



**Pearson LCCI
Level 3 Certificate in Business
Principles and Practice
(ASE20074)**

**Annual Qualification
Review
2014/2015**

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INTRODUCTION

The annual qualification review provides qualification-specific support and guidance to centres. This information is designed to help teachers preparing to teach the subject and to help candidates preparing to take the examination.

The reviews are published in September and take into account candidate performance, demonstrated in both on demand and series examinations, over the preceding 12 months. Global pass rates are published so you can measure the performance of your centre against these.

The review identifies candidate strengths and weaknesses by syllabus topic area and provides examples of good and poorer candidate responses. It should therefore be read in conjunction with details of the structure and learning objectives contained within the syllabus for this qualification found on the website.

The review also identifies any actual or proposed changes to the syllabus or question types together with their implications.

PASS RATE STATISTICS

The following statistics are based on the performance of candidates who sat this qualification between 1 October 2014 and 31 August 2015.

Global pass rate 31.6%

Grade distributions of candidates achieving pass or higher

Pass 16.7%

Merit 12.0%

Distinction 2.9%

* This figure excludes absences on the day of the exam

GENERAL STRENGTHS AND WEAKNESSES

There were some notable improvements in the candidates' understanding and knowledge of the subject matter. In Series 3 2015 (June 2015) in particular, many candidates understood the features of a competitive market, the needs and interests of shareholders, motivation, CAD and CAM and matrix structures.

There was a marked difference in performance between those questions which required factual recall and those which required the candidates to establish a link between business principles and business practice. For example, in Series 3 2015 Question 1(c)(i) on the needs and interests of shareholders was generally well-answered but the 'linked' question – 1(c)(ii) which required candidates to explain why shareholders might support a strategy which increased the level of retained profits, proved more difficult since it required an understanding of the relationship between forgone distributed profits and the long-term development of a business, along with the potential for higher profits matched with higher dividends and an increase in shareholder value.

Overall the paper provided the opportunity to differentiate between those candidates who could recall facts – mission statement, bad debts, business objectives CAD, CAM, customer retention, labour turnover – and those candidates at the higher end of the ability range who were able to link business principles with business practice – BCG matrix (principle) and business strategy (practice); leadership style (principle) and corporate culture (practice); retained profits (principle) and business strategy (practice); opportunity cost (principle) and economic activity (practice).

Previous Reports have stressed the need for candidates to focus on the command words used in the questions since this will give them a steer as to the level of detail required in their response. For example, a question which requires candidates to 'identify' will require less detail than one which asks for an 'evaluation'. It is pleasing to note that some Centres have taken on board this advice and some candidates are including more detail in their answers. Candidates should also pay attention to the specific instructions in the question, particularly relating to the number of points required in their response. In Series 3 2015 for example, Question 1(a) asked candidates to describe **two** main features of a competitive market. Some candidates simply *listed* two correct features, for example 'demand and supply' and 'freedom of entry', whilst others correctly listed *more than* two features. Whilst candidates gained marks for correctly identifying the features, they did not obtain maximum marks because the question required them to '*describe*' two main features. Marks lost in this way can make the difference between passing and failing for marginal candidates.

Questions relating to the financial function continue to be challenging for the majority of candidates. For example, in Series 3 2015 Question 3(c) required candidates to describe four key features of management accounting. The majority of candidates approached this question by describing the features of a profit and loss account, the balance sheet and the cash flow statement. Whilst many candidates' responses in respect of these financial statements were correct

they were not awarded any marks since the question called for them to consider aspects such as pricing strategy and investment appraisal and how management accounting assisted decision-making within the business. Similarly, in Question 5 Series 3 (June 2015), although candidates were familiar with the terms customer retention and labour turnover, they were less familiar with '*bad debts*'; their understanding of '*profit margins*' was particularly weak.

Centres are again reminded that students should be recruited with integrity since there were examples of scripts presented from candidates who were either not adequately prepared for the examination or whose ability was not at the required level and for whom a lower level introductory course would have been more suitable.

TEACHING POINTS BY SYLLABUS TOPIC

Topic 1: Business and its environment

In 2014/15 a number of areas of this topic were tested including features of the competitive economy, the needs and interests of shareholders, the global market and corporate social responsibility (CSR).

In Series 4 2014 Question 1, candidates understood the concept of stakeholders and were also able to discuss the influence of cultural differences in other countries relating to business practices. However, although most candidates understood the concept of CSR they were less confident when explaining its importance in a competitive market economy. For example, few candidates were able to describe how CSR can influence corporate image and identity and the purchasing decisions of consumers.

In Series 2 2015 Question 1 candidates understood the concept of the global economy and its influence on business practices. However, as in the previous series CSR was less well-understood.

In Series 3 2015 Question 1 most candidates understood the concept of opportunity costs and were able to explain the term with reference to some good examples. Some candidates were also able to describe the difference between explicit and implicit costs with reference to opportunity costs. However very few candidates were able to explain the relationship between opportunity cost and economic activity – particularly from the perspective of the producer.

Topic 2: Business Organisation, Management and Culture

In 2014/2015 questions were set covering the following aspects of the topic: motivation, leadership styles, the features of organisational structures and Government policies.

In Series 4 2014 Question 2 candidates had a good understanding of the features of a matrix structure and its advantages to the business. They were also able to use examples to explain the concept of delegation; however many candidates were unable to differentiate between authority and responsibility with many using the same example and definition to explain both terms.

In Series 2 2015 Question 2 many candidates misread the question and instead of looking at the original reasons why the Government may have taken over a private sector bank, chose instead to explain why the Government would want to build a new airport. This is a good example to use with students of the importance of making sure they read the scenario and understand what the question is asking them to do.

In Series 3 2015 Question 2 most candidates had a clear understanding of motivation and its importance in the workplace. Some candidate chose to describe Maslow's Theory of Motivation which was not required. Leadership styles were understood although the link with corporate culture was not well-established by the majority of candidates. The role of profit sharing was

understood although the question required candidates to assess the effectiveness of profit sharing and few candidates identified any negative features such as the negative impact it may have on team dynamics if one team considers their contribution to generating profits is greater than others.

Topic 3: Operational and Financial Management of Business

In 2014/2015 the areas covered in this topic included working capital, CAD, CAM, accounting functions and terminology, economies of scale and sources of finance.

In Series 4 2014 Question 3 most candidates understood the need for businesses to keep financial records. Cash flow was understood by the more able candidates. Most candidates struggled when trying to describe net profit as a percentage of sales which meant that they then found it difficult to identify how it could be used to assess the financial position of a business. At Level 3 candidates, need to go beyond a basic understanding of gross and net profit and understand the notion of profitability with reference to profit margins – how much profit is generated, on average, buy one additional unit of sales. In doing so they will then be able to understand that, when comparing two businesses, aggregate profit levels will not provide a full picture of their respective performance in the market place.

In Series 2 2015 Question 3 candidates were able to describe two examples of internal economies of scale but the section of the question which required them to look at bank loans and leasing generated few good answers. The question called for how these sources of finance could address the needs of the business described in the scenario. Few candidates attempted to do this choosing instead to write a short description of the two sources of finance instead of looking at aspects such as cash flow, the purchase of hi-tech equipment and the impact on the company's balance sheet in respect of asset value and depreciation.

In Series 3 2015 Question 3 many candidates confused the management accounting function with the financial accounting function and, consequently, did not achieve any marks for this section. Many candidates therefore spent time describing the features of the profit and loss account and the balance sheet which were largely irrelevant to the question.

Topic 4: Introduction to Business Strategy and Planning

In 2014/2015 questions were set covering the following aspects of the topic: strategic planning, business planning models, mission statement and business objectives.

In Series 4 2014 Question 4 candidates were able to describe the features of a franchise but their understanding of strategic planning was weak with many being unable to identify its long-term nature and how it provided the basis for establishing business objectives, targets, key result areas and key performance indicators. Although some candidates were able to describe Porter's Five Forces Analysis, few were able to explain how such an analysis could contribute towards the development of business strategy.

In Series 2 2015 Question 4 candidates clearly understood the structure of a business plan and were able to identify the contents of such a document. Similarly, as in previous Series, candidates were able to describe the features of a franchise, however most candidates struggled to explain the difference between an internal and external strategic analysis.

The syllabus divides the Boston Consulting Group (BCG) Matrix into two distinct assessment criteria – the features of the BCG matrix and how the matrix can be used to inform the development of business strategy.

In Series 3 2015, Question 4 required the candidates to consider business strategy however many candidates spent too much time describing the features of the BCG Matrix without touching upon business strategy and linking this to the scenario.

Topic 5: Measuring and Improving Business Performance

In 2014/2015 the areas covered in this topic included management information, benchmarking, staff training, financial and non-financial performance indicators and total quality management (TQM).

In Series 4 2014 Question 5 most candidates were able to distinguish between financial and non-financial performance indicators. The impact of staff training to improve business performance was understood by most candidates, the impact of benchmarking less so. The functions of a management information system (MIS) were not understood by many candidates and when teaching this part of the syllabus it is suggested that MIS functions are linked to a specific functional area such as finance, marketing or human resources.

In Series 2 2015 Question 5 too many candidates approached total quality management in general term focusing upon the benefits of a quality system *per se* rather than focusing on the features of TQM and how it could impact on the business's performance for example, the company in question manufactured computing equipment so the candidate could have considered issues such as productivity along with its relationship with the suppliers of components as well as the impact on reliability and customer retention and loyalty.

In Series 3 2015 Question 5 tested the candidates' knowledge and understanding of financial and non-financial performance indicators. In general candidates have a better understanding of non-financial performance indicators, their understanding of financial terminology being less-well developed. In particular their understanding of the notion of profit margins and their importance in measuring financial performance is particularly weak. It is suggested that teachers focus on this specific performance measure since it can be referred to in a variety of contexts across a number of different topic areas and questions thereby gaining candidates additional marks by providing evidence of a sound understanding of business and the environment within which businesses operates.

EXAMPLES OF CANDIDATE RESPONSES

Series 3 2015 – Question 2

The Managing Director of Practical Designs plc is revising the company's human resources strategy with the aim of increasing employee motivation. This change may have an impact on the company's corporate culture. The strategy will include both financial and non-financial motivators.

- (a) Explain the importance of motivation in the workplace to Practical Designs plc. (4)
- (b) Explain how different leadership styles can influence the corporate culture of Practical Designs plc. (8)
- (c) Assess the effectiveness of profit sharing as a motivator. (8)

LOW RESPONSE:

Examiners Response

In part (a) the candidate has provided a useful explanation of the impact of different approaches to improving motivation in the workplace. Business terminology is used to enhance the answer e.g. company image, production, targets and efficiency.

In part (b) the candidate has not explained in any detail the features of the leadership styles they have identified and how they influence corporate culture.

In part (c) the candidate has repeated two of the points, both of which are concerned with aligning employees' interests with those of shareholders. There is little in the way of 'assessment' which is required in the question.

2a) The importance of motivation in the workplace to Practical Designs plc as follows:

Motivation strategy can be in financial and non-financial.

1) Improve productivity and increase profits for the company.

2) Smooth running

1) Quality of work (Non-Financial Motivator)

- increase productivity, eg. less supervision, better work flow,

- create company's image and reputation.

- reduce redundancy work e.g. dedication, committed attitude.

(increase work ~~sp~~ production speed, thereby increase efficiency)

2) Performance-related Pay (Financial Motivator)

Encourages employees to work harder towards the company mission and objective. If she/he meets the job target set by the Director (HR) and deserves a financial reward (eg. promotion, salary increase, bonus), he will be rewarded which in turn, makes him/her to be more motivated.

2b) The different leadership style can influence the corporate culture of Practical Designs plc:

(1) Participative/Delegative leadership - allows members to make decisions, thus employees feel valued.

(2) Autocratic leadership: this type of leadership is too authoritative that leads to a very fearful working environment, so employees feel have no sense of belonging and valued, thus culture here is not so acceptable.

2c) Effectiveness of profit sharing a motivator follows.

(1) align to shareholders interests.

(2) provides opportunity for employees to participate in writing a number of shares at a fixed price at one time in the future. Thus, employees are one of the shareholders.

(3) Overcome employees' and shareholders' conflicts of interests.

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MEDIUM RESONSE:

Examiners Response

In part (a) the candidate has made some good points which relates motivation to aspects such as efficiency, effectiveness, labour turnover and customer service.

In part (b) the candidate has provided a good explanation of the main types of leadership style including their advantages and disadvantages however the impact of leadership styles on corporate culture is less well-developed so that aspects such as values and creativity are not included in the response.

In part (c) the candidate touches upon aspects such as motivation, business performance (increase in sales and profits) and employee satisfaction but overall this section lacks an assessment of profit-sharing as a motivator.

Q2a)	Explain the importance of motivation in the workplace to practical design etc.
	- Employee satisfaction & motivation is important to the business.
	the employee our ^{or} ^{1 of}
[REDACTED]	efficiency, effectiveness of their ^{their} attitude greatly affect business.
	Satisfy Satisfy Motivated staff will improve on the impact on the
	efficiency of the business, customer service and the rate of labour turnover
	which will therefore reduce after costs such as hiring, training training of new
	employees. 4
Q2b)	Explain how different leadership styles can influence the corporate culture of
	Pr ca designs P.C.
	- Autocratic leaderships
	Autocrat c have authority & power over staff and hand
	making on his own.
	S speeds up the making decision as this leader do not consult the
	members before making decision. The disadvantage of a autocratic leader is that
	the employee are not able to participate in decision-making. which will result
	in the morale & motivation of the employees. Employees are stressful and there
	won't not be much ideas or changes in the long run.
	- Delegative leaderships.
	Delegative leader will make the decision with the team and will then support
	and supervise them. This slow down decision making process as the leader
b	require to consult the tea before making any decision. employees would
	rely on their leaders. The advantage of a delegative leader is that
	the tea ember are able ^{to} , participate in decision
	making and results in the employees more motivated and more innovated.
	Employees are energised and
	- Democratic Democratic Leaderships.
	Democratic leaders allows the team to make their own decision and give them
	the freedom to ^{to} allow the employees to be
	independent indep innovative independence.
	No supervision of the teams may lead project going off ^{hand} , deadline
	not able to meet the deadline and high chances of the making
	mistakes in the job.

2c) Assess the effectiveness of profit sharing as a motivator.

- Profit sharing is giving the employees part of the profit earned at the end of the accounting year. Compare to other financial motivator this scheme ^{also} ^{to} help motivate the employee by letting them share the net profit earned. Employees would thrive harder to increase the yearly sales. ^g ^{motivator} ^{busine} ^d ³
up ^{perfo} ^{staff. B} ^{epend} ^{the}
employee performance and the management appraisal. But compare profit sharing scheme. Employee will definitely get a share if the business is performing.
This motivator ^y ^g ^{employee} ^{satisf} ^{satisfaction} ^{profi}

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HIGH RESPONSE

Examiner Response

In part (a) the candidate shows an excellent understanding of the context of motivation in the workplace. Business terminology is used to enhance the answer and the candidate sets the response into context by explaining that employees are one of the productive factors involved in the production of goods and services.

In part (b) the candidate identifies the main types of leadership styles and clearly shows their relationship with corporate culture. In addition the candidate recognises that some aspects of a positive leadership style may have a detrimental impact on corporate culture. For example in respect of a laissez-faire approach, the candidate notes that it may negatively impact on corporate culture if the employee lacks the experience and confidence to complete a given task. Similarly, in terms of autocratic leadership the candidate provides an overview of both its benefits and drawbacks in respect of corporate culture. Implicit in the candidate's response is an understanding of corporate culture being made up of aspects such as corporate values and creativity.

In part (c) the candidate clearly understands the positive impact of profit-sharing on motivation however the question called for an assessment of profit sharing and the candidate has not identified any potential negative aspects of this motivational strategy.

2.) The importance in workplace would be as follows

- ~~Motivated emp~~ Employees are one of the production factors involved in producing goods and services in order to fulfill the company's objectives. Motivated employees will work harder to produce high quality products to enable the company to better achieve their objectives,
- Motivated employees will lead to an efficient workplace, as employees feel a sense of belonging ~~will work hard to achieve the~~ will better understand the company's business objectives. 4

b) Corporate culture may be influenced by different leadership styles as follows:

- Autocratic style, in which the leader makes decisions without consultation or help from employees is useful when prompt decisions have to be made such as the signing of an important contract or when ~~a task has to be completed~~ there is no room for error in the completion of task. However, it may affect corporate culture negatively as employees may be fearful and ~~dem~~ demotivated;
- Democratic style, in which the leader gives the employees to give their input and advice ~~when~~ when attending to a matter. It may affect corporate culture positively as it motivates employees. However, work may be delayed ~~to~~ to delayed ~~the~~ longer the decision ing; and
- 8 • Laissez-faire style, in which the leader delegates ~~emp~~ employees to complete tasks given. Similar to the democratic style, it will positively affect corporate culture as employees be motivated ~~by~~ ~~from~~ when they are given by the job enrichment. However, it may backfire if the employee lacks the experience or confidence to ~~to~~ complete the task, and the leader will still be accountable for it.

A good leader will exhibit all three styles of leadership.

c) Profit sharing is a financial motivator. Financial motivators are strategies ~~linked to~~ linked to monetary rewards to encourage employees to work hard. Profit sharing that employees share the company's profits in the form of bonuses. ~~They will~~ will motivate employees. Employees are interested in fair wages and salaries will rat them to work hard so that the company will more profit. It is ~~not~~ relatively easy to measure the effectiveness of profit sharing as effectiveness is the extent to which a target has been achieved. If ~~all~~ many employees are receiving bonuses, that means that the ~~the~~ target

2. ~~It~~ has been met greatly and at the employees highly motivated. This
make profit sharing effective motivator.

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~~18~~ 18

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