X234/12/01

NATIONAL QUALIFICATIONS 2014

MONDAY, 19 MAY
1.00 PM – 3.30 PM

BUSINESS MANAGEMENT HIGHER

Candidates should attempt **all** questions in Section **One** and **two** questions from Section **Two**.

Read all the questions carefully.

100 marks are allocated to this paper.

50 marks for Section **One** and

50 marks for Section **Two**.

Answers are to be written in the answer book provided.

SECTION ONE

This section should take you approximately 1 hour 15 minutes.

Read through the following information, then answer the questions which follow.

The Royal Bank of Scotland

The Royal Bank of Scotland (RBS) is one of the oldest banks in the world with over 700 branches, mainly in Scotland, but also in the larger cities in England and Wales. RBS has a proud history stretching back to the early 1700s and was the first bank in the world to offer an overdraft facility in 1728.

In recent times RBS has had problems linked to the worldwide financial crisis. The share price of RBS reached an all time high of £7 per share in 2007. However, in 2008 the UK government had to bailout RBS, buying 84% of its shares at only 50p per share. RBS is now seen as being owned by the government after it invested £45 billion in the share purchase. In 2011 these shares dropped from the purchase price of 50p per share to 19p per share. This represented a loss of £26 billion to the UK taxpayer.

After the UK government bailout, RBS bonus payments to executives continued, leading to controversy throughout the UK. Staff bonuses were nearly £1 billion in 2010 even though RBS reported losses of £1·1 billion in the same year. More than 100 senior bank executives were paid bonuses in excess of £1 million each. Chief Executive, Stephen Hester, who was appointed to rescue the heavily indebted bank, was awarded a bonus of £1 million. Hester subsequently waived the bonus offer after a public outcry at the level of bonuses being awarded by RBS. At the same time Labour MPs had been planning to force a House of Commons vote on the bonuses being offered to RBS executives. The level of the government bailout and the subsequent bonus revelations severely damaged the reputation of RBS.

Rebuilding the Image

Before the financial crisis, three quarters of the senior management team at RBS had been promoted internally. Now almost two thirds of the 330-strong management team have been hired from external sources. Coupled with high redundancy payments, it proved a costly recruitment exercise for RBS to replace their most experienced staff.

RBS said it needed to cut staff by either closing or selling its Advisory, Cash Equities and Equity Capital Markets' operations. Losing many of its experienced staff while waiting on newly hired staff to gain knowledge of the bank was a risky strategy. However, this was seen as an attempt to improve its damaged image and Stuart MacIntyre, who runs the bank's in-house headhunting function said, "The shift in strategy is part of the company's aim to rebuild itself following its collapse". He went on to claim, "It sends out a clear message that the bank is keen to do things differently – complete with a new leadership team, change of board and a new clear strategy".

The Restructuring Process at RBS

Coming at a time when RBS' public image was at an all time low, the American investment bank Jeffries looked to clinch a deal to buy the RBS owned stockbroker Hoare Govett. RBS had placed the stockbroker Hoare Govett up for sale in an attempt to cut their debt and off-load this underperforming business. RBS agreed to provide some funds in the short term, to cover salaries and redundancies at Hoare Govett, in an attempt to ensure the sale went through. Less than half of the 125 staff at Hoare Govett were expected to be retained but Jeffries hoped that the Hoare Govett name would remain.

RBS acquired Hoare Govett during its expansion period when it also bought the debt fuelled Dutch bank ABN AMRO. These were major factors in pushing RBS into the government financial bailout it needed to survive.

The sale was part of a wide ranging restructuring of RBS led by Stephen Hester. When Hester drew up his original recovery plan for RBS, Hoare Govett was expected to be one of the key profit generators. However, tough new capital rules introduced by global regulators changed the economics of investment banking. Many of the trading businesses, like Hoare Govett, that used to generate large profits for banks struggled to break even. The larger investment banks cut jobs by the thousand and pulled out of dozens of business ventures.

For RBS the restructuring had been made even more difficult by the proposal, put forward by the UK Independent Commission on Banking, to stop banks splitting their operations. In addition the eurozone crisis caused share trading to almost grind to a halt. This killed off a lot of the takeover deals between companies that had previously existed. These deals, and the subsequent stock market flotations, were once the lifeblood of Hoare Govett.

The Future

RBS saw the sale of Hoare Govett as essential as it looked to build up its presence, concentrate on its core activities and once again compete directly with the big investment banks.

After having lasted 285 years and briefly becoming the largest bank in the world, it is hoped, for Scotland's sake, that the rebuilding of The Royal Bank of Scotland will be a success.

[Turn over

Marks

QUESTIONS

You should note that although the following questions are based on the stimulus material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.

ANSWER ALL THE QUESTIONS.

1. Identify the problems faced by The Royal Bank of Scotland. You should use the following headings. (Please identify problems only, solutions will not be credited.)

- Finance
- Human Resources
- Marketing
- External **10**

2. Describe the benefits to an organisation of investing in new technology. **5**

3. Explain the benefits of delayering to an organisation. **4**

4. Describe how horizontal and vertical integration can benefit an organisation. **5**

5. Describe **3** pricing tactics that could be used when an organisation attempts to launch a new product. **6**

6. Explain why managers use cash budgets. **5**

7. Describe how **5** different stakeholders of The Royal Bank of Scotland could influence the organisation's future plans. **5**

8. Describe the internal factors that could result in a quality decision being made. **4**

9. Discuss the use of quality standards, such as the BSI Kitemark, for an organisation. **6**

(50)

[*END OF SECTION ONE*]

SECTION TWO

Marks

This section should take you approximately 1 hour 15 minutes.

Answer TWO questions

1. (*a*) Describe and justify the use of **2** methods of production. **4**

(*b*) Discuss the methods of physical distribution of a product from the producer to the customer. **5**

(*c*) Describe the methods of financing a takeover. **5**

(*d*) Explain the effects on an organisation of branding their products. **6**

(*e*) Describe the methods available to a Public Relations department to improve the image of an organisation. **5**

(25)

2. (*a*) Describe the main features of a matrix structure. **3**

(*b*) Explain the role of the Finance department in an organisation. **4**

(*c*) Describe the types of industrial action that employees could take. **5**

(*d*) Explain the effects that prolonged industrial action could have on an organisation. **5**

(*e*) Describe how a manager could assess the effectiveness of a decision. **4**

(*f*) Describe the characteristics of high quality, reliable information. **4**

(25)

3. (*a*) Explain the impact of outsourcing on an organisation. **5**

(*b*) Describe the changing patterns of employment that have occurred recently in the UK. **5**

(*c*) Describe the different stages involved in setting an appropriate stock level. Use a diagram to support your answer. **6**

(*d*) Discuss the use of structured decision making models within an organisation. **5**

(*e*) Distinguish between the terms:

- Quantitative and qualitative information
- Primary and secondary information. **4**

(25)

Marks

SECTION TWO (continued)

4. (*a*) Explain the advantages to an organisation of selling products using e-commerce. **4**

(*b*) Compare the objectives of a private sector organisation with the objectives of a public sector organisation. **4**

(*c*) Discuss the use of **3** field research techniques. **6**

(*d*) Describe the different forms of testing that can be used in the selection process. **6**

(*e*) Describe the different forms of grouping which can be used by a multinational organisation. **5**

(25)

5. (*a*) Describe the factors an organisation would take into account before choosing a channel of distribution. **5**

(*b*) Describe why some organisations produce a mission statement. **4**

(*c*) Distinguish between the following financial terms:

- Gross Profit and Net Profit
- Fixed Assets and Current Assets
- Debentures and Shares. **3**

(*d*) Explain the reasons managers use accounting ratios. **4**

(*e*) Describe the factors an organisation would take into account prior to selecting a supplier. **5**

(*f*) Justify the use of staff training for an organisation. **4**

(25)

[*END OF SECTION TWO*]

[*END OF QUESTION PAPER*]

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ACKNOWLEDGEMENTS

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