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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9707 BUSINESS STUDIES

9707/11 Paper 1 (Short Answer/Essay), maximum raw mark 40

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1 (a) Primary research defined as the collection of:
1. First-hand/new data.
2. Collected by an organisation for its own needs.
3. Examples of appropriate primary research methods.

Partial definition **[1]**

Full definition **[2]**

(b) Random sampling is sampling where each member of a target population has an equal chance of being included in a sample – a selection chosen purely by chance with no predictability.

Stratified sampling is the method where a population is divided into smaller, homogenous sub-groups, known as strata, and random samples are taken from each stratum. It is argued that this method improves the representativeness of the sample by reducing sampling error. It can produce a weighted mean rather than an arithmetic mean of a simple random sample of a population.

A limited general attempt to distinguish the **two** methods, or a partial explanation of **one** method. **[1]**

A sound explanation of **one** method of sampling or a partial explanation of **two** methods that attempts, but does not make, the distinction between the methods clearly. **[2]**

Sound explanation of the **two** methods that clearly establishes/implies a difference between the methods. **[3]**

2 (a) Functions of H.R.M. **could** include:
- recruit competent skilled staff
- selection of staff
- train and use staff in productive manner
- discipline and welfare of staff
- workforce planning
- staff appraisal
- staff morale
- pay-reward systems
- motivating staff
- monitoring staff performance.

All concerned with effective use of workforce to support business to gain competitive advantage.

Any other relevant functions should be rewarded.

1 mark for each relevant function stated (Max 2). **[2]**

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(b) Redundancy is when a job is no longer required – the employee becomes redundant through no fault of his/her own – this may occur due to a whole business unit closing, or a section of a business unit closing, or reduction in the need for a particular kind of work to be carried out.

Dismissal is when an employee is removed from an organisation for a cause relating to performance/non-performance such as gross misconduct.

Limited attempt to explain difference or a partial explanation of **one** concept. **[1]**

Sound explanation of **one** concept or partial explanation of **two** that attempts, but does not explain, the difference. **[2]**

Sound explanation of **two** concepts that clearly establishes/implies a difference between the **two** concepts. **[3]**

3 A mission statement is a statement of the core business, purpose and focus of an organisation – designed to resonate with internal and external stakeholders.

Mission statements are considered to be important for employees of a business in that it provides the context for worker activity. The goals and philosophies in a mission statement may serve to direct and motivate a workforce.

Mission statements may well reflect the beliefs and vision of senior management and is designed to inspire employees and support distinctive organisational cultures.

P.L.Cs tend to be large and therefore need to make their overall aims and values clear to employees (could be a very large number of employees) and the mission statement provides an important reference point for them.

Can provide a sense of purpose in large businesses (P.L.Cs) – e.g. sense of shared values.

Limited reference to mission statements and/or stakeholders. **[1]**

Limited explanation of the importance of a mission statement to employees. **[2–3]**

Sound explanation of the **importance** of a mission statement to employees.
Reference to a P.L.C required for 5 marks. **[4–5]**

N.B. This question is about employees in a P.L.C. Answers that are specific about the advantages of a mission statement to a P.L.C. should be rewarded accordingly.

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4 (a) Process innovation is the use of new/improved production methods, or service delivery methods – the way in which an organisation adopts or devises new manufacturing/service methods.

Some candidates may give examples such as:

robots in manufacturing, computer tracking of inventory or sales,
internet tracking of parcels although this is not required.

N.B. This is not about 'product innovation'.

Partial definition **[1]**

Full definition **[2]**

(b) Job production involves a business producing items that specifically meet the requirements of a customer – often one-off items such as a building or a wedding dress.

Advantages of job production for a customer include:
- product/service usually high quality
- producer meets individual customer needs from start to finish
- customer likely to have control of the process throughout
- customer likely to have ready access to the dedicated team working on the product/service
- customer able to intervene at different stages of the process
- specification changes can be handled relatively easily
- expertise/advice of production team available to customer.

General statement about job production/customers,
or partial explanation of **one** advantage, or list of **two**. **[1]**

Sound explanation of **one** advantage, or partial explanation of **two**. **[2]**

Sound explanation of **two** advantages. **[3]**

5 (a) This is a question about the importance of liquidity and cash flow.

- Businesses must ensure that they have enough cash to meet all demands in the short term.
- While it is important in the long term for a business to make profits, in the short term cash flow and liquidity issues are of vital importance.
- Many profitable businesses fail because of insufficient liquidity.
- Businesses need to keep a constant watch for signs of liquidity problems.
- Holding a sufficient level of cash to ensure that short term liabilities are met and that the day to day needs of the business can be covered.
- Businesses may over trade: a business may be expanded too rapidly without the necessary finance so that a cash-flow shortage develops.
- Cash flow and liquidity issues are particularly significant for small and new businesses.

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Analysis of the importance of cash flow for businesses. **[7–8]**

Good explanation of the importance of cash flow for businesses. **[5–6]**

Limited explanation of the importance of cash flow. **[3–4]**

Little understanding of cash flow. **[1–2]**

(b) Cash is the lifeblood of a small business. So cash flow analysis is vital for small businesses. They must first identify reasons for cash flow problems in order to take steps to improve the situation.

Some specific ways for improvement may include:

- reduce fixed costs such as rent, building costs, staff expenses...this is probably a difficult option
- seek to lower your variable costs - lower your costs of goods sold
- trim inventory-possibly giving fewer choices to customer
- bill promptly and review credit policy
- recover debts and better manage late payments
- make a more attractive offer to customers
- seek better deal with suppliers
- consolidate loans for better interest rate
- check prices in respect of competition (often customers expect small and regular price increases)
- sell underutilised assets
- approach bank for extended overdraft.

Strong candidates may well recognise that the measures set out above are not` specific` to small businesses – small businesses may not be able to adopt some/all of these measures.

- Evaluative comment on the likely impact/success of particular measures for small businesses. **[9–12]**

- Analysis of ways to improve cash flow with specific reference to the limited opportunities available to small businesses. **[7–8]**

- Good discussion of ways to improve cash flow. **[3–6]**

- Limited discussion of ways to improve cash flow. **[1–2]**

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6 A business should be clear why it is considering selling on the internet – to open up the business to a much bigger market and increase sales? – should this happen, has it got the productive capacity and the financial resources to expand?

Factors to consider might include:

- Review the logistics of selling online – can you deliver the product easily and cost-effectively to customers?
- A website needs to be designed – need to employ a specialist designer to produce a functional website?
- Determine how the business will market products – decide how to create a large amount of traffic on website.
- Need to review costs (extra costs) associated with online selling, e.g. cost of designing, maintaining, hosting website – marketing expenses, payment processing costs.
- Need to do a cost/benefit exercise – is profitability maintained or enhanced or depressed?
- Continue with traditional selling to spread the risk?
- How well will the internet serve your business needs?
- How well will your particular business model fit into the way the World Wide Web works? (context to be referenced).

N.B. The context in this question is 'electronic goods manufacturer'.

Evaluative discussion of main factors that could be considered (in context). **[17–20]**

Analysis of main factors to consider (in context). **[13–16]**

Good understanding of main factors to consider. **[11–12]**

Some understanding of main factors to consider. **[5–10]**

Very limited understanding of factors affecting selling on internet. **[1–4]**

7 **(a)** The inherent strengths of family owned businesses – businesses where the voting majority is in the hands of the controlling family – are many for example:

- family dedicated to business – work hard to build and grow the company and re-invest profits and
- there is pride and focus in reputation and quality of product and maintain good relations with external stakeholders.

But, the weaknesses often outweigh the strengths, weaknesses such as:

- complexity of different roles played by family members and governance problems – different motives and strategies from different family members
- too much informality, not enough clear business practices and procedures – with growth may come significant conflict
- neglect of strategic management, succession planning, lack of external management expertise
- plus, family owned businesses may have poor cost control, poor cash flow, poor management
- means that the majority of family owned businesses are not sustainable
- discipline difficulties i.e. reluctance to discipline or sack family members
- family arguments might be brought into the work situation.

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Analysis of the weaknesses of family owned businesses. **[7–8]**

Good explanation of the weaknesses of family owned businesses. **[5–6]**

Limited explanation of family owned businesses. **[3–4]**

Little understanding of family owned businesses. **[1–2]**

(b) It is often assumed that one of the main objectives of a business is to grow – this may not be the case. There may be reasons why a business cannot grow and reasons why a business does not want to grow:

- Businesses may not have the option to set growth as an objective – they may operate in a niche market.
- Limited capital may prevent growth.
- Businesses may be family businesses with neither the ambition nor the capacity to grow.
- Businesses do not have to grow to become (more) successful.
- They can exploit their advantages – a small business has manoeuvrability – it can act and react fast.
- They can grow through outsourcing or joint ventures.
- Businesses can give customers the satisfaction of personal interacting and thus retain their competitive advantage.
- Non-pecuniary benefits – being one's own boss, flexibility are first order issues for small business owners.
- Businesses often content to exploit entrepreneurial skills and competences in a selected restricted area of business.
- The nature and composition of many businesses (e.g., small shops, solicitors, accountants, restaurants, small-scale manufacturing, means that they do not seek growth.
- Businesses survive and succeed by remaining small and supply to large businesses.
- Might be new/small business; growth is not yet an appropriate aim.
- Shareholders might not want a company to grow.

Evaluative comment(s) on the reasons for businesses not setting growth as an objective. **[9–12]**

Analysis of reasons for businesses not setting growth as an objective. **[7–8]**

Discussion of reasons for businesses not setting growth as an objective. **[3–6]**

Limited discussion of growth as a business objective. **[1–2]**

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