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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Monday 16 November 2009 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer **one** question from this section.

1. Solid Construction

Solid Construction is a new partnership between an experienced project manager and an accountant. Both are keen to venture into the property development market. They intend to build a new hotel to cater for the increasing demand of commercial businesses in the area. They also expect to profit from the high return in the run up to a major global sports event. Currently, the partners do not have enough finance for the project and are looking for some possible sources.

It is very important that the hotel is ready for use within three years. Most of the information gathered by the developers regarding various aspects of the external environment is based on government publications. The partners are so ambitious to carry out their first project that they have ignored some potential problems, such as skilled labour shortages and the possibility of traffic congestion when the materials are transferred to the building site.

The partners of *Solid Construction* have identified the various activities required in the planning and building process. These are shown in the table below:

Activity (planning and construction)	Duration (months)	Preceded by
A	10	
B	9	
C	4	
D	6	
E	6	A
F	7	A, B
G	12	C, D
H	6	A, B
I	3	G, H
J	7	E, F
K	10	I, J

(This question continues on the following page)

(Question 1 continued)

- (a) Identify **two** advantages and **two** disadvantages for *Solid Construction* resulting from being a partnership. *[4 marks]*
- (b) (i) On the lined paper provided for your answer, construct a fully labelled network to represent the activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity **and** the critical path. *[9 marks]*
- (ii) Calculate the total float **and** the free float for each activity. Comment on the likely effect on the other activities and the total duration of the project if:
- Activity C is delayed by four months
 - Activity H is delayed by four months.
- [6 marks]*
- (c) Analyse **two** advantages and **two** disadvantages for *Solid Construction* of using the critical path analysis model. *[6 marks]*

2. Neat Organization

Neat Organization is a leading provider of resort-based budget holidays in Spain for price conscious consumers. Its business strategy is based on offering low-cost holidays. Competition in this market segment is becoming increasingly intense. Information on the external environment is included below:

Predicted macro-economic trends

Year	Economic growth rates	Interest rates
2009	–2%	0.3%
2010	1%	1%
2011	2%	2%
2012	2%	2.5%
2013	3%	3%

As part of its growth strategy, *Neat Organization* intends to purchase a number of coaches to transport holidaymakers from the airport to the resort as the cost of transport has increased rapidly in recent years. After 7 years (the predicted useful life of the coaches), the management hopes that they will have enough residual value that can then be used towards purchasing a new fleet. The projected net cash inflows from this investment are shown below:

Year	Projected net cash inflows (\$)
1	100 000
2	150 000
3	250 000
4	300 000
5	250 000
6	200 000
7	200 000
Total inflows	1 450 000

The initial cost of the coaches is \$1 000 000.

**Excerpt from the profit and loss account for *Neat Organization*
for the year ended 31 December 2008**

	\$m	
Sales revenue		20
Cost of goods sold		8
Gross profit		12
Advertising expenses	4	
Other indirect expenses	4	
Expenses		8
Net profit before interest and tax	4	

(This question continues on the following page)

(Question 2 continued)

Excerpt from Neat Organization’s balance sheet as at 31 December 2008

	\$	\$
Fixed assets		30 000 000
Current assets		
Stock	2 000 000	
Debtors	500 000	
Cash	700 000	
Total assets		3 200 000
Current liabilities		
Creditors	1 500 000	
Short-term borrowing	500 000	
Total		2 000 000
Net assets		31 200 000
Share capital		20 000 000
Loan capital		4 000 000
Retained profit		7 200 000
Capital employed		31 200 000

- (a) Define the following terms:
 - (i) *fixed asset* [2 marks]
 - (ii) *share capital*. [2 marks]
- (b) Explain how the predicted changes in economic growth rates and interest rates may affect *Neat Organization*. [6 marks]
- (c) Calculate the following (*Show all your working*):
 - (i) the gross profit margin and gearing ratio for *Neat Organization* for 2008. [2 marks]
 - (ii) the payback period for the proposed investment in coaches. [2 marks]
 - (iii) the net present value (NPV) using a discount rate of 8%. [2 marks]
 - (iv) the depreciation at 20% using the reducing balance method for the first 7 years of the coaches. [3 marks]
- (d) Using financial and non-financial information, examine the decision of *Neat Organization* to go ahead with the investment in coaches. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Changing employment patterns and practices

Following concerns about the falling level of motivation at work, a recent report by *Statistics Finland* was commissioned and reached the following conclusions:

- A majority of employees feel that job satisfaction is an important part of their life.
- Women see the number and pattern of hours of work as more important than the level of pay.
- Employees who are on long-term contracts are more committed to their work.
- Employees are more likely to leave their jobs if their employers have taken measures that create a fear of redundancy.
- Employees are now experiencing more stress at work and spend more time travelling to and from work than in previous years.
- Many office employees would like to make use of recent technological advances to work from home and to achieve a balance between their work and home life.
- Some employees, especially in low paid jobs, seem to resist flexible work practices.

Some employers have responded positively by introducing flexible work patterns and practices which eventually, after overcoming some resistance to change and enduring extra costs of implementing the new practices, created organizational flexibility, committed employees and for some organizations a higher level of profit.

Some employers, however, are sceptical of flexible work patterns and practices given the possible loss of control, more difficult coordination or any other structural changes that may result from the changes.

- (a) (i) Define the term *redundancy*. [2 marks]
- (ii) Identify **two** financial incentives that an organization can use to motivate employees. [2 marks]
- (b) Distinguish between **three** sampling methods that *Statistics Finland* could have used to gather the data for the report. [6 marks]
- (c) Examine the forces that impact on the trend towards offering flexible work patterns and practices. [6 marks]
- (d) With reference to **one content** motivation theory and **one process** motivation theory, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation. [9 marks]

4. Perfect Printing

Perfect Printing is a public limited company. The company operates in a neglected residential area and prints the local weekly newspaper and a monthly magazine. Stakeholders have raised a number of issues in recent months:

- Some local residents and a local pressure group are concerned about an unacceptable level of noise and pollution during the production process. They are considering legal action.
- Workers are dissatisfied with the unacceptable noise and pollution level and also their low salaries. Some are threatening to leave the company.
- The local weekly newspaper would prefer the use of recycled materials and are threatening to take their contract to more socially responsible suppliers despite a higher cost for recycled paper.
- Shareholders are unhappy with the low dividend and are threatening to sell their shares if the management is not able to overcome the current low level of profit and working capital.

The management, which collectively owns 60% of the shares, wants the company to display more social responsibility and proposes the following:

- Relocating to an industrial park in a non-residential area. This will, however, result in an increase in rent.
- Purchasing expensive new machinery, which will enable the use of recyclable materials. Consequently, the cost of raw materials will fall by 25% and the noise and pollution level will be considerably reduced.
- Commissioning social and environmental audits.

(a) Define the following terms:

(i) *stakeholder* [2 marks]

(ii) *social responsibility*. [2 marks]

(b) Explain **three** possible sources of conflict that may arise between *Perfect Printing's* stakeholder groups. [6 marks]

(c) Analyse the value of an environmental audit from the perspective of the managers of *Perfect Printing*. [6 marks]

(d) Evaluate the proposal for *Perfect Printing* to become a socially responsible firm. [9 marks]

5. Out of India

The direction of globalization can change unexpectedly. India's leading information and communication technology (ICT) companies are under pressure to update their technology and they also struggle to cope with rising global demand for their services. Indian universities cannot keep up with the demand for new graduates, leading to wage inflation of about 15% a year. Moreover, the Indian currency (rupee) has appreciated 9.2% against the US dollar during the last year. The increasing cost of labour in India is forcing the country's largest ICT companies such as *Tata Consultancy Services*, *Infosys* and *Wipro* to resort to outsourcing their services to Mexico and hiring Mexican employees at a more reasonable cost. The Mexicans are perceived as professional and dedicated employees who are very keen to improve their managerial skills.

Some of the Indian ICT companies also set up operations in China where an excess supply of well-trained ICT graduates has kept wage inflation under control. Economic liberalization and rising industrialization make it even easier to operate in the country. However, the operation of the Indian ICT companies in China have made it more difficult for some local ICT businesses to compete.

In the USA, Indian-owned companies are hiring more Americans. Some of the reasons given by *Wipro* are:

- the work that is done requires more and more knowledge of local customers' needs and local people do that better
- the US government made the application for temporary working visas to transfer Indian workers to the US more complicated
- an office based in a closer time zone means that employees can offer customers a quicker service.

[Source: adapted from Steve Hamm, *It is the new off-shoring: Indian companies give jobs to Americans*, *The Independent on Sunday*, 17 June 2007 and Ashling O'Connor, *Indian wages spiral forces TCS to outsource in Mexico*, *The London Times*, 7 June 2007]

(a) Define the following terms:

(i) *globalization* [2 marks]

(ii) *outsourcing*. [2 marks]

(b) Use all of the PEST categories to explain **four** relevant external forces that may impact on an outward-looking Indian ICT company. [6 marks]

(c) Analyse the impact on a host country such as China of Indian ICT companies setting up operations there. [6 marks]

(d) Discuss the significance of the specified external forces and the responses of the Indian ICT companies to such forces. [9 marks]