

# Example Candidate Responses

Cambridge  
International  
AS & A Level

## Cambridge International AS and A Level Business

9609

Paper 3 – Case study

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## Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS and A Level Business (9609), and to show how different levels of candidates' performance (high, middle and low) relate to the subject's curriculum and assessment objectives.

In this booklet candidate responses have been chosen to exemplify a range of answers. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For each question, each response is annotated with a clear explanation of where and why marks were awarded or omitted. This, in turn, is followed by examiner comments on how the answer could have been improved. In this way it is possible for you to understand what candidates have done to gain their marks and what they will have to do to improve their answers. At the end there is a list of common mistakes candidates made in their answers for each question.

This document provides illustrative examples of candidate work. These help teachers to assess the standard required to achieve marks, beyond the guidance of the mark scheme. Some question types where the answer is clear from the mark scheme, such as short answers and multiple choice, have therefore been omitted.

The questions, mark schemes and pre-release material used here are available to download as a zip file from Teacher Support as the Example Candidate Responses Files. These files are:

<b>Question Paper 12, June 2016</b>	
Question paper	9609_s16_qp_12.pdf
Mark scheme	9609_s16_ms_12.pdf
<b>Question Paper 22, June 2016</b>	
Question paper	9609_s16_qp_22.pdf
Mark scheme	9609_s16_ms_22.pdf
<b>Question Paper 32, June 2016</b>	
Question paper	9609_s16_qp_32.pdf
Mark scheme	9609_s16_ms_32.pdf

Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at <https://teachers.cie.org.uk>

## How to use this booklet

Example candidate response – high	Examiner comments
<p>Q5) Inventory are goods, raw materials that required in the process of production. <b>1</b></p> <p>any forms of finished materials etc. <b>1</b></p> <p>Low level of inventory will many small delivery transportation cost of <b>2</b></p> <p>small deliveries prevent advantage of economies the average cost will increase so profitability of business will be reduced. Also, if there is foreseen increase in demand, less inventory for customer satisfaction lead to <b>3</b></p>	<p><b>1</b> It is useful, although not always necessary, to start off with a clear definition.</p> <p><b>2</b> Examiner comments are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.</p> <p><b>3</b></p>

**Answers** by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with your learners in the classroom to improve their skills.

**Examiner comments** are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

### How the candidate could have improved their answer

The second cost of customer satisfaction is not as well benefited from acknowledging that products will be unavailable hence leading to disappointment.

In addition, three benefits have been explained. Presumably rather than foreseen but the candidate has explained some in their answer.

This explains how the candidate could have improved their answer and helps you to interpret the standard of Cambridge exams and helps your learners to refine exam technique.

### Common mistakes candidates made in this question

**(a)** Not being able to move beyond Level 2 due to not understanding of these two types of expenditure and the effect of this on the two expenditures and again the effect of this on the profit.

**(b)** Confusion over what classes as an internal source of sales revenue or debentures.

This lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes at the exam and give them the best chance of achieving a high mark.

## Assessment at a glance

For Cambridge International AS and A Level Business, candidates:

- take Papers 1 and 2 only (for the Cambridge International AS Level qualification)
- or**
- follow a staged assessment route by taking Papers 1 and 2 (for Cambridge International AS Level qualification) in one series, then Paper 3 (for the Cambridge International A Level qualification) in a later series
- or**
- take Papers 1, 2 and 3 in the same examination series, leading to the full Cambridge International A Level.

All components are externally assessed.

Component	Weighting	
	AS Level	A Level
<p><b>Paper 1 Short answer and essay</b> <b>1 hour 15 minutes</b></p> <p>Section A: Four short answer questions (20 marks)</p> <p>Section B: One essay from a choice of three questions (20 marks)</p> <p>Based on the AS Level syllabus content</p> <p>40 marks</p>	20%	10%
<p><b>Paper 2 Data response</b> <b>1 hour 30 minutes</b></p> <p>Two data response questions based on AS Level syllabus content</p> <p>60 marks</p>	60%	30%
<p><b>Paper 3 Case study</b> <b>3 hours</b></p> <p>Five questions and one essay (from a choice of two) based on a case study</p> <p>Based on the additional A Level syllabus content and also assumes knowledge and understanding of the AS Level syllabus content</p> <p>100 marks</p>	–	50%

Teachers are reminded that the latest syllabus is available on our public website at [www.cie.org.uk](http://www.cie.org.uk) and Teacher Support at <https://teachers.cie.org.uk>

## Paper 3 – Case study

### Question 1

Example candidate response – high	Examiner comments
<p>1</p> <p>Human resource management is the strategic approach of the effective management of the organisation employees so that they help the business gain a competitive advantage.</p> <p>CJE is planning to cut costs by 7% in all the departments by adopting hard HRM approach. This will depend on offering temporary contracts to the <del>labour</del> recently recruited production employees even for skilled positions. This could have an impact on all the employees as their motivation will decrease due to loss of job security (Maslow theory). This could affect their productivity, especially that jet engines requires quality, innovation and reliability. These requirements could be affected by this approach, decreasing the market share of 23% and decrease profit margins.</p> <p>Moreover, offering <del>some</del> <sup>some</sup> unskilled employees zero hours contracts could <del>also</del> give some flexibility to CJE as employees will be called such as they are needed. This will decrease labour costs as if employees are not called, no payment will be made for them. However, CJE operates in an competitive environment, this means that employees could have several zero contracts with other competitors, so they may not be available for CJE at sometimes, disrupting the production process which could lead to loss of sales.</p> <p>Furthermore, employees will be required to learn new skills to allow flexible working. This could offer CJE the advantage of increasing motivation for employees as training is essential for self fulfillment. <del>However</del> which could lead to increase in labour productivity and decreasing <del>the</del> labour cost per</p>	<p>1 It is good practice for a candidate to define key terms in their answer. This is a good definition of human resource management.</p> <p>2 The candidate makes effective use of the case material and recognises that the flexible approach being used represents a 'hard' style of HRM.</p> <p>3 In this paragraph, the candidate makes effective links between the changes to contracts being introduced, the theory, and the possible impact on CJE in context, i.e. referencing the importance of engine quality and reliability. A link is made to the impact on market share. However, the analysis of this link could have been made clearer.</p> <p>4 Knowledge of zero hour contracts is demonstrated here, along with an explanation of how these could reduce costs. This point could have been linked back to the objective stated earlier.</p>

Example candidate response – high, continued	Examiner comments
<p data-bbox="263 302 295 347">5</p> <p data-bbox="319 257 1101 515">and decreasing labour cost per engine so CJE could increase its profit margins or offer competitive prices to increase its market share of 23%. However, training is costly specially for big industries like engines manufacturing. It is also time consuming and this is not suitable for a competitive market.</p> <p data-bbox="191 537 223 582">6</p>	<p data-bbox="1141 257 1173 302">5</p> <p data-bbox="1189 257 1476 750">The candidate provides some brief analysis of the impact of employees learning new skills. This is underpinned with reference to theory. The chain of argument is extended to explain that lower labour costs could increase profit margins and enable the firm to offer more competitive prices, leading to an increase in market share.</p> <p data-bbox="1141 784 1173 828">6</p> <p data-bbox="1189 784 1476 1064">This answer demonstrates a sound understanding of theory and makes effective use of the case study by linking together the different strands of the material provided.</p> <p data-bbox="1133 1131 1436 1187"><b>Total marks awarded = 9 out of 10</b></p>

### How the candidate could have improved their answer

The analysis could have been developed further by extending the chains of argument presented, for example, by explaining in more detail how demotivated workers might work less effectively, which would therefore impact the quality of the engines. If engine quality were affected, this could damage CJE's reputation, resulting in lower sales and a consequent loss of market share.



Example candidate response – middle	Examiner comments
<p>1 Flexible human resource management is an approach that aims at reducing costs in a business or company and so make a business profitable and productive. Adopting the strategy in CJE will impact on the business in different ways. First offering temporary contracts will help CJE reduce overhead costs and make the business competitive. Zero contracts allows the business to pay employes only the hours worked for or the days that they worked and CJE can be able to call in employees at different times dependi ng on demand i.e employees can be called in at busy times than when during slack time. This will help reduce costs for CJE and make them competitive. However the disadvantages are that many employees might have many zero contracts and so might not be available when CJE wants them which will interrupt business operations and the levels of motivation of employees will be low as they will be earning low pay than if they were on full time contracts which will also affect CJE operation negatively.</p>	<p>1 The candidate provides a partial definition, but does not relate it to the management of employees.</p> <p>2 A reference to the case study material and a statement about the impact on costs, though without analysis.</p> <p>3 Good knowledge of the possible impact of zero hours contracts, with some brief analysis. This could have linked back to the issue of profit margins identified in the case.</p> <p>4 Knowledge of the possible negative impact on motivation, although this point could have been developed further and context given.</p> <p>5 A very brief answer that demonstrates understanding of a more flexible approach to human resource management, but there is limited analysis and application.</p>
5	<p><b>Total marks awarded = 5 out of 10</b></p>

### How the candidate could have improved their answer

Although the candidate provided evidence of understanding the idea of a more flexible approach to human resource management, analysis and application were not developed in their answer. The definition of flexible HRM was only partial and references to the case study were not developed. The candidate made statements about the impact of temporary and zero hour contracts but did not develop any supporting analysis linking their ideas together. Application could have been improved by using the case study information, such as the competitive nature of the market, the impact of changes on engine quality and the low levels of profit made by CJE.

**Example candidate response – low**

**Examiner comments**

Q1) Human resource management is in charge of recruiting workers, setting their wages, planning training schedules, employers' contract and also the firing of workers. Not only this but an effective human resource management will find ways to reduce the labour turnover rate and/or absenteeism rate. Labour turnover rate is the rate at which workers leave the job, whereas absenteeism rate tells us how many days off has did a worker take. In order to bring them down, human resource management aims in motivating its staff through ~~non-financial~~ non-financial and financial motivators. **1**

Currently, Cameron Jet Engines aims to cut its cost and this is the reason that all employees are to be required to learn ~~at~~ new skills to allow working, unskilled workers have been given zero hour contract and they are also recruiting production employees that too for short-term temporary contracts. **2** This short-term contract is chosen as the business will not have to make ~~the~~ workers redundant. This is actually good because if the workers are made redundant then they can spread made image of the Engine business. At the moment they have 23% and if market share and if redundant works ~~make~~ create bad reputation of business then this market share can fall too. **3** Cameron Jet Engines main aim is cost-minimisation strategy. ~~In~~

**4** This means that financial motivators will not be used and non-financial motivation can be done for example team work, training, job enlargement, delegation, job enrichment and also quality circles. Quality circles are when the staff of a firm ~~for~~ ~~some~~ comes together and discuss and solve any problem they have or any confusion that is created. Delegation can be highly benefit beneficial for Cameron Jet Engine. The firm will not have to hire specialist to analyse and implement strategies. Rather the workers ~~some~~ can be delegated (given authority

- 1** A comprehensive definition of the role of human resource management.
- 2** This links the desire to cut costs to the various changes made. The candidate is, however, just repeating elements of the case study.
- 3** Here, the candidate analyses the benefit of using short term contracts and links this to the market share shown in Fig.1 of the case study.
- 4** From this point on, the candidate loses focus on the question and analyses different forms of non-financial motivation. These points do not answer the question.

Example candidate response – low, continued	Examiner comments
<p>to the low level staff) and decision making powers can stay with the manager. Manager can also concentrate on strategic planning or other important factors of the business. Multitasking or multispecialists should be hired so that operations of CJE do not stop. Only trained staff <del>is not</del> should be hired so that the firm can save up its costs.</p> <p>In addition to this, skillful and those who are willing to work should be hired, who have the drive to do better and move on in their career.</p> <p>Such dedicated workforce will help CJE to make their human resource approach more flexible and productive.</p>	<p><b>Total marks awarded = 4 out of 10</b></p>

### How the candidate could have improved their answer

The candidate did not focus on the impact of the changes made by CJE. Instead, much of their response discussed a range of approaches, such as quality circles and delegation, which did not answer the question. The candidate did not fully appreciate the meaning of a flexible approach to human resource management, i.e. the attempt to convert the fixed costs of employing workers into variable costs.

### Common mistakes candidates made in this question

- Weak understanding of flexible HRM.
- Inaccurate definitions of zero hours contracts.
- Confusion between temporary and part-time contracts.
- Candidates provided analysis of the impact of the changes from the case study on the employees, but gave no analysis of how that translated into an impact on CJE in terms of, for example, productivity, labour turnover and training costs.

## Question 2

Example candidate response – high		Examiner comments
2	<p>a</p> <p>For outsourcing to AOP:-</p> <p>Transport cost per blade = <math>\frac{\\$200}{10} = \\$20</math> ①</p> <p>Unit cost per blade = <math>\\$20 + \\$570 = \\$590</math></p> <p>For increasing capacity:-</p> <p>Fixed cost per blade = <math>\frac{\\$600,000}{3000} = \\$200</math> ②</p> <p>Unit cost per blade = <math>\\$200 + \\$500 = \\$700</math></p> <p>Difference = <math>700 - 590 = \\$110</math> ③</p>	<p>① A calculation of the unit transport cost.</p> <p>② A calculation of the additional unit fixed cost.</p> <p>③ The difference in unit cost is identified. All working is shown by the candidate.</p> <p>Mark for (a) = 6/6</p>
2	<p>b</p> <p>Outsourcing is the using of third party to undertake part of the production process instead of doing it within the business using the firm own employees. ④ It is obvious that the unit cost of blade using outsourcing is less (\$590) ⑤ and there is a difference in unit cost of \$190. This could increase the profit margins of CJE if it sells the XL1 engines at the same price. ⑥ Also this could allow CJE to offer competitive prices to maintain its market share as it is the dominant ⑦ has high market share and competition is high. ⑦</p>	<p>④ An accurate definition.</p> <p>⑤ Recognition that the unit cost of outsourcing is less than building an extension. The candidate uses the calculation from part (a) to answer the question.</p> <p>⑥ Stating the consequence for the profit margin demonstrates analysis.</p> <p>⑦ Further application that highlights the potential benefit to CJE of outsourcing.</p>

Example candidate response – high, continued	Examiner comments
<p>Moreover, it takes total of 4 months to order and get the blades which is shorter time <del>compared</del> compared to increasing capacity of existing factory which is 15 months. This is a long period and the business environment is always dynamic. Perhaps, and economic recession could occur, decreasing demand for the engines and there is a spare capacity of in the existing factory, so no expansion is needed. <b>8</b></p> <p>Moreover, Outsourcing is more flexible <del>as</del> as the contract between CJE and AOP could be ended in case of decrease in demand for engines. However, if increase in capacity of existing capacity is used, it is not an irreversible process and there will be huge spare capacity in case of decrease in production. More fixed costs will be spread over the production units which will increase the <del>price</del> <sup>cost</sup> per blade even more, decreasing profit margins. <b>9</b></p> <p>Moreover, Furthermore, outsourcing AOP is 500 km away from the XL1 assembly factory. This is a long distance so are deliveries will be reliable? <b>10</b></p> <p>Also, <del>that</del> quality and reliability are essential requirements of jet engines. Could <del>a</del> good quality could be maintained when outsourcing is used? Perhaps CJE could use inspection to check the quality of the outsourced blades, but this will add to the costs of CJE. Safety is a priority for jet engines. <b>11</b></p> <p>I firmly believe that outsourcing will be suitable to increase the production capacity as AOP <del>is</del> has higher annual capacity (5000) than the existing factory (3000). This will offer CJE the opportunity to increase its sales. Moreover, outsourcing will decrease the unit cost per unit, which is the</p>	<p><b>8</b> The candidate makes a judgement regarding the risk of expansion if economic conditions change.</p> <p><b>9</b> Some developed analysis of the problems that could arise from expansion. This answer is enhanced by the use of appropriate terms such as 'spare capacity' and 'profit margin'.</p> <p><b>10</b> This point could have been developed further.</p> <p><b>11</b> Further application to the case study.</p> <p><b>12</b> The candidate develops their evaluation by making a recommendation that is supported by their earlier analysis and by identifying the most significant factor, using the case study information to support this.</p> <p><b>13</b> This answer shows good understanding of relevant issues and uses case study information throughout.</p>
<p>most significant factor as CJE corporate objective is to match competitors' margins. <b>12</b></p> <p>However, some data are forecasts; how reliable is that data? Also some qualitative data are needed such as the ethical issues concerned with AOP. <b>13</b></p>	<p>Mark for (b) = 10/12</p> <p><b>Total marks awarded = 16 out of 18</b></p>

### How the candidate could have improved their answer

The candidate made a strong case for their recommendation, using their result from (a) effectively. The candidate gave due consideration to both options, but the key issue of quality was only mentioned but not developed fully. Analysis could have been improved by building more extended chains of argument.

**Example candidate response – middle**

**Examiner comments**

2	(a)	The <sup>difference in</sup> unit cost per blade for CJE outsourcing to ADP and as for the option of increasing its capacity is as follows :-
		(a) outsourcing to ADP
		Annual capacity $\Rightarrow$ 5000
		total transport cost per blade $\Rightarrow$ \$ 100,000 <b>1</b>
		total contracted price $\Rightarrow$ \$ 2,850,000
		Annual fixed costs = \$ 6,000,000 <b>2</b>
		$\therefore$ total costs $\Rightarrow$ \$ 1,000,000 + \$ 2,850,000 + \$ 6,000,000 = \$ 9,850,000

		$\therefore$ unit costs per blade $\Rightarrow$ $\frac{\$ 9,850,000}{5000}$
		$\Rightarrow$ \$ 1,790 <b>3</b>
		(b) increasing capacity of existing factory
		total variable costs $\Rightarrow$ \$ 500 $\times$ 3000 $\Rightarrow$ \$ 1,500,000
		Annual fixed costs = \$ 6,000,000 + \$ 6,000,000 <b>4</b>
		$\Rightarrow$ \$ 12,000,000
		$\therefore$ unit costs $\Rightarrow$ $\frac{\$ 12,000,000 + \$ 1,500,000}{3000 \text{ (output)}}$
		$\Rightarrow$ \$ 2,700 / blade
		$\therefore$ the <sup>in unit costs</sup> difference between the two options <b>5</b>
		is $\underline{\underline{\$ 2,700 - \$ 1,790 \Rightarrow \$ 910 \text{ Answer.}}}$

- 1** Although this is not stated explicitly, the candidate has clearly calculated the unit transport cost.
- 2** A clear method is shown to arrive at the figure for total cost. However, the fixed costs of the existing CJE factory should not have been included here.
- 3** Unit cost calculated. OFR applies.
- 4** Existing fixed costs included.
- 5** The difference in unit cost identified.

Mark for (a) = 4/6

Example candidate response – middle, continued	Examiner comments
<p>2 (b) CJE should outsource the turbine blade production from ADP as it will benefit financially. <sup>6</sup> If they increase their existing factories capacity they will incur increased costs amounting to \$2700 per blade this compares with outsourcing cost unit cost of \$1790 per blade which means it will be profitable <sup>7</sup> for them to outsource them as on each blade outsourced CJE will save \$910. CJE will also be assured of supplies from ADP as they have substantial spare capacity and the contractual agreement between them can be signed within 3 months with deliveries a month after signing. <sup>8</sup> This means that CJE will benefit as output will be increased immediately and production will not be affected as they will not wait long to get supplies from ADP. <sup>9</sup> This compares against increasing capacity of its factory which has a time frame of 15 months. <sup>10</sup></p>	<p><b>6</b> It is useful to make a recommendation at the start of an answer, as this can help the candidate focus on the question. It is then important to develop a range of points that support the recommendation.</p> <p><b>7</b> Knowledge of a relevant factor identified.</p> <p><b>8</b> Relevant application.</p> <p><b>9</b> Some brief analysis here. This point could have been developed in more detail to show greater understanding of the significance of being able to increase the production of engine blades quickly.</p> <p><b>10</b> The initial recommendation has been supported by subsequent commentary.</p> <p>Mark for (b) = 6/12</p> <p><b>Total marks awarded = 10 out of 18</b></p>

### How the candidate could have improved their answer

Although the candidate showed they understood the significance of their result from (a), their response would have benefited from further analysis of the issues and consideration of the advantages of extending the factory. The candidate's knowledge and application skills were sufficient but their chains of argument remained underdeveloped.

Example candidate response – low

Examiner comments

2 a Unit cost / Average cost of outsourcing to ACP =  $\frac{\text{Total cost}}{\text{number of units}}$  1

=  $\frac{\text{Fixed costs} + \text{variable costs} + \text{transport costs}}{\text{number of units}}$

=  $\frac{6m + 100,000 + \text{variable cost}}{5000}$  2

=  $\frac{6m + 100,000}{5000} = \frac{6100000}{5000} = \$1220$  3

Unit cost of increasing factory capacity =  $\frac{500 + 6000000}{3000}$  4

=  $\$2200.2$

Difference =  $2200.2 - 1220 = \$980.2$  5

2 b Outsourcing is allowing another business to produce on your behalf. 6 It is faster than increasing the capacity of the existing factory as deliveries will be completed in 4 months as opposed to 15 months for the completion of the existing factory let alone actually producing the XL1 engine. 7 Also, outsourcing will lead to an annual capacity of 5000 which is 2000 more than the factory would. 8 However, it is 500 kilometres away from the XL1 factory assembly factory which will significantly increase transport costs. 9

→ Unit cost is lower so profit margin can be achieved by lowering costs as there is a large difference of ~~1000~~ \$980.2. 10

- 1 The concept of unit cost is understood.
  - 2 The annual fixed costs of the existing CJE factory should not be included in the calculation.
  - 3 The contracted price per blade has not been included in the calculation of the unit cost for outsourcing production.
  - 4 The unit variable cost has been added to the existing fixed costs and the additional fixed costs before being divided by 3 000. Incorrect method demonstrated.
  - 5 The difference in unit cost has been calculated here.
- Mark for (a) = 2/6
- 6 A definition given.
  - 7 Some application here.
  - 8 The candidate manipulates the case study data to make a valid point here. This is one way of demonstrating application.
  - 9 Some brief analysis of the impact of lower unit cost on profit margin.
  - 10 A brief answer that identifies the relevant factors but does not contain any developed analysis or make a recommendation.

Mark for (b) = 4/12

Total marks awarded = 6 out of 18



## How the candidate could have improved their answer

The candidate identified the relevant factors using the case study information in **(b)** and referring to their answer for **(a)**. The candidate could have improved their response by extending their analysis of the factors identified. For example, although the candidate recognised that outsourcing would result in earlier deliveries than increasing output, there was no analysis of this benefit. As sales have been increasing and CJE is already operating at 95% capacity, the business risks losing sales to competitors if there is any delay in increasing output. The candidate did not make a recommendation regarding outsourcing, as required by the question.

## Common mistakes candidates made in this question

### 2(a)

- Including the existing fixed costs of CJE's factory in the calculation.
- Not dividing the transport cost of \$200 by 10 to find the unit transport cost.
- Not calculating the difference in unit cost between outsourcing and increasing the capacity of the existing factory.

### 2(b)

- Not giving a balanced argument.
- Only considering their answer from (a).
- Not making a recommendation regarding outsourcing.

### Question 3

Example candidate response – high	Examiner comments
<p>3. CJE directors are determined to enter the market for the supply of engines for helicopters as profit margins are substantially higher than in the market for engines for other types of aircraft.</p> <p>The marketing director has been negotiating with government officials in country Y where a contract could soon be signed if substantial "facilitating payments" were made directly to them in foreign bank accounts. <b>1</b></p> <p>If CJE decides to proceed with these payments, the company would not consider corporate social responsibility, which means that it would not behave ethically in its decision making by not attempting to satisfy <b>2</b> the greatest amount of stakeholder groups possible while meeting the company's objectives.</p> <p>If CJE decides to proceed with these payments, the company could potentially be exposed to heavy court fines as it is against the law to take part in such actions. This could potentially mean that the already unsatisfied <b>3</b> shareholders could stop investing in the company and potentially invest in competitors as the market CJE is operating in is highly competitive and therefore there are a lot of companies to choose from. <b>3</b></p> <p>This is because the potential court fines would very likely be substantial and this would place the company's liquidity and therefore long term prospects at risk along with all the bad publicity that could potentially <b>4</b> be generated as a result (for example, pressure groups with national media coverage) which could lead to existing customers to stop trading with CJE. If this were to happen, sales revenue would drastically decline and therefore profit margins would be reduced as a result. <b>4</b></p> <p>However, country Y is a rich nation that is expanding its fleet of "search and rescue" helicopters and because CJE's engines are more expensive than competitor engines and have a shorter after service agreement, the government officials are also considering competitors.</p> <p>As a corporate objective is to match competitors' margins, by offering facilitating payments, CJE could likely be offered the contract and because profit margins in the helicopter engine market are substantially higher, CJE could potentially raise its profit margins and satisfy its shareholders.</p> <p>This is because if CJE reaches its objectives, shareholders are likely to be <b>5</b> increasingly happy to invest in the company in future and potentially offer larger capital sums for other business operations such as the potential take over or joint venture the company is considering and therefore offer potential higher future prospects for CJE, which could also result in a higher <b>6</b> market share. <b>6</b></p>	<p><b>1</b> This introduction paraphrases information from the case study and does not fulfil any assessment objectives.</p> <p><b>2</b> Knowledge of relevant business terms here.</p> <p><b>3</b> Understanding of the possible consequences of infringing the law, applied to the case study by linking this to the level of competition and existing shareholder dissatisfaction.</p> <p><b>4</b> Further analysis of the consequences of fines. There is a well-developed chain of argument in this paragraph, along with some evaluation in the reference to 'substantial' fines and the drastic decline in sales revenue.</p> <p><b>5</b> Good application, which links to other data in the case study.</p> <p><b>6</b> An effective counterargument to the previous paragraph, both analytical and well-founded in the context of the case study.</p>

Example candidate response – high, continued	Examiner comments
<p>To conclude, I believe that CJE should not make "facilitating payments" to government officials as there could be a potential long term damage in their reputation for a short term gain. There is also no indication of how large the contract would be in comparison to existing contracts with regular customers, which in quantitative terms can not be evaluated with the data presented.</p> <p>The potential for expensive court fines could potentially lead to a substantial loss of competitiveness due to all the bad publicity generated and the potential for lower liquidity positions which would likely place CJE in a risky cash position.</p> <p>However, CJE should also consider its objectives and the interests of shareholders in this decision as there could be a potential raise in profit margins due to the higher profitability involved in the helicopter engine</p>	<p><b>7</b> Assessing the long-term impact is a useful way of developing evaluation. The candidate also recognises that further quantitative data would be useful in deciding whether CJE should try to get the contract.</p> <p><b>Total marks awarded = 13 out of 16</b></p>

### How the candidate could have improved their answer

The candidate could have included further evaluative content in the main body of their answer. They could also have structured their evaluation in the final paragraph more effectively; the last sentence did not offer a strong conclusion.

Example candidate response – middle

Examiner comments

3

CJE is looking to enter the market of helicopter engines and the main buyer of these engines seem to be the government of country Y. CJE is having some issues with finalising a contract due to their high prices and their short after-sales service. **1**

When talking about facilitating payments, the government of Country Y wants CJE to compensate them for their higher costs and leave no trace of it. (The reason for the ~~foreign~~ foreign bank accounts). This **2** will assure a contract for CJE to produce in country Y. However, <sup>CJE</sup> ~~the~~ needs to think about whether or not it is worth it.

If the story gets out that CJE paid the government to let them produce in their market, it will look like a bribe and destroy the image of CJE. **3**

Stakeholders of CJE, (people who show an interest in the ~~case~~ CJE) will make a lot of sudden decisions. Shareholders may not invest, workers will leave so that they ~~are~~ aren't linked to a bad company, and worst of all, customers will no longer buy their products. **4** they will be pushed out of the market - ~~the~~ other governments will not invest in their production and may even take legal action against them. Stakeholders are a key part of any business. It sets the image a business has and keeping ~~stake~~ stakeholders happy can lead to high profitability. Yes, CJE can achieve high profits in the helicopter markets and can help expand their business to amazing heights but ~~looking at~~ in my opinion, it is not worth the risk. CJE **5** should look at other country's to expand.

- 1** This summarises the background information to this decision.
- 2** The candidate demonstrates understanding of the use of foreign bank accounts to make the facilitating payments.
- 3** This shows understanding of the nature of the facilitating payments.
- 4** This provides analysis of the consequences of making a bribe.
- 5** A recommendation is made here.

Example candidate response – middle, continued		Examiner comments
3	<p>Also, if CJE makes facilitating payments to the government of CJE, there is no guarantee that there are a limited amount of payments. Maybe with the government may ask for more payments in order to keep their arrangement a secret or give them insider information. CJE can be greatly affected by this decision in a lot of negative ways. The combined cost of these payments may be higher than for eg. setting up production! It may also conflict with their current aims and objectives.</p>	<p><b>6</b> Clear supporting evidence for the recommendation, highlighting the risk that CJE would be taking.</p> <p><b>Total marks awarded = 9 out of 16</b></p>

### How the candidate could have improved their answer

The candidate could have improved their answer by analysing more thoroughly the benefits and disadvantages of making the facilitating payments, for example, the consequences for CJE of facing legal action and/or the impact of losing customers if an act of bribery became public. The candidate identified these issues but did not develop them.

Application to the case study could also have been developed further by referring to the competitive nature of the market. For example, the candidate could have mentioned that customers could go elsewhere, or considered whether or not CJE would need to make changes to their engine to service the helicopter market, and whether or not they would have the capacity to meet increased demand. The evaluation in the answer could also have been fuller.

Example candidate response – low		Examiner comments
3	<p>Making facilitating payment can be to government officials can help CJE win the contractual tender to supply engines to the government. This acts as a sweetener in <del>contract</del> contractual negotiations and officials would incline to show favour back by supporting CJE due to the payment made. The government officials can put forward the name of CJE and speak highly of them and so CJE can have an <del>added</del> added advantage in the contractual process. <sup>1</sup> However if discovered or caught, the image of CJE can be tarnished and can be prosecuted for unfairly obtaining the contract and it can be cancelled which means that CJE lose out in the end. <sup>2</sup> If the government officials are not faithful or loyal enough CJE can end up being swindled of their money and by having the contract offered to another competitor. As facilitating payment is an inducement and hence an illegal act, CJE cannot have anywhere to report once swindled and so incur losses in the end. <sup>3</sup> CJE will benefit greatly by trading fairly and maintaining its good image. <sup>4</sup></p>	<p><b>1</b> This shows understanding of the role of the facilitating payments in securing the contract. The commentary here develops the answer beyond merely repeating the case study information.</p> <p><b>2</b> Some brief analysis of the possible consequences if the payments become public.</p> <p><b>3</b> Further analysis of how CJE might incur losses by acting illegally.</p> <p><b>4</b> A brief answer that shows understanding of the purpose of making facilitating payments. However, the analysis of the benefits to CJE of winning the contract is not developed.</p> <p><b>Total marks awarded = 6 out of 16</b></p>

### How the candidate could have improved their answer

The candidate provided a brief answer that demonstrated understanding of the role of the facilitating payments in winning the contract. However, the analysis was not fully developed and there was no overall judgement about whether the payments should be made or not.

### Common mistakes candidates made in this question

- Some candidates did not understand that facilitating payments were in fact bribes.
- Some candidates only focused on the negative results of making bribes. Although candidates were correct to consider the negative aspects of paying bribes / condemn the use of bribery, they also needed to consider the implications for the company of not making these payments and losing a lucrative contract / making the payments and winning a lucrative contract
- Some candidates misinterpreted the material in the case study, for example, analysing the implications of CJE moving its operations to country Y.

## Question 4

Example candidate response – high	Examiner comments
<p>4 ai operating profit margin = <math>\frac{\text{operating profit}}{\text{revenue}} \times 100\%</math> <b>1</b></p> <p>operating profit = <math>65 + 25 + \left(\frac{10}{100} \times 45\right) = \\$94.5\text{m}</math> <b>2</b></p> <p>Revenue = <math>850 + 45 = \\$895\text{m}</math> <b>3</b></p> <p>Operating profit margin = <math>\frac{94.5}{895} \times 100\% = 10.6\%</math> <b>4</b></p>	<p><b>1</b> The correct equation for calculating operating profit margin is given here.</p> <p><b>2</b> An accurate calculation of operating profit with a clear method shown.</p> <p><b>3</b> An accurate calculation of revenue with a clear method.</p> <p><b>4</b> A correct calculation with a correct unit of measurement.</p>
<p>4 <del>ai</del> Gearing ratio = <math>\frac{\text{long-term liabilities}}{\text{capital employed}} \times 100\%</math> <b>5</b></p> <p>Total non-current assets = <math>1250 + 45 = \\$1295\text{m}</math> <b>6</b></p> <p>Gearing ratio = <math>\frac{600}{1295 + 64} = 44.2\%</math> <b>7</b></p> <p><b>8</b></p>	<p>Mark for (a)(i) = 4/4</p> <p><b>5</b> A correct formula.</p> <p><b>6</b> Adding additional sales revenue is incorrect here.</p> <p><b>7</b> As the candidate uses the figure calculated above, the own figure rule applies here.</p> <p><b>8</b> A partially correct calculation of capital employed. Intangible non-current assets are not included. Proposed change to depreciation is not included.</p>
<p>4 b Published accounts are annual publications made by the company of its accounting statements to be viewed by its stakeholders.</p> <p>This adjustments will increase the operating profit margin from 7.6% to 10.6% <b>9</b> <del>which this will make</del> will be more favourable to shareholders as they focus on the short-term profits. This could provide the opportunity <del>of</del> for CJF to increase dividends paid to the shareholders, so their loyalty could be maintained. <b>10</b></p> <p>Moreover, CJF could <del>de</del> increase its retained profits by not increasing dividends paid to shareholders. This will provide a source of finance to exploit business opportunities for CJF. But this conflicts with the shareholders objectives of increasing</p>	<p>Mark for (a)(ii) = 1/4</p> <p><b>9</b> This shows application as it uses data from the case study to compare the operating profit margin before and after the proposed changes.</p> <p><b>10</b> The benefit of making changes is briefly analysed here.</p>

**Example candidate response – high, continued**

**Examiner comments**

short-term profits and dividends. **11**

Moreover, the ~~long~~ value of non-current assets will increase from \$1250 m to \$1295 m. This means that the shareholders value will increase in the company's accounts by \$45 m. Shareholders will be satisfied by this adjustment ~~as~~ and their loyalty will be maintained.

The gearing ratio of CJE will decrease from 45.7% to 44.2%. This will give an advantage for CJE in getting loans from banks for example. But, is the change in the gearing ratio is considerable? Both gearing ratios are below 50% so they are both good. **12**

However, some stakeholders may view these as window-dressing so that CJE accounts could impress its ~~share~~ stakeholders. **13** They may view that this could lead to loss of trust in CJE by shareholders.

Moreover, the discount ~~is~~ offered for the major customer for early shipment could lead to loss of profits. For example, CJE could wait for a while so that discounts are not provided and a profit margin of more than 10% could be obtained. **14**

~~I~~ I firmly believe that the finance director should not adjust the accounts as this focuses on the short-term success. Focusing on the long-term is ~~is~~ important for an industry of jet engines that CJE operates in. Financial forecasts for future and presented to shareholders ~~is~~ so that they could be more persuaded to stay with the company instead of adjusting the accounts. **15**

**16**

- 11** A recognition of how increased profit might benefit CJE.
- 12** This shows understanding of the gearing ratio, but the calculation of current gearing (before the proposed changes) is incorrect. The candidate shows limited judgement in identifying that the change is not significant.
- 13** Knowledge of window dressing here.
- 14** An analysis of the benefit of not giving discount.
- 15** The candidate makes a judgement here but includes limited support for it.
- 16** The candidate demonstrates good knowledge and application in this answer, but the analysis and evaluation are not developed and remain in Level 1.

Mark for (b) = 8/12

**Total mark awarded = 13 out of 20**

**How the candidate could have improved their answer**

The candidate used their answer for (a) effectively and developed some of their analysis of the issues in (b). However, most of the analysis was not sufficiently extended and contained only one or two links. The response contained some evaluation, but this was underdeveloped. The candidate did not fully understand the impact of the proposed adjustments; for example, the case study accounting forecasts predict that the value of non-current assets will increase to \$1 295m. The candidate recognised that the adjustments involve window dressing, but did not explain the impact of the change to depreciation.



Example candidate response – middle	Examiner comments
<p>Q4</p> <p>i) <math>67.5 \rightarrow</math> <b>1</b></p> <p>Operating profit <math>65 (+ 45 \times 10\% = 4.5)</math></p> <p>Revenue <math>850 + 45 = 895</math> <b>2</b></p> <p>Total n.c assets 12.50</p> <p>Intangible n.c assets <math>50 - 25 = 25</math></p> <p>Net current assets 64</p> <p>Long term liabilities 600</p> <p>(ii) <math>\frac{\text{Long term loans} \times 100}{\text{capital employed}}</math> <b>3</b></p> <p><math>= \frac{600 \times 100}{600 + 895}</math> <b>4</b></p> <p><math>= \frac{600 \times 100}{1495}</math></p> <p><math>= 40.13\%</math></p>	<p><b>1</b> A partial calculation of new operating profit following the proposed changes. The impact of the change to depreciation is not included.</p> <p><b>2</b> A correct calculation of new revenue following the proposed changes.</p> <p>Mark for (a)(i) = 2/4</p> <p><b>3</b> The correct formula for gearing.</p> <p><b>4</b> An incorrect calculation of capital employed:</p> <ul style="list-style-type: none"> <li>• depreciation unaccounted for</li> <li>• intangible non-current assets excluded</li> <li>• net current asset excluded</li> <li>• total non-current assets excluded</li> <li>• sales revenue included.</li> </ul> <p>Mark for (a)(ii) = 1/4</p>

Example candidate response – middle, continued

Examiner comments

Q4 b) In my opinion financial director should make proposed adjustments to the way CTE reports accounting results because CTE is under constant pressure from share holders to increase its profit margin. This could be done by increasing the revenue of the company. As mentioned in the proposed adjustments that an early discount would be given on early shipment. It would increase the sales in short term and CTE would be able to satisfy its share holder for the ~~ter~~ short term. **5** Secondly giving discount might attract more customers & so the market share would increase as well. It might give CTE a competitive edge as discount would lead to lower prices and hence more customers would be attracted. **6** The early shipment discounts might even lead to brand loyalty as more and more customers would be waiting again for the chance of ~~an~~ discount. If the product satisfies them they may even shift towards CTE's products without discount. But these adjustments have disadvantages to as discount would lead to increase in overhead costs. Profit might be further **7**

**5** This answer is in context, as it makes a link to possible pressure from shareholders to increase profit and recognises the likely impact of offering discount.

**6** This deals with the impact of extra demand on market share. Some low-level analysis of lower prices impacting brand loyalty.

**7** The candidate does not explain why there would be an increase in overheads.

Example candidate response – middle, continued	Examiner comments
<p>reduced if the product fails to satisfy the customer, even by giving discounts the revenue won't increase and share holders might start selling their shares below the cost at low cost. The image of CJE would be effected. <b>8</b></p> <p>But as advantages out number disadvantages Finance director should follow the proposed adjustments as they have to do something to satisfy their share holders. <b>9</b></p>	<p><b>8</b> The candidate does not explain why shareholders might start selling shares at low cost. The analysis lacks clarity in this paragraph.</p> <p><b>9</b> The candidate makes a judgement, but their supporting arguments are limited.</p> <p>Mark for (b) = 7/12</p> <p><b>Total marks awarded = 10 out of 20</b></p>

### How the candidate could have improved their answer

The candidate partially calculated the change to operating profit but did not calculate the operating profit margin. They needed to understand how to calculate capital employed from the data provided.

Analysis and evaluation were evident in this response, but only at Level 1 owing to limited chains of argument and support for judgements.

The candidate should have included developed comment on the proposed change to depreciation; without this their answer was incomplete.

Example candidate response – low

Examiner comments

4	a)	
	i)	Operating profit margin = $\frac{\text{operating profit}}{\text{sales}} \times 100$ <b>1</b>
4	a ii)	gearing ratio = $\frac{\text{long term loans}}{\text{Capital employed}} \times 100$ <b>2</b>
4	b)	<p>Financial reports of a business include detailed reports of the business assets, liabilities, profits, losses and so on. Every expense and cash inflow/outflow is calculated. These can be very useful to a <del>business</del> <sup>CJE</sup> when setting budgets and assessing their profitability. <del>afterwards</del>. They can be used to help obtain loans to show whether or not CJE will be able to pay them back and also if <del>the</del> published publically, to attract potential investors. <b>3</b></p> <p>The Financial director of CJE is looking to make some changes in their <del>accounts</del> financial reporting techniques.</p> <p>First, they are looking to reduce depreciation. Depreciation is the wearing down of <del>residual</del> assets as they are kept over time (or used). Straight line depreciation is calculated by <math>\frac{\text{initial cost of asset} - \text{residual value}}{\text{no. of years}}</math>. <b>4</b></p> <p>By increasing the no. of years to 20, their depreciation value will reduce. This <del>can</del> could attract buyers when they are selling these assets. Their depreciation value would reduce by \$2.5m. This \$2.5 million could be used to finance other projects like expansion. <b>5</b></p> <p>The second change the director is looking to make is giving a discount to a major customer. This would generate a revenue of \$40 million and help increase profit margins to satisfy shareholders. The discount could also satisfy the customer and increase loyalty. <b>6</b></p> <p>I feel CJE should make these changes as it benefits them greatly and helps achieve their <del>vision</del> <sup>aims</sup> to satisfy</p>

**1** Correct formula.

Mark for (a)(i) = 1/4

**2** Correct formula.

Mark for (a)(ii) = 1/4

**3** Descriptive understanding of financial reports but lacking focus on the question.

**4** Knowledge of depreciation.

**5** This misunderstands the impact of changing depreciation. Reducing depreciation would not attract buyers when assets are sold. The change in depreciation does not provide any finance for CJE's other projects.

**6** Knowledge of the possible impact of offering the discount.

Example candidate response – low, continued		Examiner comments
4	b)	Shareholders which <del>can</del> can be benefited in the long run due to greater investments in the future and higher profit margins. <b>7</b>
		<p><b>7</b> The candidate makes a limited judgement here, but this lacks supporting evidence.</p> <p>Mark for (b) = 4/12</p> <p><b>Total marks awarded = 6 out of 20</b></p>

### How the candidate could have improved their answer

This candidate needed more practice making amendments to financial data and manipulating balance sheet data to calculate capital employed.

The response for **(b)** was hampered by the missing calculations in **(a)**. However, even without these calculations, the candidate could have developed their analysis of how the proposed adjustments might benefit CJE, as the Finance Director clearly believed that there would be an increase in sales and operating profit margin. Recognition that the proposed adjustments included window dressing would have enabled the candidate to discuss the potential outcome with regard to shareholder attitudes. The candidate's limited understanding of the relevant issues made it harder for them to develop their evaluation.

### Common mistakes candidates made in this question

Candidates should practice making amendments to financial data and manipulating balance sheet data to calculate capital employed.

#### 4(a)

- Candidates amended the revenue but made no corresponding amendment to operating profit.
- Candidates based the operating profit margin calculation on data before the proposed adjustments.
- Candidates were uncertain about how to calculate capital employed from the given data.

#### 4(b)

- Candidates included evaluation unsupported by argument or evidence.
- Some failed to identify the issue of window dressing.
- Some misunderstood the impact of depreciation; candidates commonly stated that a reduction in depreciation would increase the finance available for investment. Some candidates argued that the adjustment to depreciation would enhance the value of assets when sold.

## Question 5

Example candidate response – high	Examiner comments
<p><b>5) Assess the usefulness of the forecasts in Appendix 1 to any two functional departments of CJE (16)</b></p> <p>There are four functional departments in business, Marketing, Finance, Human Resources and Operations. The data in Appendix 1 could have many effects on all of these departments, however in this essay i will concentrate on the HR department and the Finance department. <b>1</b></p> <p>The HR department is responsible for the strategic planning of a workforce so that the firm can gain a competitive advantage. The HR department is concerned with recruitment, selection development and labour costs amongst other things. Firstly, the HR department will find the annual growth in labour costs useful.</p> <p>By using appendix 1, the HR department can see the growth in labour costs in European countries and the BRICS countries. I think that this is beneficial because it will give the HR department an idea of what labour costs are likely to be if they enter either a European country or a BRICS country. EU countries have an annual growth in labour costs of 8% and I would assume this would regard wages. In contrast the BRICS countries have a relatively low annual growth in labour costs. By using these figures, the HR department can approximate which countries will be more expensive in terms of wages than others. <b>2</b></p> <p>This can help the HR department contribute to strategic decisions based on cost. This is important because increasing labour costs will lead to shrinking profit margins, unless these increases in costs are accompanied by increases in productivity. CJE would become less competitive the higher its labour costs are. <b>3</b></p> <p>Therefore by using these figures it is clear to see that it would be cheaper for the HR department if operations <b>4</b> were to take place in the BRICS countries rather than EU countries because wage and labour costs are lower. These figures are however an estimate and although the HR department and the whole of CJE should take heed of them, they are not necessarily correct. In addition to this, the information given assumes that labour costs will rise at a steady rate. This however is not true because trade unions can demand higher wages and governments can set higher wages. Furthermore there is no information on the productivity of workers in these countries. For example, if the annual growth in productivity in EU countries is 20% whereas in Brics countries it is 0.5%, then realistically labour costs would be cheaper in EU countries. Therefore the actual importance of these labour costs figures to the HR department is limited. Although they are good for comparison, they do not take into account all countries and therefore is not representative of the whole world i.e. HR cannot make the best informed decisions because of the quality of this data and the amount of data that is missing. <b>5</b></p> <p>The finance department will also find these figures useful; they will be very interested in the 'average increase in global interest rates over period'. They will be interested in this because interest rates can be very important especially if the business has many liabilities, which it does. The firm has 600m in long term liabilities. The finance director must know the interest rates because they dictate how much must be paid to people who have lent to CJE. The finance department could therefore use this figure to make strategic decisions based on how much interest will cost them. <b>6</b></p> <p>By being aware of these figures, the Finance department can plan ahead. This would involve setting budgets, paying of debts and perhaps borrowing more (when interest rates are low). This would increase the survivability and profitability of the business if the finance department plans for changes in interest rates. However, this figure is for the whole world and this decreases its value in terms of use. The finance department will want to know individual countries interest rates so that they can make informed decisions on where to borrow from. <b>8</b></p>	<p><b>1</b> Knowledge of functional departments.</p> <p><b>2</b> Awareness of the usefulness of information about growth in labour costs to HR.</p> <p><b>3</b> Analysis of the impact of increasing labour costs. The candidate could have highlighted how this might be used by HR.</p> <p><b>4</b> The forecasts do not show this; they only provide evidence of the growth in labour costs.</p> <p><b>5</b> The candidate demonstrates understanding of the limitations of the data; their judgement is supported through developed chains of argument.</p> <p><b>6</b> Application to the case study.</p> <p><b>7</b> Links could have been made to the strategic options for growth and the impact on financing of a change in interest rates.</p> <p><b>8</b> Analysis of the usefulness of forecasts to the finance department, along with evaluative comment.</p>

Example candidate response – high, continued	Examiner comments
<p>I would suggest that rather than looking at this figure with such weighting, the finance department use discount factors and accounting methods in order to work out things such as NPV and other interest payments. This would be more accurate. In addition, the global forecasts are over four years and it is unlikely that these figures will stay the same over this time period because economic climates are very fragile and can change instantly. <b>9</b></p> <p>Overall I believe that these figures are of limited use simply because the figures are forecasted i.e. they are estimates, there is no reliable source for the data and because they are not specific. In other words there are many important factors that the two departments should consider. The HR and Finance department would be better off looking at figures that directly concern the business i.e. if CJE has factories in Peru, then the EU and BRICS data will be completely useless. <b>10</b> Between the two functions though, I think that the HR department will find the figures of most use because they directly employ labour. The HR dept would be better off doing a workforce Audit rather than completely trusting these figures. This allows them to plan according to the needs of the business effectively. <b>11</b></p> <p>In addition to this, although average global interest rates may be 4%, they will vary between individual countries. For example, Englands interest rate is currently very low however this can change. The data is subject to volatility and therefore I think that the data should be taken lightly, perhaps as a guideline for some sort of planning, budgeting and decision making.</p>	<p><b>9</b> Further evaluation.</p> <p><b>10</b> The candidate could have focused here on the case study information: location of factories and strategic options, for example.</p> <p><b>11</b> Further evaluation.</p> <p><b>Total marks awarded = 15 out of 16</b></p>

### How the candidate could have improved their answer

The candidate demonstrated clear understanding of the usefulness of the data to functional departments. The evaluation was particularly well developed, both in the body of the answer and in the conclusion. The candidate could have included further analysis of how the functional departments might use the data in decision-making and planning.

**Example candidate response – middle**

**Examiner comments**

5. Strategic choice involve ansoffs matrix, force field analysis and decision trees.

The global economic forecasts for CJF's marketing departments and finance department might will be useful when making the strategic choice, because CJF's marketing department may be interested in increasing sales while the finance department may focus on increasing profits.

A rise in annual world GDP per capita growth by 5% indicates an increase in economic growth. This means that as GDP per capita increases the demand for goods increases. This will affect CJF's marketing department as they would aim to increase sales as economic growth rises. This means that even lower income countries can afford more goods. This would push the marketing department to opt for strategy 1.

Moreover, rising labour costs by 8% and 2% will increase the firms overall cost of production and overheads. This would affect the finance department of CJF as rising costs would reduce profit margins. Therefore the finance department may opt for strategy 2 as it is not affected by rising costs. Strategy 1 takes place in the BRICS and will therefore incur rising labour costs.

In addition, the rising global interest rates by 4% may affect CJF's returns on capital employed. This would be of greater concern to the finance department. Since CJF is a public limited company, if return on capital employed is less than the interest rate then increased borrowing would reduce returns to shareholders. Also, the rising interest rates may lead to international uncompetitiveness.

1 Knowledge of functional departments.

2 Understanding of the GDP per capita data. Analysis of its usefulness to the marketing department.

3 Analysis of the usefulness of the labour cost data to the finance department and a link to the choice between Strategies 1 and 2.

4 Analysis of interest rates.



Example candidate response – middle, continued	Examiner comments
<p>The growth in global marketshare of Asian aircraft manufacturers over period by 12% would affect the marketing department as this would affect CJE's sales. If CJE were to opt for strategy one which involves the BRICs that is concerned with Asian aircraft manufacturers, then CJE's sales would reduce.</p> <p>Moreover, the EU's <del>pollution</del> permitted pollution level has reduced from 100 in 2015 to 80 in 2020, and increases the costs e.g. external, financial <sup>costs</sup> to CJE. CJE may have to pay <del>the</del> heavy fines if <b>5</b> the exceed pollution levels or buy more permits. This affects the finance department as cost increases.</p> <p>However, these are forecasts and may be inaccurate or misleading, therefore the usefulness will depend on its accuracy. <b>6</b></p> <p>In addition, it depends on CJE's objective. If it is profit maximisation then the finance department may have a greater say than the marketing department as CJE could increase market share and sales by reducing prices and profit margins going against CJE's objective of profit maximisation. <b>7</b></p> <p>Also, the driving forces such as increased growth and restraining forces such as increasing labour costs are prone to subjectivity.</p> <p>In my opinion, the usefulness of the forecasts greatly depends on the accuracy and the firm's objectives.</p>	<p><b>5</b> Developed application, showing partial understanding of the change in permitted pollution level. This is most likely to require CJE to invest in R&amp;D in order to meet the permitted level.</p> <p><b>6</b> An evaluative statement.</p> <p><b>7</b> Further evaluation of the forecasts' usefulness.</p> <p><b>Total marks awarded = 9 out of 16</b></p>

### How the candidate could have improved their answer

Application in this answer could have been improved, for example, by linking growth in GDP per capita to a likely increase in the demand for air travel and, therefore, in the demand for aircraft and, consequently, engines from CJE. The candidate's conclusion showed evaluation but this could have been developed more within the body of the answer.

Example candidate response – low	Examiner comments
<p>5. Forecasts are useful for businesses as it helps them to create make proper decisions on their activities. Using the <del>to</del> global economic forecasts, the business would be able to prepare a contingency planning if the economic forecasts are likely to be unfavourable to CJE. <b>1</b> The global economic forecasts would be useful for the Human Resources department and marketing department. <b>2</b></p> <p>CJE's Human resource department could decide the labour cost it would incur based on the labour costs of other competitive businesses in order to make their employees <b>3</b> stay with them rather than moving to their competitors. The labour cost is increasing in the European Union so the CJE should be able to make workers redundant if they cannot meet up with the labour cost. <b>4</b></p> <p>Economic forecasts of the globe would also be useful for the marketing department. There would be a growth in the market share so it should be able to <del>sat</del> produce more output to satisfy CJE's customers <b>5</b></p>	<p><b>1</b> Planning based on global economic forecasts is not contingency planning.</p> <p><b>2</b> Knowledge of functional departments.</p> <p><b>3</b> This data is not included in Appendix 1. However, the candidate could have identified that such additional information would be useful to CJE and that the global economic forecasts in Appendix 1 are insufficient for HRM to make decisions.</p> <p><b>4</b> An indication of how HR might use the data.</p> <p><b>5</b> The understanding is limited here, as the data is about the market share of Asian aircraft manufacturers.</p>
<p><b>Total mark awarded = 5 out of 16</b></p>	

### How the candidate could have improved their answer

Analysis of the usefulness of the labour data was underdeveloped in this answer. The candidate could have shown applied understanding by linking this data to decisions regarding strategic growth options or whether the finance/operations/human resources department(s) would recommend shifting operations to take advantage of the slower growth of labour costs in the European Union compared with the BRICS countries.

The candidate could have developed their analysis of how marketing could focus more on sales to Asian aircraft manufacturers, since their market share is projected to increase.

### Common mistakes candidates made in this question

- The relevance of the forecast growth in the market share of Asian aircraft manufacturers was misunderstood; some candidates considered the aircraft manufacturers to be competition for CJE rather than their customers.
- External costs were incorrectly defined and changes to maximum permitted pollution levels misunderstood. Some candidates were not familiar with index numbers.
- Some candidates failed to refer to any functional departments in their answers, or referred to only one functional department.

## Question 6

Example candidate response – high	Examiner comments
<p><b>6) Recommend to CJE's board of directors which one of the two strategic options the company should choose. Justify your recommendation (20)</b></p> <p>Strategic choice is the process of deciding which option will be the most beneficial to the business when given a number of strategies/activities to choose from. This will involve the business using Ansoff's Matrix, decision trees and force field analysis. In this essay I will concentrate on the data in Table 3 and the Strategic options tab. I will stress the use of Ansoff's matrix, decision trees and force field analysis and other factors that CJE should use when making this decision. <b>1</b></p> <p>Firstly CJE should consider Risk when making a decision. They can do this by using Ansoff's Matrix. This matrix outlines which strategies involve what degree of risk; there are four strategies, market penetration, market development, product development and diversification. This is beneficial because the Ansoff's matrix can help when making strategic decisions as it outlines risk - if the project is less risky then it would be good to take it, however if the project is very risky then it may be less than ideal. It all depends on how safe CJE want to be and their growth strategy. <b>2</b></p> <p>Strategy 2 involves making establishing a joint venture with a USA based jet engine manufacturer. This would lead to the design and manufacture of a new jet engine with a low environmental impact. This is a medium risk strategy because the firm is familiar with the the product i.e. a Jet engine, however it is less familiar with the African market where it would be designed and manufactured. I would therefore class this strategy as market development. CJE and Z&amp;L would have to carry out lots of market research into this African country such as labour costs, the economic environment, Political stances, legal constraints etc... <b>3</b></p> <p>Overall, this strategy is of medium risk because both Z&amp;L and CJE know their product well and as a result they will benefit from core competencies, economies of scale and their combined knowledge. This will allow for a cost effective machine to be made.</p> <p>In contrast to this, strategy 1 involves taking over a small manufacturer in a BRICS country and this manufacturer is</p>	<p><b>1</b> A useful introduction which recognises that this question is about strategic choice. The candidate identifies relevant strategic choice techniques.</p> <p><b>2</b> Descriptive understanding of Ansoff's matrix.</p> <p><b>3</b> Application of Ansoff's matrix to strategy 1. The analysis is not developed in this paragraph.</p>

Example candidate response – high, continued	Examiner comments
<p>designing new jet planes. This is expected to be popular in LIC's, however CJE is not familiar with creating aircraft because their specialism is engines. As a result, this strategy is of the highest risk because it is in a new market and is based on a somewhat new product. This would involve the diversification of CJE. This is risky because it would involve masses of market research into the market, consumer behaviour, cultural factors &amp; it would also include costly R&amp;D into how to make a safe new jet plane. Once CJE has identified the risks involved they should use other strategies such as Force Field analysis. <b>4</b></p> <p>Force Field analysis works by weighting restrainers and drivers. The outcome which has the highest weighting should be chosen. In Strategy 1 the greatest restraining factor is the lack of CJE directors experience in aircraft manufacture, and the greatest driver is the vertical integration that would become of this strategy. With strategy 1 I personally believe that the restrainers outweigh the driving factors. I think this because it would cost a lot more money to branch off into making jet planes (which has high fixed costs and low profit margins). Before this decision is made though, Z&amp;L and CJE should concentrate on strengthening the drivers and dampening the restrainers. They can do this by carrying out market research, by creating project teams between firms, by using effective two way communication and by assigning project champions. If these steps are taken, then together, the increase in drivers and decrease in restrainers will allow for a more obvious decision. This method is useful because it gives a quantitative answer which aids in decision making - however this method doesn't take into account other factors such as risk. But, if CJE carries out an analysis of Ansoff's Matrix along with Forcefield analysis, the choice should be effective. <b>5</b></p> <p>By taking strategy 1 I believe that CJE would incur the most costs. I believe this because it is incredibly risky, there is a low forecast IRR, there is a low expected monetary value associated with success in comparison to strategy 2 and the restraining factors outweigh the drivers greatly from my perspective. I think that it would be way more beneficial to CJE to create a joint venture with Z&amp;L because the strategy involves a lot less risk, it is cheaper, the forecast returns are higher, the expected monetary value if successful is higher and there is great cost savings to be made in African countries. Although the estimated chance of strategy failure is 40%, strategy 2 would be more beneficial because the costs to the business are spread between two firms and there are greater returns expected from success. <b>6</b></p> <p>However, before CJE take my recommendation I would suggest that they partake in strategic analysis first simply because it will allow them to plan. For example, I think that before the choice is made CJE should take into account SWOT i.e. their strengths, weaknesses, opportunities and threats. It is evident that their strengths are in manufacturing engines and therefore from my perspective it makes little sense to diversify by making aeroplanes because that is not where the firms specialisms lie. CJE would be better off concentrating on their core competencies because that will allow the firm to blossom and it will decrease their chances of failure as a firm. <b>7</b></p> <p>In addition to this, before the decision is made CJE should also carry out a PESTLE analysis into the two countries. For example, in Africa (strategy 2) the political, legal, social and economic environment are likely to be very poor in comparison to a BRICS country. This is because of things such as terrorism, low growth, lack of spending and legal/political constraints by dictators. Although it may be cheaper to produce in an African country, it may not be safer/financially viable than producing in a BRICS country where there is high growth. <b>8</b></p> <p>There are many factors the CJE should take into account when making this decision. CJE should consider all things however I would stress the weighting on actual facts which can be gained from SWOT, PESTLE and Porter's 5 forces analysis. The most important factor in my opinion is the PESTLE environment of the country that will be operated in. I think this because the economic and political environment of a country can determine prices, costs, what the firm can produce, whether CJE will get grants for producing, what the level of tax may be and so on. <b>9</b></p> <p>Therefore in conclusion I would suggest that CJE take strategy 2 because I believe that the cost advantages and estimated profits of this strategy outweigh all other factors. However, whether this strategy is effective depends on how CJE and Z&amp;L cooperate, how they plan and how they function. It is important that they function as one business entity, have a strict plan, have budgets and a motivated workforce. To do this, the two firms, once a decision is chosen should make sure that everything is implemented properly by creating and communicating a vision, creating project teams and by setting a project champion to motivate and empower - this is what will guarantee success for CJE if they take my recommendation of strategy 2. <b>10</b></p>	<p><b>4</b> Understanding of strategy 2. Ansoff's matrix applied.</p> <p><b>5</b> Repetition of information from the case study.</p> <p><b>6</b> The candidate has lost focus on the question and describes strategic implementation. They should demonstrate how this helps make the decision.</p> <p><b>7</b> Evaluation of the usefulness of the technique.</p> <p><b>8</b> Application.</p> <p><b>9</b> Application.</p> <p><b>10</b> Analysis and evaluation.</p> <p><b>11</b> Evaluation.</p> <p><b>12</b> Further evaluative comment.</p> <p><b>13</b> The candidate makes a final evaluation, recognising the factor that success will depend on.</p> <p><b>Total marks awarded = 13 out of 16</b></p>

### How the candidate could have improved their answer

There was a strong focus on strategic choice techniques in the candidate's answer. However, it was often descriptive rather than analytical. Although there was some effective evaluation in the body of the answer and particularly in the conclusion, it could have included more detailed analysis of the data in Table 3.

Example candidate response – middle	Examiner comments
<p>6</p> <p>Strategy 1, according to its product development according to ansoff matrix as CJE will sell new products in existing markets. CJE has already a market share of <del>35.7%</del> 14.3% in <del>the</del></p> <p>Strategy 1, according to ansoff matrix is diversification as it will sell new products in new markets. CJE has not operated in any of the BRICS countries. This is the most risky strategy according to ansoff matrix and this is showed by <del>14.3%</del> % risk of failure. ①</p> <p>Strategy 2, is market penetration as CJE will sell more jet engines in USA which it already has market share in it of 35.7%. ②</p> <p>Strategy 1 will secure <del>one</del> a customer for CJE as it will supply jet engines to <del>to</del> the aircraft manufacturers. This will increase the revenue of CJE and its market. ③</p>	<p>① Understanding of theory. Ansoff's matrix is a relevant tool of strategic choice.</p> <p>② CJE sells 35.7% of its engines in the USA.</p> <p>③ A benefit of strategy 1 identified.</p>

Example candidate response – middle, continued

Examiner comments

share. This ~~is~~ high risk strategy could be justified by high profit margins. **4**

~~Estimated~~ Expected monetary value of strategy 1 is \$100m, but that of strategy 2 is \$120m. ~~The~~ Besides that the cost of strategy 1 is <sup>greater than</sup> ~~double~~ that of 2 by \$50m. **5** So in terms of the tree diagram and finance, strategy 2 will be more profitable but it has higher risk of failure of 40%. This will depend on the attitude of CJF managers towards risk.

Using investment appraisal IRR method, strategy 2 is also more profitable as its IRR is 20% and ~~that~~ that of 1 is 15%. Also global interest rates are forecasted ~~by~~ to increase only by 4%, which increases the reliability of this result and supports strategy 2.

Also, culture difference of European managers could conflict with that of Z and L, increasing the ~~change~~ chance of failure for strategy 2. **6** Moreover, ~~still~~ CJF could decrease the constraining factor of strategy 1 by maintaining the managers and the employees of the aircraft manufacturers and obtain specialists from outside to increase their efficiency.

Strategy 2 will provide economies of scales for CJF which will help it decrease unit cost and increase profit factors. I recommend strategy **7** 2 for this reason as ~~the cost~~ of CJF has an objective of decreasing its costs by 7%. **8** Also labour costs will be low in African country, reducing unit cost even low.

However, all these data are forecasts ~~and~~ and may be subject to change so they are not reliable.

Moreover, PEST and SWOT are needed for ~~the~~ CJF and the African country and for the BRICS to help to form decision making.

~~Qualitative~~ Qualitative data are also needed, for example the attitude of the African government towards pollution levels. Also ethical issues should be considered as CJF could be blamed for locating in an ~~African~~ African country for low labour costs and exploiting labour. **9**

**10**

**4** Reference could be made to Table 3 here.

**5** The calculation of the difference in cost is application.

**6** Knowledge and application.

**7** Analysis.

**8** A link to information from the case study provides limited support for this judgement.

**9** General points of evaluation.

**10** A range of factors are identified but with only limited analysis. The candidate includes some evaluation but their supporting arguments should have been developed in more detail.

Total marks awarded = 9 out of 16

### How the candidate could have improved their answer

The candidate showed understanding of a range of factors but needed to include further analysis of these. Chains of argument were short and needed to be extended. The candidate could have focused on a narrower range of factors and given more attention to discussing them. Evaluation was evident but any supporting arguments were underdeveloped.

Example candidate response – low	Examiner comments
<p>(b)</p> <p>Strategy 1 suggests that CJE must take over a small manufacturer of aircraft in a BRICS country. <del>Also</del> This is a good opportunity to enter a new market. <b>1</b> However, the cost of implementing this strategy is <del>much</del> \$200m. Even though a huge amount is spent, the rate of return is will only be 15% over 5 years. There may be lack of synergy between the a large company like CJE and a small manufacturer. <b>2</b> If successful the expected monetary value is \$100m which is much lower than the cost incurred. <b>3</b></p> <p>Strategy 2 suggests that CJE <del>is</del> establish a joint venture with ZLL. The joint venture plans <del>is</del> to introduce new jet engines with low <del>an</del> environmental impact. <b>4</b> The total cost of implementing this strategy is only \$100m much <del>less</del> than strategy 1. <b>5</b> The rate of return <del>is</del> is 30% which is <del>is</del> much higher than strategy 1. <del>How the</del> If successful, <del>then</del> the expected <del>and</del> monetary value is \$200m, also much higher than strategy 1. However, there is a potential risk that the research may fail and there may be cultural clashes between the USA managers and the existing CJE managers. <b>6</b></p> <p>It is suggested that CJE implements strategy 2 as it is more suitable to them than strategy 1. <b>7</b></p>	<p><b>1</b> Knowledge demonstrated.</p> <p><b>2</b> Application, though no developed analysis.</p> <p><b>3</b> Understanding of EMV is not demonstrated. Does it matter that EMV is less than costs? EMV takes into account capital costs.</p> <p><b>4</b> This just repeats case study information.</p> <p><b>5</b> Application through making a comparison between the two options.</p> <p><b>6</b> Repetition of case study information, rather than development of that information.</p> <p><b>7</b> An evaluative statement with limited support from the preceding factors given.</p> <p><b>Total marks awarded = 6 out of 16</b></p>

### How the candidate could have improved their answer

The candidate's answer tended to repeat the data from Table 3 without demonstrating an understanding of what the data meant. Definitions of key terms such as IRR and EMV were lacking. Although the candidate made some comparisons of the data for both options, the application of their answer was otherwise limited. The candidate needed to include more developed analysis of each strategic option and make judgements throughout their answer.

### Common mistakes candidates made in this question

- Going through the data in Table 3 without offering any developed analysis of it or applying it to CJE.
- Failing to identify the most important factors influencing the decision.
- Only making evaluative comments in their conclusion.





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