A-level
BUSINESS
7132/1

Paper 1 Business 1

Mark scheme

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

Further copies of this mark scheme are available from aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Marking guidance

- Be clear on the focus of the question.
- Read the response as a whole; follow the flow of the argument as a whole.
- Remember that the indicative content provides possible lines of argument but there may be others that are equally valid. Be willing to credit other lines of argument.
- Annotate the script as you read in accordance with the instructions given at standardisation.
- Consider what it all adds up to, eg is this a good response? A reasonable one? A limited one? Refer back to the standardisation scripts and guidance to help you benchmark. You are marking to the standard agreed at standardisation.
- Summarise your findings briefly at the end of the response. This will help you decide on the overall level and is helpful for others to understand the mark given, eg for an extended response 'well-argued' but does not focus fully on the issue of 'long term' feels as if it might be good rather than excellent. Make sure the comments fit with the level awarded: 'unbalanced and not comparing with alternative solutions' does not sound as if it is 'good'.
- Next to your comment put the level awarded, eg L4.
- If in doubt about an approach contact your Team Leader, do not make up your own rules because we must have a standardised approach across all marking. Be positive in your marking. Look to reward what is there.

ANNOTATIONS FOR MARK SCHEMES

K U	Knowledge and Understanding
AN	Analytical but lacks context
ARG	Argument
DEV	Developed argument
J / EV	Judgement with support / Evaluation
NFF	Not Fully Focussed on the demands of the question
Bal	Balanced response eg both sides acknowledged
Rng	Range of arguments eg two arguments presented
BOD	Benefit of the Doubt
NAQ	Not answering the question
OFR	Own Figure Rule
SEEN	Seen
☑	TICK
☒	CROSS
☐	Txt Box
?	Unclear
Highlighter	Highlighter
[REP]	Repetition

Section C and Section D – 25-mark essay questions
The following should be used at the end of the response.

L1	L1
L2	L2
L3	L3
L4	L4
L5	L5

Section A

Objective Test Answers

Total for this section: 15 marks

Question number	Answer
01	**D** Sole traders only
02	**B** Statement 1 is true. Statement 2 is false.
03	**B** improve the speed of vertical communication.
04	**D** an adverse variance of £32 million.
05	**C** an increase in the number of patents held by a business is a strength.
06	**C** Statement 1 is false. Statement 2 is true.
07	**A** incomes rise by 10% and the income elasticity of demand for the product is 0
08	**C** cumulative output.
09	**A** 0.04
10	**B** Statement 1 is true. Statement 2 is false.
11	**A** Statement 1 is true. Statement 2 is true.
12	**A** Decrease/Decrease
13	**C** a low current ratio and a high gearing.
14	**B** Activity D is not on a critical path.
15	**D** increase by 3 days.

Section B

1 6	The data below applies to Product X. Fixed costs = £8000 Selling price = £10 Variable costs per unit = £6 Total contribution from current level of output = £10 000 Calculate the margin of safety for Product X at its current level of output. Show your workings. **[4 marks]**

Marks for this question: AO1 = 1 and AO2 = 3

Answer = 500 units or 500 (4 marks)
NB. For £500 (3 marks) (as the £ sign shows that there is a misunderstanding)

4 marks broken down as follows:

Award 1 mark if one minor error in a calculation below (OFR).

^ current level of output = $\frac{\text{total contribution}}{\text{contribution per unit}}$

$= \frac{\text{£}10\,000}{(\text{£}10 - \text{£}6 = \text{£}4)^*} = 2500$ units

^^ break-even output = $\frac{\text{fixed costs}}{\text{contribution per unit}}$

$= \frac{\text{£}8000}{(\text{£}10 - \text{£}6 = \text{£}4)^*} = 2000$ units

^^^ margin of safety = current output – break-even output

= 2500 – 2000 = 500 units (accept 500)

^ Award 2 marks for correct calculation of EITHER current level of output OR break-even output.
^ Award 3rd mark for correct calculation of the other output figure.
Award 1 mark (4th mark) for subtracting break-even output from current level of output.

NB. * **Award 1 mark** if no correct output calculated but contribution per unit is calculated correctly.

NB. OFR applies if method is valid but arithmetic error occurs.
^ If no creditworthy calculation, **award up to 1 mark** for correct formula for **EITHER** current level of output (see above ^) **OR** break-even output (see above ^^) **OR** margin of safety (see above ^^^).

1 7 A company invests £20 million into a new project in Year 0.

In the next two years the predicted net returns of the project, along with the discount factors, are shown in the table below:

Year	**Net return (£m)**	**Discount factor**
1	11	0.91
2	12	0.83

Based on the information provided, calculate the expected net present value (NPV) for the new project.

Show your working.

[4 marks]

Marks for this question: AO1 = 1 and AO2 = 3

Answer = –£0.03m OR (£0.03m) OR –£30 000 OR (£30 000) OR -0.03M OR -30,000 (4 marks)
Answer = £0.03m or +£0.03m or £30,000 or 30,000 (3 marks)
NB. **If no working shown** award 2 marks for answer of 0.03 or +0.03 (Omitting the 'm' and so no reference to millions)

Broken down as follows:

Present value: Year 1 = 11 × 0.91 = 10.01 **(1 mark)**
Present value: Year 2 = 12 × 0.83 = 9.96**. (1 mark)**

Present value of Years 1 and 2 = 10.01 + 9.96 = 19.97 **(1 mark)**

Net present value = 19.97 **–** 20 (initial cost in Year 0) = –0.03 **(1 mark)**

OFR applies for incorrect calculations.

1	8	Analyse why a public limited company might prefer to use share capital as a source of finance, rather than a bank loan. **[9 marks]**

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	**7–9**
2	**A reasonable response overall that focuses on some of the demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	**4–6**
1	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	**1–3**

The demands of this question are:
- showing an understanding of share capital and bank loans
- analysing why a business might choose share capital in preference to a bank loan.

Indicative content:
Possible responses include:
- recognising possible reasons why share capital might be a good choice
- recognising possible reasons why share capital might be a more appropriate choice than a bank loan:
    - share capital is a good source of long-term finance that does not need to be repaid, as such
    - share capital allows rewards to shareholders to be delayed until the business' finances are healthy
    - bank loans need to be repaid within a certain, agreed time constraint
    - interest must be paid on a bank loan, regardless of whether the finance creates a profit or not
    - in times of rising interest rates, bank loans might prove to be more costly to finance than expected
    - banks may be unwilling to lend.

NB. Credit that share capital is a "quick" source of finance ONLY if this is explained (eg. a rights issue to existing shareholders)

1 9	Analyse why an underperforming business with a role culture might choose to move towards a power culture. **[9 marks]**

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	**7–9**
2	**A reasonable response overall that focuses on some of the demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	**4–6**
1	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	**1–3**

The demands of this question are:

- showing an understanding of Handy's role culture and power culture
- analysing why an underperforming business might choose to move towards a power culture from a role culture.

Indicative content:

- recognising that a power culture is where power is concentrated in the hands of a small group or central figure who determine(s) the business' approach
- recognising that a role culture is focused on set procedures and role descriptions
- analysing that a role culture can lead to underperformance if a traditional, bureaucratic approach leads to a lack of adaptability in the business
- analysing that a power culture focuses power in the hands of a few people who will be able to react quickly to underperformance. In contrast, a role culture tends to require more consultation and consensus in order to implement change
- analysing that a role culture is most suited to an environment which is stable and unchanging. In a dynamic environment, power culture can react more quickly to external changes that might be leading to underperformance
- analysing that a power culture tends to feature more centralisation of decision-making. Any problems identified by management can be dealt with more consistently and effectively than in a role culture, where a more decentralised approach can lead to more variations and inconsistencies in strategies and actions.

2 0	A UK manufacturer is highly geared and exports 60% of its output. Analyse the impact of a significant increase in UK interest rates on this business. **[9 marks]**

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	**7–9**
2	**A reasonable response overall that focuses on some of the demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	**4–6**
1	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	**1–3**

The demands of the question are:

- understanding the notions of interest rates, highly geared and exports
- analysing how an increase in interest rates will impact on UK manufacturers in general
- developing this analysis in the context of a UK manufacturer that is highly geared and a major exporter.

Indicative content:

- understanding that higher interest rates should increase payments on borrowed money and thus increase costs/worsen cash flow
- understanding that higher interest rates can lead to lower demand for products as consumers pay more interest on borrowed money
- understanding that higher interest rates will impact on the exchange rate for sterling. Sterling will become a more attractive currency for currency flows/hot money and so the value of the £ will rise against other currencies possibly leading to reduced exports
- analysing that this business has high gearing and so higher interest payments will be a significant cost, thus reducing profits
- analysing that the business exports 60% of its products and so the decrease in UK demand because of the higher interest rates will only affect 40% of the business' sales
- analysing that higher interest rates should lead to lower capital investment because the cost of borrowing increases.

NB. It is not necessary for an answer to include a reference to exports in order to reach L3.

The question asks students to "Analyse the impact of a significant increase in UK interest rates on this business." The opening sentence provides context. A student who uses the high gearing context to show how this might:

(a) increase business costs, and
(b) lead to lower demand because of high interest rates for consumers

will have provided a comprehensive answer to the question set by focusing on just the first element of the context.

Section C

2 1	To what extent are financial ratios the best way of assessing the performance of non-profit organisations, such as charities or mutuals? **[25 marks]**

25-mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	**An excellent response overall that is fully focused on the key demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	**21–25**
4	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	**16–20**
3	**A reasonable response overall that focuses on some demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	**11–15**
2	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	**6–10**

1	**A weak response overall lacking focus on the demands of the question.** Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	**1–5**

The demands of the question are:
- showing an understanding of financial ratios and non-profit organisations
- understanding and analysing when financial ratios may be appropriate measures of performance for non-profit organisations
- analysing why financial ratios may be an inappropriate measure of performance and/or analysing alternative measures of performance
- evaluating the extent to which financial ratios are the best way to assess the performance of non-profit organisations.

Indicative content may include:
Analysing the usefulness of financial ratios, such as:
- profitability ratios can be used to monitor profit in order to support charitable purposes or they may be used to guide these organisations towards breaking-even financially over a period of time
- liquidity ratios can identify potential issues, such as cash flow problems
- gearing can identify potential long-term cash problems
- efficiency ratios can prevent inefficiency in managing payables, receivables and inventory.

Analysing why non-financial measures are used, for example:
- in Elkington's Triple Bottom Line 'People measures' may focus on actions that are aimed to please customers or employees, whilst 'Planet measures' are those targeting sustainability and environmental priorities
- for Kaplan and Norton, analysis can analyse measures based on the financial perspective in comparison to the customer, internal business, and learning and growth perspectives
- analysing other non-financial measures of performance.

Applying this analysis to the specific needs of non-profit organisations and/or their stakeholders.

Evaluation
- recognising that all measures of performance (financial and non-financial) look at past performance and so may not necessarily be an indication of future performance
- assessing the relative importance of different measures of financial performance for organisations, with specific reference to non-profit organisations
- making a reasoned judgement on whether financial ratios are the best way of assessing the performance of non-profit organisations
- using Elkington or Kaplan and Norton to assess the relative importance of financial and non-financial measures of performance
- basing this judgement on the specific requirement of non-profit organisations and their stakeholders.

2	2	A business changes its human resource management (HRM) approach from hard HRM to soft HRM. To what extent is this change guaranteed to increase the motivation of all employees? **[25 marks]**

25-mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	**An excellent response overall that is fully focused on the key demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	**21–25**
4	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	**16–20**
3	**A reasonable response overall that focuses on some demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	**11–15**
2	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	**6–10**

1	**A weak response overall lacking focus on the demands of the question.** Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	**1–5**

The demands of the question are:
- understanding the difference between hard HRM and soft HRM
- understanding the meaning of motivation
- analysing how hard HRM and how soft HRM might influence the motivation of employees
- analysing and evaluating how the change from hard HRM to soft HRM might impact on employees' levels of motivation
- assessing the extent to which this change will guarantee improved motivation for all employees.

Indicative content may include:
- a hard approach to HRM which sees employees simply as another resource may rely on financial methods of motivation
- a soft approach to HRM treats employees as a potential source of competitive advantage to be nurtured and developed
- analysis of how different theorists would view the impact of shifting from hard HRM to soft HRM on worker motivation. For example:
    - Taylor assumes that typical workers wish to avoid autonomy and responsibility and so, excluding managers, the workforce would not be motivated by this change
    - Maslow would regard more autonomy and responsibility as a motivator IF workers were at the esteem or self-actualisation levels of the hierarchy of needs. However, at lower levels other factors would be needed to motivate workers
    - Herzberg regards 'autonomy and responsibility' as motivating factors as they are elements of the job itself, rather than the environment. Therefore, it would act as a motivator
    - according to Hackman and Oldham, this change would help motivation, because job characteristics would be likely to have more skill variety under a soft HRM approach. There is also likely to be more task identity and task significance. Greater autonomy is a key element of soft HRM and, with greater feedback from managers, a soft HRM approach would meet all five of Hackman and Oldham's five core job characteristics, which lead to greater motivation
- recognising that the extent to which soft HRM can improve/reduce motivation can be influenced by factors such as:
    - the nature of the workforce and their roles – is greater responsibility feasible for all employees
    - the actual role of the individual – subordinates may feel empowered by greater responsibility
    - attitudes of individuals – autocratic managers may resent their loss of control/power
    - the nature of the task – employees undertaking repetitive tasks may see no difference to their individual roles
    - the culture of the business – does it lend itself to greater worker responsibility
    - external factors, such as the economy, legislation, desire for ethical/socially responsible behaviour. These factors might help or hinder the impact of soft HRM on motivation.

Evaluation
The arguments above indicate that Taylor would judge the change to soft HRM to be unsuccessful, whilst Herzberg would be the most optimistic about its potential as a motivator.

The analysis would suggest that the success depends on a number of different factors. Consequently, greater responsibility is unlikely to guarantee higher levels of motivation for all of the workforce. Evaluation could focus on the factors/ideas that are most likely to predict a significant increase in motivation in contrast to those factors/ideas that suggest that greater responsibility will be relatively unsuccessful.

There is no definitive conclusion – credit will be given to students who recognise the contexts that will be likely/unlikely to enable the change from hard HRM to soft HRM to lead to higher levels of motivation.

There is no specific approach needed to answer this question. For example, students may base their answer on the different roles of a business' employees rather than the different theories of motivation. Credit should be given to answers on the basis of whether or not they have answered the question set.

Section D

2 3	To what extent does rapid change in the external environment mean that strategic drift is inevitable for a business? **[25 marks]**

25-mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	**An excellent response overall that is fully focused on the key demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	**21–25**
4	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	**16–20**
3	**A reasonable response overall that focuses on some demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	**11–15**
2	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	**6–10**

1	**A weak response overall lacking focus on the demands of the question.** Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	**1–5**

The demands of the question are:
- showing an understanding of the external environment and how it might change (rapidly)
- showing an understanding of 'strategic drift'
- analysing the factors, both internal and external, that can lead to strategic drift
- assessing the extent to which strategic drift is inevitable as a result of rapid change in the external environment.

Indicative content may include:
- understanding that a strategy is more likely to become unsuitable (drift) as a result of change
- understanding that a business focusing on a 'planned strategy' is more likely to experience strategic drift than one that focuses on an 'emergent strategy' approach
- recognising the possible external changes that can contribute to strategic drift, such as:
  - actions of competitors
  - changes in consumer tastes
  - economic change
  - changes in individual behaviour and attitudes
  - changing customer expectations
  - environmental changes
  - political, legal and social change
  - technological change
- analysing how the factors above might cause changes
- analysing how internal factors can contribute to strategic drift through factors such as:
  - a rigid culture
  - a reluctance to change strategies and methods
  - being reactive to change rather than being proactive and anticipating change
  - an organisational structure that is rigid and not suited to external changes
  - an unwillingness or inability to keep pace with technological change
  - inertia.

Evaluation

The wide range of factors that can lead to strategic drift suggests that some strategic drift is likely to occur. However, the extent to which strategic drift is inevitable will depend on:
- how significant the external changes affecting the business are – for example, is there a major change in the economy or consumer tastes
- what has caused the external change. For example, new entrants into a market may cause quicker and more significant change to strategy than a more gradual change, such as might occur through social or environmental factors
- how prepared the business is to modify the internal factors that might lead to strategic drift. The business might be able to limit strategic drift by:
  - assessing how constant monitoring and reviewing of external and internal factors can prevent or limit the extent to which strategic drift occurs in a business
  - using a philosophy based on emergent strategies rather than a rigid planned strategy approach
  - evaluating the need for significant, possibly transformational change, can reduce or overcome strategic drift.

Evaluation will be further credited to answers that draw a conclusion that assesses the extent to which rapid external change makes strategic change inevitable.

2 4	Will the introduction of lean production always lead to lower unit costs? Justify your view. **[25 marks]**

25-mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	**An excellent response overall that is fully focused on the key demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	**21–25**
4	**A good response overall that focuses on many of the demands of the question.** Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	**16–20**
3	**A reasonable response overall that focuses on some demands of the question.** Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	**11–15**
2	**A limited response overall with little focus on the demands of the question.** Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	**6–10**

1	**A weak response overall lacking focus on the demands of the question.** Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	**1–5**

The demands of the question are:
- understanding the meaning of lean production
- understanding unit costs
- analysing how lean production might affect unit costs
- evaluating whether lean production will always lead to lower unit costs.

Indicative content may include:
Recognising that lean production can lead to changes in unit costs in different ways:

It may lead to lower unit costs because:
- it reduces the need for inventory, thus reducing losses due to waste, damage or depreciation of value
- it reduces warehousing space, thus lowering costs such as rent
- faster speed of response leads to savings in time; thus lowering costs
- the use of Kaizen can lead to new approaches that increase productivity and thus reduce unit costs
- greater involvement of employees can lead to higher motivation and thus cost benefits arising from lower labour turnover and more productive staff.

It may lead to higher unit costs because:
- lean production involves JIT delivery. Inventory tends to be purchased more regularly but in smaller quantities. This means a business may not be able to benefit from bulk-buying discounts and so unit costs will rise
- Kaizen activities can take time and if new ideas do not improve efficiency, unit costs of production will rise
- 'right-first-time' quality assurance can lead to very high expenditure if a defect is not detected and a batch of faulty products is manufactured
- lean production often focuses on improving quality and added value. Consequently, its emphasis might be on achieving a higher price for the product, often because it is superior to competitors' products. Consequently, unit costs may be higher because the main aim is to increase profits
- the new system will require cultural change. This may be a barrier to overcome, leading to higher unit costs, at least in the short-term.

Evaluation

Evaluation should provide a conclusion, on whether unit costs will rise or fall, based on the arguments provided in the essay.

Overall, the quality of evaluation will depend on the focus of the analysis in the answer. Lean production should lead to lower unit costs in many situations, but it may lead to higher unit costs because implementation is inefficient OR because the emphasis on the business is to achieve higher quality, which is unlikely to be compatible with lower unit costs.

Any changes to processes are likely to lead to rising unit costs in the short-term, even if lower unit costs are achieved in the medium or long-term.

NB. Credit should be given to any relevant approaches to this question. Lean production covers a broad area, but students will not be expected to provide a lot of breadth in the time allowed. Evaluation will be assessed based on the logic of judgement based on the aspects of lean production that the student has chosen to analyse and evaluate.