

# Report on the Component

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**June 2006**

**9914/MS/R/06**

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## 9914: Advanced Extension Award, AEA, Business (written paper)

The June 2006 examination was the second sitting of this qualification. The format of the paper matched that of last year and colleagues preparing candidates can be assured that this format is likely to continue. This means candidates should be prepared to answer two distinctly different questions. The first question will require an assessment of the business' current position. The second question will require the creation and justification of a strategy that the business might adopt in the light of some given change.

The entry this summer was similar to that last year; about 300 candidates from about 100 centres. The pattern of candidate entries spanned the lone candidate to significant entries from individual centres. It is simply not possible for the examining team to know what support, if any, candidates are afforded in preparation for this examination. However, what is certain is that there is no correlation between the size of the centre entry and its quality. The better candidates were those that were able to offer a coherent answer which synthesised precise subject knowledge, understanding and vocabulary with the case study. At the opposite end of the ability range were answers which contained significant errors of both subject grasp and case comprehension. One such example is the reduction of goodwill in the British Airways' (BA) balance sheet being seen as an indication that BA is less popular with customers.

The issue of numerate ability is one that has again exercised the examining team. Across the entry there was very little evidence of candidates being both willing and able to engage in basic numerate analysis. For example, from Extract C it is possible to determine the ratio of passengers to employees (BA 749, Ryan Air 10,222 and easyJet 4,036). The outcome of this could have readily been used to provide evidence that BA is comparatively over-manned, when compared to the other two carriers, and as such a strategy of staff cuts becomes realistic. Why Business candidates seem so reluctant to use number is both a disappointment and something of a mystery.

There was no evidence of time being an issue. With time not being at a premium it is a pity that there were so many poorly presented scripts, betraying a lack of planning prior to writing the answer. Likewise, the legibility of the handwriting seen was too often a challenge that might well have defeated all but the most seasoned examiner. Typically candidates wrote slightly more for Question 1 than Question 2, but in the main the balance between the two questions was acceptable. Typically candidates wrote between 8 and 16 pages.

- 1 At first glance this question might seem to be too easy for an AEA qualification. Indeed, many might argue that it would not be out of place on a GCSE paper. But what makes the question appropriate at this level is the quality of answer expected.

At its most basic candidates offered a descriptive tour of several stakeholders and suggested the impact of their relationship with BA. Sometimes this description included reference to the case evidence, but this was not always so. Such answers scored very poorly.

Better answers sought to link different stakeholders to different extracts in the case to support a view that needs were either met or not met, demonstrating an understanding of the notion of stakeholders. For higher marks to be gained answers were expected to draw together the often conflicting evidence to suggest whether BA meets its stakeholders' needs, including some analysis of the material. The best answers did this as well as then offering some reasoned judgment about the manner in which BA approaches its stakeholders' needs. This

might have been through questioning the validity of the source and time scale or through the blending of subject theory and the situation.

Few candidates sought to differentiate within a particular stakeholder group. For example, not many recognised that employees are not a homogeneous group. As such different employees will have different needs, often reflecting their skill and experience. Similarly, few questioned the apparent contradictory need of Government for growth in air travel with the stated aim of lower CO<sub>2</sub> emissions.

Whether it is the nature of what we teach, or whether stimulated by the wording of the question, but Maslow's hierarchy of needs was very much in evidence.

As might be expected, the examining team did not have a preconceived "correct" answer in whether BA does meet its stakeholders' needs. What makes the candidates' view of value is their supporting rationale for it. Overall, the candidates' view was that BA does the best it can in a difficult situation, both when faced with conflicting needs and a challenging commercial environment.

- 2 As last year, and on the trial paper which was sat in June 2004, the task within this question is to offer a strategy which the business might adopt in the light of one of four scenarios. Happily no candidate attempted more than one part of this question, although some offered no attempt whatsoever. No one option of the four was the clear favourite.

Generally candidates scored less well on this second question because they were unprepared for its demand in having little appreciation of what a strategy is. As last year, weak answers offered short term tactical behaviourally-based advice. What the examining team expects is a reasoned and justified longer term, integrated response which, whilst possibly starting within one aspect of BA then broadens out to consider the business as a whole. This might be considering resources required, time scale, or priority and sequence of actions. As the target market for the AEA is supposed to be "the best of the best" it is not thought unreasonable for candidates to be able to offer creative and imaginative responses that address the scenario they have selected.

- (i) Increasing fuel prices. This was a popular choice. Suggestions ranged from cutting costs elsewhere in the business through to passing on the increased cost to the customers. High on candidates list of cost saving was, unsurprisingly, employment costs. The concept of elasticity was often seen in seeking to argue whether BA would need to absorb the additional cost or not. Likewise, some candidates sought to analyse the competitive environment faced by BA in doing the same. The idea of backward vertical integration was thought to be a solution by some, whilst moving away from fuel based services was another. In each and every case what the examiner wants is the rationale and justification.
- (ii) Society's concerns about the environment. By its very nature transport is a polluting activity which does rather limit what BA could be advised to do. However, many candidates selected this option and tried to offer a range of responses. At the rather more cynical end of the range was to carry on as now but hire a PR firm! Others suggested trying to off-set carbon emissions by a variety of means.

That many candidates thought BA should engage in R&D to find new types of fuel/engines/airplane design betrays a lack of awareness of what a major UK Plc does. Such answers were not well rewarded unless it was recognised this was

beyond BA's competence and could only feasibly happen as a partnership arrangement/joint venture with another appropriate business.

- (iii) Deteriorating labour relations. When set it was anticipated that candidates would approach labour relations on a number of levels. These might be individual and collective, as well as within and beyond BA. Regrettably, all too often this simply didn't happen. Indeed, the answers for this option tended to be the most disappointing, frequently simply revisiting motivational theory and HR practice. At this level the examiners hope candidates can do rather better than social outings and suggestion boxes.

It is clear from the evidence in the case that BA's labour problems are not confined to just its own employees. As such a suitable strategy would have considered BA's relationship between itself, suppliers and Trade unions.

- (iv) Ryan Air announcing the operation of transatlantic flights. Here answers tended to fall into two main sorts. The first was the rather aggressive approach, a sort of "blow Ryan Air out of the water" answer. These candidates argued that given Ryan Air's lack of expertise in this market, its high set up costs, and no slots at popular transatlantic airports, they were ripe for being beaten by a price war. As such the strategy was lower prices, tell shareholders to wait and to see off the upstart.

The alternative was rather more defensive. Given that BA couldn't compete with the budget carriers in Europe, hence the sale of Go, the best strategy was to avoid confrontation. The answer was then product differentiation in moving up market. It was thought that although some customers might be prepared to put up with no frills on a short intra European flight it doesn't mean they would accept the same lack of service on a longer inter-continental flight. These answers drew on the airline rankings in the case study and BA's market standing to argue that they could charge higher prices and still be profitable. At the extreme they advised that BA pull out of short haul, European flights altogether and concentrate on their strength, long haul. Having abandoned short haul, with any luck, Ryan Air would leave BA alone and so not enter the transatlantic market.

**Advanced Extension Award (Business) (9914)  
June 2006 Assessment Series**

**Component Threshold Marks**

<b>Component</b>	<b>Max Mark</b>	<b>Distinction</b>	<b>Merit</b>	<b>Ungraded</b>
9914/01	40	31	22	0

**Overall**

	<b>Distinction</b>	<b>Merit</b>	<b>Ungraded</b>
Percentage in Grade	5.08	33.97	60.95
Cumulative Percentage in Grade	5.08	39.05	100.00

The total entry for the examination was 327.

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