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Specification



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ADVANCED
General Certificate of Education
January 2010

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

[AT221]



MONDAY 1 FEBRUARY, AFTERNOON

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer the **one** question.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

Study the information below and answer the question that follows.

Transport and Storage Solutions (TSS) plc

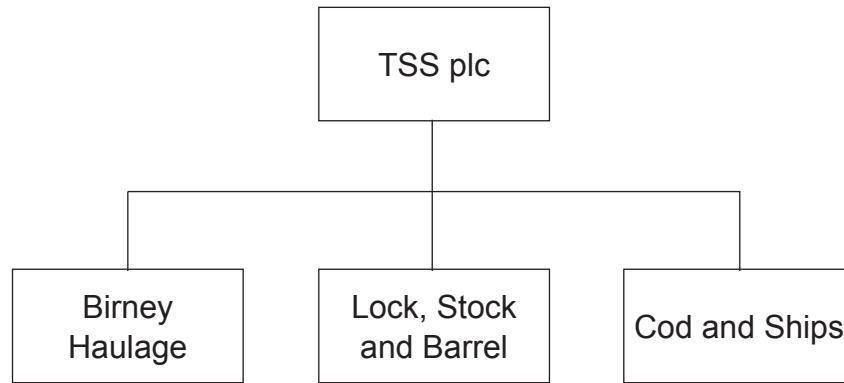
Source 1: Extracts from the company website

- Birney Haulage, a UK distribution company, was established in 1953 close to the Port of Larne.
- The owner, Arthur Birney, began operating as a sole trader with one lorry and the business grew steadily over the years, becoming a private limited company in 1984. His daughter, Claire, took over the running of the business 10 years ago, beginning a period of rapid growth. Soon afterwards Claire floated the company on the London Stock Exchange as Transport and Storage Solutions (TSS) plc. Claire began expanding the business in a number of different directions.
- Through two takeovers, she established interests in warehousing and fish processing in addition to distribution. Employment rose to over 250 staff across the whole organisation.

Source 2: Information from TSS plc Annual Report

	2007	2008	2009
Turnover	£6.9m	£8.6m	£11.0m
Net Profit	£0.48m	£0.68m	£0.99m
ROCE	0.4%	2.3%	5.2%
Gearing Ratio	10%	20%	45%
Labour Turnover	5%	6%	10%
Absenteeism (per employee per year)	3 days	5 days	10 days

Source 3: Business subsidiaries currently owned by TSS plc



- **Business 1**

Birney Haulage currently has 96 employees, two-thirds of whom are directly involved in haulage. It is considered to be quite entrepreneurial in its culture and employees pride themselves on being ready and willing to adapt to changing demands from customers, managers and other stakeholders.

- **Business 2**

Lock, Stock and Barrel is a storage and warehousing business that has been in existence for many years and has developed to meet the changing needs of port and freight traffic. Its 25 employees specialise in stock control and security systems. The culture in Lock, Stock and Barrel has remained quite bureaucratic even after the takeover, with security still being the main concern. Its reputation has been built on the safety of the goods under its care.

- **Business 3**

Cod and Ships is a fish processing business which has been a valued customer of Birney Haulage over many years as it sought delivery of its products to new and developing markets at home and abroad. The size of the workforce has shrunk in recent years from 180 to 130 due to mechanisation. Cod and Ships is an important employer in the local community and the change to mechanisation has not been without its problems. The remaining staff are still coming to terms with changing work patterns and job roles as well as the move towards a more task-orientated culture.

Source 4: Enterprise Agency articles

Claire has recently attended a business development seminar organised by the local enterprise agency. The following two articles caught her attention:

Article 1 – Why do firms merge?

One plus one equals three, an idea known as “synergy”, sums up the attraction of coming together with a rival firm. The new organisation which will result from the merger or takeover is expected to be more effective than the simple addition of its two constituent parts. The larger a firm’s market share, the greater the degree of market power with respect to such variables as pricing and profits.

A motive for merging can be observed in cases of so-called related diversification: the merging firms might be in different industries but there is some element linking their products. Take Sony, the Japanese electronics multinational. In 1988, Sony acquired CBS Records, and, in 1989, it bought (from Coca-Cola) Columbia, the major Hollywood movie studio. Anticipated synergy was based on the link between Sony and these other companies.

(Adapted from: Stephen Romer, ‘Why do firms merge?’, Business Review, February 1998)

Article 2 – Great Expectations

When telephone giant AT&T swallowed up computer manufacturer NCR in 1991, it was confident that the two workforces would get along together well. In fact, the opposite turned out to be the case. The predominantly unionised staff at AT&T refused to work under the same roof with NCR employees, who didn’t belong to a union.

NCR’s conservative style also repeatedly came into conflict with the modern corporate culture at AT&T. This resulted in NCR losing 50% of its share value and AT&T being \$3 million poorer than it had been before the merger.

Most mergers lead to massive job losses and individual career setbacks. Values are turned on their heads and employees are made redundant – all in search of a vision of a better company. Whether this vision will actually come true, however, is a question nobody can answer at the time of the merger.

“Mergers are like gambling,” says Margaret Blair, an expert at the Brookings Institute in Washington.

(Adapted from: Christian Tenbrock, ‘Great Expectations’, New World Volume 1999)

Source 5: Background to Report

- Managing Director, Claire Birney has overall control of strategic decisions within TSS plc. Since each of the various subsidiaries is treated as a separate entity, it has proved difficult for Claire and her management team to develop an agreed culture throughout the whole of the TSS organisation.
- Some members of the TSS plc management team are concerned about issues arising from the takeovers and the clash of cultures within the organisation. However, Claire's enthusiasm for growth continues. She highlights the organisation's strong financial performance, while other members of the management team are concerned with underlying staffing issues.
- There is evidence of some disquiet among several members of the management team of TSS plc as Claire is currently considering the costly takeover of another business, Highs and Lows Ltd. Highs and Lows Ltd is a car parking business that has grown quickly over the past 5 years with premises in some of the country's major city centres. It has recently secured a number of contracts with city councils, whereby the company tows away and stores any vehicles that are illegally parked. It currently employs 40 staff, many of whom are on short-term one year contracts. The culture would be seen as quite mercenary in that targets are set, roles are clearly defined and staff are focused on individual rather than team performance. Employees are motivated by bonuses achieved by reaching targets for towing vehicles away, rather than for providing customer service.
- Claire met yesterday with the entire management team of TSS plc in order to address issues related to the proposed takeover of Highs and Lows Ltd.

Question 1

You are a consultant employed by TSS plc. You have been asked to prepare a formal report entitled "Managing the proposed takeover of Highs and Lows Ltd".

The aim of the report is to examine the main issues surrounding the proposed takeover of Highs and Lows Ltd. You should analyse the financial, cultural and ethical issues associated with the proposed takeover and evaluate its impact on the stakeholders of TSS plc. You should draw appropriate conclusions as to whether this takeover is in the best interests of the stakeholders of TSS plc.

Your report should be in an appropriate format and should include recommendations to the management team of TSS plc.

(You may find it useful to consider the following areas in your report: financial performance, stakeholders, ethics, management of change, takeovers, culture, corporate image.)

[80]

THIS IS THE END OF THE QUESTION PAPER

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