



2011 Business Management

Advanced Higher

Finalised Marking Instructions

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2011 Business Management – Advanced Higher

NB Throughout the paper marks should be given for each relevant point, including description, diagrams or explained examples. No marks are given at this level for mere identification points.

SECTION ONE

1. (a) *Discuss the reasons why ProStrakan decided to expand in the USA in 2007.*

To gain full marks candidates should discuss a minimum of 2 main points.

Answers should refer to specific reasons relating to ProStrakan's decision to set up a development facility and sales force in the USA. Answers which do not refer to ProStrakan and make general points about overseas expansion should gain a maximum of 3 marks.

Possible examples include:

- Anticipated approval for Sancuso which would provide a key product for the US market – Sancuso was proving very successful elsewhere eg licensing deals in Asia etc.
- Size of the US market for cancer drugs (1.4m people in US are diagnosed with cancer each year).
- ProStrakan is established in Europe and has developed a base from which it can enter the USA so that it participates in the 2 biggest pharmaceutical markets in the world.
- Availability of finance to fund the expansion as a result of the deal with Novaquest – \$45m to recruit sales force and \$10m to launch and market Sancuso.
- Sancuso appears to be a product with significant potential (confirmed by early US sales of 850 per week and greater than expected number of sales people).
- Agreement with Novaquest may give ProStrakan access to specialist knowledge about the US market – as a US company Novaquest has experience of the US market and of working with companies like ProStrakan.
- It fits in with their vision of creating a significant international pharmaceutical business as per Exhibit 1.
- US market is new for ProStrakan and despite apparent benefits; unexpected issues may arise eg sales forecasts may not be met.

(6 marks)

- (b)** *Apart from expansion in the American market, analyse other actions ProStrakan has taken which can help it achieve the growth it is seeking.*

Award one mark for each relevant point plus one for each relevant development point. Relevant examples may be credited with one mark each, providing it is clear that the candidate is aware of why the example illustrates the point being made. No marks should be awarded for statements without analysis.

Candidates who provide a well-developed answer which covers only one action could gain all 6 marks.

Possible actions which could be mentioned could include:

- Use of out-licensing eg for Sancuso – this enables it to sell its products in non-core markets like Asia eg JapanBridge.
- Use of in-licensing – this can help it find new products eg Abstral which is licensed from Orexo.
- Use of partnership deals eg joint venture with Orexo.
- Obtaining suitable finance eg as a result of the secured debt facility.
- Focusing on products where the likelihood of success appears to be greatest eg sale of ProSkelia.
- De-merger of ProSkelia to allow it to focus on its strengths.
- Merger with existing companies (referring to Example 1) if linked to growth.

(6 marks)

2. *ProStrakan prides itself on the commitment shown by its workforce. Assess the factors that help to motivate its employees in Scotland.*

Maximum of 2 marks per point. To be awarded a mark, candidates should assess how each factor would increase commitment/motivation. Up to 3 marks may be awarded for appropriate reference to motivational theories such as those from Maslow or Herzberg.

- ProStrakan's CSR policy includes valuing and respecting the creative talents of the workforce – this helps employees to feel that they are important to the company and that what they do is important. This may be consistent with Maslow's self esteem and self actualisation needs, as well as Herzberg's motivators which include recognition, and the importance attached by the human relations school to interest shown by management in employees.
- Seeing how input affects the business, which can lead to pride in work – this can help people to be committed as they wish to make sure that what they do is good and representative of the capabilities that they have. This could fit with Maslow's self esteem and social needs as well as Herzberg's motivator of recognition.
- Communicating with staff eg through meetings – this should help employees to feel involved as the company is enabling them find out what is happening and they have the opportunity to comment and make suggestions; they may learn new skills which will equip them for future promotion. This may be consistent with Maslow's self esteem and self actualisation needs, as well as Herzberg's motivators which include improvement and promotion. The human relations school also emphasised the importance of communication between management and employees in promoting high levels of output.
- A pleasant physical environment – the Borders has proved to be attractive to skilled professional staff and if they are happy with their surroundings they are more likely to be committed to their work. This is one of Herzberg's hygiene factors ie not a positive motivator but a factor which is important in preventing people becoming demotivated.

(6 marks)

3. *Despite not making a profit, ProStrakan has been successful. Analyse examples from the case study to show how its success in recent years could be measured.*

To gain full marks candidates should analyse a minimum of 2 points. Award a maximum of 3 marks for general points about measures of success which are not related to the ProStrakan case study or examples of measures from the case study that are not linked to success. Exhibit 4 provides useful information which candidates can use for this question, but there are relevant points throughout the case study.

Possible measures of success include:

- Revenue – this measures the income (turnover) that ProStrakan obtains from its activities (eg sales, licensing). During 2005 – 2009 this rose to £56.1m, which suggests that ProStrakan is selling more of its products.
- Gross profit – this measures revenue from sales minus costs of sales. It has been rising since 2005 to £36.1m in 2008.
- Reduction of loss – losses have generally been falling since 2005, but the trend is not always downwards. However, this suggests that the company is, as it predicts, moving closer to break-even point.
- Growth of product sales – the amount of the increase has varied between 2005 and 2008, but there has been an increase of at least 20% in each of the 4 years. The increase in pan-European sales in 2007 – 2008 provides further confirmation.
- Number of licensing deals, particularly for Sancuso eg with JapanBridge, Invida etc – these suggest that ProStrakan has a good product.
- Income from licensing deals eg with JapanBridge – this suggests that not only can ProStrakan secure deals; it can make ones which will enable it to gain a revenue stream in the future. Number of licensing deals has increased also.
- Success in particular markets eg in USA, where more than expected number of sales people have had to be recruited – the fact that Novaquest is prepared to deal with ProStrakan also indicates that ProStrakan is successful.
- Debt facility of £50m indicates that institutions will lend ProStrakan money, which implies that they think it will succeed.

(6 marks)

4. *ProStrakan is a new and relatively small company which specialises in bringing new pharmaceutical products to market. Using examples from the case study, explain the benefits to ProStrakan of this specialisation.*

Award one mark for each relevant point plus one for each relevant development point. Relevant examples may be credited with one mark each providing it is clear that the candidate is aware of why the example illustrates the point being made.

Candidates who provide a general response with no examples from the case study should gain a maximum of 4 marks.

Possible benefits of specialisation for ProStrakan include:

- Some of the risks and costs of new drug development are avoided by concentrating on new uses for proven drugs (eg Sancuso; sale of ProSkelia).
- Greater certainty of results from development work (sale of ProSkelia), which could increase return ProStrakan may get from investment it makes.
- Marketing expertise can be used to gain footholds in niche medicine markets eg in EU, where specialist knowledge is required.
- Specialist staff are employed, so that the full benefit of their expertise can be gained (eg in marketing, later stages of drug development).
- Resources are not spread thinly, as the firm focuses on successful products (eg Sancuso in US).
- It enables ProStrakan to make use of expertise of others through licensing and other deals (eg for Sancuso; Abstral) – it does not need to incur the costs of providing this expertise itself.
- It can help it earn revenue from most discoveries – specialist skills may help it to identify new opportunities but, if it cannot exploit these itself, it has skills in out-licensing which can allow it to gain royalties from others.
- It enables ProStrakan to focus on its core markets and products (eg sale of ProSkelia) and not encounter potential distractions.

(8 marks)

5. *Discuss the importance to ProStrakan of deals with other companies.*

Award one mark for each relevant point plus one for each relevant development point. Relevant examples may be credited with one mark each providing it is clear that the candidate is aware of why the example illustrates the point being made.

Candidates who provide a well-developed answer which covers only one important factor could gain all 4 marks. Candidates who provide a general response on partnerships or licensing with no reference to the case study should gain a maximum of 2 marks.

Possible important factors include enabling ProStrakan to:

- capitalise on its own particular capabilities and make the best use of its staff and other resources (eg core markets in Europe; joint venture with Orexo – which also allows it to use Orexo’s knowledge of Scandinavia)
- tap into the specialist expertise of others (eg Invida in Singapore which is a non-core market for ProStrakan; Orexo – see above)
- use deals with others to gain revenue (eg JapanBridge and Sancuso)
- undertake activities more quickly (eg deal with Novaquest in USA)
- get help in obtaining finance – important for a small company (eg deal with Novaquest)
- gain access to new markets (eg NewBridge in Turkey).
- however, ProStrakan must maintain relationships with all its partners and this may not always be easy as there are a number of them.

(4 marks)

6. *Explain the reasons Strakan and ProSkelia decided to merge to become ProStrakan in 2004.*

Award a maximum of 2 marks for general points about the reasons for a merger with no reference to the case study. Responses should, therefore, focus on the reasons why this merger took place. Exhibit 3 contains information which candidates may find useful.

Reasons for the merger could include:

- Create a fully integrated pharmaceutical company – which would mean it could cover all the 4 stages of development from new drug discovery to marketing (this could make it more attractive to investors with the transaction to a plc in the offing).
- Linked to being a fully integrated pharmaceutical company, the merger gave the new company the critical mass it needed for expansion (again relevant to becoming a plc and being profitable).
- Good fit between the 2 companies – drug discovery plus development and marketing skills.
- Complementary management teams and scientific expertise/commercial.
- Both companies would gain ie Strakan would expand into Europe and ProSkelia would get access to expertise which would increase the chance of any new discoveries becoming successful products.

(4 marks)

7. *Analyse ProStrakan's decision to sell ProSkelia to NV Galapagos in 2005. (Your answer must include a force field diagram).*

Award a maximum of 4 marks for a diagram showing at least 2 drivers, at least 2 resistors, arrows of varying lengths pointing towards each other, and at least 1 asset for change. Deduct one mark for each one that is omitted.

Award a maximum of 3 marks for explanation of drivers and resistors. To gain a mark, candidates should indicate why the factor is a driver or resistor. Answers should focus on exactly why a driver or resistor is a driver or resistor and consider the implications of the driver/resistor

Award a maximum of 3 marks for analysis of the forcefield diagram and how it can be used to explain the decision to sell. This should include an explanation of why, in this case, the drivers exceeded the resistors as far as ProStrakan was concerned.

Drivers can include (N.B. many of these overlap – candidates should be credited for any valid driver):

- Faster growth – the success of products which ProStrakan was developing and/or marketing was strong (greater than had been expected) and growth would be quicker if attention were devoted fully to these products.
- Focus on specialist areas – concentrating on later stage development and marketing – meant ProStrakan could specialise in activities which it could do well.
- Reduced uncertainty – linked to the first two bullets – the success of existing products means future risk is less; there is substantial uncertainty about whether research by ProSkelia will actually lead to new drugs – or do so quickly.
- Changed expectations about ProSkelia's research – it appeared that any new products would take time to come to market.
- More money for development and marketing – this would boost growth.
- Reduction in cash spending – funds for basic research would no longer be needed and cash could be saved.
- Chance to reach break-even point sooner – because revenue will increase more quickly.
- Greater revenue – because effort could be concentrated on products which looked as though they would be successful.

Resistors

- Tax liability in France because sale would mean that Aventis would have to be compensated by 9-15m euros.
- Loss of European base for ProStrakan which may make future expansion more difficult.
- Possible loss of benefits from any new products discovered by ProSkelia, which may reduce future revenue.
- ProStrakan will no longer be a fully integrated company and may no longer be big enough for expansion.

Assets for Change

- Existing product portfolio – especially Sancuso.
- Expertise in later stage development and marketing of new medicines.

Overall, benefits appear to outweigh resistors. Circumstances had changed since the merger, particularly in the greater success of existing products and the slower progress rate of research into new ones at ProSkelia. ProStrakan is committed to growth and to becoming profitable and it had to take steps to make this happen more rather than less quickly – as a plc it cannot make losses indefinitely.

(10 marks)

8. (a) *Examine how the use of different types of information technology can increase competitiveness of UK firms in the global market.*

Answers must examine how each type of technology is used. A maximum of 5 marks may be given for each type of technology. Award a maximum of 7 marks for answers which describe how technology is used but make no mention of competitiveness.

Video-conferencing – reduce costs through not having to travel for meetings etc; can improve communication with branch managers globally; react more quickly to changes in local market; can aid/speed up decision making.

Internet – ordering online allows firm to reduce lead times and storage costs; allows firm to see what competition is doing; no need to pay for staff to man retail outlets; good website can attract customers; can sell to wider market; can sell 24/7; immediate communication with customer; can source cheaper suppliers from all over the world; allows employees to work from home, reducing costs; B2B allows firms to track orders; online banking allows firms to manage cash flow more effectively.

Intranet – allows sharing of software and hardware, reducing costs; internal email allows instant communication and collaboration between employees in different locations; allows instant communication which means firm can react to changes in local markets quicker.

Mobile phones – can contact employees even when out of office; employees can check emails on the move.

Personal computer/software – routine tasks can be carried out easily; EPOS can gather large amounts of info about customers which can be used to target them eg Tesco club card vouchers.

CAD – allows firms to design products accurately, then change them quickly and cheaply; can react to clients' changing needs; testing can be done cheaply; can prevent the need for expensive reworking later on; cuts lead times between design and production so can keep up with competitors; reduces need for specialists, cutting down costs.

However – easy for competitors to see firm's prices/services/on-line; constantly changing technology means staff training, increasing costs; employees constantly checking for emails can waste time and efficiency; viruses can cause systems to crash, leading to downtime so areas of business cannot function.

(13 marks)

- (b) *Describe the main ideas of the Human Relations School and discuss its relevance to modern day management.*

Award a maximum of 7 marks for description of the theories of the HR School. Answers should point out how it is relevant to modern day management. Credit examples. At least one negative point must be discussed to gain full marks.

One of founders of HR was Elton Mayo; focussed on importance of social factors and human behaviour; stress importance of taking into account workers' needs in order to improve productivity. Maximum of 1 mark for description of the Hawthorne experiments

Mayo undertook research at Hawthorne Plant and came up with idea of the Hawthorne effect; discovered that no matter what conditions management changed at work, workers' motivation was positively affected; discovered the importance of groups and social interaction in the workplace; when management took an interest in employees their work rate improved.

Later theorists (neo-human relations school) included:

Maslow – described hierarchy of needs, broadly satisfied in order; management methods need to be appropriate to the level on which workers are currently operating.

Herzberg – identified hygiene factors – said that increasing them will not motivate but their absence will demotivate; only motivators such as recognition etc affect motivation positivity.

McGregor – came up with Theory X and Theory Y; theory X managers viewed workers as inherently lazy and resistant to change; mainly motivated by money; theory Y managers viewed workers as motivated; keen to use initiative; Theory Y view more aligned with HR School, Theory X with classical.

Relevance

Likely to be used in organisations where workers' personal involvement is important, particularly in fast changing environments; useful in organisations where employees' work is difficult to measure eg in service industries such as teaching and nursing.

Unlikely organisations would use this school of thought in isolation. Seen as naive as did not take into account other factors other than employees' feelings; organisations cannot exist in isolation as explained by Systems and Contingency theories.

(12 marks)

9. (a) *Describe time and task management techniques and explain how they can be used to make a manager more effective.*

One mark can be awarded for a description of each technique up to a maximum of 7 marks. Techniques must be linked to effectiveness to gain full marks. Maximum of 1 mark for definition of time or task management or effectiveness.

Techniques

Write a to-do list – identify tasks to be done during a particular period of time. Identify priorities – what must be completed first; set SMART targets; break tasks down into achievable portions.

Decide on urgency versus importance (Eisenhower's matrix) – allocate enough time to complete important tasks while ensuring urgent tasks done quickly.

Diary – list work activities on day-to-day basis.

Avoid time wasters – prolonged meetings, interruptions, idle conversations.

Learn to say no – put up busy sign at desk.

Organise work space – eg use of in-trays, effective filing system.

Delegate – assign tasks to junior colleagues.

Improve personal communication skills – improve reading speed; create basic strategy for report writing; handle meetings.

Improve personal effectiveness – begin with the end in mind, what do you want to achieve; sharpen the saw eg develop new skills or improve existing ones: make time for personal reflection, take time to relax.

Effectiveness: answers must explain how/why a technique could be effective.

Breaking tasks into achievable portions allows managers to chart progress, makes tasks more achievable.

Eisenhower's matrix – ensures that urgent tasks are undertaken but do not take up time which should be devoted to important tasks – managers are thus more effective as important work is not neglected.

Diary – can see time spent on various tasks; can show number of interruptions.

Avoid time wasters – can get on with tasks without breaks or interruptions.

Write a to-do list – can avoid forgetting tasks; can motivate as can check off completed tasks; lets manager see what has to be completed.

Analyse personal attributes – some people are more effective in mornings so assign tricky/important tasks then; arrange breaks during least effective times; some like to pace out work whereas some prefer short intensive periods.

Organise work space – if tidy and methodical then work space should be orderly so time is not wasted searching for resources or information.

Delegate – can then get on with more important tasks; subordinates develop competence and this improves the effectiveness of the management team overall.

Improve personal communication skills – to deal with meetings, report writing more quickly.

Improve personal effectiveness – knowing how to go about achieving your goals will allow you to start the task more quickly.

(13 marks)

- (b) *Explain the stages of group development and assess how this process can influence the success of teams in businesses.*

Award a maximum of 8 marks for explaining the stages of group development. A link must be made between the process and team success to gain full marks.

Stages of Group Development

Forming – when the group first comes together; ‘getting to know you’ phase; involves finding out about the task, rules and methods; acquiring information; process is driven by the leader; more vocal members may dominate at this stage.

Storming – the conflict stage; factions form; personalities clash and members try to find out what each of them wants; individuals reveal their personal goals; leader needs to manage the conflict; trust is focused into smaller groups and sub-groups and alliances form.

Norming – sub-groups begin to recognise the merit of working together; in-fighting subsides; cooperation develops so members feel secure in expressing their viewpoints; people begin to listen to each other; work methods become established (norms); mutual respect fosters support for leadership within team.

Performing – group settles on a system which allows free and frank exchange of views; teamwork is achieved; solutions are found and implemented; high degree of support by members for each other; leader takes overview but day to day running may be shared; loyalty and relationships develop as team is now operating on higher level of trust.

Adjourning (or Mourning) – group disbands because task has been achieved or members have left.

Maximum of 1 mark for explanation of Belbin’s theory

Effect on teams

Tuckman and Jenson felt groups do not come into existence fully formed so managers must allow time for groups to develop before expecting results.

At the forming stage individuals are not yet clear about their contribution so progress on task cannot be made until group passes this stage; individuals may be hesitant to make suggestions; at this stage the group relies on the leader so it is important for management to appoint who is able to steer the group through it.

If the group does not get past storming stage it will not gel; arguments will continue; progress on task or project may be difficult. The storming stage can be hard to manage as progress may seem slow or non-existent. Team members may become frustrated or lose motivation.

Norming stage – if norms set are not in line with organisation’s objective then the group will work against organisation not with it; at this stage the group is more likely to come to common decisions.

If the group works through the stages then team is more likely to be successful; some decisions can be delegated to sub-groups, speeding up progress; on the other hand; groups may have a measure of success without having to work through all the stages.

(12 marks)

10. (a) *Assess the extent of the influence that stakeholders can have in affecting a multinational corporation's operations.*

One mark can be awarded for a definition of the term stakeholders. Marks should be awarded for answers which consider the type of influence each stakeholder has and how much influence. Credit examples of where stakeholders have influenced MNCs (up to 2 marks per stakeholder, but repeat examples should not be credited). Maximum of 5 per stakeholder. Maximum of 6 for points not related specifically to MNCs.

Employees – little influence as often in different countries from where directors are; can exert pressure through trade unions but difficult for unions to coordinate or collaborate across different countries.

Managers – branch managers responsible for branch operations and day to day running; direct influence on branch operations.

Financial investors – provide loans and other financial services such as debt facilities. Can influence multinationals by the terms on which they make financial support available (eg interest rates charged, amount of finance made available; length of time for which finance given; conditions attached eg penalties for default on interest payments).

Local Community – can organise pressure groups to influence MNC eg in 2006 India banned soft drinks in government establishments and educational establishments after a pressure group claimed they had found pesticides in the drinks; McDonalds promised to stop using environmentally damaging chemicals in their refrigeration equipment after pressure from Greenpeace.

Shareholders – can have direct influence on operations as can vote at AGM; can buy and sell shares to influence MNC but this is an indirect influence eg selling shares can cause share price to drop thus causing directors to review what they're doing. Institutional shareholders can buy and sell large number of shares to generate returns; rarely participate in running of companies; have ability to exert control since they own large blocks of shares.

Board of Directors – have overview of company; have direct influence as they are responsible for deciding operations of company.

Customers – can have indirect influence but MNCs' power makes this difficult. MNCs dominate the market so it can be difficult for customers to look elsewhere for products.

Suppliers – influence may be minimal unless fairly large; may need MNC to survive and thus may fit in with its requirements; influence may depend on what alternative sources of supply exist; MNCs may get supplies from their own subsidiaries and so suppliers may have little influence.

Governments in countries where MNC has operations – can put pressure on MNC but as MNCs are extremely large and powerful in reality governments may have little influence; UK governments forced Shell to put several North Sea oil fields on market by threatening to withdraw licenses; Australian government vetoed Shell's takeover of Woodside Petroleum; US government forced resignation of CEO of BP.

(13 marks)

(b) Describe each of the following and discuss how each one might affect a UK firm's profitability.

- *Single European Market*
- *European Monetary Union*

Award a maximum of 4 marks for description of each aspect. To gain full marks effects on profitability must be discussed. Credit examples. Maximum 7 marks for each, (6 if at least one negative effect is not included).

European Monetary Union

Description of factors such as the following: creation of one currency used by countries in EU, the Euro; European Central Bank sets interest rates for whole eurozone; some countries not in eurozone because they do not meet criteria or have chosen to opt out; five criteria for membership of eurozone (eg amount of public borrowing).

Can affect profitability as UK firms have to cope with the fact that the UK is not a member of the eurozone. This means they have to bear transaction costs when dealing with firms in countries which do use the euro and may be affected by fluctuating exchange rates. Profitability may also be affected as firms in other countries may prefer to deal with firms which use the euro. Firms in the eurozone and MNCs may be reluctant to set up branches in the UK, and thus UK firm may be denied opportunities to gain contracts to supply these firms. Impact on firms which do not trade with the eurozone may be minimal.

Single European Market

Description of factors such as following: removal of barriers to trade between members, harmonisation of product standards to allow free trade in services such as insurance, free movement of resources such as labour, common external tariff.

Reducing trade barriers allows cheaper trading which may lead to increased sales; access to 500m customers may open up new markets; reduction in paper work needed to trade saves time and money; fewer delays waiting to get exports through customs posts; opening up new markets leads to increase in economies of scale; altering products to meet new standards increases costs; UK firms can now bid for public sector contracts which previously were awarded to domestic firms; access to new sources of labour supply may lead to reduced costs.

(12 marks)

11. (a) *Describe the stages of change and discuss the benefits to an organisation of a properly managed change programme.*

Award a maximum of 7 marks for describing the stages of change. To gain full marks answers must discuss how effective change management benefits the organisation.

Kurt Lewin argued that the change process could be broken down into 3 steps:

Unfreezing – recognising the need for change; defining the problem; identifying how the problem is affecting the company; looking for alternatives; preparing for change by breaking down beliefs and assumptions that currently exist and opening up need for change.

Changing – implementing and managing the process of change to achieve the desired outcome; developing new behaviours and values through changes in organisation structures and processes; realising when the goals have been met.

Refreezing – reinforcing the change; consolidating the new state now that changes have been successfully implemented; ensuring organisation doesn't regress to old ways.

Credit should be given to candidates who recognise alternative explanations of the stages of change (eg 1 mark each for preparation and evaluation).

Benefits:

A properly managed change programme can:

- Encourage a smooth transition to the new environment by reducing the impact of barriers to change eg during unfreezing.
- Allow an organisation to support the changes implemented eg during refreezing.
- Let individuals know how the changes will affect them eg during the changing stages the organisation can keep people up-to-date with developments, provide answers to questions etc.
- Let individuals know the role they must play and equip them to play their new role – eg by training at the unfreezing stage and during changing/STAGE.
- Help motivate staff and ensure their commitment to the change through involving them in the change during all three stages; negotiating and consulting with staff; offering rewards.
- Make the goals of the change programme clear, and monitor progress to make sure the goals are being met – the evaluation stage can also check that they have been achieved.
- However, if change is not properly managed employees can become demoralised, worried about their positions, hinder change through industrial action.
- Maximum of 1 mark for discussion of negative effects.
- Credit discussion of the benefits of different methods of managing change eg topdown, but not descriptions of them.

(12 marks)

(b) *Evaluate the methods the UK Government can use to aid business during a recession.*

Award up to 4 marks for each type of help. Examples should be credited when they develop the basic point. Award a maximum of 9 marks if candidates fail to make a link between aid and recession.

Award 1 mark each for description of monetary or fiscal policy.

Monetary policy – lowers interest rates to reduce interest on loans; frees up cash when sales low eg in 2009 base rate reduced to 0.5%. Bank of England pump money into economy to boost spending (quantitative easing).

Fiscal policy – reduce VAT to encourage customer spending eg in 2008 VAT reduced to 15%; however a reduction of 2.5% in VAT does not reduce price by much – not huge encouragement for consumers to buy; reduce income tax to increase disposal income to encourage customer spending; reduce corporation tax to increase profit; reduce other taxes eg fuel duty to reduce transport costs. Increases in VAT may have opposite effect and discourage spending. This could force firms to absorb some or all of the tax which may reduce profits but could stimulate moves to improve efficiency.

Financial assistance to firms – provide direct financial help to stop businesses going bankrupt eg government now owns 60% of RBS; government loan to secure Airbus jobs; funding to provide jobs and apprenticeships eg Future Jobs Fund to help firms create jobs.

Government support schemes to encourage spending on particular things – examples include £2000 Government Scrappage Scheme on cars to reverse car sales slump; government grants to homeowners to increase spending eg 50-100% off loft insulation; £2.3 billion automotive assistance programme for 'green' car industry to encourage customers to spend money on new cars. These schemes may help manufacturers and suppliers to sell more goods and/or services which may help them to survive.

However, too much bureaucracy makes it difficult for industry to access aid eg finance for the automotive assistance programme was slow to become available; reducing VAT reduces price of many products but by very little.

(13 marks)

[END OF MARKING INSTRUCTIONS]