Cambridge International A Level

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Cambridge International Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **May/June 2016**

MARK SCHEME

Maximum Mark: 100

Published

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1 Analyse the impact on CJE of adopting a more flexible approach to human resource management. [10]

Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
2	3 marks Knowledge of flexible HRM and benefits and/or limitations	3 marks Points well applied to the case	3–4 marks Good use of theory and/or reasoned argument to explain benefits and limitations
1	1–2 marks Some knowledge of HRM OR benefits and/or limitations of flexible HRM	1–2 marks Some application to case	1–2 marks Some use of theory and/or reasoned argument to explain benefits or limitations
0	No creditable content		

Examiner note: Analysis must link impact to CJE i.e. it is not sufficient to just analyse impact on employees as this is not the question.

Definition:

- HRM is the strategic approach to the effective management of an organisation's workers so that they help the business gain a competitive advantage. Includes workforce planning, recruitment, training and managing performance.
- Flexible HRM attempts to convert fixed costs of employing workers into variable costs – and make workers more adaptable/multi-skilled to make production more flexible to changing demand.

Answers may include:

Benefits:

- Should reduce total employee costs
- Workers asked to work longer when needed
- Unsatisfactory workers replaced quickly
- Able to switch tasks more easily
- Important to CJE as it is attempting to cut departmental costs by 7% this year
- Learning new skills may enrich jobs and drive productivity
- CJE competes in a competitive market and policies that help control costs will help CJE compete.

Limitations:

- Could be negative on motivation so productivity might fall – this could raise unit labour costs;
- More difficult to recruit good/skilled employees
- Cost of training increases if labour turnover increases
- Important to CJE as many jobs will be skilled – will skilled employees be prepared to accept this flexible approach?
- Quality, reliability and innovation are essential for jet engines. Will use of short term temporary contracts negatively impact those attributes?

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2 (a) Refer to Table 1. Calculate the difference in unit cost between the two supply options for turbine blades. [6]

Unit cost = total cost/output or (fixed + variable cost)/output (1 mark if no relevant calculation)

Ousourcing:

Transport cost is $20 (1 mark)

Unit cost is $590 [$570 + $200/10] (2 marks)

Extend factory:

Additional fixed cost is 600 000/3000 = 200 (1 mark)

Assuming max capacity then unit cost is $500 + [$600 000/3000] = $700 (3 marks)

Note: If a candidate makes a clear assumption regarding output up to a max of 3000 then treat as OFR.

Identify outsourcing and extend factory as $590 and $700 (5 marks)
Difference is 700 – 590 = $110 (6 marks)

Own Figure Rule (OFR) applies.

(b) Recommend whether CJE should outsource turbine blade production. Justify your answer using your answer from (a) and other information. [12]

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	3–4 marks Good use of theory to answer question	3–4 marks Good judgement shown
1	1 mark One relevant point made or definition of outsourcing	1 mark Some application to case/use of one result	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown
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Definition of outsourcing: using an outside agency to carry out some business functions.

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Answers could include:

- Unit cost of extending factory should not include current annual fixed costs – these have to be paid anyway.
- Outsourcing: Seems to be cheaper (but even if a 'more expensive' result is obtained in (a), there is still scope for discussion e.g. time factor and flexibility of production).
- It is also quicker – this could be a real advantage if CJE is in danger of not being able to meet customer orders.
- Outsourcing fits in better with the aim of greater flexibility and cost cutting.
- Has greater maximum additional capacity.
- However: Quality is a big issue – and perhaps the deal breaker. If CJE do not want to risk their quality/reliability reputation is this worth taking the risk?
- Why did the other engine maker cancel an order?
- Will transport costs rise?
- Will distance prove to be a problem if CJE uses JIT?
- Deliveries within 4 months compared to 15 months to complete factory.

Evaluation:

Judgement/conclusion needed based on overall analysis of issues.

- Possible identification of the most important point. Costs? Quality? Time?
- How reliable is AOP? It has lost a contract.
- Is this a long term contract with AOP?

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3 Discuss the implications for CJE of making 'facilitating payments' to Government officials. [16]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks At least two relevant points made about impact on CJE	3 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1–2 marks One relevant point made about bribery or ethics or impact on CJE	1–2 marks Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
0	No creditable content			

Answers could include:

- Some facilitating payments such as bribery are illegal in many countries – and is widely regarded as unethical even if it is not specifically illegal.
- If discovered it could lead to fines for CJE and even prison for marketing employees.
- If undiscovered it could lead to major new market for CJE with higher profit margins – which directors are currently worried about.
- Will bribe become expected in future and in other markets?
- What message does it give out to stakeholders?
- Other marketing methods are, of course, possible e.g. lower prices, longer service contracts etc.

Evaluation:

- Depends on CJE Directors' ethical code.
- What are rivals doing? But perhaps this is unimportant if bribery is illegal/unethical anyway?
- Better to create an ethical image based on legal marketing tactics – even if fewer orders are received?
- But will shareholders lose faith in a business with low profit margins and unable to enter helicopter jet engine market?
- How substantial are the facilitating payments?
- How likely is it that information will be leaked?
- How might bribery impact potential orders from other markets such as the EU?

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4 (a) Refer to Table 2 and the information on lines 64–68. Assume the changes suggested by the Finance Director are made. Calculate:

(i) operating profit margin at the end of October 2016 [4]

Operating profit will increase by $29.5 m i.e. to $94.5 m (2 marks)
Operating profit $69.5 m (1 mark)
Operating profit $90 m (1 mark)

Revenue will increase by $45 million (1 mark)

Operating profit margin = 94.5/895 × 100 = 10.56% (4 marks)

OFR applies.

Only includes discount then:

Operating profit = $69.5 m and OPM = 7.77% (3 marks)

Only includes change to depreciation then:

Operating profit = $90 m Revenue = $850 m then OPM = 10.59% (3 marks)

If no calculation but formula given then 1 mark.

If 65/850 = 7.6% (1 mark) [implied knowledge of formula]

(ii) gearing ratio at the end of October 2016 [4]

Long term liabilities/capital employed × 100 if no calculation (1 mark)

New capital employed = $1275 m (less depreciation) + $50 M + $64 m = $1389 m (2 marks)

600/1389 × 100 = 43.2% (4 marks)

If gearing defined as long term liabilities/shareholder equity × 100 (1 mark)

Shareholder equity = 1389 – 600 = $789 m (2 marks)

600/789 × 100 = 76.05% (4 marks)

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(b) Advise the Finance Director whether to make the proposed adjustments to the way CJE reports accounting results. [12]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks At least two relevant points made about impact on CJE	3 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1–2 marks One relevant point made about bribery or ethics or impact on CJE	1–2 marks Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
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Answers could include:

Definition: Window dressing – making reported accounts appear to be more favourable – at least in the short term.

Yes:

- Improves profit margin – shareholders concerned about this.
- May help to boost share price (plc).
- Lowers gearing ratio – helps to raise additional finance for one of the two strategic growth options.
- Makes CJE appear to be 'worth more' – may discourage predator companies.
- Intangible assets likely to add to shareholder value for a high tech business such as this.

No:

- Potentially misleading to accounts users if the underlying 'rules' are changed.
- Cannot repeat these measures easily so this is likely to be a one-off improvement in 'performance/gearing'.
- Investors/lenders may not be convinced that the improvements are real
- May not be illegal – but is it unethical?
- Change to depreciation will impact operating profit and therefore tax liability.
- Early shipment might put workers under pressure to fulfil order.

Evaluation:

- Overall judgement based on analysis of results to (a) and other data.
- Might depend on how rivals prepare their accounts.
- Need for benchmarking of accounting practices as well as company performance?

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5 Assess the usefulness of the forecasts in Appendix 1 to any <u>two</u> functional departments of CJE. [16]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks Good understanding of economic forecast(s)	3 marks Good application to CJE department(s)	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1–2 marks Knowledge of functional departments and/or relevant points made about economic forecasts showing understanding	1–2 marks Some application to CJE departments	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
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Answers could include:

Definition of functional departments.

Marketing:

- Demand for aviation likely to increase; demand from Asian manufacturers likely to increase: need to be prepared for increasing sales and switch in emphasis towards Asian customers.
- BUT: how does GDP growth compare to previous periods? What total market share will Asian aeroplane manufacturers have in 2020?

Operations:

- Should there be relocation of more manufacturing to BRICS countries and away from EU?
- Should further finance be provided for R and D into cleaner jet engines – and does this make Strategy 2 more likely to be the accepted growth strategy for CJE?
- BUT: How do other production costs compare – not just labour? Are skill levels in BRICS suitable for jet engine manufacture? Other issues with location?
- Do CJE engines already meet EU limits? No detail of CJE engine pollution compared to rivals.

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Finance:

- Higher borrowing costs – does this make both of the two growth strategies too expensive to finance through loans?
- How will higher interest rates affect share prices? Could lower share prices for CJE make it more difficult to raise finance through equity?
- BUT: Are all countries going to experience higher interest rates?
- Other factors influence share prices too – global GDP growth might increase profits and lead to higher share prices.
- Other answers possible.

HR:

- Workforce planning.
- Recruitment may be required due to growth of incomes.
- Inflation will impact wage demands and collective bargaining.

Evaluation:

- Source of data and its reliability?
- No information about specific market conditions which is really necessary to make a fuller assessment of impact on departments.

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Questions 6 and 7 use this marking grid:

Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
3				7–10 marks Good judgement shown throughout with well supported conclusion/ recommendation, focused on the business in the case
2	3 marks Good understanding shown	3 marks Good application to the case	3–4 marks Good use of reasoned argument or use of theory to explain points made	4–6 marks Some judgement shown in the main body of the answer **and** an attempt to support conclusion/ recommendation, focused on the business in the case OR effective and well supported conclusion/ recommendation, focused on the business in the case
1	1–2 marks Some understanding shown	1–2 marks Some application to the case	1–2 marks Limited use of reasoned argument or use of theory to support points made	1–3 marks Limited attempt to show judgement either within the answer OR a weakly supported conclusion/ recommendation with some focus on the business in the case
0	No creditable content			

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6 Recommend to CJE's Board of Directors which one of the two strategic options the company should choose. Justify your recommendation. [20]

Answers could include:

Understanding of decision making models such as Ansoff's Matrix, Force Field Analysis, decision trees and investment appraisal.

Strategy 1: Vertical forward integration (accept interpretation as diversification)

- Higher cost, lower IRR – although there could be lower risk with this option, so lower risk and lower return complement each other.
- Good market potential in BRICS countries in future?
- May be lack of synergy – management culture clashes; lack of aircraft manufacturing experience; are CJE engines suitable for the aircraft made by this manufacturer?
- Is finance available for this higher cost option?

Strategy 2: Joint venture

- Is the USA manufacturer larger than CJE? Will it have a controlling interest?
- Research and development is expensive and outcome uncertain – hence higher risk.
- New range of engines – if successfully developed – would fit in well with EU anti-pollution policy.
- Has the BRICS country got the infrastructure, support industries and skilled labour needed to support this new venture? Any government grants available? Much more likely for this option than Strategy 1.
- Culture class a real risk – EU managers may not easily work closely with USA management.

Evaluation:

- Questions over reliability and accuracy of data e.g. decision trees expected monetary values and cash flows used to calculate IRR.
- Other data would be useful e.g. accounting data for the aircraft manufacturer and time needed (usually) to research and develop a new range of engines.
- Supported conclusion or recommendation based on preceding contextualised analysis.

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7 Assume CJE's directors choose strategy 2. Evaluate how this strategy might be implemented successfully. [20]

Answers could include:

- Strategic implementation: Putting a strategy into effect in a planned way with the purpose of reaching a desired objective.
- This is a major strategic decision involving significant change and substantial resources.
- Detailed corporate/operational planning will be needed – including contingency planning.
- Analysis of the benefits of business planning.
- Resources must be prepared especially finance and people – will these take away vital resources from CJE's existing operations?
- Is there sufficient finance available from retained earnings? Operating profit forecast to be $65 m in 2016. Effect on dividends of using retained earnings.
- Analysis of effects on CJE of different ways of financing.
- Team of engineers and designers from CJE may need to be identified to work with Z&L employees.
- How should this joint venture be managed?
- Managing and leading the change will be essential. CEO/Directors will have to explain the reasons for these strategies and the objectives of them – to employees and other stakeholders.

Evaluation:

- Successful implementation of the strategy will be vital to success of CJE as failure could put at risk the entire business.
- Planning of timing, resources, operational decisions will be needed – explain in terms of the strategic option.
- Planning for eventualities will be essential. Estimated that there is a 40% chance of failure.
- Communication between Z&L and CJE essential.

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