



Rewarding Learning

ADVANCED

General Certificate of Education

2019

Business Studies

Assessment Unit A2 1

assessing

Strategic Decision Making



ABU11

[ABU11]

FRIDAY 24 MAY, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.

You may use a calculator.

Answer **all** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions **2, 3, 4** and **5**.

Quantitative skills will be assessed in Questions **3** and **5**.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets printed down the right-hand side of the pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Study the information in the case study below and answer all the questions that follow.

Ntry Ltd

Ntry Ltd is a family owned business, located near Belfast, which manufactures a range of internal and external wooden doors. It uses several types of wood, all bought from suppliers who use only sustainable sources. The business was originally set up as a partnership involving two brothers – Jack and John Green. In 2012, following steady growth in sales, it became a private limited company mainly to raise additional capital aimed at facilitating implementation of a growth strategy. However, the brothers are the majority shareholders, each holding 35% of the share capital. The two brothers work in the business, Jack as the Managing Director and John as the Marketing Manager.

Ntry Ltd currently has over 60 employees and operates from a spacious, purpose-built factory equipped with modern machinery. It sells just over 80% of its output to large DIY stores in the UK and Ireland with the remainder sold mainly to French and Spanish retailers.

John has just completed extensive market research and has concluded that the time is now right for Ntry Ltd to undertake a major expansion in order to meet an expected increase in demand in the UK market. He has proposed that Ntry Ltd should purchase 10 new production machines costing £1.1m each, all fully automated and computer controlled. These would enable the business to significantly increase its sales. However, there would be significant costs involved for the retraining of operatives.

By expanding in this way, John also expects the company to become more efficient by being able to achieve economies of scale. He has carried out an investment appraisal on his proposal using the Net Present Value method. Results of his analysis are shown in **Table 1** below.

Table 1: Net Present Value Estimates

Year	Net Cash Inflows (£s)	Discount Factor 5%	Present Value (£s)
Year 1	1,500,000	0.952	1,428,000
Year 2	2,000,000	0.907	1,814,000
Year 3	3,500,000	0.864	3,024,000
Year 4	4,000,000	0.823	3,292,000
Year 5	3,500,000	0.784	2,744,000
Year 6	1,500,000	0.746	1,119,000
Year 7	750,000	0.711	533,250
	Total Present Values		13,954,250
	Initial Investment 10 × £1.1m		(11,000,000)
	Net Present Value		2,954,250

John is very keen for the investment to go ahead as he wants Ntry Ltd to be prepared to meet the challenges of a dynamic, expanding market. He feels that the company did not respond quickly enough to a recent advertising campaign by a foreign competitor and does not want to be unprepared again.

Jack requests the company accountant to provide him with some performance ratios for the years 2017 and 2018. These are shown in **Table 2** below.

Table 2:
Performance Ratios relating to Ntry Ltd for the Financial Years ended 31 December

Profitability	2018	2017
Gross Profit percentage	35%	33%
Net Profit percentage	12.4%	12%
Return on Capital Employed	9.1%	8.2%
Liquidity		
Current Ratio	1.4:1	2.1:1
Gearing Ratio	52%	37%
Shareholder Returns		
Earnings per Share	16p	15p

Although Jack does want Ntry Ltd to maximise its market share and profits, he is worried about whether the business can currently afford to proceed with John's proposed £11 m expansion strategy. The business has had to rely more on bank loans over the last few years, a consequence of profits being paid out to shareholders in the form of dividends rather than being ploughed back into the business. Family shareholders have been very happy with their returns of 16p per share, which far exceed the current bank interest rates for savings of 0.05%.

John feels that Ntry Ltd needs to undertake contingency planning due to uncertainty within the industry over the survival of one of its main wood suppliers. He also foresees employee opposition to the introduction of the new machines.

John was disappointed at the time that his brother Jack did not share his concerns about the need to engage in contingency planning as a priority. Jack stated that he was too busy to oversee the setting up of such a system, that it was more important to spend time on the effective day-to-day running of the factory. At the time, Jack observed that the company had been gaining one new customer per month, over a period of two years, and had taken upon himself to ensure that their needs had been met.

Traditionally, there has been a culture of swift decision making within Ntry Ltd – the result of the Green brothers having the balance of power to implement what they wanted. However, this has led to employees claiming that they are not being listened to, hence rules and procedures were not being followed. Several disputes are currently ongoing relating to enforced new working practices and last year there was a significant increase in the rate of staff turnover, from 5% in 2018 compared to 1% reported in 2017.

John envisages employees being reorganised from existing functional departments into various teams, each of whom would be given specific responsibility for new projects. Jack Green acknowledges that this matrix structure might motivate employees better, but is concerned about losing control to project managers in the business. John has assured him that implementing a system of Key Performance Indicators (KPIs) such as new customers per month, output per employee or product reject rate, would alleviate his concerns.

John recently attended a conference on “Understanding Employee Behaviour”. The conference presented Charles Handy’s model of Organisational Culture and how the model could be applied to businesses to achieve their objectives and targets. John is keen to address all Handy’s elements, especially power and task issues during his expansion plans.

Source: Examiner

- 1 (a) Explain the term Key Performance Indicators using an example from Ntry Ltd to illustrate your answer. [4]
- (b) Explain how the “power” and “task” elements of Handy’s model of organisational culture might be applied within Ntry Ltd. [6]
- 2 Evaluate the need for contingency planning within Ntry Ltd. [15]
- 3 Evaluate the performance of Ntry Ltd during 2018 using appropriate performance ratios from **Table 2**. [20]
- 4 Evaluate the implications of a growth strategy for Ntry Ltd. [20]
- 5 Evaluate the usefulness of the Net Present Value method of investment appraisal as an aid to decision making in Ntry Ltd. [25]

THIS IS THE END OF THE QUESTION PAPER

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