CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

9707/31 Paper 3 (Case Study), maximum raw mark 100

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1 Analyse the benefits of corporate social responsibility (CSR) to BAS.

[10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Knowledge shown of benefits of CSR	3 marks Issues well applied to BAS	3–4 marks Good use of reasoned argument or theory to consider benefits of CSR commitment
Level 1	1–2 marks Knowledge shown of CSR	1–2 marks Some attempt to apply concept to BAS	1–2 marks Some use of reasoned argument or theory to consider benefits of CSR commitment

Definition of CSR: this concept applies to those businesses that consider the interests of society by taking responsibility for the impact of their decisions and activities on customers, employees, communities and the environment

Application
- Responding to pressure group activity regarding carbon emissions. Can BAS afford to ignore these pressures?
- Encourages decision making that reduces impact on environment e.g. new fleet of fuel efficient aircraft

Analysis
- Potential impact on revenues due to improved public image and branding
- Impact on market share
- Impact on profits
- Impact on costs – fuel efficiency will save money and lead to increased profits
- Could it be a USP?
- Will this help recruit and retain employees?
- May be necessary as competitors may also have adopted CSR reporting

2 (a) Refer to Table 1. Calculate the contribution per flight of Route 270. [2]

Contribution = Revenue – Variable costs
(If no calculation 1 mark may be awarded for definition of contribution)

= 12300–8000 (1)

= $4300 (2) ($ not required)

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(b) Recommend whether BAS should stop operating Route 270. Justify your answer using your results from 2(a) and any other relevant information. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of contribution and relevant factors	3 marks Points well applied	3–5 marks Good use of reasoned argument or theory to explain factors influencing the decision	3–5 marks Good judgment shown in answer and conclusion
Level 1	1–2 mark Knowledge shown of contribution and/or relevant factors	1–2 mark Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain the factors influencing the decision	1–2 marks Some judgment shown in answer and/or conclusion

Bar: Max. L1 Analysis and Evaluation if only results from **2(a)** or other info used

Definition of contribution as a contribution to fixed costs.

Application and analysis
- Based on full costing the loss is $1000 for each flight = $700 000 per annum.
- Fixed costs such as depreciation have to be paid whether or not Route 270 operates.
- These costs would have to allocated to other profit centres and therefore reduce profitability of those routes.
- Route 270 makes a positive per flight contribution of $4300. Thus, the annual contribution is $3.01m. This would be lost if route closed.
- Consideration of competition is important: will the new airline continue to be able to offer such low prices?
- How fixed are the fixed costs? If route is stopped how long before the fixed costs disappear? e.g. aircraft depreciation.
- Are there more profitable opportunities for BAS to seek out? Aircraft could be changed to potentially more profitable routes
- Would closing the route have knock on effects? e.g. connecting flight passengers in City X or Y
- Will economic growth lead to increasing demand and therefore greater capacity utilisation?
- Fuel prices are expected to decrease in 2016 by 5%

Evaluation
How robust are the finances of AlAir? It is a new competitor so may lack resources to compete long term with BAS. Which is the most significant factor?

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3 Discuss whether BAS should outsource maintenance of aircraft to contractors in other countries. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of outsourcing issues	3 marks Points well applied	3–5 marks Good use of reasoned argument or theory to explain the impact of outsourcing	3–5 marks Good judgment shown in answer and conclusion
Level 1	1–2 mark Knowledge shown of outsourcing issues	1–2 mark Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain the impact of outsourcing	1–2 marks Some judgment shown in answer and/or conclusion

Definition of outsourcing: using another business (a 'third party') to undertake a part of the production process rather than doing it within the business using the firm's own employees

Application
- Significance of safety in airline industry
- Reduction in maintenance costs of 10%
- Cost competitiveness of the industry due to low cost carriers
- Impact of redundancies
- Issue of lighter regulation in other country

Analysis
- Reductions in cost will help BAS remain competitive in the industry and boost profits or enable price reductions
- Impact on reputation in domestic economy as jobs being exported abroad? Could there be a consumer backlash?
- Limited focus on costs was probable cause of losses in the past
- Reaction of employees. Could there be disputes over change – already possible problems connected with changes in HR

Evaluation
- Will it impact on CSR reputation?
- Will it impact safety? Is this most important factor?
- Can BAS afford not to pursue all possible measures to reduce costs?

4 (a) Refer to the Appendix. Calculate:

(i) X **[2]**

X= (1400 + 1240 + 1250 +1280)/4 = 1292.5 (2)

(ii) Y **[2]**

Y = [1292.5 (OFR) + 1282.5]/2 = 1287.5 (2)

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(b) Refer to the table and the graph in the Appendix. Calculate the forecast revenue for 2015 Q4. Show your calculations. [4]

Avge Seasonal Variation = (171.25 + 131.25 + 130 + 126.25)/4
= 139.6875 (2) (Accept 140 or 139)
Prediction Q4 2015 = 1374 + 139.6875 = 1513.6875
= $1514m or $1513 (3) ($ sign not required)

Acceptable range of values: 1499–1515 3 marks
1 mark for calculation – identifying trend line prediction in range 1360–1375

(c) Evaluate the usefulness of the sales forecasting methods, such as moving averages, for marketing decisions taken by BAS. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge shown	2 marks Points made are well applied	3–4 marks Good use of reasoned argument or theory to explain uses/limitations	3–4 marks Good judgment shown in answer and conclusion
Level 1	1 mark Knowledge shown of sales forecasting	1 mark Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain uses/limitations	1–2 marks Some judgment shown in answer and/or conclusion

Definition of moving averages

Analysis and application
- Scientific approach rather than relying on guess work
- Importance of forecasts to help make decisions and plan for the future in terms of aircraft and other resources
- May highlight that BAS needs to consider making changes to strategies if trend in sales is downward.
- Cannot account for unexpected external shocks such as new competitors
- Consideration of other factors influencing sales and other forecasting techniques

Evaluation
- Does BAS really need to conduct TSA for each route? How useful is a figure for overall sales?
- Potentially accurate within relatively short time frame. Longer term accuracy depends on volatility of market and other factors
- Has to be used alongside other techniques for forecasting future sales

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5 Discuss how BAS should respond to the threat of industrial action over proposed reforms to human resources (lines 67–70). [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of responses to industrial action	3 marks Points well applied	3–5 marks Good use of reasoned argument or theory to explain factors influencing the decision	3–5 marks Good judgement shown in answer and conclusion
Level 1	1–2 mark Knowledge shown of responses to industrial action	1–2 mark Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain the factors influencing the decision	1–2 marks Some judgement shown in answer and/or conclusion

Reference to "unions" only is not Application – must refer to "60%", "heavily unionised" etc.

Definition of industrial action

- Analysis and application
- Possible options for BAS:
- Offer to negotiate with unions and delay any decision
- Offer to consult with trade unions
- Press ahead with changes without involving unions – but CSR an issue
- Arbitration is a possible solution but will unions accept and what are the risks
- Consideration of potential impact of such industrial action on BAS and its reputation – competitive market, loss of customers due to disruption to their plans

Evaluation
Balance of likely impact of action versus need to reduce costs in the long term. Is it better to see off dispute now rather than later on?

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The following table applies to Question 6 and Question 7.

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgment shown in answer and conclusion
Level 2	3 marks Good knowledge of issues shown	3 marks Issues well applied to case	3–4 marks Good use of reasoned argument or theory to explain answer	4–6 marks Good judgement shown in answer or conclusion
Level 1	1–2 marks Some knowledge of issues shown	1–2 marks Some attempt to apply issue	1–2 marks Some use of reasoned argument or theory to explain answer	1–3 marks Some judgement shown in answer and/or conclusion

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6 Evaluate the importance of changes in its corporate culture to the success of BAS in recent years. [20]

Definition of corporate culture – the way we do things round here

Analysis and application

Consideration of how culture may have changed since 2010
- Change from public to private sector
- More business-like / profit oriented approach
- A more market oriented approach. BAS has responded positively to pressures on climate change

Corporate culture and success
- In 2010 the business was failing with losses of $500m. Culture of the business could be a significant contributory factor to its failure
- Change in corporate culture with greater focus on profits could have contributed to improvements in efficiency and driving costs down
- Profit orientation led to outsourcing of meals and this reduced costs and improved customer satisfaction
- Controlling costs essential in this competitive industry. Emergence of low cost carriers requires a more business oriented approach to be able to compete
- Corporate culture can provide a competitive edge that is difficult for other businesses to replicate
- BAS has adopted a more positive approach to CSR

Other factors influencing success
- Role of the CEO. Leadership important in turning the business around but this is also linked to cultural change
- Privatisation. This has enabled a change in culture and allowed BAS access to financial markets to make improvements to its fleet of aircraft. This may not have been possible under Government control
- Economic conditions. Economic growth will have contributed to growth in revenue as incomes rise. Demand likely to be income elastic

Evaluation
The change in corporate culture was probably essential to the current success of BAS and has enabled the business to cope with increased competition. However, it is not the only factor contributing to success. The change in culture became possible because the driving forces for change significantly outweighed the constraining forces; in particular the business was on the verge of collapse and this persuaded stakeholders such as unions to accept the changes made by the CEO.

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7 Evaluate the usefulness of long-term planning and corporate objectives to BAS which operates in a constantly changing business environment. [20]

Definition of long-term planning recognising nature of a corporate plan and hierarchy of objectives.
A corporate plan is a detailed report on a company's future long-term aims/objectives and the strategies it will follow to achieve them.

Problems at BAS before Jengo took charge.

Potential link between profit and having clear corporate plans.

Corporate plans may:
- Give direction to the business
- Help motivate staff
- Enable planning at different levels of the business and ensure all staff working towards the same goals

The nature of a dynamic business environment and need therefore to adjust plans accordingly:

Relevant changes that could occur include:
- New competitors
- Change in legislation regarding carbon emissions
- Airline industry sensitive to global changes in the economy

Evaluation
- Needs to be flexible and adaptable to meet new situations
- Long-term planning essential for industries where additional capacity is difficult to create. Airlines need to plan ahead as capital resources take time to acquire

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