for a public sector organisation.*

- Taxation.
- Council Tax.
- Charging for some services, eg, leisure centres.
- Business Rates.
- Grants from lottery.

(2)

(c) *Employee Representative Groups, (eg Trade Unions) use the power of collective bargaining for the benefit of their members. Describe 3 advantages of collective bargaining.*

- Representing a large number improves the negotiating position and chance of success for members.
- Agreements reached can be on a national level.
- Reduces the number of individual meetings required to resolve an issue.
- Without collective bargaining the employees could be taken for granted and deliberately left out of discussions, consultations or told very little by the organisation.
- Negotiators are experienced.

(3)

- (d) *Various forms of testing are now being used by organisations to ensure the best candidates are selected for a job vacancy.*

Discuss the different types of testing that an organisation could use to select the best candidate.

Attainment Testing

- A form of testing that allows candidates to demonstrate skills.
- Can be used to measure candidate skills against the organisations standard.
- Candidates can prove achievements obtained through experience.
- Provides the organisation with additional information on a candidates suitability.

Intelligence Tests/IQ Tests

- Is a measure of a candidates mental capabilities.
- Tests numeracy, literacy and problem solving.
- Information is quantitative and can then be compared from one candidate to another.

Aptitude Tests

- Assess candidates natural abilities.
- Tests should be on the skills required for the particular job.
- Demonstrates the candidates ability to perform particular tasks/skills required for the job and therefore their suitability.

Medical Tests

- Some jobs require candidates to pass a fairly rigorous medical exam.
- Police, Armed Forces, Fireman must pass medical before they can move on to the next stage of the recruitment process.
- Some organisations insist that the candidate has their own medical test carried out and the candidate will pay for this.

Psychometric Testing

- Tests which assess a candidates personality and traits in response to a series of questions.
- There are no right or wrong answers and information is qualitative.
- The assessments must be interpreted by a qualified person or wrong interpretations can be used.
- Can sometimes be misleading as candidates can be 'coached' how to sit the tests.
- Can be expensive as involves trained personnel using an appropriate test and the time taken to evaluate it.

Fitness Tests – accept as separate from Medical if different points brought out.

General Issues

- Completing tests can be stressful to the individual.
- Is time consuming and expensive – this needs to be weighed up against the added value the tests bring to the selection process.
- Should not be used to the detriment of interviews, CV's and references.

(6)

(e) *Describe the benefits to an organisation of having a strong corporate culture.*

- Employees feel part of the organisation.
- Is motivational to staff.
- Improves employee relationships.
- Increases employee loyalty.
- Gives customers a sense of quality/efficiency.
- May attract new workers.
- Improves the business image.

(3)

3. (a) *Distinguish between the following financial terms.*

- *Gross Profit and Net Profit*
 - *Fixed Assets and Current Assets*
 - *Debentures and Shares*
-
- Gross Profit – turnover less cost of sales.
 - Net Profit – profit after the firms expenses have been deducted from the gross profit.
-
- Fixed Assets – items which the business owns and will be kept for longer than one year.
 - Current Assets – items which the business owns and will be kept for less than one year.
-
- Debentures – a loan where there fixed interest is paid over the stated period of the loan and then the full amount is paid back.
 - Shares – investment in a company that receives a dividend each year if profits allow.

(6)

One mark per term.

(b) (i) Describe the main features of the following legislation.

- *Health and Safety at Work Act 1974*
- *Data Protection Act 1984*
- *Computer Misuse Act 1990*

Health and Safety at Work Act 1974

- States employers duties regarding health and safety on issues such as temperature, first aid, toilet facilities, cleanliness, protective clothing, etc.
- Also states employees duties regarding due care of their own and other employees health and safety, reporting of incidences or accidents, etc.

Data Protection Act 1984

- Control the legislation regarding collection, storage, processing and distribution of personal data.

The act states that:

- data should be obtained and processed fairly
- data can only be held for specific and lawful purposes
- data held should be adequate, relevant and not excessive for the purpose
- data should be accurate and up to date
- data should not be held longer than is necessary
- individuals are entitled access to the data
- if appropriate the data should be altered or erased
- security should be maintained to ensure no unlawful access to the data.

Computer Misuse Act 1990

- Was passed to deal with the problem of hacking of computer systems.

The act created 3 new offences:

- unauthorised access to computer material
- unauthorised access with intent to commit or facilitate commission of further offences
- unauthorised modification of computer material.

Max 2 per Act.

(5)

(ii) Explain the impact of *The Freedom of Information Act 2002* on an organisation.

The Freedom of Information Act 2002

- Allows individuals to request the information held on them by a public authority.
- Individuals must be told if the public authority holds information.
- Have the information communicated to them (within 20 days).
- Means organisations must be selective regarding what is held on individuals.
- Could expose negative aspects.

(2)

(c) *Manufacturers use short term promotional measures to boost sales of products or services to retailers (into the pipeline promotions). Identify and describe 2 of these measures.*

- Point of sale of materials.
- Dealer loaders.
- Sale or return.
- Competitions.
- Staff training.
- Credit facilities.
- Bulk buying discounts.

(Any 2 correct)

Must include a description to gain the second mark.

(4)

(d) *Discuss different forms of direct selling available to organisations.*

- Mail order – goods sold via catalogues.
- Offers credit facilities.
- Can be exclusive and only way to purchase some products.
- Saves expensive High Street locations.
- Consumers may not like the lack of personal service and many goods require to be returned.
- Involves high advertising costs.
- High levels of bad debts occur.

- Internet selling – firms sell their products or services over the Internet.
- Consumers can order online from the comfort of their home.
- Saves time and hassle of travelling to High Street stores.
- Some concerns over the use of credit cards and the security involved.
- Goods delivered direct to home of consumer.
- Saves on overhead costs.
- Available 24/7.
- Cheaper prices.

- Direct mail – companies send letters/leaflets advertising their products for sale directly to homes of possible consumers.
- Consumers within specific market segments can then be targeted directly.
- Can reach wide geographical areas.
- Consumers do not respond well to vast amounts of junk mail.

- Specialist magazines – used to describe and sell specialised products direct to consumers.
- Consumers can telephone or fill in order forms and send them in.
- Consumers who purchase the magazine are interested in that area.

- Personal selling – products are sold door-to-door or by telesales.
- Can be direct to retailers or to consumers.
- Allows the product to be demonstrated.
- Consumers are not keen on being disturbed at home.
- TV selling – bidup or QVC.

Avoid repetition.
Max 7 for one area.

(8)

No ID marks for naming form of direct selling.

4. *Managers try to make effective decisions.*

(a) *Describe internal constraints that can make decision making difficult.*

- Financial constraints may mean that the organisation cannot choose the best solution to a problem.
- Company policy may restrict the decisions made or options available.
- Staff can resist change and attempt to sabotage decisions if they disagree with them.
- Lack of technology can mean that decisions taken may fail.
- Managers may have limited ideas.
- May be unable to handle stressful/complex situations.
- Lack of opportunity to consult may mean that decisions are poor.
- Managers may be indecisive and make poor decisions.
- Overpowering Managing Directors may overturn or veto decisions being made.
- Time constraint.

(6)

(b) *Describe ways of using ICT to help decision making.*

- Use of spreadsheets for ‘what if’ scenarios.
- Use of charts and graphs to analyse trends.
- Databases can show products which are selling well or underselling.
- Can show information on staff, such as staff absences.
- Use Management Decision-making Software which analyses internal company records.
- Project Management Packages help managers track the progress of a specific project.
- Used to keep track of deadlines.
- Print progress reports.
- Computer Aided Design software allows managers to make decisions on the design of a product without having to make a prototype.
- Improves communication of decision making, eg, e-mail, video-conferencing.
- Improves the scope for evaluation.
- Internet to research for information.
- Mobile phones.

(6)

(c) *Discuss the advantages and disadvantages of a centralised stock control system.*

- Security is improved.
- Can reduce costs as bulk purchasing uses economies of scale.
- Less smaller purchases are necessary.
- Reduces duplication of stock held throughout the organisation.
- Specialist staff are used to control ordering, issuing and purchasing of stock.
- Agreed procedures can be set up for the whole organisation.
- Can be time consuming to receive stock when needed in departments.
- If large amounts are held there is an increased likelihood of wastage.
- Specialised requirements of departments is harder to maintain.
- Central stock may be remote from production wasting time moving materials.
- Moving stock from remote store has cost implications.

(6)

(d) (i) *Describe and justify the use of the following methods of production.*

- *Job*
- *Flow*

Job production

- Where a single product is made to a customers specifications.
- Involves skilled workers making the product.
- Used for production of one off items such as tailored suits.
- Can charge a higher price.
- Can be motivational to workers.
- High quality.

Flow production

- Items move continuously along a production line from one operation to the next.
- Each part of the operation leads to the eventual end product being manufactured.
- Machinery is used to reduce labour costs.
- Huge quantities can be produced.
- Can reduce the cost of individual products.

(4)

(ii) *Justify the choice of the following methods of transporting goods.*

- *Road*
- *Rail*
- *Air*

Road

- Modern vehicles are now designed to transport specific goods, eg, refrigerated.
- Is relatively cheap method of transport.
- Can be relatively quick.
- Allows door-to-door delivery from any location.

Rail

- New rail terminals make it more appealing.
- Is safer for some products compared to roads.
- Can cater for large products.

Air

- Caters well for longer international travel.
- Is faster than other methods.
- Ideal for smaller electronic components.

(3)

5. *For firms to survive in the market place they must provide quality products and services.*

(a) Explain measures organisations can take to ensure they produce a quality product or service.

- Benchmarking – using best methods identified through best practice in industry.
- Quality assurance – products are checked at certain points in the production process.
- Unacceptable products are discarded.
- Quality circles – groups of workers including managers and grass roots workers, meet to discuss the best methods and where improvements can be made.
- Allows the actual workers doing the job to make suggestions.
- TQM – focuses on quality products every time.
- Zero defects are aimed for.
- Must have commitment of whole organisation and all workers.
- Clearly defined standards and policies are implemented to ensure quality at all times.
- Products are scrutinised at all stages of the production process.
- Quality standards/marks – BSI awards are used to show quality has been approved.
- Use of trade logos – such as red Lion Mark on eggs, or woolmark, show that products have met industry standards.
- Quality control – products are checked at the end of the process.

(9)

Candidates must correctly match the ID to the description to gain the mark. If a wrong description follows the ID then no marks awarded. However, description marks can be gained without any ID.

(b) Product endorsement is when firms pay famous people to promote their product or service. Describe the advantages and disadvantages of product endorsement.

- Consumers associate products with the personality.
- Gives a good image of the organisation.
- Consumers will purchase products to be seen as the same as the personality.
- Increases sales if the personality is successful.
- Involves very high costs to pay personalities for their name/image.
- If personality has a problem then the product can suffer the negative publicity.
- Organisations need to choose personalities carefully and ensure they portray the correct image the organisation wants to use.

Max 4 if only advantages/disadvantages.

(5)

(c) *Distinguish between a strategic and tactical decision and give an example of each.*

- Strategic decision made by senior management.
- Is longer term.
- Sets main aims and objectives of an organisation.
- Eg, move into a new market segment, open retail outlets in other countries.

- Tactical decisions are made by middle managers.
- Assist in the achievement of strategic objectives.
- Are shorter term.
- Eg, products to be developed for new market, suitable locations for retail outlets.

(6)

2 marks for description and one for example in each.

(d) *Firms use ratios to analyse their Annual Accounts.*

(i) *Describe reasons for using ratios to analyse performance.*

- Used to compare performance with previous years.
- With competitors of similar size.
- Highlights trends.
- Shows areas where corrective action can be taken.

(2)

(ii) *Explain the limitations of ratio analysis.*

- Information is immediately historical.
- Findings do not take into account external factors.
- New products or product development is not taken into account.
- Staff morale or turnover is not taken into account.
- Recession

(3)

1 mark only for External factors

[END OF MARKING INSTRUCTIONS]