

AQA

**A2**  
2<sup>ND</sup> EDITION

# Business Studies



**Questions and answers**



**PHILIP ALLAN**  
UPDATES

[www.philipallanupdates.co.uk](http://www.philipallanupdates.co.uk)



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# Introduction

This online copy has been provided to give you an insight into the types of questions that AQA will set in the new A2 business studies examination papers.

The articles/case studies have been written to match the criteria laid down by AQA for A2 business studies. The questions also match exactly the style and format of the AQA questions.

This material also gives some sample student responses to the specimen examination papers included here. These answers are followed by examiner's comments, explaining the strengths and weaknesses of the student's approach and indicating the way in which they would be assessed by the examiner.

## Examiner comments

Examiner comments are preceded by the icon . They are interspersed within the answers and indicate where credit is due. In weaker answers, they also point out areas for improvement, specific problems and common areas.

For further questions and answers, with examiner comments, and specific content guidance on each unit, see our *Student Unit Guides* for AQA A2 business studies (available from autumn 2009). For more information and to order copies online, visit [www.philipallan.co.uk](http://www.philipallan.co.uk), or contact Bookpoint on 01235 827720.

### **AQA A2 Business Studies Student Unit Guides**

*AQA A2 Business Studies Unit 3: Strategies for Success* 978-0-340-94797-5

*AQA A2 Business Studies Unit 4: The Business Environment and Change* 978-0-340-94790-6

# BUSS3 Strategies for success

Unit 3 assessment is a 1 hour 45 minute examination based on an unseen case study. The case study focuses on business strategies needed to promote business success.

The Unit 3 examination requires candidates to answer four questions, based on the case study, and covering strategic decision making within the four functional areas of the business:

- Marketing
- Finance and accounting
- Human resource management
- Operations management

**Question 1** will probably be an 'analysis' question based on one of the four functional areas (approximately 10 marks).

**Questions 2 and 3** will be 'evaluation' questions, primarily based on two specific functional areas not covered in question 1 (approximately 18 marks each).

**Question 4** is a much longer evaluation question, worth approximately 34 marks. This will incorporate all four functional areas but is likely to have significant elements of the functional area not tested in the first three questions.

The examination paper will include approximately four appendices of data. These data may provide information for any question but their use is likely to be more significant in answering question 4.

## Sample paper

Answer all questions      Time allowed: 1 hour 45 minutes

**Read the case study below and then answer the questions that follow.**

### Location, location, location

Sean had been the managing director of Finsbury plc since 2000. It had been a turbulent time for Sean, who had led the business through a period of fast growth. In 2000, the company had only produced car bodies, earning 80% of its revenue from a single product that it supplied to a major car manufacturer. A further problem had been the seasonal nature of the business, with the car manufacturer tending to require many more components in February and August than in other months. This car manufacturer had recorded falling profits and Sean had encouraged his fellow directors to approve plans to diversify.

The marketing director, Maria Lopez, had wanted Finsbury plc to move away from its narrow focus on low-cost car bodies. Finsbury plc's average return on capital employed (ROCE) from 1995 to 2000 had been 4%. Her proposed marketing plan was to move the company away from focusing only on steel products, and towards products made from polycarbonates and other plastics. These products would enable Finsbury plc to manufacture new products, such as car fittings, initially, and then components for furniture manufacturers. However, perhaps a more significant change would be the opening up of new markets, both in the UK and in continental Europe. Sean and Maria soon persuaded the other directors to agree to Maria's new marketing plan.

By 2006 Finsbury plc's largest customer was a furniture manufacturer based in Poland, although it represented only 12% of Finsbury's sales revenue. By this time the supply of car bodies represented only 9% of the business's sales, and total sales revenue was 500% higher than it had been in 2000. Ironically, these changes had only had a limited effect on the seasonal nature of the business.

The first problems started to appear in 2006 as Finsbury plc was refused planning permission to extend its main factory, in Liverpool. The local council had been very supportive of the company as it had quadrupled the number of jobs in the factory within 5 years, but the latest expansion plan would have involved building on a children's playground and this led to a lot of negative publicity.

There had been a number of industrial disputes in 2008 and 2009, culminating in two separate strikes. Sean had already been concerned about the deterioration in the workforce's performance and had commissioned a report from some consultants (see Appendices 3a and 3b). The consultants had been critical of the 'hard' HRM strategy that Finsbury had used and the lack of workforce planning. The rapid growth of the company had taken everyone by surprise. The report concluded with the recommendation that Finsbury plc should communicate more effectively with its trade union.

Long discussions with the local council led Sean to the conclusion that Finsbury plc would need to relocate, as the company's Liverpool factory could no longer cope with the company's fast growth. Many different sites were investigated, but after scrutinising the accounts (see Appendix 1) the directors came to the conclusion that only two sites were feasible. There was also a big debate about whether the £40 million needed to set up the new factory should be raised through either:

- option A — a bank loan of £40 million or
- option B — using £40 million of retained profit that the company had built up and which was currently being held in its bank account

The shareholders were strongly in favour of option B, but the finance director was worried about the impact that this might have on the business's cash flow and its ability to fund continued expansion in the long term.

The two alternative locations were:

- an existing factory in nearby Birkenhead
- a new site in Gdansk, Poland

The anticipated financial results of these two options are summarised in Appendix 4.

The site in Birkenhead would allow the existing workforce to stay with the business — 85% of the workforce had indicated that they would be prepared to move to Birkenhead. Sean estimated that this new site could cope with anticipated growth for the next 5 years. It would mean that communication with existing suppliers and customers would be much easier to maintain.

The move to Gdansk would present a much greater risk, as new suppliers would be needed. Currently, the majority of existing customers were more accessible from Birkenhead, although research undertaken by the marketing department had indicated that within 2 years the majority of sales revenue would be coming from eastern Europe rather than the UK. With more and more industries relocating to eastern Europe, the marketing director believed strongly that Gdansk offered much better opportunities for long-term growth, although she was concerned that the business had not fully researched the costs and opportunities of this new location. Sean admitted

## BUSS3 Strategies for success

that the company's failure to meet some existing orders was forcing the directors to make a decision more quickly than he would have liked.

### Appendix 1: Extracts from income statement of Finsbury plc, year ending June 2009

Income from sales	£350 million
Gross profit	£160 million
Operating profit	£42 million

### Appendix 2: Extracts from balance sheet of Finsbury plc, year ending June 2009

Non-current assets	£240 million
Current assets	£60 million
Of which: Inventory	£8 million
Cash/bank balance	£41 million
Current liabilities	£26 million
Non-current liabilities	£32 million
Total equity	£242 million
Capital employed	£274 million

### Appendix 3a: Data measuring performance of the Liverpool factory, 2005–09

	2005	2006	2007	2008	2009
<b>Unit costs (£s)</b>	15.10	15.13	15.77	16.89	18.88
<b>Labour productivity (£ per employee)</b>	£153,120	£153,429	£152,878	£146,143	£131,701
<b>Labour turnover (%)</b>	9.6	8.8	10.3	23.9	24.2
<b>Absentee rate (%)</b>	5.3	5.3	7.0	22.3	16.6

### Appendix 3b: Performance measures: average for similar firms based in Poland (2009 only)

	2009
<b>Unit costs (£s)</b>	6.45
<b>Labour productivity (£ per employee)</b>	£41,090
<b>Labour turnover (%)</b>	8.5
<b>Absentee rate (%)</b>	3.9

### Appendix 4: Financial data related to relocation decision

	Birkenhead	Gdansk, Poland
Initial cost, Year 0 (£m)	(40)	(40)
Net return, Year 1 (£m)	15	(5)
Net return, Year 2 (£m)	13	15
Net return, Year 3 (£m)	12	20
Net return, Year 4 (£m)	16	34
<b>Total net return (£m)</b>	<b>16</b>	<b>24</b>
<b>Net present value (NPV)* (£m)</b>	<b>+4.2</b>	<b>+6.1</b>

\*NPV based on 10% discount rate, although current market interest rate for borrowing is 5%.

## Additional appendix: formulae for financial ratios

### 1 Current ratio

current ratio = current assets:current liabilities

### 2 Acid test ratio

acid test = current assets – inventory:current liabilities

### 3 Return on capital employed (ROCE)

$$\text{ROCE (\%)} = \frac{\text{operating profit}}{\text{total equity plus non-current liabilities}} \times 100$$

### 4 Asset turnover

$$\text{asset turnover} = \frac{\text{revenue}}{\text{net assets}}$$

### 5 Inventory or stock turnover

$$\text{inventory (stock) turnover} = \frac{\text{cost of goods sold}}{\text{average inventories held}}$$

### 6 Payables (creditors) days

$$\text{payables* collection period} = \frac{\text{payables*}}{\text{cost of goods sold}} \times 365$$

\*payables = creditors

### 7 Receivables (debtors) days

$$\text{receivables** collection period} = \frac{\text{receivables*}}{\text{revenue}} \times 365$$

\*receivables = debtors

### 8 Gearing

$$\text{gearing (\%)} = \frac{\text{non-current liabilities}}{\text{total equity plus non-current liabilities}} \times 100$$

### 9 Dividend per share

$$\text{dividend per share (in pence)} = \frac{\text{total dividends}}{\text{number of issued ordinary shares}}$$

### 10 Dividend yield

$$\text{dividend yield (\%)} = \frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$$

- 1 Examine the methods that Finsbury plc might have used in order to avoid or resolve the industrial disputes in the Liverpool factory.** (10 marks)
- 2 To what extent did Maria's new marketing plan increase the risk of failure for Finsbury plc?** (18 marks)
- 3 Finsbury plc needs to raise £40 million for its new factory. The shareholders were strongly in favour of option B — raising the money from retained profits. Do you agree? Justify your view.** (18 marks)
- 4 Using all the information available to you, complete the following tasks:**
  - analyse the case for relocating to Birkenhead
  - analyse the case for relocating to Gdansk in Poland
  - make a justified recommendation on which of these two options Finsbury plc should choose.

(34 marks)

**Total: 80 marks**

### Candidate A's answer

- 1 The methods needed to avoid industrial disputes tend to work more effectively if a soft HRM approach to human resource management is adopted. In the case study it stated that Finsbury plc used a hard HRM strategy, largely as a result of rapid expansion. This would suggest that the organisational structure has not kept pace with the needs of a growing business. Communications appear to have broken down too, as shown by the existence of industrial disputes in 2008 and 2009 and the rapid increases in labour turnover and absenteeism in those 2 years. Soft HRM could be introduced through greater use of delegation and teamwork, such as autonomous work groups.

The first suggestion that I would make is for the business to formally recognise and negotiate with the trade union. The Liverpool factory appears to be quite large, employing thousands of people, and therefore communications will be difficult for the business. Negotiating with trade union representatives will ensure that all of the workforce will be aware of the reasons for decisions being taken by Sean and his fellow directors. Although this may increase the power of the trade union, it will definitely improve communications within the firm and prevent some of the problems caused by rapid growth. Once an agreement is made with the trade union leaders, the onus will be on the trade union to ensure that all of its members are aware of any agreement that has been reached. This can relieve the pressure on the business considerably and is consistent with the recommendation of the consultants.

Another approach that Finsbury plc could use is the establishment of works councils. These are groups of employers and employees who meet regularly to discuss issues. In general, works councils are ideal for the types of situations facing Finsbury plc because employees will raise any concerns before they become a matter of conflict. By improving its understanding of the feelings of the workers and management, the company should be able to prevent problems arising.

- e** Candidate A clearly understands the methods of avoiding industrial disputes. The opening paragraph does not immediately get to the meat of the answer, focusing on providing some background information. The answer then introduces relevant concepts, such as teamwork and delegation, but fails to analyse how they could be used to avoid or resolve disputes. However, the second and third paragraphs are very strong, demonstrating excellent analytical skills. Perhaps the greatest strength of this answer is its application. The answer is rooted in the case, drawing upon the (relatively limited) data and information available.

- 2 At first Finsbury plc pursued a policy of low-cost products, a strategy that fits into Porter's low-cost strategy. This was probably achieved by producing on a large scale, as 80% of its products were sold to one business. However, the new marketing director was concerned that this would limit future profitability. Consequently she proposed that the company pursue a policy of differentiation, whereby Finsbury plc produced differentiated products, each with a unique selling point. This would enable them to achieve higher profit margins.

The main change to the marketing plan can be explained by Ansoff's matrix. Until 2000 Finsbury plc concentrated on a single product. According to the matrix, this is a low-risk strategy. Risk increases as the business moves away from its core business into

new markets and new products, with the highest risk coming from diversification (new products and new markets). This was the policy pursued by Finsbury plc and so, according to Ansoff, the risks taken by the company would have increased dramatically. Finsbury plc would have had relatively little understanding of new products, although it limited the danger by focusing on moulded products, which were similar to its original product. To some extent its diversification into new markets was also made less risky by the fact that it supplied new products to car manufacturers, such as car interiors. However, moving into overseas markets was much more risky business for a business that had only previously operated within the UK

In Finsbury's case, Sean and Maria doubted whether the business was taking more risk. Finsbury plc supplied 80% of its products to a car manufacturer that was reporting falling profits. Therefore, it was almost certainly less risky to move into other areas than it was to rely on this single customer. The wisdom of this strategy is probably confirmed by the 2006 figures that show that the original customer represented only 9% of sales and that total sales for Finsbury had risen by 500% within 6 years. Finsbury's diversification had enabled it to avoid relying on a potentially declining product in a declining market. However, this rapid growth may have had detrimental effects, as there is clear evidence that Finsbury plc was not coping with the increased sales in terms of its human resource management and unit costs.

To evaluate, in theory the company developed a marketing plan that had a high level of risk associated with it. In practice, however, this risk was limited by the fact that it was moving into markets and products with much greater potential than its original. Consequently, the risk of failure would have been reduced by its diversification, as this allowed it to move into expanding products and markets.

**e** This is an excellent answer, utilising information from the case study to support the analysis taking place. However, its greatest strength rests in the quality of the analysis. Candidates frequently discuss strategies and plans in very general terms without drawing upon the business theories that underpin them. This candidate has recognised that Porter's low-cost and differentiation strategies and Ansoff's matrix are the key theoretical elements of business studies that are relevant to this question. This has enabled the candidate to present an excellent analytical response. The final paragraph shows good examination technique, with the opening two words leading the candidate towards making a judgement. The brevity of the final paragraph limits the credit that can be given, but this is not an issue because evaluation has been shown throughout the earlier paragraphs. The recognition and argument that diversification was less risky than consolidation for Finsbury plc demonstrates mature judgement.

**3** The shareholders wanted option B. This appears to be a very good choice as the business has operating profit of \$42 million. It is stated that the company has set aside a large sum of cash in the bank account for this new factory. Almost certainly this would mean that the shareholders would receive no dividend at all, as the profit earned in 2009 will go towards the new factory. However, it is unlikely to cause difficulties for Finsbury as the shareholders have voiced their support for this decision.

The return on capital employed percentage in 2009 is 15.3%. This is an above-average return, particularly given the difficult trading conditions in 2009 in the UK. Once the country emerges from the recession, ROCE is likely to increase and therefore Finsbury

plc will be able to benefit from using this source of finance, which is cheap to obtain as no interest is paid.

Finsbury's liquidity looks very strong. In 2009 the current ratio is 2.3 to 1 and the acid test ratio is exactly 2 to 1. Both of these results are significantly higher than the results that would suggest a liquidity problem. However, on closer scrutiny it is clear that this high liquidity is largely because of the £41 million in cash that is being held. If this is withdrawn from the bank in order to fund the Gdansk factory, the current ratio falls to 0.8 to 1; well below the recommended range. Similarly, the acid test ratio falls below 0.5 to 1; again suggesting potential liquidity difficulties. If a major current liability is due for payment shortly, Finsbury could face difficulties.

Option A may be more expensive as interest will need to be paid. Appendix 4 indicates that the current market interest rate for borrowing is 5%. At this rate of interest, a £40 million loan would only cost £2 million a year in interest. Finsbury has a very low gearing ratio (11.7%) and should therefore find it easy to attract a lender. Furthermore, the £40 million loan would leave Finsbury with a 26.3% gearing ratio; still a relatively low level of gearing.

With the potential economic downturn both of these options present some problems. Option B may leave the business unable to pay its current liabilities, whereas option A will increase its non-current liabilities by £40 million.

I would recommend a compromise between the two options. A smaller loan would reduce the risk of failure to pay a payable (creditor). A lower level of retained profit would mean that Finsbury could maintain a strong liquidity position. In this case Finsbury should be able to cope with sudden, unexpected changes.

**e** All of the calculations in this answer are correct and relevant to the answer and so Candidate A will receive full credit. However, it is worth showing the working out in case an error is made, and an apparently illogical conclusion drawn, because a figure was recorded incorrectly. Despite this Candidate A shows good examination technique by stating the figures on which conclusions are being drawn. Even if there is an arithmetic error, credit can be given for the way in which the figure is used to analyse the case for or against the option. Without a figure it is harder to credit the logic of such an argument. The answer concludes strongly, as the candidate challenges the two options and presents a comprehensive piece of logic that suggests that a compromise could be preferable to either of the two options offered.

**4** Based on quantitative criteria, Gdansk appears to be the best option, although it is not a clear-cut case. The net present value (NPV) is positive for both locations, confirming that the overall decision to relocate is sensible financially. Gdansk has a slightly higher NPV than Birkenhead, and so the NPV supports relocation to Poland. However, in the short term Gdansk could damage the cash flow of Finsbury plc as there is a loss projected in the first year. This is probably forecast because settling into a new country is more difficult. The case study indicates that the majority of customers in the first few years will be based in the UK rather than eastern Europe. For these reasons the payback period of 3 years for Birkenhead is better than the payback for Gdansk (approximately 3 years and 4 months). The average rate of return is noticeably better for Gdansk (15%) than Birkenhead, which produces a 10% ARR.

There are relatively minor differences between the financial results and so qualitative factors should be weighted highly.

Arguably the most significant factor is the impact on the workforce. The site in Birkenhead would allow the existing workforce to stay with Finsbury plc — 85% of the workers have indicated that they would be prepared to move to Birkenhead. The workforce has helped the company to expand rapidly, although this does suggest that the vast majority of the workers have only worked for Finsbury plc for a few years. Consequently, the needs of other stakeholder groups, such as customers and suppliers, could be given greater consideration. It could be argued that the workforce is not Finsbury's greatest asset. The figures in Appendix 3a suggest that it may not be the most effective workforce, with both labour turnover and absenteeism increasing and labour productivity declining. The figures in Appendix 3b suggest that labour turnover and absenteeism would probably be much better in Poland and unit costs are likely to be a lot lower. However, labour productivity is likely to be much lower.

In the short term, the move to Birkenhead is going to be more beneficial, especially as the majority of customers will be UK-based. In the long-term, Finsbury plc is expecting its customer base to be based more in eastern Europe. If customers expect quick delivery or just-in-time supply, it may be vital to have a base in eastern Europe. The case study suggests that Liverpool is the main rather than the only UK factory. Therefore moving a factory from England to Poland may not reduce Finsbury's access to the UK market but will improve its accessibility to other parts of Europe.

In conclusion, I would recommend that Finsbury plc relocates to Gdansk. The marketing director believes that long-term growth will be more achievable through this factory. However, it is vital that more detailed research is undertaken before a decision is made, especially research into the availability of suppliers who will be critical for success. The quantitative data is only marginally in favour of Gdansk and 'the business had not fully researched' this option. The existing problems with meeting orders might be solved by subcontracting, allowing time for proper research.

On balance, with so many manufacturing businesses moving production away from the UK, a move to Poland would seem to be the best decision.

- e Candidate A has not followed the expected approach set out in the question. Rather than analysing the case for option A and then the case for option B, the answer looks at the best option based on quantitative factors followed by the best case based on other (largely qualitative) factors. This is a potentially risky approach, as it may lead to irrelevance. However, in this case the end has justified the means. The key arguments for options A and B have been presented and a final recommendation made based on these arguments. As a result this answer would have been awarded a grade A.
- e **This is an excellent set of responses, demonstrating an understanding of all of the concepts required for each question. The high level of knowledge shown in the answers has provided the foundation for Candidate A to present excellent application, analysis and evaluation skills.**

# BUSS4 The business environment and managing change

Assessment for Unit 4 is a 1 hour 45 minute examination consisting of two sections, worth 80 marks in total. All questions are essay-style and synoptic, therefore drawing upon knowledge from all four units studied. A sample paper using the format of the examination is provided.

For Section 1, a pre-release research task is provided. This, together with additional brief stimulus material provided at the time of the examination, forms the basis of two essay-style questions, worth 40 marks each, of which candidates must answer one question only.

For Section 2, three essays are provided, worth 40 marks each, of which candidates must answer one.

This online material uses the structure of the exemplar Unit 4 (BUS4) examination materials published by AQA to provide practice assessment resources in the form of a Unit 4-type examination paper. A-grade student answers plus examiner comments are provided for Questions 1 and 3 of the sample paper. Other answers and examiner comments will be included in the relevant AQA A2 *Business Studies Student Unit Guide*, available from autumn 2009.

## Sample paper

Answer Question 1 **or** 2 from Section A and **only one** of the questions from Section B.

**Total: 80 marks (1 hour 45 minutes)**

## Section A

### *Pre-issued research theme: Business ethics*

In researching this area, you should consider issues such as:

- the meaning of business ethics
- the reasons why businesses adopt ethical positions
- how businesses organise themselves when operating ethically and the strategies they might adopt
- the benefits, costs and risk for different businesses of adopting ethical positions
- the opportunities and threats facing businesses as a result of adopting ethical positions
- the impact on stakeholders of businesses adopting ethical positions
- the extent to which businesses adopting ethical positions do this as a public relations (PR) exercise or because of high moral principles
- recent and current examples of business ethics

You are encouraged to study these issues in the context of business case studies.

Answer **either** Question 1 **or** Question 2.

**The following short article should be read prior to answering Question 1 or 2.**

A recent research report shows that companies that have a clear commitment to ethical conduct outperform those that do not. Using various indicators of business success, including price/earnings ratio and return on capital employed, it compared two groups of companies (those with a demonstrable commitment to ethical behaviour through having a published code of business ethics, and those without) over a 4-year period. Overall, the companies with ethical

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codes were clearly superior. The report also suggests that having a code of ethics equates to a higher than average score in the ranking of Britain's Most Admired Companies and is therefore a strong proxy indicator of genuine ethical commitment and a well managed company. Commentators suggested that the report supported the notion that not only is ethical behaviour in business life the right thing to do in principle, but that it pays off in financial returns.

The Co-operative Bank is an example of how ethical behaviour can benefit a company. More than 80,000 customers of the Co-operative Bank responded to a survey asking them for their views on the bank's ethical policy. Most wanted the bank to refuse loans to oppressive regimes and to companies that sell arms to oppressive regimes. Next on the list were companies that damaged the environment by extracting and producing fossil fuels. As a result of the response, the bank has adopted stricter rules on lending to firms. The revised policy is expected to increase the number of loan applications turned down by the bank. Since introducing its ethical policy in 1992, rejected loans total over £1 billion. The policy, combined with its long-standing mutual status, is proving of benefit in the recession, with customers from rival banks transferring their accounts. Current accounts have increased by 65% since the beginning of 2008 and the increase in savings has allowed the bank to boost lending to customers by 15% to £4.4bn.

### Question 1

**With reference to *the article above* and *your own research*, assess the extent to which adopting an ethical position is simply good business practice, and that so-called ethical organisations are simply using highly effective public relations strategies to attract customers.**

(40 marks)

### Question 2

**With reference to *the article above* and *your own research*, discuss the extent to which ethical behaviour is fundamental to business success.**

(40 marks)

## Section B

Answer **one question only** from this section.

You are encouraged to use relevant business examples, theories, case studies or data to support your arguments.

### Question 3

**'You should always follow your gut instincts' (Wayne Hemingway of the Red or Dead fashion house). Using business examples with which you are familiar, discuss whether this statement is always true in relation to business decision making.**

(40 marks)

### Question 4

**If organisational culture is simply 'the way we do things around here', discuss (using business examples with which you are familiar) why it is so important to business success.**

(40 marks)

### Question 5

**Using an industry or business with which you are familiar, discuss the elements that make up 'the external environment' that it faces and how it might take these elements into account in its corporate planning process.**

(40 marks)

## Candidate B's answer

### Section A

#### Question 1

This essay will assess the extent to which adopting an ethical position is simply good business practice and whether so-called ethical organisations are simply using highly effective public relations strategies to attract customers.

- e There is no need to restate the title.

Ethics are the moral principles that should underpin business decision making and ethical behaviour involves actions and decisions that are seen to be morally correct. A decision made on ethical grounds might mean that the most profitable solution for the business has been ignored in favour of one of greater benefit to society as a whole, or to particular groups of stakeholders.

Public relations (PR) involves activities to boost the public profile of an organisation and usually involves obtaining favourable publicity from the press, television or radio. Unlike advertising, it is not paid for and there is no control over its content. When a business behaves ethically, it may be good for PR. The title of the essay suggests that good PR might be the main reason for ethical behaviour because it can help to enhance the image of a business and is likely to generate more goodwill, which will lead to improved sales.

- e These two introductory paragraphs demonstrate that the writer clearly understands the key terms and they set the context for the rest of the essay.

Firms are frequently presented with ethical dilemmas when making decisions. For example, the extract talks about the Co-operative Bank, which has decided not to lend to organisations that support or sell arms to repressive regimes or organisations that damage the environment. Other firms that behave ethically include farming organisations that do not use factory farming methods, clothing manufacturers that refuse to make use of child labour and organisations that act responsibly towards the environment and are good employees.

- e This paragraph indicates that the writer is able to make use of examples other than those in the article provided and hence indicates that he/she has done research on the theme.

Not all businesses adopt ethical approaches to their business, although few would say they do not. If a business sees its shareholders' or owners' short-term interests as its only responsibility or if it wants to charge the lowest prices in the market, it is likely to be meeting only its minimum obligations in relation to other stakeholder groups and the wider environment, and thus is probably not behaving ethically. On the other hand, if a business takes an ideological approach to all its activities and places financial considerations second, it may not be very profitable but it is probably acting in a highly ethical manner.

- e The writer is demonstrating excellent understanding of ethical behaviour by discussing the spectrum of ethical approaches that firms can take.

Regardless of moral principles, there are important commercial advantages to a business of acting ethically. For example, consumers often want the products of ethical companies more than those of others. Ethical behaviour can thus become a USP for a business and can therefore be used in its marketing. For example, The Body Shop made its name this way and the Co-operative Bank is doing the same. Such a USP is likely to result in increased sales and, depending on costs, increased profits. Many highly qualified young people would prefer to work for an ethical company and therefore such companies are likely to be able to recruit the best and most motivated staff. In such a situation, whether a business is adopting an ethical approach or is simply using good business practice and effective PR is difficult to distinguish.

However, acting ethically can be expensive. For example, if a business chooses not to locate its production in a low-wage economy, this will mean its costs will be higher, so prices will rise and it might become less competitive and make less profits. From this point of view, one could argue that those businesses not clearly focused on ethical practices will opt for the cheapest and therefore the most profitable alternative.

- e The discussion, in the above two paragraphs, of the advantages and problems facing firms adopting ethical behaviour demonstrates high-quality analysis. The points made are well developed, show very good use of knowledge from other areas of the specification and are well supported by business examples. The writer also refers the points being made back to the original question, demonstrating that he/she is structuring the essay well in order to answer the question, rather than simply writing all he/she knows about business ethics.

Businesses operate in a highly competitive environment that influences their actions. A public outcry against a particular type of activity will force a business to look at itself and decide if it needs to change its stance. If a high-profile company, such as Nike or Gap, is accused of using child labour, other firms that produce in similar circumstances are likely to review their own operations and perhaps change to a more acceptable method of operation. Similarly, the recent accounting scandals will have caused many firms to take a closer look at their own accounting policies. One could argue that such reactions are just good business practice and a response to PR about unethical practice. Good business practice would suggest that a business benchmarks itself with the best in the industry. Benchmarking can also mean ensuring that your practice is not the same as the worst.

- e This paragraph demonstrates that the writer has excellent knowledge of recent and current ethical issues in the business world. It also indicates that he/she is able to utilise knowledge from other areas of the specification and to make sound judgements based on well-argued analysis.

If a business adopts, what seems to be, an ethical position, which is popular with consumers and leads to increased sales, whether this is a reflection of the business adopting a 'real' ethical position or a 'perceived' one, i.e. as a PR exercise in order to gain consumer loyalty and increase sales, is debatable. But does it really matter, because the final outcome is that the business is behaving ethically. It isn't the case that the most profitable businesses are the least ethical or that the least profitable are the most ethical. In the latter case, it is usually just that they are not very good businesses and are not using good business practice. Perhaps good business practice means adopting an ethical

approach and the fact that this may bring with it very beneficial PR is simply an added bonus.

- e This is an excellent conclusion. The writer has brought all of the arguments included in the essay together in order to address the question.
- e **Overall this is an excellent essay that demonstrates excellent knowledge and understanding and a very good awareness of recent and current issues in relation to business ethics, includes well-argued analysis, and is highly evaluative.**

### Section B

#### Question 3

In this essay, I will explain decision making based on hunch or 'gut instinct' and decision making based on a scientific approach. I will then analyse the advantages and disadvantages of each system. I will finish by drawing conclusion from my analyses and evaluating whether the statement is always true.

- e This introductory paragraph suggests that the answer is likely to be tightly structured and very focused on the question. It also indicates that the writer has a clear understanding of how he/she will demonstrate the assessment objectives of analysis and evaluation.

Decision making in any business is very important and takes place at every level of the organisation. It varies from short term to long term and from functional and tactical to strategic and corporate. Decisions are usually constrained by both internal and external factors — for example, by the finance available, the skills of the workforce, competitor activity or government policy. Most decision making includes an element of risk, but just because something is risky does not mean that it should not be pursued.

- e This introduction demonstrates that the writer understands very well the different issues involved in decision making within a business. However, given the time constraint in an examination, it is rather long and there has been no discussion yet of the key issues in order to address the question.

A number of different approaches to decision making are available to assist firms in this process. These range from intuitive to scientific approaches. An intuitive approach to decision making means that decisions are made on the basis of a hunch or the 'gut feeling' (mentioned in the question) of a person, which means that it is based on their personal views. This approach is more likely to be used by small businesses that are owned by a single individual or small group. The quote in the question probably refers to when Red or Dead was first set up. As a business grows, the approach can still be appropriate as long as the individual or groups involved in decision making have a great deal of experience and expertise.

A scientific approach to decision making involves using a systematic process for making decisions in an objective manner. Most scientific approaches to decision making involve five steps: setting objectives, gathering data, analysing data, selecting a strategy, implementing and reviewing the decision.

## BUSS4 The business environment and managing change

- e These two paragraphs demonstrate that the writer has a very good understanding of the two different approaches to decision making. A good point is that the writer has not gone into huge detail about each of the stages in scientific decision making but has indicated that he/she understands what they are.

There are a number of benefits and problems in using hunches or gut instincts when making decisions. The approach may lead to more creative and innovative decision making compared to a scientific approach. A scientific approach can be very expensive and hard to justify if there is very little risk involved. Also a scientific approach is time consuming and may mean that decisions are delayed. The data collected might be out of date or may be biased. Instead decisions may be better if they rely on the gut instincts of a manager who has a 'qualitative' understanding of the market and can anticipate a change in the trend.

However, decisions made using gut instinct or hunch are not always well informed by evidence and will often involve bias and subjectivity, which might lead to the wrong outcomes. Examples of this are siting a factory in a location that is not appropriate but is linked to the owner's childhood, and introducing a new product onto the market because competitors have done so, even though competitors' sales are very low.

There are a number of benefits and problems in using a scientific approach when making decisions. Such an approach removes bias and subjectivity by ensuring that decisions are made on the basis of well-researched, factual evidence. It therefore reduces risk. By emphasising the need to set objectives (which should be SMART), it ensures that people involved in the decision-making process are aiming towards the same goals. Decisions are based on business logic, involving comparisons between alternative approaches and between pros and cons. It is likely that more than one person will be involved in the process, which will further reduce the possibility of bias. A scientific approach ensures that decisions are continually monitored and reviewed and changed if necessary, which means that mistakes can be identified quickly. It is easier to defend a decision that has been developed using good planning and cooperation with other managers than one that is just based on one person's gut instinct.

Although decisions based on rational thinking are likely to be more successful overall, it doesn't mean that the decisions made will always be the right ones. Scientific decision making can be criticised as being a rather slow process that lacks creativity and which therefore may fail to lead to innovative and different approaches.

- e These four paragraphs demonstrate excellent analysis. The advantages and problems of each approach are clearly identified and explained. There is good linking of issues within one approach and between approaches, so that the answer is not simply a list of advantages and disadvantages but is a soundly argued analysis of the issues involved.

The question asks whether using gut instincts (or hunches) is always the right approach to decision making. On the basis of the analyses I have provided about the intuitive and scientific approaches to decision making, my answer is no. The most appropriate approach will depend on a number of factors and the particular context of the business. Gut instinct will be the best approach to use when quick decisions are required and there is no time to analyse the situations, when detailed data are not available or when the situation is totally

unpredictable. However, if past data are reliable indicators of future changes, a scientific approach is ideal. Although smaller businesses are more likely to follow the gut instincts of their owners, larger firms, because they have many departments and lots of communication and coordination issues to consider and therefore more complicated decisions to make, need a more scientific approach. Finally, much depends on the character of the leader or the culture of the company. An entrepreneurial risk-taker (like Alan Sugar) is more likely to use hunches, while a manager (or business) that tries to avoid risk or blame is more likely to use a scientific approach, in order to justify any decisions.

- e** This is an excellent conclusion that brings together the previous analysis in order to make a judgement. The judgement is decisive and the writer justifies the judgement extremely well.
  
- e** **Overall, this is an excellent essay that is tightly structured, demonstrates very good knowledge and understanding, and provides high-quality analysis that leads to very well-argued evaluation.**