GradeMax



Mark Scheme (Results)

Summer 2016

Pearson Edexcel International Advanced Level in Business Studies (WBS03) Paper 01 Strategic Business Decisions

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Data response

Question Number	Question	
1 (a)	What is meant by the term profit for the year margin? (Evidence A, line 7)	2 marks
	Answer	Mark
	Knowledge – up to 2 marks: A measure of business performance/profitability **(1)** based on the ratio of profit to sales value **(1)** Net profit/profit for year divided by sales revenue **(1)** expressed as a % **(1)** If answer expressed as a (correct) formula give **(2)** marks as this demonstrates both knowledge and understanding 1 mark for partial or vague definition but a valid example lifts to 2 marks. Any other suitable alternative.	1-2 marks

Question Number	Question	
1 (b)	What is meant by the term product life cycle? (Evidence B, line 4)	2 marks
	Answer	Mark
	Knowledge – up to 2 marks: The different stages which a product goes through **(1)** from its initial development and introduction to its decline/withdrawal **(1)** Note: at least two stages need to be mentioned for (1) mark Accept labelled graphical representation of product life cycle by way of explanation 1 mark for partial or vague definition but a valid example lifts to 2 marks. Any other suitable alternative.	1-2 marks

Question Number	Question	
2	Explain **two** ways by which the *LEGO Group* promotes corporate social responsibility.	6 marks
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge/understanding:** up to 2 marks are available for identifying two ways e.g. environmental concern **(1)** charitable work **(1)** **Application**: up to 2 marks are available: 1 mark for each contextualised way that demonstrates the *LEGO Group*'s commitment to corporate social responsibility: e.g. energy efficiency and use of renewable energy **(1)** the *LEGO Foundation*'s charity work **(1)** **Analysis:** up to 2 marks are available for developing reason/cause/consequence/cost of how the *LEGO Group* represents itself in relation to corporate social responsibility, based on examples given e.g. the fact that the *LEGO Group* presents the list as 'progress highlights' suggests that it takes these things seriously **(1)** and seeks to improve the lives of children by it charitable contributions to worthwhile causes **(1)**	1-2 marks 1-2 marks 1-2 marks

Question Number	Question	
3	There are two types of director on the *LEGO Group* board. (Evidence C) Analyse the potential stakeholder conflict that could result from this situation.	8 marks
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 4) **Knowledge/understanding:** up to 2 marks are available for identifying two different types of director e.g. family (1) professionals (1) **Application:** owners/family on board of directors/involved with day-to-day running of the business **(1)** also employ professional managers, some of whom are on the board of directors **(1)** **Analysis:** Candidate analyses using reasons/causes/ consequences/costs of what might have led to stakeholder conflicts, one group of directors may have different aims and objectives from another group e.g. the family could skew the governance/management of the business in its own favour giving preference to family interests rather than to the business overall **(1)** in contrast, the professional managers could be acting in the interest of the business and its employees/stakeholders other than the family **(1)** and the differences between the interests of the family and other stakeholders could result in conflict **(1)** this could result in damage to the performance and ultimate long term success of the company as a whole **(1)**	1-2 marks 1-2 marks 1-4 marks

Question Number	Question			
4	Assess the usefulness of investment appraisal techniques when the *LEGO Group* is making its major investment decisions.			10 marks
Level	Mark	Descriptor	Possible content	
1	1-2	Knowledge/understanding of basic terms. *Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.*	e.g. what is meant by investment appraisal techniques e.g. business tools/techniques that can be used to help management make strategic decisions, such as simple payback/average rate of return/discounted cash flow.	
2	3-4	Application: basic points developed to show where the *LEGO Group* is making major investments (Evidence D) *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. *LEGO* is investing DKK2.6bn to increase production capacity globally e.g. *LEGO* is opening new factories in Mexico, Czech Republic and Asia/China e.g. A major investment has been made in Hungary	
3	5-7	Analysis in context must be present, i.e. the extent to which the investment appraisal techniques in the specification would be useful for the massive investments planned by the *LEGO Group* **N.B. if analysis is not in context, limit to Level 2.** *Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.*	e.g. simple payback would indicate to the *LEGO Group* how long it would take to recoup its investments, based on current/historical rates of sale. e.g. as a result of the findings from a discounted cash flow the family would be able to make informed decisions about investment. e.g. using these techniques may give the *LEGO Group* a useful guide as to which of its many investment projects may be the most worthwhile and profitable	

4	8-10	Evaluation must be present and in context, i.e. a candidate balances their answer. **N.B. if evaluation is not in context, limit to Level 3.** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.*	e.g. That the investment appraisal techniques may be too simplistic and may not be useful to the *LEGO Group*. e.g. that an average rate of return enjoyed in the past is no indication of future rates of return. e.g. there are other factors which may be more important when making investment decisions than basic appraisal techniques such as government incentives/economic conditions/political and social stability e.g. that as the investment is being financed from the *LEGO Group*'s own sources its expectations for return on investment may not be as great as if the funding was from external stakeholders such as a bank or shareholders.

Question Number	Question			
5	Assess the extent to which the *LEGO Group* could be classified as having a 'power culture' as defined by Charles Handy.			12 marks
Level	Mark	Descriptor	Possible content	
1	1-2	Knowledge/understanding of the classification of corporate cultures, in particular the model developed by Charles Handy *Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.*	e.g. Handy identified four types of organisational cultures – power, role, task and person cultures. e.g. a power culture is one where power (in terms of the running of an organisation, decision making, etc.) is concentrated in the hands of a few people at the centre of the organisation. e.g. that the recognition of the culture of an organisation is helpful for the understanding of the way the organisation is behaving/is likely to behave in given situations in the future.	
2	3-4	Application must be present, i.e. the answer must be contextualised and applied to show awareness of a power culture within the *LEGO Group* *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. that the *LEGO Group* is privately owned. e.g. that the Kirk Kristiansen family via the KIRKBI A/S is at the centre of the *LEGO Group* and owns 75% of it. e.g. that directors are expected to act as instructed by the owners as well as in the owners' interest.	

3	5-7	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of a power culture within the *LEGO Group* **N.B. if analysis is not in context, limit to Level 2.** *Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.*	e.g. that as a result of owning 75% of the business, through KIRKBI A/S the family are in majority control of the business and consequently in a position of power. e.g. the owners/the family are close to the day-to-day business, which maintains its position of power. e.g. the family ensure continuation of control and power by training and preparing the next generation to continue the business.
4	8-12	**Low Level 4:** 8-10 marks. Evaluation must be present i.e. a candidate balances their answer by showing that the *LEGO Group* may not be classified as having a 'power culture' **High Level 4:** 11-12 marks. Evaluation is developed to show a real perceptiveness on the part of the candidate. Several strands may be developed; the answer is clear and articulate, leading to a convincing conclusion. **N.B. if evaluation not in context, limit to Level 3.** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.*	e.g. that the *LEGO Group* employs a professional management team which may balance the power of the family. e.g. that despite its position of power, the family seeks to have the business run 'with good corporate governance for listed companies'. e.g. that by having a plan to involve the next generation of the family in the business the power will move away from the current generation of owners and, although it will remain within the family, the current power base will need to move aside e.g. there is not sufficient evidence to conclude that the *LEGO Group* could be classified as having a 'power culture' because other cultures may be predominant

Section B: Essay questions

Question Number	Question		
6	Assess the corporate strategy for company growth used by the *LEGO Group*.		20 marks
Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of what is meant by the nature of company growth. *Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.*	e.g. the way in which a company expands through an increase in sales, product range, markets, areas of operation. For example, that growth may be organic or inorganic.
2	3-6	Application must be present, i.e. the answer must be contextualised and applied to the *LEGO Group*. **Low Level 2:** 3–4 marks. Application is weak. **High Level 2:** 5–6 marks. Application to the *LEGO Group* is clear. *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. that Evidence H shows that revenue declined from 2002 to 2005, then started to show a slow growth, which accelerated until by 2013 revenue was four times that of the 2005 low point. e.g. Evidence H shows that there was a steady growth in the profit for the year, from the losses of 2003 and 2004, to 2013.

Level	Mark	Descriptor	Possible content
3	7 -12	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of company growth. **Low Level 3:** 7–9 marks. Analysis limited: only one or two reasons/causes/costs or consequences are outlined. **High Level 3:** 10–12 marks. Analysis is more developed: two or more reasons/causes/costs and/or consequences are outlined and developed. **N.B. if analysis is not in context, limit to Level 2.** *Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.*	e.g. between 2003 and 2005 the company made either very small profits or large losses. e.g. from 2004 to 2006 the company was in the process of closing down its existing European factories in favour of lower cost production in other countries. e.g. although initially yielding a higher profit margin in 2006, profit margins fell in 2007 and 2008, perhaps suggesting that the new venture was not working as well as planned. e.g. although the outsourcing of production to *Flextronics* did create short-term growth it did not result in the long term growth as expected.

Level	Mark	Descriptor	Possible content
4	13-20	Evaluation must be present and in context, considering the nature of company growth that is indicated from available evidence. **Low Level 4:** 13–14 marks. Some evaluative points are made, based on analysis of the business situation without arriving at a conclusion/judgement. **Mid Level 4:** 15–17 marks. A judgement is attempted with some effort to show how the corporate strategy was either right or wrong, for *LEGO* **High Level 4:** 18–20 marks. Convincing evaluation on the extent to which the corporate strategy was either right or wrong, for *LEGO* Several strands may be developed; the answer is clear and articulate leading to a convincing conclusion. **N.B. if evaluation not in context, limit to Level 3.** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.*	e.g. since the decision in 2008 to return production back to Europe and their own control the *LEGO Group* fortunes have improved. e.g. the growth in revenue from 2008 to 2013 also resulted in a growth in the total profit for the year figures in the same period. e.g. not only have the figures for revenue and profit for the year grown, the profit for the year margin has also improved, although it shows signs of plateauing between 2012 and 2013. e.g. since moving production back to its own control the quality of product has improved with zero re-calls e.g. there is now a 'huge global demand' for *LEGO* products (Evidence D) which is now supplied from its production facilities in Denmark/Mexico/Czech Republic/China/Hungary e.g. all of this suggests that the *LEGO Group* made the right strategic decision in moving production back to its own control.

Question Number	Question	
7	While planning changes to production, the *Lego Group* will have made contingency plans. Evaluate the usefulness of contingency planning to the *LEGO Group* when making these changes.	20 marks

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of what is meant by contingency planning. *Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.*	e.g. when a business conducts a risk assessment before making changes, and put in place plans which will be ready in case the initial plan does not work as expected. e.g. when a business makes ready and is prepared for all eventualities, to protect itself from disasters or shocks.
2	3-6	Application must be present, i.e. the answer must be contextualised and applied to the *LEGO Group*. **Low Level 2:** 3–4 marks. Candidate makes a basic comment on the decisions and how the *LEGO Group* was affected **High Level 2:** 5–6 marks. Candidate makes a detailed reference to the decisions and how the *LEGO Group* was affected *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. contracting-out production to the other side of the world. e.g. Evidence F notes that the collaboration with *Flextronics* did not meet initial expectations. e.g. the return to own production, Evidence F, has a number of risks attached such as the upheaval of moving production from Singapore to Denmark, Czech republic, Hungary, and Mexico. e.g. new production facilities are likely to be fraught with teething problems.

Level	Mark	Descriptor	Possible content
3	7-12	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of the contingency planning/no contingency planning, during period of changing production. **Low Level 3:** 7-9 marks. Candidate will attempt a very basic analysis, making general points, on one or two elements from evidence. **High Level 3:** 10-12 marks. Candidate makes a more detailed analysis, making specific points, on elements drawn from across the evidence. **N.B. if analysis is not in context, limit to Level 2.** *Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.*	e.g. the objective to reduce costs (Evidence E) may or may not be achieved by moving production, so contingency plans will be necessary in case things did not work as planned. e.g. new production facilities in Denmark, Czech republic, Hungary, Mexico may reduce costs per unit, but the set-up and moving costs will have been high, and contingency planning, in the form of an emergency/reserve budget will have been prudent. e.g. relying on production in developing countries could result in external shocks such as war/revolution which would affect production, so the *LEGO Group* would need contingency planning to maintain supply in the event of this kind of problem. e.g. production was moved from the high cost northern European area and moved to low cost areas such as Mexico, this could change as manufacturing plants in the low cost countries seek to maintain quality of employees by paying them more, if they are constantly seeking low cost production the *LEGO Group* will need to have plans for moving to other low cost countries which emerge.

Level	Mark	Descriptor	Possible content
4	13-20	Evaluation must be present and in context, based on the decisions made by the *LEGO Group* between 2004 and 2008 which saw production being first outsourced and then brought back in-house. Evaluation must be present and in context, showing the extent to which contingency planning would have been useful for the *LEGO Group*. **Low Level 4:** 13-14 marks. Some evaluative points are made, based on the *LEGO Group* changes in production without arriving at a conclusion/judgement. **Mid Level 4:** 15-17 marks. Candidate gives a range of arguments, drawn from different pieces of evidence to show how contingency planning would have been/would not have been useful to the *LEGO Group*. **High Level 4:** 18-20 marks. Candidate gives a wide range of arguments, to support arguments as to whether the decisions made by the *LEGO Group* were good or bad for the business. Convincing evaluation on the usefulness, or not, of contingency planning for the *LEGO Group*. Several strands may be developed; the answer is clear and articulate leading to a convincing conclusion **N.B. if evaluation is not in context, limit to Level 3** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.*	e.g. contingency planning has an opportunity cost in terms of the time and resources involved and may never be needed. e.g. if too much time is spent on contingency planning the present costs may outweigh future benefits. e.g. the costs associated with contingency planning may outweigh cost of the problem that they are designed to avoid. e.g. contingency planning may be in place for more common problems, such as political unrest in foreign markets, but cannot cover all eventualities. e.g. the scale, scope and unusual nature of the *LEGO Group* moving production from its historic home base, Denmark, to a sub-contractor in Singapore, and then moving it back to new production facilities in Denmark, Czech republic, Hungary, Mexico was such a high risk for a major brand that that contingency planning may have been of little use as the scale of the (potential) risk i.e. its entire business, was so great.

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