

# Markscheme

November 2016

Business management

Higher level

Paper 2

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The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

| Marks | Level descriptor  |
|-------|---|
| 0     | The work does not reach a standard described by the descriptors below.  |
| 1–2   | <ul style="list-style-type: none"> <li>• Little understanding of the demands of the question.</li> <li>• Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking.</li> <li>• Little reference to the stimulus material.</li> </ul>   |
| 3–4   | <ul style="list-style-type: none"> <li>• Some understanding of the demands of the question.</li> <li>• Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used.</li> <li>• Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.</li> </ul>  |
| 5–6   | <ul style="list-style-type: none"> <li>• Understanding of most of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time.</li> <li>• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.</li> <li>• Some evidence of a balanced response.</li> <li>• Some judgments are relevant but not substantiated.</li> </ul>  |
| 7–8   | <ul style="list-style-type: none"> <li>• Good understanding of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used.</li> <li>• Good reference to the stimulus material.</li> <li>• Good evidence of a balanced response.</li> <li>• The judgments are relevant but not always well substantiated.</li> </ul>   |
| 9–10  | <ul style="list-style-type: none"> <li>• Good understanding of the demands of the question, including implications, where relevant.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response.</li> <li>• Effective use of the stimulus material in a way that significantly strengthens the response.</li> <li>• Evidence of balance is consistent throughout the response.</li> <li>• The judgments are relevant and well substantiated.</li> </ul> |

**Assessment criteria for Section C**

**Criterion A: Knowledge and conceptual understanding**

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

| <b>Marks</b> | <b>Level descriptor</b>  |
|--------------|--|
| <b>0</b>     | The work does not reach a standard described by the descriptors below.   |
| <b>1</b>     | Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.  |
| <b>2</b>     | Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.  |
| <b>3</b>     | Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth. |
| <b>4</b>     | Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.   |

**Criterion B: Application**

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

| <b>Marks</b> | <b>Level descriptor</b>   |
|--------------|---|
| <b>0</b>     | The work does not reach a standard described by the descriptors below.  |
| <b>1</b>     | The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.  |
| <b>2</b>     | The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.   |
| <b>3</b>     | The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided. |
| <b>4</b>     | The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.  |

**Criterion C: Reasoned arguments**

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

| Marks | Level descriptor   |
|-------|--|
| 0     | The work does not reach a standard described by the descriptors below. |
| 1     | Statements are made but these are superficial.                         |
| 2     | Relevant arguments are made but these are mostly unjustified.          |
| 3     | Relevant arguments are made and these are mostly justified.            |
| 4     | Relevant, balanced arguments are made and these are well justified.    |

**Criterion D: Structure**

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

| Marks | Level descriptor  |
|-------|---|
| 0     | The work does not reach a standard described by the descriptors below.                      |
| 1     | Two or fewer of the structural elements are present, and few ideas are clearly organized.   |
| 2     | Three of the structural elements are present, or most ideas are clearly organized.          |
| 3     | Three or four of the structural elements are present, and most ideas are clearly organized. |
| 4     | All of the structural elements are present, and ideas are clearly organized.                |

**Criterion E: Individuals and societies**

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

| Marks | Level descriptor  |
|-------|---|
| 0     | The work does not reach a standard described by the descriptors below.  |
| 1     | One individual or group perspective is considered superficially or inappropriately.   |
| 2     | One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately. |
| 3     | At least two relevant individual or group perspectives are considered appropriately.  |
| 4     | Balanced consideration is given to relevant individual and group perspectives.  |

**Section A**

- 1. (a) Describe **one** feature of a private limited company. [2]

Features of a private limited company may include:

- The company is incorporated. There is a separate legal entity between the shareholders.
- The shareholders have limited liability. The shareholders can only lose up to what they invested. Their private assets will not be affected in the event of any financial problems.
- The current owners, cannot sell shares publically on the stock exchange in order to raise more money.
- *Accept any other relevant feature.*

Award **[1]** for stating an appropriate feature and **[1]** for an appropriate description (application **not** required), up to a maximum of **[2]**.

- (b) For the new warehouse:

- (i) using information from the table above, calculate the average rate of return (ARR) (*show all your working*); [2]

$$ARR = \frac{\text{total returns} - \text{capital cost}}{\text{years of use}} \times 100$$

Total return over 6 years= \$208500

Total returns over 6 years: \$58 500

$$\text{Average annual profit: } \frac{58500}{6} = \$9750$$

$$ARR = \frac{9750}{150000} \times 100 = 6.5\%$$

Do not credit the formula

Award **[1]** for working and **[1]** for the correct answer.

Award a maximum of **[2]**.

Do not credit candidates for just presenting the formula as it is given.

Do not fully credit a figure that is not expressed as a percentage.

- (ii) using information from the table above, calculate the payback period (*show all your working*); [2]

Capital/investment cost: \$150 000

$$25\ 000 + 30\ 000 + 35\ 500 + 37\ 000 + (22\ 500 / 39\ 800) \times 12$$

Payback period = **4 years, 6 months and 24.18 days** /4years and 7 months **or 4.56 years or 4 years and 6.78 months.**

There is no need to calculate the number of days for full marks.

Award **[1]** for working and **[1]** for the correct answer.

Award a maximum of **[2]**.

- (iii) using information from the table below, calculate the net present value (NPV) at a discount rate of 6 % (*show all your working*). [2]

Using discount tables:

|        |                                      |
|--------|--------------------------------------|
| Year 1 | $25\,000 \times 0.9434 = 23\,585$    |
| Year 2 | $30\,000 \times 0.8900 = 26\,700$    |
| Year 3 | $35\,500 \times 0.8396 = 29\,805.8$  |
| Year 4 | $37\,000 \times 0.7921 = 29\,307.7$  |
| Year 5 | $39\,800 \times 0.7473 = 29\,742.54$ |
| Year 6 | $41\,200 \times 0.7050 = 29\,046$    |

Total present value = \$168 187.04

NPV = TPV – capital cost

NPV = \$18 187.04

Accept \$18 188 Accept \$18 187

Given that only [2] are available, on this occasion, full headings and full calculation for each year are not expected.

**Full marks can be awarded if there is some evidence of calculation especially the movement from the total DCF to NPV, if the DCF for each year is not shown but it is clear that the candidate understands the method.**

**N.B.** Allow candidate own figure rule (OFR)

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

Do not credit candidates for just presenting the formula as it is given.

- (c) Explain **one** disadvantage for S4U of using the NPV method of investment appraisal. [2]

A disadvantage for S4U of using the NPV method of investment appraisal is that the method relies on the use of a realistic discount factor. S4U has chosen 6% but could have chosen a higher or lower discount rate depending on the current level of interest rates present in the country in which S4U is located. It might be difficult for S4U's management to decide on the most accurate discount factor for a project that last for at least six years and the interest rate and inflation rate is likely to change. The interest rate is likely to change the longer the project takes, making a selection of a single discount rate of 6% very difficult. An accurate rate is crucial for S4U as a low discount factor will overestimate the return and a high discount factor will underestimate the return. The net cash flows are forecasted and they may be inaccurate.

Accept any other relevant disadvantage and explanation.

Do not credit a response that says that the all figures are forecasted as this limitation is relevant for all. The question is about a limitation for the NPV method.

Do not credit a response that says that the method does not take non- financial issue into consideration as this limitation is relevant for all. The question is about a limitation for the NPV method. Award [1] for a relevant and correct disadvantage identified and [1] for a relevant and correct explanation with application to S4U, up to a maximum of [2].

2. (a) Define the term *fixed cost*. [2]

A fixed cost is a cost that does not change with the level of production/output.

*Candidates are not expected to word their definition exactly as above.*

*Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that the payment does not change.*

*Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Candidates should receive a second mark if they convey the idea that it does not change according to the level of production/output. Do not credit an example.*

- (b) Calculate the break-even quantity of meals that *CL* must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]

Just to pay for the increase in fixed costs of \$3000, *CL* must sell 600 meals per month, calculated as follows:

Average sales price per meal – average variable costs per meal = contribution

$$\$10 - \$5 = \$5 \text{ contribution}$$

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

For full marks all stages of the calculation – the two stages – are expected.

An alternative method would be:

Total revenue (TR) = total costs (TC), where total revenue = Price × quantity sold and TC = Total fixed cost + total variable costs

$$10 [\text{price}] \times Q [\text{quantity sold}] = \text{Total fixed cost} + (\$5 [\text{variable cost per unit}] \times Q)$$

$$10Q = 3000 + 5Q$$

$$5Q = 3000$$

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

*Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].*

*For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.*



- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for *CL*, for the first six months of operation.

[6]

All figures in \$

|                                | July               | August             | September           | October             | November            | December            |
|--------------------------------|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| Sales revenue                  | 4000               | 4000               | 3500                | 3500                | 4000                | 4500                |
| Government payment toward rent | 1000               | 1000               | 1000                | 1000                | 1000                | 1000                |
| <b>Total receipts</b>          | <b>5000</b>        | <b>5000</b>        | <b>4500</b>         | <b>4500</b>         | <b>5000</b>         | <b>5500</b>         |
| Rent                           | 2000               | 2000               | 2000                | 2000                | 2000                | 2000                |
| Purchases                      | 1600               | 1600               | 1400                | 1400                | 1600                | 1800                |
| Salary                         | 1600               | 1600               | 1600                | 1600                | 1600                | 1600                |
| Electricity                    |                    | 200                |                     | 200                 |                     | 200                 |
| Cleaning supplies              | 100                | 100                | 100                 | 100                 | 100                 | 100                 |
| <b>Total payments</b>          | <b>5300</b>        | <b>5500</b>        | <b>5100</b>         | <b>5300</b>         | <b>5300</b>         | <b>5700</b>         |
| Net cash flow                  | <300>              | <500>              | <600>               | <800>               | <300>               | <200>               |
| <b>Opening balance</b>         | <b>0</b>           | <b>&lt;300&gt;</b> | <b>&lt;800&gt;</b>  | <b>&lt;1400&gt;</b> | <b>&lt;2200&gt;</b> | <b>&lt;2500&gt;</b> |
| <b>Closing balance</b>         | <b>&lt;300&gt;</b> | <b>&lt;800&gt;</b> | <b>&lt;1400&gt;</b> | <b>&lt;2200&gt;</b> | <b>&lt;2500&gt;</b> | <b>&lt;2700&gt;</b> |

**N.B.** Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. This provision includes both **mathematical** errors and **conceptual** errors (for example, if a candidate has the electricity fee monthly rather than every other month, it is one error) and candidates should only lose **[1]** for that error. Candidates who only show net rent payment should be penalised as one error as they have omitted the inflow.

**[1]** if the candidate has some idea of the structure of a cash flow forecast.

**[2]** for a cash flow forecast that has **more than** three mistakes or omissions in layout/ heading/ calculations (apply OFR).

**[3]** for a largely correct cash flow forecast that has three mistakes or omissions in layout/headings and/or calculation (apply OFR).

**[4]** for a largely correct cash flow forecast that has some minor mistakes with layout and /or headings and which has one mistake (apply OFR) **or** the candidate does not produce a mathematically correct cash flow.

**[5]** for a largely mathematically correct cash flow forecast that has one omission of one category **or** one mistake in calculations or headings.

**[6]** for a fully correct cash-flow forecast with a generally accepted format and lines/headings for total inflows/receipts, total outflows/payments (or some other acceptable wording), a line/ headings for net cash flow / inflow, etc and lines/headings for opening and closing balance.

### Section B

3. (a) Define the term *market share*. [2]

Market share is the measurement of one organization's sales (total revenue) in relation to the total industry sales (total revenue). The market share is presented as a percentage.

$$\text{Market share} = \frac{\text{organization's sales revenue}}{\text{industry's sales revenue}} \times 100$$

Candidates are **not** expected to word their definition **exactly** as above.

Award [1] for a basic definition that conveys partial knowledge and understanding. For example, only the formula is given.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. The candidate must demonstrate understanding that the market share is measured as a percentage or portion.

Do not credit an example.

- (b) With reference to Mei and Chi, explain **two** differences between a manager and a leader. [4]

A leader of an organization will probably be the overall strategic and goal setter. Based on experience, a leader will determine the vision for a business and if required, changes which will need to be made if the vision is in danger of not being realized. The leader therefore establishes direction, aligning employees, motivating, mentoring, inspiring as well as producing change. A leader inspires employees.

The main role of a manager is achieving specific organisational goals. A manager will attempt to put the vision of the business into daily practice looking more at short-term goals and day to day tactics. Managers will inevitably be involved with planning and budgeting and monitoring financial and individual performance more closely. Managers may micro-manage works including organizing resources and staffing to ensure that individual job performance is being maintained consistent with the goals of the organization. A manager also creates predictability and order.

From the stimulus it appears that Chi normally sets the vision of the business. He set up *CM*; he had the right business idea and has contributed considerably to the growth and success of *CM*. It also appears that Chi inspires and motivates many employees to follow a shared vision and indeed they are very loyal. His span of control is seemingly quite large. Implicit in the case is that his paternalistic leadership style is in contrast to Mei's more 'autocratic' approach and results-focused approach.

A leader normally emerges while managers are appointed. Mei as the manager has the official skills to manage while Chi has natural leadership ability.

Mei was appointed by Chi and seems intent on modernizing the organisation and therefore has the power to make some changes, but has not yet earned the trust of employees. Chi who was the founder of *CM* naturally emerged as a leader and inspired and motivated employees.

Leaders build trust using their charisma. At the moment, Chi is the one who is trusted and admired and followed and has control over the strategic direction while Mei is responsible for implementing changes although change is inevitable.

Managers follow rules and expectations. Mei is a manager who uses her theoretical knowledge to manage and set new objectives. With her use of new business theory and desire to restructure the organisation, Mei is probably looking to bring the organization up to date to boost efficiency. There is evidence that Mei is micro-managing employees through her desire to introduce job enlargement and enrichment schemes – real sources of tension leading to potential conflict. It is very likely that Mei is monitoring individual performance very closely in contrast to Chi's paternal approach.

As a manager, Mei is listened to due to her official title not her personality. While Chi is listened to due to his charisma, personal qualities and paternalistic attitude towards employees.

Mei also plans to implement an official performance appraisal system and thinks systematically but it alienates the employees.

*Accept any other relevant difference between a manager and a leader and if that difference is supported by the stimulus.*

*A role / characteristic can be applied to both roles but must be explained from different perspectives to be seen as two differences.*

**Mark as 2 + 2.**

**Award [1] for each relevant difference between a manager and a leader explained and [1] for appropriate application to the organization to a maximum of [2].**

- (c) Applying Maslow's theory of needs, explain **two** reasons why the workers at CM are becoming demotivated. **[4]**

It is expected that the candidates describe the Maslow theory of needs in terms of the hierarchy and the progression from the lower level of needs to the higher ones.

It is not expected that the response is divided into two explicit parts. The candidates can introduce theory while applying / linking / explaining an argument from the stimulus.

The application may include the following:

The proposed annual individual contracts based on annual appraisal may stop the employee from even reaching the lower level of needs like safety / job security. Not being able to satisfy such a need will definitely create demotivation and stop the employee from reaching higher levels of needs.

*(Candidates may apply this issue to the lowest level of needs.)*

Due to the proposed changes like the introduction of job enlargement, job enrichment and empowerment, employees might not even be able to reach the higher levels of needs, more specifically esteem and possibly self-actualization as they are not used to such practices and challenging tasks as well as a general fear of the unknown, hence may be demotivated. They are manual-skilled employees who have never been appraised before.

The retirement of many of their peers, may negatively affect the motivation level of the remaining employees. They may no longer be able to fulfil love or belonging needs as the social structure and group support may have disappeared.

*Accept any other relevant application.*

**N.B.:** *do not penalize if the pyramid of needs is not drawn, provided that the theory is explained.*

**Mark as 2+2** (Theory and Application)

**The theory**

*Award [1] for a brief/partial description of Maslow's theory. Some levels of needs may be missing or only the pyramid may be presented/drawn with no explanation.*

*Award [2] for a clear explanation of the theory.*

**The application to the case**

*Award [1] for application to the case, which is superficial for both reasons **OR** only one reason is clearly explained and applied.*

*Award [2] for a relevant, clearly explained application of both reasons why workers are becoming demotivated.*

*Up to [2] can be awarded for a good explanation as to why workers are demotivated even if the Maslow theory is not used.*

- (d) Examine **two** industrial/employee relations methods **other than** strike action that workers could use at *CM*.

[10]

It is expected that the candidate incorporates theoretical knowledge of two industrial/employee relations methods with direct application and judgment that is relevant to *CM*.

One of the possible options is to use **negotiation** through the process of collective bargaining. It is the least disruptive form of industrial action both to the employees and to the *CM*. Moreover, the employees are already members of a trade union. Hence, the infrastructure for negotiation has already been established. Given the successful outcome of past collective pay negotiations, it appears that some trust has been established between the management of *CM* and the employee representatives. The manual-skilled employees probably need the support of a trade union representative and for no extra cost to the employees, negotiation can be started.

However, Mei is not paternalistic like her father and she may resist the involvement of a union representative especially her proposed movement towards individual contracts based on individual performance appraisal. Collective bargaining might be of little use given the proposed change. She might prefer individual bargaining. Still a door for communication can be opened with the use of a representative which also reduces the time and resources for *CM* if individual bargaining is used.

The negotiation process may be long and time consuming. Mei seems to want the change to happen soon. One may see this option as a very significant / good option.

Other options are:

**Go slow/slowdowns:** the employees at *CM* will work at the minimum speed allowed under their contract.

**Work-to-rule:** the employees of *CM* follow their contract / rules and regulations without giving any goodwill to *CM*.

**Overtime bans:** refuse to work overtime when asked to by management.

Clearly, all of the above will reduce the current well established goodwill of employees; create a very negative and unproductive atmosphere / working relationship especially between Chi and his employees.

*CM* may lose the high quality of the product and quick delivery to customers. Both seem to be *CM*'s USP. Flexibility and hard work clearly enable *CM* to meet fluctuating demand. *CM* may lose its customers if demand is not met on time and the products are not delivered punctually.

Clearly, JIT manufacturing will be severely affected given the short time from order to delivery expected by the car manufacturers.

One may judge the consequences of the above on *CM* as severe given the past success and the nature of production.

**However**, given the severe negative effects on CM's productivity and quality, Mei might be willing to speed up negotiations as well as to compromise. The employees are likely to be successful as they actually do not break any rules or the law and work according to their contract. Counter action on behalf of CM is unlikely to happen.

**Moreover**, employees might be negatively affected as well. Currently, they rely on and receive additional payments for overtime. Many employees might suffer a considerable loss of earnings especially when fluctuating demand is very high. Employees might experience financial difficulties given the nature of their employment — manual skilled.

Although the three options above (apart from negotiation) are similar in the nature of the action taken and the effects both on the employees and CM, accept any response that incorporates two methods, provided the discussion is not identical.

**Overall**, given the possible and the more significant consequences of the last three options, for both the employees and CM (especially overtime bans among the last three), perhaps it is recommended that CM's management especially Mei accept the collective negotiation / bargaining option that proved successful in the past, even if her strategic direction is towards individualism.

The negative effects on CM and the employees are minimal. The employees can intensify their action if the negotiation fails, but it is worth a try to start with the most moderated action and to see if Mei is willing to compromise once the benefits of the proposed changes are explained to the employees.

*Accept any other substantiated judgment.*

**N.B.** *do not credit strike action.*

It is expected that candidates provide a conclusion with a substantiated judgment.

*Marks should be allocated according to the markbands on page 3.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*If a candidate evaluates / addresses only one method, award a maximum of [5].*

*A balanced response is one that provides at least one argument for and one argument against each option.*

*Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.*

*Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

4. (a) Define the term *target market*. [2]

A target market is defined as a group of consumers with similar needs and wants/characteristics (demographic) that a business decides to focus on in terms of its operations and/or marketing. A4A's target market for its adventure parks has been families.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

Award [0] if the candidate writes "target market is when an organization targets a particular part of a market". Or a similar answer where the candidate repeats the question using the same terminology in the answer.

Do not credit an example.

- (b) Explain **two** roles of A4A's mission statement. [4]

A mission statement is a way of communicating to its stakeholders the current purpose of a business, what the organisation is for. It is clear from the mission statement that A4A exists to provide great adventures for teenagers and adults which are safe and affordable.

It can be used to guide current objectives. For A4A, the mission is to provide fun, safe and affordable adventures hence predatory pricing is being used.

A mission statement can provide a sense of purpose and direction and act as a motivational force for employees. It is stated that many of the managers are long serving ones who have been at A4A with Tama since its creation. Moreover, employees' motivation is important for any provision of any service especially when teenagers are the recipient of the service.

The mission statement could also act as an incentive to encourage ethical external sources of finance by investors who are motivated by A4A's objective (or mission) to provide adventures for all. A4A may be able to raise finance for the implementation of its chosen option particularly option 2 which has a capital spending requirement.

Accept any other relevant explanation.

**Mark as a 2+2.**

Award [1] for each role identified and an additional [1] for development with application to A4A. Award a maximum of [2] per role.

[2] cannot be awarded per role if the response lacks either explanation **and / or** application.

For example:

For an identification or a description of a role **with or without** application [1].

For explanation of role with **no** application [1].

For explanation of a role **and** application [2].

- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy. [4]

Predatory pricing (also undercutting. Some textbooks may refer to destroyer pricing which is illegal and anticompetitive) is a pricing method where a product or service is set at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors.

Predatory pricing has the advantage for A4A as a competitive tool given that its target market is teenagers and adults who we assume would be price sensitive given that there are other competing forms of adventure activity entertainment. Therefore A4A is trying to get rid of the competitors by using this pricing strategy.

“Affordable” pricing is enshrined in its current mission statement and predatory pricing thus also deemed to be appropriate and ethical. A reference to **competitors** should be accepted as application as there is not much more info in the case about the competitors.

However for disadvantages:

- A4A has already started to experience a fall in profit. Predatory pricing can only be used in a short term especially now given the fall in revenue and profit A4A might start to experience a loss. Therefore this pricing strategy does not fit the changes in the external environment as stated in the stimulus that caused a fall in profit.
- predatory pricing has been considered in some countries as illegal or anti-competitive (but there is no evidence from the stimulus that this has occurred for A4A).
- there could be “quality concerns” by some stakeholders that much lower than competitor prices may imply a poor quality service and safety concerns. This could be significant given that in the stimulus a new service aimed at special needs children and adults is to be introduced.
- if costs rise, then A4A could lose its competitive advantage if it is forced to change its pricing method to be more market based.
- the stimulus suggests that profits and revenues are falling. Predatory pricing limits the possibility of reducing prices further to fuel sales growth.

*Accept any other relevant explanation.*

**Mark as a 2+2.**

*Award [1] for an appropriate advantage/disadvantage identified and an additional [1] for development of the explanation illustrating the appropriateness of predatory pricing with respect to A4A. Award a maximum of [2].*

*[2] cannot be awarded per advantage/disadvantage if the response lacks either explanation **and** / **or** application.*

*For example:*

*For an identification/description of an advantage/ disadvantage **with or without** application [1].*

*For explanation of an advantage/ disadvantage with **no** application [1].*

*For explanation of an advantage/ disadvantage **and** application [2].*



- (d) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

The two possible growth strategies are linked to two cells of the Ansoff matrix.

Catering for children and adults with disabilities and access requirements could be considered as **market development** as there is a new market to be catered for with an existing product (A4A's current facilities).

The corporate team building market, which would require A4A creating a new product to cater for a new target market could be referred to as **diversification**.

The Ansoff matrix would highlight that the latter diversification option would be the riskiest given the lack of familiarity and experience in servicing the corporate senior leadership team market.

The first growth strategy is likely to be cheaper and quicker for A4A to organize. It is assumed that no modification will be required as opposed to the diversification strategy. There will possibly be additional health and safety concerns given that the market development strategy is focusing on children and adults with disabilities and access requirements. A4A might have to adapt the facilities after all hence more costs than currently are expected. Moreover, additional training costs will be necessary but one may judge this extra cost as short term only and relatively minor. This option is classified as a medium-risk strategy on the Ansoff matrix, as A4A is not familiar with the market only but very familiar and experienced with the product. This risk can be reduced by training and accumulated experience hence this argument can be judged as of lower significance.

The mission of A4A need not be damaged and might even be improved. A4A will be able to dispose of its predatory pricing strategy, which is risky as there will be none or fewer competitors. One may argue that A4A cannot continue with its predatory pricing for long due to losses if sold below production costs or due to government intervention. Still, a different higher pricing strategy might deter the clients.

However, staff training across all four centres will be an important consideration in both options but especially in this **market development** given that safety is part of A4A's mission. Tama will need to ensure that he has clear guidelines in place to run this service for children and adults with disabilities and access requirements. As said above, this is likely to increase costs.

Profit growth may be small and there are issues of sustainability for the whole of A4A's workforce if this **market development** strategy is not successful as highlighted by two of the senior managers.

The second growth strategy, **diversification**, is riskier, as A4A will not be familiar with the product/service and the market. The expected profitability of the second option will protect all 342 jobs across the 4 centres and therefore assumes greater significance than the market development option. Set up costs are likely to be higher given that A4A is moving into a higher valued/priced niche market, but higher prices and thus revenues should compensate. The new pricing method is likely to be more sustainable in the long run than predatory pricing that might end soon when A4A starts to make a loss or is sued by competitors/attracts government intervention. This new pricing method may confuse some potential customers given A4A's mission and knowledge of A4A's predatory pricing strategy. Still, organisations that pay for corporate team building activities are unlikely to expect predatory prices. Hence, this argument can be judged as rather insignificant.

The significant costs of building the centre should also not be overlooked. This can put enormous financial strain on A4A especially in the short term. However, given the pricing strategy above and the new positioning, A4A can become profitable in the medium to longer term.

The second option, **diversification**, also damages A4A's mission statement, as some senior managers think so. Resentment is already growing and Tama can ill afford conflict at a difficult financial time especially as long serving managers with experience are the ones who seem to be the most concerned. Tama's loyalty to his senior staff will be tested and he may have to make some managerial changes if this resentment grows and if the **diversification** option is selected.

It is expected that candidates provide a conclusion and a final judgment that is substantiated.

For example: on balance, the second growth strategy is recommended despite the higher level of risk.

*Accept any other relevant evaluation.*

*For the top markband, candidates must apply the Ansoff matrix correctly to their discussion.*

*Do not penalize if the matrix is not drawn provided it is well explained/ used.*

*If the Ansoff strategic options are not used or not used correctly but the response covers some relevant and balanced arguments for each option award up to **[4]** even if evaluation is evident.*

*Marks should be allocated according to the markbands on page 3.*

*For one relevant issue that is one-sided, award up to **[3]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4]**.*

*If a candidate evaluates / addresses only one growth strategy, award a maximum of **[5]**.*

*Award a maximum of **[6]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

5. (a) Define the term *de-layering*. [2]

Delaying is the action of removing a level in a business hierarchy in order to reduce the size of a business hierarchy, especially in terms of a reduction in management. This creates a flatter (less layered) organizational structure.

*Candidates are **not** expected to word their definition **exactly** as above*

*Award [1] for a basic definition that conveys partial knowledge and understanding.*

*Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Candidates need to refer to the action/decision of... not necessarily mentioning the word action but “removing”, or “moving”.*

*Do not credit an example.*

- (b) Explain **two** advantages for *TH* of having three separate profit centres. [4]

A profit centre is run as a separate business centre within a business which generates revenue and costs that can be attributed to the activities of the centre hence profit can be calculated. For example, in this case, the function room buys meals from the hotel restaurant. The capacity of the function room may be limited in terms of revenue hence the management can concentrate on costs reduction to increase profit. It gives the function room the flexibility to make a decision and outsource their costs somewhere else which in turn, is likely to encourage the restaurant to stay more competitive.

The real advantage is that senior management, the centre managers and employees know which segments/centres/ activity/ parts of *TH* are profitable and which are not. In addition, the directors are able to evaluate which centre contributes most to the business’s profits and this helps to inform decision-making.

By using profit centres it makes the managers of each profit centre more responsible and accountable for the costs they incur and the sales they make – their positions in the business may be dependent on making a profit. Changes in the profits made by each centre may be used to judge the efficiency of each part of the hotel. Also, the efficiency of all parts of the hotel can be monitored and compared. Creative competition may increase efficiency and act as a driver to generate more revenue which may act as a motivator.

Senior management could easily realize that a decision in the past to delay and offer flexible contracts clearly reduced costs and improved profitability of the function rooms. Hence, financially an effective decision. Moreover, the impact of the recent problems of demotivation are likely to become more evident in the near future when profitability is likely to decrease.

*TH’s* mission is to be the best employer and offer the highest quality of customer service. By utilizing profit centres, incentives could be created for managers striving to offer the highest levels of customer service.

*Do not accept “spreading the risk”, as the risk is spread by having a larger portfolio not by operating as profit centre.*

*Accept any other relevant advantage and explanation.*

**Mark as 2+2.**

*Award [1] for each correct advantage identified and [1] for a relevant explanation with application to TH. Award up to a maximum of [2] per advantage explained. [2] cannot be awarded per advantage/disadvantage if the response lacks either explanation **and** / **or** application.*

*For example:*

*For an identification/description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (c) Explain **one** benefit and **one** negative consequence for *TH* of an increase in labour turnover.

[4]

Positive benefits include:

- Some level of labour turnover is important to bring new ideas, skills and enthusiasm to the workforce especially when competition is increasing for the function rooms.
- Wages are kept low due to new staff starting on the lowest rates. It is expected that companies which employ a high number of students will have a high staff turnover as students are likely to move away when they graduate. Hence, high staff turnover in the service industry that relies on students can be seen as inevitable.

*Accept any other relevant benefit.*

Negative consequences include:

- High staff turnover might have a demotivating effect on remaining staff in addition to absenteeism and poor punctuality.
- Extra costs:
- There will be an increase in recruitment costs as vacant posts will need to be advertised and staff interviewed.
- There will be an increase in training costs as new staff will need induction training and may need additional training for their posts in the function room.
- There will be an increase in recruitment costs as vacant posts will need to be advertised and staff interviewed.

All of the extra costs mentioned above will reduce the effects of other cost-cutting measures, such as delayering and the use of flexible contracts.

- There is likely to be an impact on the quality of customer service at least in the short term whilst new staff are trained and get used to the function room's systems. In addition to the late delivery of the meals this may result in more customer complaints and a poor image. Due to the increase in competition, *TH*, and especially the function room, cannot afford an increase in complaints.
- High staff turnover suggests a possible problem with and resentment towards the new flexible contract.

*Accept any other relevant consequence.*

**Mark as 2+2.**

*Award [1] for a correct benefit / negative consequence identified and [1] for a relevant explanation with application to TH. Award up to a maximum of [2] per benefit / negative consequence explained.*

*[2] cannot be awarded per benefit /negative consequence if the response lacks either explanation **and** / **or** application.*

*For example:*

*For an identification/description of a benefit /negative consequence **with or without** application [1].*

*For explanation of a benefit /negative consequence with **no** application [1].*

*For explanation of benefit /negative consequence **and** application [2].*

- (d) Discuss the proposal to outsource all function room services to a private contractor. **[10]**

Outsourcing is when a business ceases to run a functional area of its business and instead contracts this out to a third party. This third party provides the staff to run these functional areas of the business. They are responsible for recruitment, training and disciplinary matters.

One assumes that *TH* management will conduct thorough market research in order to find the most suitable outsourcer /subcontractor with a good reputation. The quality of the service can be significantly improved which will outweigh the increase in the direct cost due to the relatively high price that the outsourcer/subcontractor charges. *TH* is in critical need to improve efficiency and quality.

The function room has been suffering from absenteeism and punctuality problems and this is likely to have reduced the standards of customer care at weddings and conferences. The outsourcer/subcontractor company will ensure it has sufficient staff to provide the correct levels of customer care and the contract between the hotel and the outsourcer would outline the staffing levels that are needed.

*TH* will no longer need to recruit; train or discipline function room workers and this will cut its indirect costs.

The problems with food being delivered late from the hotel restaurant may be solved as the outsourcer is likely to use its own food supplier.

However the outsourcer /subcontractor will charge more than the direct costs. Still a slight increase in costs might be worthwhile if it results in improved customer care.

The outsourcer's/subcontractor's employees might not share the hotel's mission statement? Will customer care improve? Will the outsourced/subcontracted staff embrace the hotel's philosophy?

The hotel will have to draw up a contract with the outsourcer/subcontractor and it is likely that service standards will be written into this – if the outsourcer/subcontractor fails to meet the standards then the hotel will be able to terminate the contract at short notice. However this would result in even further upheaval for the business with consequences for customer care.

Furthermore, there will be another impact on restaurant sales – currently 30 % of restaurant sales are to the function room – the outsourcer/subcontractor may use its own supplier of meals and if so restaurant sales and profits will fall. Also, if the outsourcer/subcontractor does not provide a good service, it may negatively impact on the two other profit centres.

The reduced problems with absenteeism and punctuality should improve customer care, but the doubt remains as to whether these staff will feel part of the business and be committed to the hotel's mission statement. It may lead to an improvement in basic customer care but not to the level that the hotel's mission statement aspires.

However, there is no guarantee that the current managers will either get jobs with the outsourcer or will want to work for them. This may lead to a period of transition and their knowledge of how the business runs will be lost. The owners might consider that other solutions might be more effective and less risky, such as

operating a rewards system that improves attendance and punctuality amongst the lower paid staff.

In conclusion, outsourcing should lead to fewer problems with absenteeism and punctuality as the outsourcer/subcontractor should have sufficient staff to deploy on any given day. It will relieve the hotel of the need to recruit and train staff and this will cut the hotel's costs. However outsourcing is more expensive than providing the function room "in-house" – whether it is cheaper depends on how much is saved in recruitment and training of function room staff.

*Accept any other relevant discussion.*

*It is expected that candidates provide a conclusion with a substantiated judgment.*

*Marks should be allocated according to the markbands on page 3.*

*For one relevant issue that is one-sided, award up to **[3]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4]**.*

*If a candidate evaluates / addresses only one issue, award a maximum of **[5]**.*

*A balanced response is one that provides at least two arguments for and two arguments against the option.*

*Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.*

*Award a maximum of **[6]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

## Section C

Questions 6 to 8. Please mark the candidate response using the assessment criteria on pages 4 to 5.

6. With reference to an organization of your choice, discuss the ways in which **culture** can influence international marketing **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]

***N.B.** Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially ethics. For example, what types of business ethics? What strategies were changed or not due to globalization which impacted on business ethics.*

*Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.*

8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]

### **Additional guidance in relation to the assessment criteria**

*For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.*

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.*
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.*

*If only **one** concept is addressed:*

*Criteria A, B, C and E: award up to a maximum [3].*

*Criterion D: full marks can be awarded.*

*Where the question ask for impacts of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.*

### **Criterion B**

*For [2]: "...connection is not developed" should be treated the same as superficial.*

### **Criterion C**

***1+1 arguments are expected per concepts.***

- Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2+2 arguments for a balanced response.*
- Justification is through logic or data.*
- For [2] there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.*
- For [3] there are some balanced arguments – some of which are justified.*



**Criterion D**

- *Introductions need to be concise and related to the question.*
- *The candidate's response does not to have explicit headings for each structural element.*
- *A body is the area in which the substance of arguments occur. It is usually located between the introduction and the conclusion.*
- *Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.*

**Criterion E**

- *One example of an "individual" could be an individual consumer or an individual manager. However this cannot be considered with a "group" of consumers or a management team.*
  - *For [4], a balanced response: look at the perspectives of **both** individual **and** group(s). The chosen individual, group needs to be **applicable** and **relevant** to the question with specific explanation.*
  - *Candidates need to go beyond stating the stakeholder. Candidates need not explicitly say "stakeholder".*
-