



**2012 Business Management**

**Advanced Higher**

**Finalised Marking Instructions**

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## 2012 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.

**Bullets in the marking scheme may warrant more than 1 mark.**

### SECTION ONE

1. *Using information from the case study, explain why Aggreko prefers to focus on organic growth.*

To gain full marks candidates should explain a minimum of 2 main points. Explanation involves giving a reason as to how or why a factor may lead to Aggreko preferring organic growth: to gain a mark answers should indicate why a factor is relevant. Up to 4 marks can be awarded for each main point ie 1 mark plus up to 3 development points.

In accordance with the question, answers should refer to specific points raised in the case study. Answers which do not refer to Aggreko and make general points about organic growth should gain a maximum of 3 marks.

Possible reasons include:

- gain benefits of manufacturing its own equipment eg building a new factory – these include enabling Aggreko to manufacture equipment to highest standards and gain economies of scale in component buying
- gain benefits of designing its own equipment – can design and develop its equipment to be flexible; highly efficient and mobile
- can meet customers' needs more quickly and tailor its service more closely to what they require (because it manufactures its own equipment and has developed a strong organisation) eg service centres and culture
- organic growth enables it to build on existing advantages eg culture, expert workforce, existing organisation of service centres
- lack of suitable acquisitions – Aggreko has built a competitive advantage and other companies may not be so good and thus not worth acquiring
- risk assessment to ensure an acquisition is suitable and Aggreko does not pay too much may be costly

**(6 marks)**

2. *Explain how its distinguishing features (see Exhibit 2) have helped Aggreko to meet the needs of its customers.*

To gain full marks candidates must make a minimum of 3 separate main points. Maximum 4 marks per point ie 1 mark plus up to 3 development points. 'Explain' requires candidates to say how or why the distinguishing factor has led to Aggreko's success in meeting customer needs, and this link should be made in order for a mark to be awarded. Candidates are referred to Exhibit 2 and this is likely to provide the framework for their answers. It is not necessary to refer to all 5 features. Candidates may also refer to distinguishing features not mentioned in Exhibit 2 and should get credit if they are relevant.

Possible points include:

- large and small – Aggreko can meet the needs of all sizes of business, which reinforces the point above about customers: any company is a potential customer and this can help Aggreko be successful.
- global operations – Aggreko is organised to respond quickly anywhere in the world, which means that any company, anywhere, can use its products and services. Again, this helps Aggreko as it does not have to find customers with particular preferences – all it needs is a company with an emergency power problem.
- expertise – by operating in a specialist area, Aggreko can build up an expert staff and this helps it to meet customer needs fully
- equipment – Aggreko's success is helped because it designs and builds its own equipment – this means it can make it to higher standards and make it flexible to meet customer needs. It also has more equipment than any other company so it can meet more contracts at any one time.
- technology – this is efficient and mobile which, again, gives Aggreko a competitive advantage over other companies which can help it to become successful.

**(8 marks)**

3. *With reference to Exhibit 4 in particular, explore how the performance of Aggreko changed between 2005 and 2009.*

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Maximum 4 marks per main point so that, to gain full marks, candidates should give a fully developed explanation of 2 separate main points. Max 2 marks for examples of changes in figures under each heading; nature of change must be specified e.g. increase or decrease. 'Explore' requires candidates to explain in detail. Award a maximum of 4 marks for general points about performance and measures of it which are not related to the case study. Candidates are directed towards Exhibit 4 and would be expected to concentrate on this. However, credit should be given for valid points taken from other parts of the case study.

Possible points include:

- Revenue – during 2005 - 2009 overall revenue more than doubled from £417.3m to £1023.9m. Both business models experienced a growth in revenue but International Power Projects (IPP) grew more rapidly (by more than 4 times). This suggests that it is the growth area for Aggreko, although it remains less important as a source of revenue than local business. The figures suggest that Aggreko is performing well, but the slower growth of local business is a factor for the company to keep in mind.
- Trading profit – this rose from 2005 to 2009 from £59.6m to £252.5m. This suggests the company is performing well but in 2009 trading profit for local business fell, although in 2009 it was still more than twice that of 2005. IPP showed a steady growth, reinforcing the view that it is the key area of the business as far as performance is concerned.
- Capital expenditure – this is not a direct measure of performance since it reflects decisions made by Aggreko. However, these decisions will be affected by factors such as customer demand, previous earnings (from which funds can be drawn) which are performance measures. Capital expenditure grew from 2005 – 2008 but fell, for both business models, in 2009. This may be because it was less necessary, perhaps due to previous spending or because funds were being kept for the new factory. However, it may be because less funds were available due to the lower trading profit from local business.
- Return on Average Capital Employed - this has increased and shows that the company is making good use of its capital to generate profit. This is a widely used measure of performance and suggests Aggreko is performing well.
- Dividend per share – again this is not strictly a measure of performance but it is an excellent guide for shareholders as to how good their investment is. It has increased year on year and, since it also reflects profits, is a further indicator that Aggreko is performing well.
- Staff turnover – this fell in 2009 but previously was fairly steady between 14 and 16%. This can be taken as a measure of performance since it acts as a measure of staff satisfaction – the lower it is the more satisfied staff are as they do not leave – although people leave for other reasons such as retirement. Again, the figures indicate that Aggreko is performing well, especially since 91% of its employees say they enjoy their work and 89% are proud to work for Aggreko. A full judgement would depend on knowing the staff turnover for similar organisations.
- Net Promoter Score – this measures customer satisfaction and, because it has been rising, suggests Aggreko is performing well. The data is collected by a third party (and not Aggreko) which may make it more valid and it is based on a large number of questionnaires (2,700) which again lends weight to it. It may also reflect the fact that contracts often get renewed.
- Increase in Gross Profit Percentage from 14% to 25%.

**(8 marks)**

4. *Explain the benefits to Aggreko of having 2 business models.*

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Relevant examples may be credited with 1 mark each providing it is clear that the candidate is aware of why the example illustrates a benefit of one or both of Aggreko's business models. 'Explain' requires that candidates provide a reason as to how or why Aggreko gains benefits: to gain a mark, answers must give a reason why the 2 business models may be beneficial to Aggreko. Max 2 for general points.

Candidates could gain full marks by making one fully developed point.

Possible benefits of 2 business models include:

- take advantage of different market requirements – International Power Projects (IPP) operates largely in developing countries where the rental market is weak, whereas local business works in countries where there are opportunities to rent equipment eg for special events
- can exploit different situations but with the same resources eg its employees can operate equipment and supervise its installation; its equipment is flexible and mobile
- can benefit from different reasons for requiring power eg IPP involves Aggreko operating its own equipment (possibly because there is a shortage of generating equipment in a national system and, perhaps, also of skilled employees) while local business is more about temporary solutions for events like Glastonbury
- can exploit similarities – both models are based on emergency or special situations so the requirement to respond quickly, sensitively and efficiently is common to both.

**(4 marks)**

5. *Justify how Aggreko's culture and values may help it to cope with the constant change that it faces.*

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Relevant examples may be credited with 1 mark each providing it is clear that the candidate is aware of why the example illustrates the point being made. 'Justify' requires that candidates provide reasons as to how or why Aggreko's culture helps it to cope with change: to gain a mark, answers must give a reason why a particular aspect of Aggreko's culture and/or values can help it cope with change.

The underpinning point behind this question is that Aggreko's business is such that the normal state of affairs for the company is responding rapidly to something different which is likely to last only a short time. Its culture and values mean that employees expect this to be a feature of their everyday working conditions.

Specific points could include:

- 'can-do', customer focused culture means that employees expect to meet customer needs in an emergency so that, even if they meet something they have not seen before, they should be able to respond. Employees can thus respond to new situations as they arise
- 'can do' culture also means that employees expect to switch regularly from one short-term assignment to another and are thus used to change – new employees are trained to be experts and the culture can be instilled into them as they work for the company
- commitment means that employees have the motivation and energy (helped by training) to deal with new situations and to make sure that they are better than competitors
- flexibility (again helped by training) means that employees expect to react to new situations quickly – the culture of the company means that they have accepted this and work towards achieving it
- expertise – training underpins much of the above - employees are experts and have the skills to cope with new situations and ones which are rapidly changing. They know how to operate equipment and to set it up in ways that meet customer needs.

**(8 marks)**

6. *Discuss the consequences for Aggreko of being in a niche market*

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Relevant examples may be credited with 1 mark each providing it is clear that the candidate is aware of why the example illustrates Aggreko's niche market. 'Discuss' requires for and against, so, to gain all 4 marks, candidates must refer to both potential benefits and potential dangers of being in a niche market (maximum 3 for answers which do not do this). Candidates must also make a specific link between the points made and the idea of a niche market in order to gain credit.

Possible consequences could include:

- being able to design its equipment to meet the needs of customers more closely as Aggreko only deals in 2 different types of equipment (3 in the USA) – Aggreko gets advantages of flexibility, efficiency and mobility because it only operates in a limited area: this could be a danger if demand dries up eg International Power Projects is growing much faster than local business
- being able to develop a specialist, expert workforce which can be trained to fit its requirements – the focus of its operations means that the training can be focused also so that employees are able to deal with emergencies. Employees are flexible but within a limited area which may be problematical if things change
- it can become a big player in its niche market eg its share of world output enables it to get economies of scale in component buying
- it can operate globally because it only works in a specialist area – it gets breadth but may lack depth in that it may be vulnerable if conditions change or if a significant competitor emerges.

**(4 marks)**

7. Evaluate the main factors from the case study which may influence the future growth of Aggreko.

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Relevant examples may be credited with 1 mark each providing it is clear that the candidate is aware of why the example illustrates the point being made. 'Evaluate' requires candidates to make an appraisal and answers should comment on the factors discussed eg on how strong they are, things which could affect them, validity of the predictions on which they may be based etc. Maximum of 4 marks where there is no evaluation. Candidates must also make a specific link between a factor and Aggreko's future growth in order to gain credit.

Candidates are likely to rely on Exhibit 3 for their answers. However, credit should be given for any points from the case study.

Max 4 marks per main point so candidates who make 2 well-developed points and include evaluation could gain all 8 marks.

Possible factors include:

- local business depends on economic growth as this a) leads to greater demand for energy and b) encourages renting – both could help Aggreko as the more energy that is used the greater the chance of breakdowns/emergencies; however, if economic growth slows (eg due to the recession) demand may slow down too and this may make it harder for Aggreko to get business (but equipment may still break down)
- local business depends on willingness to rent – this is something which Aggreko cannot control but this seems to be the trend. Also, in a recession companies may prefer to rent as this avoids long term financial commitments, increasing demand for Aggreko's services
- local business depends on the number of events – if these increase Aggreko's opportunities rise also, but again this is not something Aggreko can control – in a recession the number may fall, slowing down Aggreko's rate of growth
- In order to take advantage of all the above opportunities for growth, Aggreko must remain efficient and continue to provide the worldwide service that it currently does
- Growth in International Power Projects (IPP) depends on increased demand plus an inability to meet this by a country's power systems – these could be affected by economic circumstances and other factors (eg greater rainfall may allow hydro power systems to work in developing countries). Aggreko has to be able to respond rapidly and be able to shift to any part of the world
- there are also some general risks that might hamper growth – non-payment and/or loss of equipment, especially in IPP contracts – but Aggreko has not been affected by this to any great extent so far and conducts risk assessments
- safety of employees – contracts can be in dangerous parts of the world. Again, Aggreko has not so far been affected but, despite risk assessment, it could be. Global growth could be restricted by the company being forced to withdraw from particularly dangerous countries
- environmental concerns – electricity generation is affected by green concerns and regulation. Aggreko has to meet carbon targets, which could prove problematic, and may suffer adverse publicity etc, reducing demand for its services and restricting growth. Again, neither factor has so far been significant.
- large capital expenditure - £164.4m in 2009 will help to provide the basics for future growth.
- Maintenance of reputation as the 'largest global operator' will enhance the likelihood of Aggreko being the provider of choice for developing countries' increasing energy needs.

**(8 marks)**



8. *Explain the ways in which Aggreko's approach to organisation and management can help it to maintain its competitive advantage.*

Award 1 mark for each relevant point plus 1 mark for each relevant development point. Relevant examples may be credited with 1 mark each providing it is clear that the candidate is aware of why the example illustrates Aggreko's organisation and management and how it can help maintain its competitive advantage. 'Explain' requires that candidates provide a reason as to how or why Aggreko's organisation and management can help it remain competitive: to gain a mark, answers must give a reason.

Candidates could gain full marks by making one fully developed point.

Ways in which Aggreko's approach to organisation and management can help it maintain its competitive advantage include:

- its global presence enables it to respond more quickly than its rivals as demand can come from anywhere in the world
- its 'hub and spoke' system for service centres promotes efficiency in that functions like administration are centred on the bigger hubs but the smaller spokes can deal closely with customers and thus meet their needs more directly and thereby gain an advantage over other suppliers
- hubs and spokes are integrated by being grouped into areas so that they can support each other – eg by transferring equipment – which enables them to respond quickly in a way a rival cannot
- it has a common pool of equipment available to any part of the business anywhere in the world – this helps it meet emergencies quickly and flexibly, which helps to maintain its superiority over competitors
- it has an IT system which covers the whole business, which means that all parts operate in the same way – this can lead to lower costs and better service than rivals can offer
- its technology is efficient and this helps to reduce costs – a key part of competitive advantage
- effective management/staff training programmes; reference to Maslow/Herzberg

**(4 marks)**

9. (a) *Discuss the effects of globalisation on UK organisations.*

One definition mark for globalisation; up to 3 marks per effect. Max 9 for description of only positive or negative effects. Max 11 for description of both positive and negative effects without comparison. To be awarded a mark candidates must make a link between an effect and UK organisations, either generally or through the use of an example.

*Positive Effects*

- Larger market – allows for increased sales, economies of scale.
- Access to cheaper raw materials; closer to source of raw materials cutting down transport costs; exploitation of local resources eg lower labour costs.
- Transfer pricing can reduce tax bills.
- Increased internet shopping – websites necessary.
- Can serve a missing market eg Starbucks targeted Britain.
- Can learn new techniques (production and management) from other countries.
- Can allow expansion where monopoly legislation in home country prevents it.
- Allows organisation to control production from start to finish eg oil industry.
- Low cost transportation allows organisations to ship products all over world.
- Increased demand for Western products in newly industrialised countries eg China as a result of global media.
- Large organisations may be able to influence government policy in their favour.
- Allows standardisation of products.

*Negative Effects*

- Cultural difficulties may lead to conflicts and misunderstandings.
- Organisations which are not decentralised may find it difficult to react to changes in the local market.
- Preferences are not universal so standardised products may not be feasible eg Tesco sells live turtles in China.
- Increased travel for Senior Managers of organisations – time away from office.
- Increased competition.
- May have employees working in politically unstable countries – at risk.

**(13 marks)**

**(b)** *Describe and compare the Systems Theory of Management and the Classical School of Management.*

For each school answers should explain what it means (up to a max of 5 marks for each school). Max of 8 marks for answers which do not attempt to compare the two schools.

- *Systems Theory*

Views organisations as complex systems of people, tasks and technology; holds that human or social factors alone are not the most important consideration in achieving organisational effectiveness; recognises that organisations are part of a larger environment; organisations are affected by technical and economic factors; business is seen as an “open socio-technical system”; open systems interact with their environments; system combines inputs, processes and outputs; systems approach says there is no one theory that can guarantee effectiveness of an organisation; does not offer ready-made solution for managers; not prescriptive; change in one part of the system has implications throughout the organisation.

- *Classical School*

Emphasises the formal aspects of the organisation; importance of a manager’s job; superiors are seen to have greater wisdom and should be obeyed by subordinates; based on the assumption that an organisation can be viewed as a machine which could be made more efficient if universal principles were applied; stresses importance of formal hierarchical structure; division of labour to improve effectiveness.

Fayol believed structure needed to ensure tasks are achieved; employees need clear definition of what they are to accomplish; believed in the 5 functions of management – planning, organising, commanding, co-ordinating and controlling (max 2)

Taylor believed that, to make workers more efficient, management should be based on fact not guesswork; felt money was the greatest motivator; that there was one best way to perform tasks; job planning should be carried out by managers and jobs carried out by workers.

- *Possible Points of Comparison*

Classical school prescriptive – one approach fits all, whereas systems approach stresses taking the environment into account; systems approach may be better suited to organisations such as Aggreko which face constant change.

Systems approach focuses on process ie what is going on, whereas classical approach focuses on content – ie what should be done.

Classical school views organisations as closed systems; systems school sees them as open systems with many subsystems.

Systems approach emphasises inter-relationships, whereas classical approach emphasises structure and hierarchy.

Classical school concentrates on the detail of being a manager whereas the systems school takes a holistic view.

**(12 marks)**

10. (a) Analyse how UK organisation can make use of the ideas of at least 2 writers on motivation that you have studied.

Max 7 marks per writer. If name of writer is wrong or not specified no penalty if the ideas are correctly described. Max 6 for describing ideas without analysing how they can be used. Credit examples.

- One mark for definition of motivation

*Some writers that may be discussed include:*

- *Maslow*

Hierarchy of Needs – 5 levels in hierarchy – physiological, security, love, self-esteem, self-actualisation (max 2); lower needs must be satisfied first; once a need has been satisfied people move onto next level; organisations want self-actualised people in work place – always looking to improve, use initiative.

- *Herzberg's Motivation-Hygiene Theory*

Two factor theory affected satisfaction at work; hygiene factors if not present give rise to dissatisfaction but do not themselves motivate; hygiene factors include relationship with supervisor, status, working conditions; hygiene factors related to context or environment of work; motivators are factors giving rise to satisfaction; motivators include recognition, responsibility, achievement, work itself; motivators are related to content of work ie intrinsic challenge.

- *F W Taylor*

Felt money was the main motivator; a fair day's pay for a fair day's work; felt pay should be linked to output through piece rates.

- *Using the ideas*

All still used today to an extent: examples include physiological/basic needs: earning the minimum wage; possibility of gaining permanent contract can make worker more motivated; money is motivator eg sales reps paid by commission; HR school felt money was a short term motivator.

Max 3 marks for discussion of Theory X and Theory Y (not strictly about motivation).

**(12 marks)**

- (b) *Explain how a policy of corporate social responsibility can affect an organisation's functional areas.*

One mark for a definition of CSR. Up to 5 marks per functional area can be awarded. Points should concentrate on the functional areas of an organisation – no marks for general consequences of CSR on organisations. Credit reference to other functional areas. Credit examples.

Definition - the responsibility that a business has towards all stakeholders internal and external.

- *Human Resources*

Increase staff training on how to act in responsible ways; management lead by example to provide corporate culture incorporating CSR; policy of CSR can attract quality employees; encourages employees to remain with firm; employees require time off to work with local community projects; treating staff well increases commitment to firm and motivation.

- *Sales and Marketing*

Can be used in advertising campaigns to boost sales eg Marks and Spencer's fisheries policy; marketing may need to be changed to include CSR policy; working with local community could increase sales and custom; find a niche in market eg Scottish Nappy Company; recycling phones.

- *Operations*

Firms might need to alter production methods to become environmentally friendly; if staff are involved in community projects then production/service could be reduced; may need to alter product/packaging to make it more socially acceptable eg smaller engine car, hybrid car; find more environmentally friendly ways to dispose of waste; increase recycling.

- *Finance*

Purchase of new environmentally friendly production equipment will increase costs; more efficient ways of producing products may reduce costs; retaining staff reduces recruitment and selection costs; increase in training costs more; increase in R & D increases costs; can increase profits by charging more for CSR products eg Fair Trade.

**(13 marks)**

11. (a) *Compare the skills and personal qualities required to be an entrepreneur with those required by a manager.*

One mark per point and one for each development linked to comparison. Up to 3 marks may be given for each separate point. Maximum 6 marks for answers which make no comparison; maximum 10 marks for answers that refer to skills only or personal qualities only. No definition marks.

Answers could be based on Mintzberg and/or Fayol and credit should be given for suitable references to them. Credit candidates who recognise that a manager's skills or qualities will often be dependent on how senior he/she is in the organisation.

#### *Skills and Personal Qualities*

- Planning – senior manager must be able to set out plans for future. Entrepreneur needs to plan how to set up organisation; will have a vision of the future.
- Organising – manager will need to ensure resources are in place to allow business to operate eg equipment, materials, finance, people. Entrepreneur will need to find the resources but may put manager in place to organise them.
- Commanding – manager will direct subordinates ie giving instructions so that tasks are carried out. Entrepreneur may be sole trader so have no one to command, or may have a style which encourages employees to “do their own thing”.
- Co-ordinating – both entrepreneur and manager will find and train staff to carry out the tasks and ensure they are all working towards the same goals.
- Controlling – manager and entrepreneur will use monitoring and evaluating to ensure things happen the way they were planned.
- Communication skills – senior manager must be able to communicate the strategic objectives of the organisation but be able to persuade other managers to communicate this to their subordinates; lower level manager will need to communicate tasks to be completed. Entrepreneur needs to communicate to investors; needs to be able to persuade eg for a loan.
- Negotiation skills – needed by both entrepreneur and senior manager with outside organisations eg government, other organisations to persuade them to merge, with bodies such as Trade Unions; lower level manager needs to negotiate with suppliers on prices of raw materials.
- Generating ideas – entrepreneur will come up with ideas. Manager will have to put ideas in place, not necessarily come up with them.
- Take decisions – both must make decisions and take responsibility for what the organisation does. A manager will find answers and solutions; an entrepreneur will formulate the questions and identify the problem.
- Risk taking – an entrepreneur needs to take risks; a managers role is more, usually to implement plans that minimise risk.
- Self-confidence and self-reliance – entrepreneur will need to be able to trust his/her judgement; to follow things through and make judgements on their own. Manager can discuss issues with other managers on same level in company or with senior managers.
- Credit comparison of other personal qualities such as tolerance of failure, risk taking, creativity etc.

**(11 marks)**

(b) Discuss the benefits of any 2 of the following to UK business.

- *SWOT analysis*
- *Structured Decision Making Model*
- *Control Methods such as Critical Path Analysis*

One mark for a definition of each. Max 8 per heading. Answers which do not attempt to discuss the benefits of the concept for businesses should be given a maximum of 4 marks. Max 2 marks per heading for description of costs.

#### *SWOT analysis*

- Definition (may be in the form of a diagram) - a method of bringing together an evaluation of a firm's internal factors (strengths, weaknesses) and its external environment (opportunities and threats).
- Benefits - used by organisations to analyse their current situation and help them identify a way forward; will help them identify areas which are stronger so they can find ways of exploiting opportunities or using strengths to combat threats; easy to use in diagram form so easy to communicate to others to explain current situation; however it does not indicate any particular strategy or comment on the particular merits of different strategies; does not give indication of the relative importance of particular factors.

#### *Structured Decision Making Model*

- Definition – a series of steps to follow when making decisions.
- One mark for suggesting a model such as POGADSCIE.
- Benefits – provides a logical process for business to follow; ensures that the business sets out the objectives and comes up with a solution to meet the objectives; allows the business to suggest and choose between alternative courses of action; reminds the decision maker to communicate the decision to all those involved; model is often a simplified representation of a business situation or problem; models often allow the business to test ideas and make decisions without bearing the consequences of real action if things go wrong; ensures that once the decision is in place the outcome is evaluated.

#### *Control Methods*

- Definition – ways of ensuring that targets are met
- Benefits
  - budgets used to monitor progress by comparing planned and actual expenditure and income; budgets can be set for different aspects of a strategy eg production, sales, wages; actual performance can be compared with target performance on an on-going basis; perhaps by use of information from computerised Management Information Systems eg financial data such as costs of overheads, sales revenue; variances can be calculated and immediate corrective action taken to ensure that the strategy remains on track; budgets can act as departmental targets and managers can be held accountable for meeting them.
  - Gantt Charts are a way of scheduling activities in a project. Usually the horizontal axis plots time and activities are indicated vertically in rectangular blocks; this gives a clear visual indication of the order of activities and which ones can be carried out concurrently; blocks are filled in as activities are completed so progress can be checked at any point in time; displaying the chart on a wall ensures that everyone is aware of progress to date and aware of potential delays before they occur so corrective action can be taken.

– Critical Path Analysis plots the progress of a strategy by identifying the tasks which need to be done and the time each will take; these tasks are then plotted in order to find the critical path (the fastest route to completion); the earliest start time (EST) and the latest finish time (LFT) for each task are identified; by monitoring progress along the critical path, managers can identify activities that are showing signs of ending later than the LFT and take corrective action.

– credit description of the benefits of other methods of control eg customer surveys, quality assurance.

**(14 marks)**



12. (a) *Examine how EU policies can affect UK business profitability.*

Max of 4 marks for description of each policy. Max of 8 marks for answers which do not link to profitability.

*EU Policies*

- Social Chapter – the aim of the Social Chapter is to standardise working conditions throughout the EU so that all workers within the community are guaranteed basic rights; this includes a minimum wage being paid to all workers, a maximum working week, minimum paid holiday per year, freedom to join a union, access to appropriate training, the protection of young workers, the right to be consulted and informed about company plans.
- Single European Market – this act removed barriers to trade for EU member countries, such as barriers preventing entry into markets, barriers which caused organisations' costs to rise and barriers leading to market distortions eg subsidies given by governments to domestic industries.
- European Monetary Union – introduction of one currency for member states: the Euro; many but not all countries in the EU have joined the Eurozone; participating countries fixed their exchange rates so that they could not move against each other; European Central Bank is responsible for setting interest rates throughout the participating countries.
- European Enlargement – in 2004 the EU expanded to include 10 new countries eg Hungary, Poland, Slovakia etc; increased the size of the market to nearly 500 million; has allowed more potential workers entry to UK.

*Effect on Profitability*

- Social Chapter – increased labour costs of firms - eg training; maximum working week – may mean organisations may need to employ more people, raising costs and reducing profit; high labour costs make it difficult for UK organisations to compete with low wage countries such as China; industrial relations may improve if employees are involved in making company decisions, which might lead to increased motivation and so increased production, making organisations more efficient.
- Single European Market – allows for easier trade between countries in EU so increased competition – particularly in the public sector, where foreign firms can bid for contracts – so prices may have to be reduced to compete; the reduction in the number of customs posts and the amount of paperwork which is required for goods traded between EU countries should save organisations time and reduce costs; organisations have had to alter their products to meet safety aspects of EU regulations, which increases costs; greater mobility of labour giving UK businesses wider choice of employees and reducing wage costs.
- European Monetary Union – UK businesses have to quote their prices in Euros and be able to make transactions in this currency which means training staff to deal with this; the competitiveness of the business will depend on the value of the UK's currency against the Euro eg if the value of the pound against the Euro falls then this makes UK exports to countries in the Eurozone more attractive.

- European Enlargement – expanded free trade area; means more opportunity for increased sales; has given UK business access to different resources/products to sell to British customers; by including Eastern European countries in EU this should generate greater economic and political stability within them, which will provide improved investment opportunities within these countries for UK businesses; may also cause greater competition for UK businesses.

**(14 marks)**

- (b) *Style Theory is an example of a leadership theory. Using at least 2 theories of leadership, examine the extent to which each is relevant to managers in the UK today.*

Candidates can be given up to 4 marks for a description of each of 2 theories. Maximum 6 marks for answers that make no reference to UK managers, or those that examine only one theory.

#### *Leadership Theories*

- Trait Theory – states that the ability to lead people is something you are born with, not something you learn; believes that people should be selected as leaders not trained; traits are personal characteristics; traits needed are initiative, decisiveness, self-assurance, assertiveness, intelligence, desire for work, achievement and desire for financial reward; people's physical appearance, dress code and stature can affect their ability to lead.
- Style Theory - highlights what successful leaders do rather than what they are; the underlying principle behind this approach is that if leaders behave in a certain way they will be successful; most style theories argue that leaders have 2 main issues to tackle – achieving the task and maintaining good working relationships; there are many possible leadership styles eg autocratic, democratic.
- Contingency Theory – credit mention of examples of Contingency Theory such as Fiedler's Contingency model, Hersey and Blanchard's situation approach, the "best fit" approach. It suggests that the most suitable style of leadership will depend upon a wide range of variables; it assumes that just because one style of leadership works in one set of circumstances it will not necessarily work in another; the best leader is one who is able to adopt different styles in different situations.

#### *Relevance*

- Trait – criticised as it is felt that measuring traits objectively is impossible; deciding which traits are needed for particular leadership positions is impossible; there are too many traits that are said to affect the ability to lead; too many exceptions in real life to accept that these traits are needed for leader to be successful; difficult to train people to be leaders.
- Style Theory – often leaders will use a combination of styles depending on a number of variables eg task to be undertaken, environment in which the business operates and the people the manager is dealing with; employees will respond differently to being led by people with different styles of leadership, also implies there is one best style.
- Contingency Theory – UK business finds itself in changing environments so managers should be able to adapt to all circumstances; some situations will call for a more authoritarian approach eg in a crisis; however managers may not be flexible enough to adapt in the way the theory suggests

**(11 marks)**

## APPENDIX

### Advanced Higher Business Management

Command words	Definition
Analyse	Identify components and the relationship between them; draw out and relate implications.
Assess	Examine closely with a view to measuring a particular situation taking account of strengths and weaknesses; for and against.
Compare	Identify similarities and differences between two or more factors.
Contrast	Identify the differences between two or more factors.
Describe	Provide a thorough description.
Discuss	Examine closely taking account of strengths and weaknesses in an argument; offer reasons for and against.
Evaluate	Make an appraisal of the worth, effectiveness or usefulness of something.
Examine	Give both a description and an explanation.
Explain	Give a detailed response (definition and explanation) as to how/why something may benefit/hinder.
Explore	Explain in detail.
Justify	Explain why/give reasons to support your statements.
Suggest	Make a judgement and give some support or reason for your suggestion.

[END OF MARKING INSTRUCTIONS]