



MARKSCHEME

November 2007

BUSINESS AND MANAGEMENT

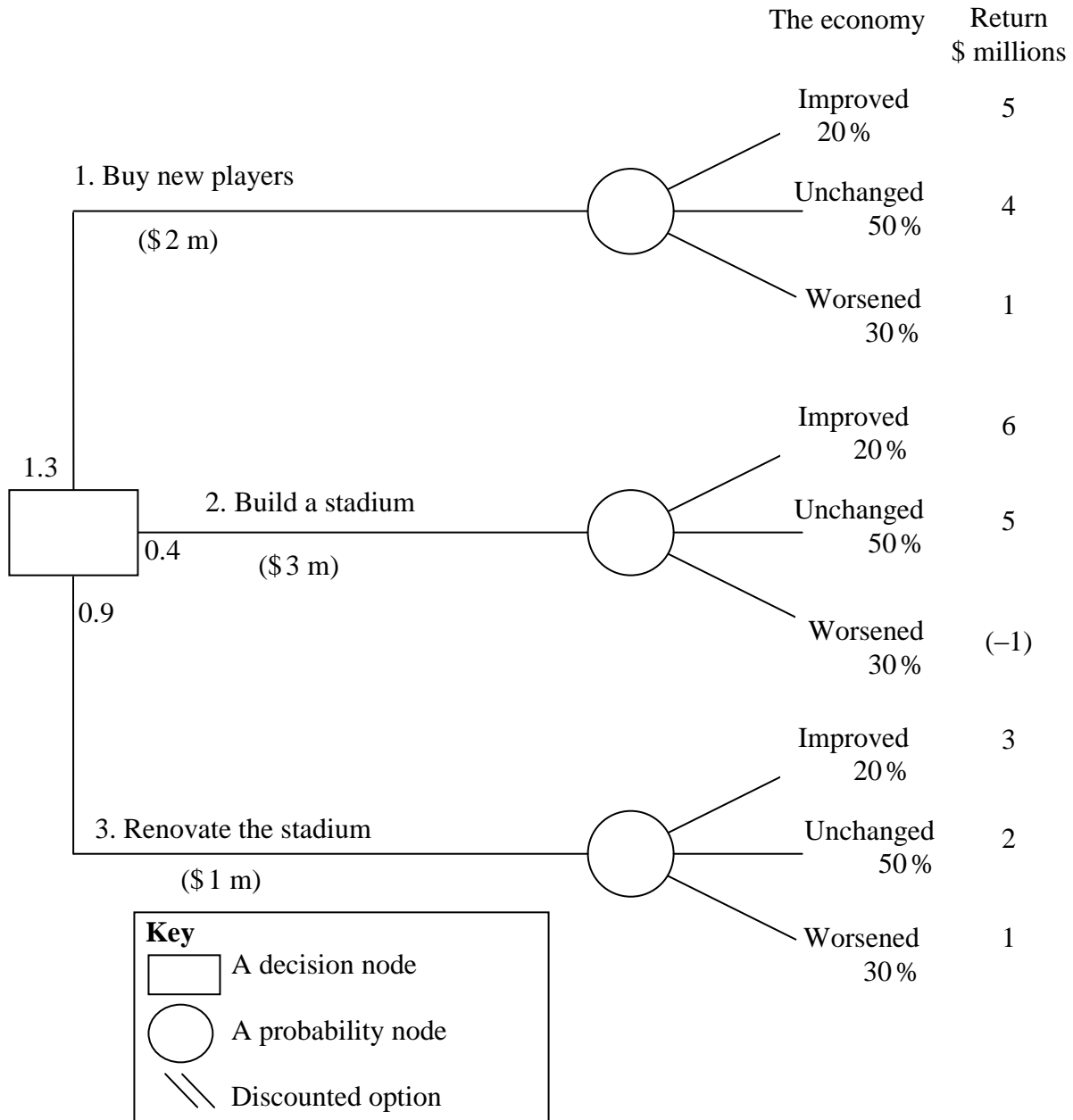
Higher Level

Paper 2

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1. (a) Construct a fully labelled decision tree. (*Show all working*) [6 marks]



[5 to 6 marks]

The decision tree is accurately constructed and fully labelled. All calculations are correct with one minor error allowed for [5 marks]. Workings are clearly shown. For [6 marks] a key is provided.

[3 to 4 marks]

There are some inaccuracies in the presentation or calculations. The diagram may not be complete. Workings may not be shown.

[1 to 2 marks]

Limited understanding of the decision tree is evident. There may be several errors in presentation and/or calculations.

- (b) Explain *one* advantage and *one* disadvantage for *Goal plc* of using decision trees.

[4 marks]

Possible advantages for *Goal plc* of using this model are that:

- the construction of the decision tree diagram formalizes the decision making process
- it enables the decision makers in *Goal plc* to focus on possible options and to incorporate the possible outcomes of actions not previously considered. Numerical values are placed on decision options as well as the likelihood/probability of each option
- the model allows *Goal plc* management to view all possible decisions together.

Possible disadvantages for *Goal plc* of using this model are that:

- it is purely a quantitative model. Non-quantitative factors, both internal and external are not incorporated in to the model. In dynamic and fast changing internal and external environments (the economy), the use of such a model may not be effective
- probabilities are extremely difficult to predict
- the forecast of the return/revenue is only estimated and is assumed to be correct. If either the probability and/or the return are incorrect the decision taken will not be an accurate one
- time lag occurs in decision making. The numerical values may be outdated by the time a decision is reached *e.g.* time it takes to renovate a stadium or to build a new stadium
- the use of such a model can be time consuming.

[3 to 4 marks]

One advantage and one disadvantage are clearly explained in a balanced manner using appropriate business terms and concepts. For [4 marks] reference is made to *Goal plc*. Accept any implicit reference to *Goal plc e.g.* credit candidates that simply mention the name of the org.

[1 to 2 marks]

Only an advantage or disadvantage is explained, or one advantage and one disadvantage are not clearly explained. No reference is made to *Goal plc*.

- (c) Evaluate the *three* options and recommend to the management of *Goal plc* the option that they should choose.

[10 marks]

Option 1 – will be the most profitable one based on financial grounds. The financial benefits will be apparent within a very short period – in the coming season. The shareholders are likely to get the highest return if this option is chosen.

The support of the shareholders, who are likely to have a short-term view, ensures that the share value will not fall due to massive selling of shares. The probability of boardroom changes is also likely to be low if the shareholders are satisfied.

However, the cost is twice as expensive as the cheapest option and *Goal plc* is experiencing a fall in TR (Total Revenue). The players and the coach object to this option and may feel highly unmotivated due to the fact that international players are bought to enhance performance rather than the provision of better training or better facilities for the national players. Also, some cultural clashes may occur between players from various backgrounds and the unity and pride of the team might be harmed. A fall in motivation of the national players from *Goal plc* might in turn reduce the team performance and further cause financial difficulties. There is a low probability that this would improve performance.

Option 2 – has the lowest future return. The financial benefits will materialize in four years time. This option will not immediately improve the current cash flow and will lead to a fall in profit. The uncertainty factor and the ineffectiveness of the decision tree model are considerably higher in the long-term.

Also, the environmental concerns raised by local residents might affect the image of *Goal plc* and any legal action might cause a delay of the project as well as extra legal costs. *Goal plc* cannot afford such extra costs.

However, a modern stadium and facilities can enhance performance and attract more supporters. *Goal plc* may also benefit in the future from lower taxes and grants. This option is supported by the players, which can further have a positive motivation effect. The team performance can improve.

Option 3 – is the cheapest option and might be the most suitable one for *Goal plc* given the current cash flow problems and *Goal plc* is experiencing a fall in total revenue and therefore a possible lack of internal finance. The financial director will recommend this option. A choice of any other option might lead to noticeable shareholder dissatisfaction that, in turn, can result in a vote of non-confidence for the directors and the selling of shares.

Also, it takes a short time to renovate the stadium and, therefore, the financial rewards can be reaped in the short-term. Even if the economy worsens, *Goal plc* will not make a loss.

The players can benefit from better facilities and possibly improve performance.

The motivation of the players will not decrease. Indeed, it is more likely to increase while unity is maintained and the likelihood of cultural clashes is reduced. However, there is a possibility that without physical improvement of the facilities the performance of the players will not improve and the team will be relegated.

There is not one clear answer. Responses can recommend any of the options provided that both financial and non-financial factors provided in the case study are examined.

It is expected that the answer will include a justified recommendation.

[8 to 10 marks]

Each option is thoroughly discussed, incorporating both financial and non-financial issues. Direct reference is made to the relevant information provided in the case study. For **[10 marks]** a final recommendation/judgment is made which is fully substantiated.

[4 to 7 marks]

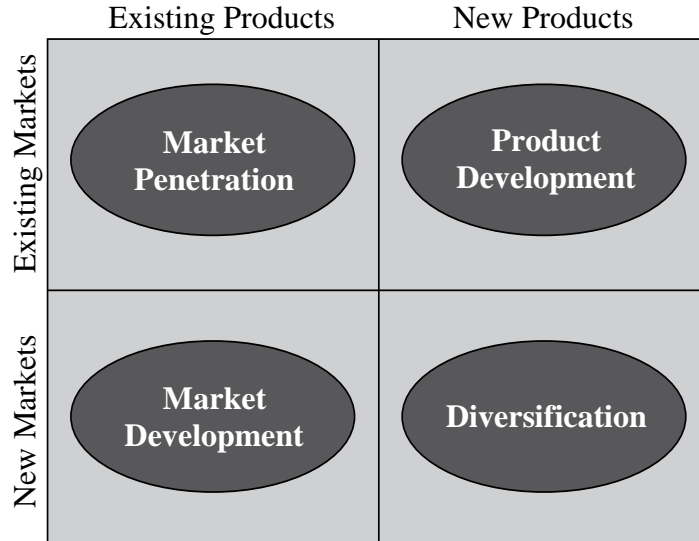
Each option is discussed, incorporating both financial and non-financial issues though the discussion may tend to be descriptive at the lower end of the band. The discussion may be unbalanced in term of the advantages and disadvantages of each option or the incorporation of financial and non-financial issues. Some reference is made to the information provided in the case study. If no reference is made to the non-financial information in the case, award up to **[5 marks]**.

[1 to 3 marks]

The answer is very descriptive and unbalanced. Limited or no reference is made to the information provided in the case study.

2. (a) Using Ansoff’s Matrix, explain the growth strategies used by Toyota. [6 marks]

The Ansoff Matrix below



Toyota uses the growth strategies of:

- Market Development – through the export of their cars to overseas markets; through their FDI in various countries.
- Product Development/Modification – through the production of new models every two years; 60 models in Japan and many adapted to the American and the European markets.
- Market Penetration – Toyota increased its market share in Japan and possibly after establishing a foothold in various countries penetrated these markets further.
- Accept related diversification.

[5 to 6 marks]

At least two of the three possible Ansoff growth strategies are clearly explained and accurately applied to Ansoff strategic growth options. Consistent reference is made to the information provided in the case study.

[3 to 4 marks]

At least two of the three possible growth strategies have been explained though the explanation may lack some clarity. Some, but perhaps limited, reference is made to the case study and the strategies may not be fully applied to Toyota. One strategy is clearly explained and applied.

[1 to 2 marks]

A limited answer that perhaps simply lists growth strategies with very limited or no explanation.

Give some credit if related diversification is mentioned and the example of trucks produced for the American market.

- (b) (i) **Explain why *Toyota* can be described as a multinational company (MNC).** [2 marks]

A multinational company is an organization that owns and controls production or service facilities outside the source country and that is based usually in at least four countries. *Toyota* has 24 plants in 26 countries.

[2 marks]

An accurate explanation of the nature of a multinational company is presented with reference from the text to *Toyota*.

[1 mark]

A somewhat accurate explanation of the nature of a multinational company is presented with no reference from the text to *Toyota*.

- (ii) **Identify *three* advantages for *Toyota* of locating production plants overseas.** [3 marks]

The possible advantages are:

- to avoid protectionist policy – when governments put trade restrictions on *Toyota* cars, the company moves production into the restricted countries
- to cut the high transportation costs of cars
- to be closer to the customers in different markets
- to take advantage of possible cheaper resources (labour, raw material *etc.*)
- to take advantage of highly skilled labour or better technology
- *any other relevant advantage to Toyota.*

Award [1 mark] for each relevant advantage identified, up to a maximum of [3 marks].

Do not credit candidates that identify advantages to the host country.

(c) **Discuss the factors that have led to *Toyota's* worldwide success.**

[9 marks]

Toyota was able to achieve worldwide success due to the following practices in the various organizational functions:

- **Operations:**

Toyota uses a lean production process.

Employees are responsible for the quality control of the products. The use of continuous improvement (Kaizen) practices, zero defects policy; JIT; empowerment; constant communication with the customers in order to find out their changing needs; flexible manufacturing and quick product development process – all resulted in innovative, high quality models. This contributes to *Toyota's* domestic as well as global growth.

- **Human resources:**

Employee empowerment and trust resulted in increased employee motivation. Employees always challenge themselves in terms of customer satisfaction and quality. “*Toyota Way*” culture is currently maintained even when the company is growing worldwide. The practice of TQM seems to be effective and enables *Toyota* to sustain their competitive advantage.

- **Marketing/strategy:**

Toyota is a very customer-focussed organization. *Toyota* also uses product adaptation strategy in different markets – small European cars as well as pick-up trucks in the USA. *Toyota* takes advantage of local knowledge and resources while expanding worldwide. At the same time, *Toyota* takes advantage of globalization in the form of FDI.

Toyota's integrated approach to design, technology, material and components combined with a quality culture clearly resulted in continuous growth. Revenues are higher while the JIT, continuous improvement and TQM practices decrease costs. *Toyota* is, therefore, gained competitive advantage and increased its market share.

However, the fact that *Toyota* still grows and expands into global markets may pose some new challenges/difficulties *e.g.*:

- the product adaptation strategy may become more expensive as economies of scale are foregone
- other car manufacturers are increasingly using the same technologies and techniques. *Toyota's* operational competitive advantage may be eroded
- it may prove difficult given the company's expanding global reach to maintain the quality culture.

It is difficult to judge entirely whether *Toyota* will be able to maintain its competitive advantage and success in the long-term. Management awareness of the challenges is a good starting point. A final judgment is not required.

[8 to 9 marks]

The factors that have led to *Toyota's* success are thoroughly discussed in a balanced manner. The answer incorporates detailed reference to the case using appropriate business terms and concepts.

[4 to 7 marks]

Some of the factors that have led to *Toyota's* success are discussed though the answer may lack depth and balance. The answer incorporates some reference to the case study. Appropriate business terms and concepts may not be constantly used. If the issue of a sustained growth is overlooked – the long-term effects – the answer cannot be considered as balanced and the candidate will not be able to reach the top band.

[1 to 3 marks]

A limited and essentially descriptive answer.

3. (a) **Explain why the *Walt Disney Company* can be described as a global conglomerate.**

[3 marks]

A global conglomerate is an organization that comprises a series of disconnected, unrelated businesses throughout the world. The connection between the various activities is not always obvious.

The *Walt Disney Company* is involved with theme parks, a *Disney TV* channel and also builds a presence on media platforms such as broadband and cell phones.

[3 marks]

A clear explanation of the concept of a global conglomerate is given. Relevant reference is made to *Walt Disney*.

[1 to 2 marks]

Some explanation of the concept of a global conglomerate is given though this may lack relevant reference to *Walt Disney*.

- (b) (i) **With reference to the *Walt Disney Company*, analyse the potential effects on *two stakeholder groups of a global conglomerate investing in China*.**

[6 marks]

Some of the possible positive effects of the *Walt Disney Company* investing in China may include:

- capital and technology transfer and upgrade will improve production efficiency of **local businesses**. Also, competition will increase efficiency of **local businesses**
- big boost to the Chinese economy in terms of upgraded infrastructure, employment, increased exports, increased GNP and therefore, standard of living of the Chinese **citizens**. More spending power will generate more revenues for **local businesses** as well as more taxes for the Chinese **government**
- more choice and possibly lower prices for **consumers**
- training of **employees and local managers** – skills are updated
- *accept any other relevant benefit or stakeholders.*

Some of the possible negative effects of the *Walt Disney Company* investing in China may include:

- increased competition may result in **local and often smaller businesses** being unable to compete and therefore, closing down
- local unemployment may increase if local business close down with further negative effects on the demand for other local business products.
- Chinese workers may lose their jobs due to closure. The standard of living of these employees/citizens and their families will fall.
- the *Walt Disney Company* may become a monopoly in the theme park sector with overwhelming market power regarding prices and quality. The welfare of the **Chinese consumers** will be reduced
- tension between different national and organizational culture may upset the employees of the conglomerate or the citizens of China
- a MNC may benefit from lower taxes and other financial incentives – the opportunity cost of **government** spending in terms of welfare provision to its citizens – while repatriating the profit to the home country
- *accept any other relevant negative effects or stakeholders.*

[5 to 6 marks]

The analysis of possible positive and negative effects on two external stakeholders is detailed, balanced and well illustrated. Direct reference is made to the case study when appropriate.

[3 to 4 marks]

There is some analysis of possible positive and/or negative effects on two external stakeholders though this may tend to be descriptive at the lower end of the band. Direct reference to the case study may be limited. If only positive effects are mentioned, award no more than ***[3 marks]***.

[1 to 2 marks]

A limited and essentially descriptive answer.

- (ii) Explain *one* advantage and *one* disadvantage for the *Walt Disney Company* of entering China as part of a joint venture.

[4 marks]

The possible advantages for the *Walt Disney Company* of entering China through a joint venture method of entry are:

- the *Walt Disney Company* and Shanghai government-backed group can combine their resources. The *Walt Disney Company* will acquire land for technology and capital. A synergy can be created and strengths are drawn together
- risk is shared
- local companies can enable the *Walt Disney Company* to overcome some cultural and linguistic difficulties that an American company may encounter in China
- a larger company may further exploit economies of scale.

The possible disadvantages for the *Walt Disney Company* of entering China through a joint venture method of entry are:

- conflicts and disagreement due to different corporate cultures and leadership style of an American company cooperating with a Chinese one
- diseconomies of scale may occur due to a larger size
- time is wasted on meetings and administration, which may also result in an inability to make quick decisions.

[3 to 4 marks]

One advantage and one disadvantage for the *Walt Disney Company* are clearly explained. Reference is made to the case study.

[1 to 2 marks]

One advantage and one disadvantage for the *Walt Disney Company* are clearly explained. Reference is not made to the case study.

One advantage or one disadvantage is clearly explained with reference to the case study.

One advantage and one disadvantage for the *Walt Disney Company* is listed.

- (c) **Discuss the types of market research that the *Walt Disney Company* should carry out before deciding whether to build a theme park.**

[7 marks]

The *Walt Disney Company* can carry out both secondary as well as primary research.

Secondary research involves the use of secondary data – information that already exists in some form – may include:

- inside the business – past information about costs of building the theme parks in various parts of the world, costs of operation, sales figures and profit figures.
- outside the business – government publications, general publications (newspapers and specialized magazines), commercial publications (*Mintel*) and international publications/statistics (World Bank, IMF) about:
 - social trends like leisure activities and preference of the current and future population as well as attitudes to MNCs and western culture and demographic trends
 - economic statistics and forecasts about growth of the GDP *per capita*, income distribution, taxes, employment and inflation figures
 - information published by competitors about costs of operation and profit figures
 - political stability, rules and regulations applicable to the operation of a theme park. Employment laws *e.g.* minimum wage
 - possible technological advances and the availability of the relevant technology in China.

The use of secondary research can be seen as relatively cheaper and quicker than primary research. Given the above examples, the *Walt Disney Company* will be able to carry out a much-needed PEST analysis before a final strategic decision is made.

However, the reliability of the sources has to be questioned, information has to be adapted to the company's particular needs, the information may not be entirely up to date and other companies might have the same access to such secondary information.

Primary research involves collecting primary data that does not exist. It has to be collected by the *Walt Disney Company* itself or by a designated market research agency.

Personal interviews, telephone/postal/e-mail surveys can be carried out. Observation of people behaviour in other leisure complexes can be used, as well as focus groups, to identify the wants and needs of various market segments.

Interviews and questionnaires can be specifically designed to the needs of the *Walt Disney Company*.

The *Walt Disney Company* will acquire unique information and possibly gain some marketing advantages over its competitors.

However, primary research takes a longer time than secondary research to collect and is likely to be more expensive. Although, research costs may not create a big problem for such a conglomerate. Also, the reliability and validity of the above primary research methods and sources is much reduced in a highly populated country like China. Cultural and linguistic bias may be present as well. These factors combined with unpredictable human behaviour can create a sampling bias.

The *Walt Disney Company* is likely to use both types of market research and rely on various sources. It is likely that in this case, secondary research will be more effective.

[6 to 7 marks]

The discussion is thorough and well balanced. The need for both types of market research is recognized and the strengths and weaknesses of each type of market research method are discussed. Appropriate examples are used and applied to the *Walt Disney Company's* need for specific information.

[3 to 5 marks]

The discussion may lack depth and balance. The discussion may tend to be descriptive at the lower end of the band. Some reference is made to the company at the top end of the band.

[1 to 2 marks]

A limited and essentially descriptive answer. A list may be provided of some possible methods and sources.

4. (a) Describe *two* possible benefits for *Scout Free* of using different profit centres.

[4 marks]

By using three profit centres based on individual models all specific costs and revenue will be allocated to each model.

Possible benefits for *Scout Free* may include the following:

- a clearer comparison between activities and teams regarding performance and efficiency can be made
- a better and more focused decision making processes will result in a better allocation of resources to each profit centre/individual model
- the empowerment, trust, responsibility and accountability given to the teams in each cost centre of the three different teams are likely to result in improved motivation and therefore, efficiency
- *accept any other relevant benefit.*

[3 to 4 marks]

The description of two possible benefits is clear and relevant.

[1 to 2 marks]

The description of the benefits may be limited or two benefits are simply identified.

- (b) (i) Calculate the contribution each product makes to fixed costs.

[2 marks]

	Junior Scoot (aims at young children age 5-12)	Teen Scoot (aims at teenagers age 13-18)	Adult Scoot (for all adults)	Total
	\$000	\$000	\$000	\$000
Revenue	110	140	160	410
Total direct costs	70	110	150	330
Contribution	40	30	10	80
Less fixed overheads				60
Profit/loss				20

[2 marks]

All the calculations are correct and clearly presented.

[1 mark]

There are up to two minor errors in the calculation.

- (ii) **Examine how appropriate it would be for *Scoot Free* to use the absorption method of costing.**

[6 marks]

Absorption method of costing still attempts to allocate all costs. It does not use the blanket, arbitrary method of indirect cost allocation that the full costing method uses. In the case study, the indirect costs were allocated equally to each product. In the absorption method, the various types of overheads/indirect costs are allocated in a more distinct way by choosing an appropriate basis for allocation. It is therefore assumed to be more accurate and overcomes the limitation of the full costing method, e.g. rent will be allocated to each individual product according to the area taken up by the product while the administration costs will be allocated according to the number of employees employed in each unit. An overhead absorption rate will be calculated.

Despite the above advantages, this method is more complicated and still arbitrary. "Adult Scoot" will be allocated a larger proportion of the fixed, indirect overheads as it consumes a larger proportion of the two types of direct costs (labour and material) compared with the other two products. "Adult Scoot" loss figure is likely to be larger even though it might not consume a larger proportion of the fixed, indirect costs. The management will be more determined to eliminate this product. This method of cost allocation might not be appropriate to *Scoot Free* especially given the fact that the "Adult Scoot" makes a contribution.

[5 to 6 marks]

The examination of the appropriateness is of sufficient depth, clarity relevance and balance. Direct reference is made to the case study. Numerical examples are not required.

[3 to 4 marks]

The examination of the appropriateness is relevant but may lack clarity, depth and balance. Limited reference may be made to the case study.

[1 to 2 marks]

A limited and essentially descriptive answer.

(c) **Evaluate the managers' proposal to eliminate the unprofitable product.** [8 marks]

Financial issues:

Based on the full costing method, "Adult Scoot" makes a loss of \$ 10 000.

However, based on the contribution (marginal costing), "Adult Scoot" makes a positive contribution, albeit the lowest, towards covering the fixed/indirect overheads and to the overall profit of *Scoot Free*.

Given the fact that the elimination of one product will not reduce the fixed/indirect overheads, at least in the short-term, it is advisable to keep the product on financial grounds.

Moreover, "Adult Scoot" actually generates the largest amount of sales revenue so, perhaps the management might want to look at other options of cost reduction rather than the elimination of the product.

Furthermore, the full cost method is an arbitrary one and, therefore, can be inaccurate. *Scoot Free* management should be aware of these important financial issues.

Redundancy or re-training will cost money.

Non-financial issues:

Scoot Free objectives should be analysed. The elimination of a model might not correspond to its growth objective.

Motivation issues should also be incorporated into the decision-making. The redundancy of staff who are motivated, highly experienced and specialized is likely to affect the morale and trust of the employees. There are likely to be direct consequences of lower motivation on efficiency, quality, reputation and so on. "Adult Scoot" was the first model, which helped the organization to establish a good brand name in the local area. Elimination of such a model can seriously affect the *Scoot Free* reputation and brand image.

Also, a loss of one segment can affect the sales of the other models as a typical family might find a different supplier for all ages. The product life cycle should also be analysed.

Accept any other relevant financial or financial issue.

Given the above, *Scoot Free* should not eliminate the unprofitable product. Perhaps the management and the employees should look at ways of increasing sales and/or reducing costs. Perhaps the implementation of the suggested performance related pay would create further incentives to cut costs and increase efficiency.

Accept other judgments provided they are fully substantiated.

[6 to 8 marks]

The answer considers a range of financial and non-financial issues in depth and in a balanced manner. Direct reference is made to the information provided in the case study. For ***[8 marks]*** a fully substantiated evaluation is present and a judgment (decision/recommendation) is made.

[3 to 5 marks]

The answer considers a range of financial and/or non-financial issues but may lack depth and/or balance. Some reference is made to the information provided in the case study at the top end of the band.

[1 to 2 marks]

A limited and essentially descriptive answer.

5. (a) Define the term *ethical responsibility*. [2 marks]

Ethics are codes of acceptable behaviour and the values included are those that a firm accepts and abides by. The firm's ethical responsibility is its responsibility to its stakeholders to behave in an ethical manner.

[2 marks]

A clear and full definition that recognizes both the meaning of the term ethics and also the responsibility to the stakeholders is presented.

[1 mark]

A less than clear and full definition is presented. The definition may not recognize both – the meaning of the term ethics and also the responsibility to the stakeholders.

- (b) Explain how a flat management structure could lead to more “open and informal relationships”. [6 marks]

The organizational structure of *Serco* is described in the case study as a “relatively flat management structure”. The implication of this is that there is a relatively low chain of command and a wide span of control. Relationships are described as open and informal. This openness and informality will arise partially as a result of the wide span of control. This is because there will be a relatively low level of control over individual employees allowing them to take responsibility for their work. To help them in this they are more likely to build relationships with people at the same level of the hierarchy and these are likely to be more informal as there is no formal structure relating to these levels. A wider span of control and fewer levels in the hierarchy will also reduce the extent of formal relationships between the different levels in the hierarchy, resulting in a greater degree of informality.

[5 to 6 marks]

A clear, detailed and appropriate explanation of how the flat management structure will cause open and informal relationships. The explanation is generally related to the case study and uses appropriate business terminology.

[3 to 4 marks]

Some explanation of how the flat management structure will cause open and informal relationships, though the two areas may not be effectively linked together, particularly at the lower end of the band.

[1 to 2 marks]

A limited answer that may consider some aspects of organizational structure and relationships, but it does not link the areas together at all. Points may be simply listed.

- (c) **With reference to *Serco*, explain how organizational objectives change when organizations move from the public sector to the private sector.**

[4 marks]

As a public sector firm (owned by Government) *Serco* would not have been obliged to make a profit. While there might have been an expectation by government of them making a surplus, this surplus would have simply gone back into government hands – there were no shareholders expecting profit and growth. In the public sector, they may also have had other objectives – perhaps social, environmental or other community-related objectives. When the business was sold by government and moved in to the private sector, the directors became answerable to shareholders and their objectives would become more profit and growth oriented. The turnover doubled and the profit trebled. Though the case study clearly shows that profit is not their only objective, they are now answerable to shareholders and their expectations. While the other objectives may still be a part of their corporate strategy, they are likely to become less important than profit and growth.

[3 to 4 marks]

A clear and detailed explanation of the changes in *Serco*'s objectives with specific reference to the move from public to private sector. The explanation is generally related to the case study.

[1 to 2 marks]

A limited explanation of the changes in objectives with some reference to private and public sector objectives, though this may not be entirely balanced. There is little or no reference to the case study. Candidates in this level may show some but perhaps confused understanding of the difference between the public and private sector.

- (d) **With reference to appropriate motivation theory, analyse the likely impact of *Serco*'s corporate culture on the level of employee motivation.**

[8 marks]

The chief executive, Christopher Hyman is passionate about having an impact on society and he aims to ensure that these values extend throughout the company. Their culture is one of having a positive impact on society and profit will increase from being internally and externally socially responsible. The culture is one of empowering staff and encouraging individual responsibility through a flat management structure and ensuring free flows of communication and access for staff quickly through the hierarchy to management. They are also ethically aware and keen to build partnerships with their customers.

This culture is one that will help boost motivation at *Serco*. Assuming that basic physiological needs of pay and security are met, then the culture will help people access higher levels in Maslow's hierarchy. Good, friendly, informal and open communication and relationships will enable the employees to achieve the level of "love and belonging". The responsibilities, trust, power, participatory roles given to staff are likely to help them access levels in the hierarchy of esteem and self-actualization.

These aspects of the culture will also help raise motivation as, according to Herzberg's theory, they will act as motivators. Individual responsibility and direct channels of communication with management will be a motivator as responsibility is given and recognized. A sense of achievement and the nature of the job are also given as motivators according to Herzberg and these are things encouraged by *Serco*'s corporate culture. Ethical awareness will often motivate staff by giving the employees a sense of achievement.

On the other hand, some workers especially if they are also shareholders may be profit motivated only and might resent the ethical stance that the company is taking as it is likely to involve extra costs.

Some employees may not wish to be allocated responsibilities and decision making power and participation in meetings. They might want to be told what to do and therefore might actually be de-motivated. Candidates should pay attention to the fact that the company operates a cleaning and catering contract, which do not require highly skilled employees. Some employees may only be motivated by money.

[7 to 8 marks]

A balanced and detailed analysis of the impact of corporate culture on motivation is presented. The analysis either applies a single theory in depth or a range of motivation theories is applied in less depth. Business terminology is used appropriately throughout. A reference is made to *Serco* and the information about the case.

[4 to 6 marks]

Some consideration of the impact of corporate culture on motivation with some reference to appropriate motivation theory though this may be limited and lack depth and balance at the lower end of the band. Some reference is made to *Serco* and the information in the case. Some business terminology is used. At the lowest end of the range, understanding of different theories may be somewhat confused. If the answer does not include some reasons as to why motivation might not increase, the answer cannot be classified as balanced and therefore the candidate cannot reach the top end of the band.

[1 to 3 marks]

A limited and essentially descriptive answer that may consider some issues relating to corporate culture and motivation though these may simply be listed and/or not appropriate to the case study and to *Serco*.

6. (a) Define the term *premium pricing*. [2 marks]

Premium pricing (also called prestige pricing) is the strategy of pricing at, or near, the high end of the possible price range.

[2 marks]

A clear and full definition.

[1 mark]

There is an attempt to define premium pricing, which identifies some appropriate elements of the definition, but may not be complete.

- (b) Describe the changes taking place in *News Corporation's* product portfolio. [4 marks]

News Corporation is adapting its product portfolio to the changes taking place in the media industry. Their newspaper interests are threatened by the Internet and other developments and are suffering low or perhaps even negative growth. To try to compensate for this they are developing their Internet interests both through internal growth and acquisition. Their broadcast-television interests are also suffering slow growth and advertising revenues there are under threat from the Internet. Again, acquisition of Internet companies is intended to compensate for these revenues and they hope to develop these “new media” businesses as a source of targeted advertising revenues for the future. To help them face the challenge of the cable companies, they are adding voice and broadband services to their own product portfolio (e.g. the purchase of *EasyNet*). While many of their businesses are very successful and could perhaps be classified as “cash cows”, they are also looking for the “stars” of the future and making a range of Internet acquisitions to try to develop these.

[3 to 4 marks]

A clear and detailed description of the changes *News Corporation* are making to their product portfolio. The description is related to the case study. Appropriate business terminology is used.

[1 to 2 marks]

A limited description with some reference to product portfolio changes, though these may not be directly related to the case study.

- (c) Explain how being a media conglomerate enables *News Corporation* to benefit from economies of scale.

[6 marks]

One of the principal ways that *News Corporation* will benefit from economies of scale through being a media conglomerate is in marketing economies of scale. Their interests range across a number of different types of media as well as both content and distribution. This enables them to use marketing across a number of different media and will allow them to reduce the unit costs of marketing.

They may be able to use information gained in one area of the business to help them with marketing elsewhere in the business, *e.g.* they may be able to use subscriber information or user information gained from television and internet businesses to help them identify appropriate target markets for generating advertising revenues elsewhere. They may also benefit from marketing economies of scale with the sale of advertising space. Being involved in a number of media businesses means that they can offer advertisers an integrated solution across a number of different media.

They may also be able to benefit from technical economies of scale, *e.g.* their skills in distribution through satellite television may help them develop their Internet services. Internet development could perhaps be spread across a number of their web sites and technologies developed in other parts of the business could be used for other media. All these would help them develop economies of scale, therefore reducing unit costs.

There may be some possible bulk-buying economies of scale as well, *e.g.* the purchase of server space for their web sites may be cheaper if purchased on a larger scale across a number of web sites. This may also be true for their newspaper and magazine interests – bulk-buying of printing and other services across the different business may enable them to benefit from economies of scale and therefore reduce unit costs.

Financial economies of scale may be possible with the firm able to finance projects in an integrated way across the whole group. Film financing may also include financing for distribution and marketing across the different media businesses within the group. This may help reduce the unit cost of finance.

[5 to 6 marks]

There is a clear explanation of how at least two types of economies of scale may arise from being a *News Corporation* conglomerate. The explanation is related to the case study and business terminology is used appropriately.

[3 to 4 marks]

There is some explanation of how economies of scale arise from being a conglomerate, though this may be limited and points may simply be general, descriptive or perhaps unrelated to being a *News Corporation* conglomerate at the bottom end of the range.

[1 to 2 marks]

A limited and essentially descriptive answer.

(d) Discuss how external influences are shaping *News Corporation's* strategy. [8 marks]

External influences are arguably the main forces driving change at *News Corporation* as they move away from the more traditional “old media” and develop their interests in “new media”. One of the key areas of external change is the ongoing development in technology. The move away from traditional print media, the growth in digital piracy and the development of integrated broadband and voice services are all factors driving changes in their strategy. This has prompted a series of acquisitions of internet and other new media companies. New technical methods to distribute their existing content (e.g. Internet video on demand) are also driving change, though concerns about whether this may affect other areas of the business (e.g. DVD and other sales) may affect their strategic thinking. A further issue will be concerns among senior managers about the dotcom boom and crash 2000 to 2002. This may lead many to believe that the Internet is not such a reliable source of revenue and profit. This means that external technological influences are one of the main factors shaping their strategy. Access to broadband and the changes taking place may be a further consideration.

It is stated in the case “Keeping up with technology is one part of *News Corporation's* businesses sometimes damages another part.” The technological environment clearly poses a threat as well as perhaps more significant opportunities for *News Corporation* and it appears that the organization responded appropriately.

Regarding the political/legal environment, external legal influences also have an impact on *News Corporation's* strategy. Digital piracy is growing and the difficulties faced by companies in controlling this may be an influence on their strategy and the ways they choose to distribute their content. Given the rapid changes in the technological environment, *News Corporation* will likely be able to respond to this threat. Perhaps this threat is a less significant one.

External social influences are also clearly an influence on their strategy. Many of their media interests have a target market with an older demographic. To attract a new demographic, that is the younger people who are using the Internet to get their news, *News Corporation* is making Internet acquisitions that target this younger demographic. As demographics continue to change, they will need to adapt their strategy to maintain growth across all groups. However, with such wide media interests, it could be argued that growth in one area will compensate for a possible fall in sales in other areas and so this will be less of a determinant of strategy. It appears that *News Corporation* did respond appropriately to the threats in political/legal/economic competition, social and technological environment by capturing the opportunities that exist, especially in terms of more advanced technology.

[7 to 8 marks]

A balanced and detailed discussion of the role of external influences in determining strategy. The discussion is related to the case study and is balanced across the different types of external influences. Business terminology is used appropriately throughout.

[4 to 6 marks]

Some discussion of the role of external influences in determining strategy though this may not be balanced across all areas of external influences. The discussion is generally related to the case study though it may tend to be more descriptive at the lower end of the band.

[1 to 3 marks]

A limited and essentially descriptive answer that may consider some external influences though these may simply be listed and/or not appropriate to the case study.
