
BUSINESS**9609/33**

Paper 3 Case Study

May/June 2017

MARK SCHEME

Maximum Mark: 100

Published

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This document consists of **12** printed pages.

Question	Answer			Marks																
1	<p>Analyse the benefits to PV of outsourcing the manufacture of components for its shoes.</p> <table border="1" data-bbox="268 342 1382 846"> <thead> <tr> <th data-bbox="272 342 400 427">Level</th> <th data-bbox="403 342 727 427">Knowledge 3 marks</th> <th data-bbox="730 342 1050 427">Application 2 marks</th> <th data-bbox="1053 342 1377 427">Analysis 5 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="272 432 400 611">2</td> <td data-bbox="403 432 727 611">3 marks: Two or more relevant points made about outsourcing and/or benefits</td> <td data-bbox="730 432 1050 611">2 marks: Points made are applied to PV</td> <td data-bbox="1053 432 1377 611">4–5 marks: Good use of theory to explain benefits of outsourcing</td> </tr> <tr> <td data-bbox="272 616 400 795">1</td> <td data-bbox="403 616 727 795">1–2 marks: One or two relevant points made about outsourcing and/or benefits</td> <td data-bbox="730 616 1050 795">1 mark: Some application to PV</td> <td data-bbox="1053 616 1377 795">1–3 marks: Some use of theory to explain benefits of outsourcing</td> </tr> <tr> <td data-bbox="272 799 400 842">0</td> <td colspan="3" data-bbox="403 799 1377 842">No creditable content</td> </tr> </tbody> </table> <p data-bbox="268 875 1382 976"><i>Note to examiners:</i> Disadvantages should not be rewarded Benefits should relate to PV as a company, not e.g. to employees or other stakeholders</p> <p data-bbox="268 1003 572 1034">Answers could include:</p> <ul data-bbox="268 1066 1382 1444" style="list-style-type: none"> • Outsourcing is transferring functions or tasks to another organisation • PV could increase flexibility of operation and concentrate on the manufacture of shoes, achieving higher quality. • Lower operating costs might be achieved by drawing on specialists, enabling PV to shed higher cost elements of production and gain the economies of scale that specialists might have. • Lower inventory levels could be held. • Higher quality may result as specialists supply. • Savings from less capital needed. • Expertise from other businesses with more experience becomes available for PV to draw on. <p data-bbox="268 1473 416 1505">Application</p> <ul data-bbox="268 1536 1382 1951" style="list-style-type: none"> • Ref to shoes / components only, without linking to other production point – 1 app mark as in stem of question • PV might outsource supplies of eyelets, laces, dyeing leather, packaging • Readily accessible network of component suppliers / efficient supply chain for shoe materials and components • Implications for shoe production, including mention of specifics, such as laces, leather • Reference to how outsourcing might help Pedro’s high inventory problems and also 95% capacity utilisation • Might further outsourcing help with shoe defect problems? • Expertise from other businesses with more experience of the shoe market becomes available for PV to draw on. 			Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks	2	3 marks: Two or more relevant points made about outsourcing and/or benefits	2 marks: Points made are applied to PV	4–5 marks: Good use of theory to explain benefits of outsourcing	1	1–2 marks: One or two relevant points made about outsourcing and/or benefits	1 mark: Some application to PV	1–3 marks: Some use of theory to explain benefits of outsourcing	0	No creditable content			10
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0	No creditable content																			

Question	Answer	Marks
2(a)(i)	<p>Refer to the table in Appendix 1. Calculate:</p> <p>seasonal variation in 2015 Quarter 1.</p> <p style="text-align: center;">$\\$30\text{m} - 21.375 = \\$+8.625\text{m}$</p> <p>\$m not required</p>	1
2(a)(ii)	<p>average seasonal variation in Quarter 4.</p> <p>$\\$m(-1.375 - 1.125 - 1.875) / 3 = \\-1.458 ($\\$-1.46\text{m}$ 2 decimal places or $- 1.5$)</p> <p>\$m not required</p>	1
2(b)	<p>Refer to the table <u>and</u> graph in Appendix 1. Calculate PV's forecast sales for Quarter 3 in 2017.</p> <p>Predicted trend from inspection of graph: $\\$23.8\text{m}$ (1 mark) (error margin 23.75 – 23.85)</p> <p>Add average seasonal variation: $\\$-6.125\text{m}$ (1 marks)</p> <p style="text-align: right;">$= \\$17.675\text{m}$ (3 marks)</p> <p>Accept 17.68 or 17.7 (3 marks) (error margin 17.625 – 17.725)</p> <p>\$m not required OFR</p> <p>Up to 2 marks can be awarded for:</p> <ul style="list-style-type: none"> • Logical attempt to predict trend using the table (e.g. by considering the average of the Quarter 3s) (1 mark) • Correct use of seasonal variation (1 mark) 	3

Question	Answer				Marks
2(c)	Discuss the usefulness of sales forecasts to PV when making marketing decisions. Refer to your result from 2(b).				12
Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks	
2	2 marks Two or more relevant points made	2 marks Application of two or more points to PV	3-4 marks Good use of theory to answer question	3-4 marks Good judgement shown	
1	1 mark One relevant point made	1 mark Some application to PV	1-2 marks Some use of theory to answer question	1-2 marks Some judgement shown	
0	No creditable content				
<i>Note to examiners:</i> No reference to result from 2(b) limits AN and EVAL to L1					
Answers could include:					
<ul style="list-style-type: none"> • Methods of forecasting sales • Sales forecasting using Time Series Analysis takes account of seasonal variations and gives a realistic prediction. • Forecasting enables planning, this method fits sales pattern well i.e. • PV faces clear seasonal variation and consistent past trends so it is reasonable to assume that the future will be similar, making forecasting valuable for planning. • Case indicates possible changes to the market – buyer’s comments, change in buyers’ requirements, increasingly fragmented relationships with buyers, possibility of direct selling, thus decreasing value of forecasting. • May be advisable to introduce an element of probability to the forecasts – what if analysis. • How forecasts contribute to market planning and production planning • If Pedro is certain the forecast indicates future success PV may not make the changes that other evidence indicates are necessary. 					
Application					
<ul style="list-style-type: none"> • Forecast only refers to export market, not 20% domestic sales • Multinational shoe retailer buyers, takeovers by larger shoe manufacturers • Possible more efficient working methods may lower costs • Possible effects of investment in new machinery • Use of graph to indicate changes in pattern (lower growth rate in 2016) • Forecast shows increased sales • PV faces clear seasonal variation and consistent past 					
Evaluation					
<ul style="list-style-type: none"> • More reliable than simple forecasting or just projecting a trend • Relies on future events behaving as in past patterns so may not be reliable • Other evidence needs to be taken into account e.g. prediction of competitors’ behaviour, likely future government actions, and / or economic changes • Forecast only refers to exports, information on domestic market needed. 					

Question	Answer				Marks
3	Discuss how PV might change the way it organises production to achieve its objectives.				16
Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks	
2	2 marks At least two relevant points made	2 marks Good application	4-6 marks Good use of theory to answer question	4-6 marks Good judgement shown with supporting analysis	
1	1 mark One relevant point made	1 -2 marks Some application to PV	1-3 marks Some use of theory to answer question	1-3 marks Some judgement shown	
0	No creditable content				
<p><i>Note to examiners:</i> This question is about the organisation of production. Answers that focus on improving motivation must be linked to production objectives.</p>					
<p>Answers could include:</p>					
<ul style="list-style-type: none"> • Objectives are higher quality (currently high defect rate), less delays (currently 60% delivery time met), lower operating costs, reduce wastage to 5%, reduce inventory costs. • Suggestions might focus on leaner production and shift from quality control to quality assurance/TQM or similar plus: • Faster order led production following closer liaison with buyers (JIT) • Lower inventory (leather) held, linked to orders and clear quality requirements on suppliers. • Cell production. • Benchmarking. • Increased training for employees. • Quality circles. • New machinery. • Accept reference to flow as alternative 					
<p>Application</p>					
<ul style="list-style-type: none"> • Reference to current problems or possible objectives (currently high defect rate, 60% delivery time met, wastage at 5%). • Present methods are assembly line, single task workers, final stage quality checks, high inventory. 					
<p>Evaluation</p>					
<ul style="list-style-type: none"> • Changes will take time money and resources of expertise to plan. Are these available? Will they achieve the required improvements? • Will the changes be in time to prevent loss of orders? • Does Pedro have the commitment to change what he has been his successful business? • What steps are the increasing competition taking? • Will the cost of the changes be covered by any improvements? • A supported recommendation. 					

Question	Answer	Marks
4(a)(i)	<p>Refer to Appendix 2. Calculate:</p> <p>payback period.</p> <p>4.25 years or 4 years 3 months (2 marks) Some attempt e.g. cumulative net cash flows (1 mark)</p>	2
4(a)(ii)	<p>accounting rate of return over the 5 year life of the investment.</p> <p>Net cash flows / years as % = $\frac{2.3 - 2}{5} \times 100 = \frac{0.3 \times 100}{5} = 6\%$ (or 0.06)</p> <p>or</p> <p>Average annual net cash flow – annual depreciation/initial cost as % = $0.46 - 0.4 = 0.06 / 2 \times 100 = 3\%$ (or 0.03)</p> <p>or</p> <p>Sum of Net cash flow each year – average depreciation/initial cost as % = $0.1 + 0.1 + 0.1 + 0 + 0 = 0.3 / 2 \times 100 = 15\%$ (or 0.15)</p> <p>Some attempt with partially complete correct working (2 marks) Some attempt / correct formula (1 mark)</p>	3
4(a)(iii)	<p>net present value over the 5 year life of the investment.</p> <p>NPV = $-\\$0.235\text{m}$ (accept $-\\$0.24\text{m}$ or $-\\$0.23\text{m}$) (2 marks)</p> <p>Sum DCF over 5 years = $\\$1.765\text{m}$ (accept $\\$1.77\text{m}$ or $\\$1.76\text{m}$) (1 mark)</p> <p>Some reasonable attempt e.g. mistake in calculation (1 mark)</p> <p>\$m not required</p>	2
4(b)	<p>Refer to Appendices 2 and 3. Calculate the discounted payback period if the annual net cash flows of \$0.4m continue after year 5.</p> <p>Just over 6 years / 6.054 years (accept 6 years) (2 marks)</p> <p>Use of DCF or some reasonable attempt e.g. 6.647yrs (1 mark)</p> <p><i>Examiner Note:</i> Example of Full Calculation (details not required for 2 marks):</p> <p>NPV over 5 years + DCF in year 6 = $-\\$0.235 + (0.56 \times \\$0.4\text{m}) = -\\$0.011\text{m}$ Therefore NPV reaches zero in just over 6 years</p> <p>Year 7 DCF for whole year: $0.51 \times \\$0.4\text{m} = \\0.204m So, Year 7 DCF per day: $\\$0.204\text{m} / 365 = 0.00056$</p> <p>Therefore, answer is 6 years + $(0.011 / 0.00056) = 6$ years 20 days. (6yrs 0.647mths)</p>	2

Question	Answer				Marks																																				
4(c)	Refer to your answers to 4(a), 4(b) and other relevant information. Recommend whether PV should invest in new machinery. Justify your answer.				12																																				
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<p><i>Note to examiners:</i> Own figure rule from 4(a) and 4(b) applies L1 AN and EVAL if only use results or only use other information.</p>																																									
<p>Answers could include:</p>																																									
<table border="1"> <thead> <tr> <th data-bbox="256 985 550 1084">Initial investment cost</th> <th data-bbox="553 985 831 1084">Net cash flow \$m</th> <th data-bbox="834 985 1112 1084">Discount factor at 10%</th> <th data-bbox="1115 985 1367 1084">Net cash flow discounted at 10% \$m</th> </tr> </thead> <tbody> <tr> <td data-bbox="256 1088 550 1122">Yr 0</td> <td data-bbox="553 1088 831 1122">(2)</td> <td data-bbox="834 1088 1112 1122">1</td> <td data-bbox="1115 1088 1367 1122">(-2)</td> </tr> <tr> <td data-bbox="256 1126 550 1160">Yr 1</td> <td data-bbox="553 1126 831 1160">0.5</td> <td data-bbox="834 1126 1112 1160">0.91</td> <td data-bbox="1115 1126 1367 1160">0.455</td> </tr> <tr> <td data-bbox="256 1164 550 1198">Yr 2</td> <td data-bbox="553 1164 831 1198">0.5</td> <td data-bbox="834 1164 1112 1198">0.83</td> <td data-bbox="1115 1164 1367 1198">0.415</td> </tr> <tr> <td data-bbox="256 1202 550 1236">Yr 3</td> <td data-bbox="553 1202 831 1236">0.5</td> <td data-bbox="834 1202 1112 1236">0.75</td> <td data-bbox="1115 1202 1367 1236">0.375</td> </tr> <tr> <td data-bbox="256 1240 550 1274">Yr 4</td> <td data-bbox="553 1240 831 1274">0.4</td> <td data-bbox="834 1240 1112 1274">0.68</td> <td data-bbox="1115 1240 1367 1274">0.272</td> </tr> <tr> <td data-bbox="256 1279 550 1312">Yr 5</td> <td data-bbox="553 1279 831 1312">0.4</td> <td data-bbox="834 1279 1112 1312">0.62</td> <td data-bbox="1115 1279 1367 1312">0.248</td> </tr> <tr> <td data-bbox="256 1317 550 1350">Yr 6</td> <td data-bbox="553 1317 831 1350">0.4</td> <td data-bbox="834 1317 1112 1350">0.56</td> <td data-bbox="1115 1317 1367 1350">0.226</td> </tr> <tr> <td data-bbox="256 1355 550 1388">Yr 7</td> <td data-bbox="553 1355 831 1388">0.4</td> <td data-bbox="834 1355 1112 1388">0.51</td> <td data-bbox="1115 1355 1367 1388">0.205</td> </tr> </tbody> </table>						Initial investment cost	Net cash flow \$m	Discount factor at 10%	Net cash flow discounted at 10% \$m	Yr 0	(2)	1	(-2)	Yr 1	0.5	0.91	0.455	Yr 2	0.5	0.83	0.415	Yr 3	0.5	0.75	0.375	Yr 4	0.4	0.68	0.272	Yr 5	0.4	0.62	0.248	Yr 6	0.4	0.56	0.226	Yr 7	0.4	0.51	0.205
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<p>Use of results from (a). Assume lifetime of investment accurate and the forecast cash flows are reliable and the choice of discount factor is reliable:</p> <ul style="list-style-type: none"> • Payback indicates go ahead as money recovered in lifetime. • Discounted payback should not go ahead as money recovered outside lifetime. • ARR – less than discount factor so not go ahead. • NPV – not go ahead as NPV is minus. 																																									

Question	Answer	Marks
	<p>BUT</p> <ul style="list-style-type: none"> • All figures are forecast and may be better than expected. • Discounted payback and NPV show that 6 years is the time when investment is repaid – only one year longer than expected lifetime. • Expected lifetime is a very conservative estimate – current machinery is 14 years old and expected life in the industry is ten years. <p>These point to going ahead with investment.</p> <p>Other things to consider are:</p> <ul style="list-style-type: none"> • The risks associated with the forecasting of the cash flows. • the speed with which the existing machinery will deteriorate. • the importance of new machinery in the strategy to reduce costs and increase quality. • the availability of finance – there is money for the marketing options so this may not be a problem but Pedro does have to obtain finance. <p>Application</p> <ul style="list-style-type: none"> • Use made of answers from 4(a) • Reference to 10 year expected life <p>Evaluation</p> <ul style="list-style-type: none"> • A supported recommendation should follow consideration of pros and cons of making the investment. • Points made re adequacy / inadequacy / reliability of methods from 2 (a) Assessment of importance of other information e.g. possible future market conditions, economic factors, government actions, availability and cost of finance, other planned changes by PV. 	

Question	Answer				Marks
5	Evaluate how PV should respond to the threat of employees leaving the business (lines 65–71).				16
	Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Good knowledge of relevant factors	2 marks Application of two or more points to PV	4–6 marks Good use of theory to answer question	4–6 marks Good judgement shown in weighing up the factors	
1	1 mark Some knowledge of relevant factors	1 mark Some application to PV	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown	
0	No creditable content				
<p><i>Note to examiners:</i> Answer should focus on the threat of leaving, not general points re: motivation, leadership or other HRM issues. (but these may be relevant if linked).</p>					
<p>Answers could include:</p>					
<p>Reasons for leaving may include:</p>					
<ul style="list-style-type: none"> • Only average wages paid and little chance for additional earnings cf. to other similar businesses • Job tasks very specific, possible boredom and lack of wider training • Poor promotion opportunities cf. to elsewhere • Autocratic decision making and lack of participation <p>BUT</p> <ul style="list-style-type: none"> • Caring attitude and currently average wages • Little uncertainty in job tasks means stability and limited responsibility 					
<p>Possible changes about to happen and their impact on employees include:</p>					
<ul style="list-style-type: none"> • Greater delegation with quality assurance not control • New machines and potential for change in production methods leading to greater involvement / change • Lower costs may enable higher wages • Possible new designer shoe production requiring more skills 					
<p>Possible actions PV might take</p>					
<ul style="list-style-type: none"> • Research into employee attitudes to importance of factors influencing decision to leave and satisfaction at work. • Can PV afford to increase payments to employees in higher wages or bonuses? May depend on successful marketing / production changes • Can promotion opportunities be provided? 					
<p>Factors in the labour market may include:</p>					
<ul style="list-style-type: none"> • Ease and cost of finding replacement employees • Skill levels in labour market 					

Question	Answer				Marks
	<p>Application</p> <ul style="list-style-type: none"> • Payment is average basic wage, opportunities in other local firms, current low labour turnover, supportive senior manager • 117 employees <p>Evaluation</p> <p>Discussion of factors should enable evaluative comments re: e.g.</p> <ul style="list-style-type: none"> • Most important factor or ranking of importance of factors • Weighing up the impact of factors on the business if employees leave or not • Relating factors and any decision to overall / functional area objectives and plans • Supported recommendation of actions PV might take • A degree of labour turnover can be good thing 				
	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	
2	3 marks: Good understanding shown	3 marks: Good application to PV	4–6 marks: Good use of reasoned argument or use of theory to explain points made 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 with some focus on PV	
1	1–2 marks: Some understanding shown	1–2 mark: Some application to PV	1–3 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 PV	
0	No creditable content				

Question	Answer	Marks
6	<p>Evaluate the importance of strategic analysis for PV when considering options A and B.</p> <p><i>Note to examiners:</i> A recommendation for Option A or B will NOT fully answer the question.</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • Explanation of strategic analysis and its techniques – SWOT, PEST, Boston Matrix, Porters 5 Forces, core competencies. • Place of strategic techniques in strategic management • Critical comments on the techniques • Recognition that Option A and B are marketing options and that marketing planning concepts may be used • Application of these techniques to Option A or B <p>Example: Option A – designer shoes</p> <ul style="list-style-type: none"> • SWOT – strengths and opportunities but note weaknesses • PEST – increasing interest in designer shoes, increasing middle class incomes, advanced machinery and new materials • Boston Matrix – only “cash cows” in current product range • Porters 5 Forces – faces threat on new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies – variety of shoes made in response to demand <p>Possible conclusion</p> <ul style="list-style-type: none"> • All techniques indicate a change of emphasis could be highly beneficial and Option A strongly worth considering <p>Option B – alter target markets and distribution methods</p> <ul style="list-style-type: none"> • SWOT – strengths, especially existing sales networks but note weaknesses • PEST – export market shows little sign of change except exchange rate and possible increasing interest in expensive exclusive shoes, domestic market increasing, • Boston Matrix – only ‘cash cows’ in current product range • Porters 5 Forces – faces threat of new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies - variety of shoes made in response to demand <p>Possible conclusion</p> <ul style="list-style-type: none"> • All techniques indicate a change of emphasis could be highly beneficial and Option B strongly worth considering, if additional distribution networks set up. <p>Application</p> <ul style="list-style-type: none"> • Information from case used in strategic analysis techniques 	20

Question	Answer	Marks
	<p>Evaluation Clear conclusion as to the importance of strategic analysis and/or techniques including:</p> <ul style="list-style-type: none"> • Importance of understanding where the business is now in order to generate ideas and / or support for options A and B • Comments that strategic analysis on its own is not enough to fully support a decision • Weighing up importance of other stages in strategic management especially objectives and choice techniques in relation to strategic analysis • Ranking the usefulness of the techniques in relation to Option A or B • An assessment of the relative importance of marketing planning in relation to strategic analysis <p>An assessment of the importance of timing and a timescale in carrying out analysis.</p>	
7	<p>Discuss the importance of strategic management to the future success of PV.</p> <p><i>Note to examiners:</i> Strategic management covers two main topics – business planning and the process of setting objectives, analysis, choice implementation and review to achieve these. Either approach is to be credited.</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • Definition / explanation of strategic planning and management, possibly including: • Business plans and their contents • Components of strategic management – vision statements / objectives, analysis, choices, implementation and evaluation • Problems / issues faced by PV, possibly including decisions centred on: • Possible production and sourcing changes • Future marketing options • HRM policy • Possible investment plans • Pedro as main decision maker • Relating strategic planning and management to the position of PV in the market overall and with regard to these topics <p>Application:</p> <ul style="list-style-type: none"> • Current problems faced by PV • Future possibilities being considered in the case • The economic and market conditions faced by PV <p>Evaluation:</p> <ul style="list-style-type: none"> • Assessing the importance of the processes for PV in the situation it is facing • Highlighting the possible order of priorities and how the processes could assist in setting and achieving objectives • The extent to which Pedro needs to address these processes. 	20