

Markscheme

May 2018

Business management

















Higher level












Paper 2


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The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
	AE - Attempts Evaluation	
	BOD - Benefit of the doubt	
	CKS - Clear Knowledge Shown	
	Cross - Incorrect point	
	DES - Descriptive	
	EE - Effective evaluation	
	GA - Good Analysis	
	GD - Good Definition	
	GEXA - Good Example	
	GEXP - Good Explanation	
GP	GP - Good Point	
	H Line - Underline tool	
	Highlight - Highlight tool	
	IR - Irrelevant	
	IU - Inappropriate Use	
	LD - Lacks Depth	
	LLS - Lacks Logical Structure	

	NAQ - Not Answered Question	
	NBOD - No benefit of the doubt	
	NE - Not enough	
	On Page Comment - On page comment tool	
	P - Paragraphing	
	PE - Poorly expressed	
	QuestionMark - Unclear	
	SEEN_Small - Seen	
	Tick Colourable	
	TV - Too vague	
	UR - Unbalanced Response	

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

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

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).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	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.
3	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.
4	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.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	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.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	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.
4	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) Define the term *unique selling point/proposition (USP)*. [2]

A unique selling point is any aspect of the organization, brand or product that enables differentiation in consumers' minds from competitors.

N.B. no application required. Do not credit examples.

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

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. There should be some reference to differentiation from competition.

Candidates may refer to either the product or brand aspect of the organisation only.

- (b) (i) Construct a fully labelled balance sheet for VT for the end of 2017. [5]

Balance sheet for VT for the end of 2017:

Fixed assets		
Less accumulated depreciation:		
Net fixed assets		\$27 000
(Accept 0 next to the above or accept just Net fixed assets)		
Current assets:		
Stock	\$4500	
Debtor	\$3500	
Cash	\$1000	
Total CA		\$9000
 Current liabilities:		
Overdraft	\$2000	
Creditors	\$4000	
Short-term loans	\$1500	
Total CL		\$7500
 Net current assets/working capital \$1500 (9000-7500)		
 Total assets less current liabilities		\$28 500
 Long-term liabilities	\$5000	
 Net assets		\$23 500
 Financed by:		
Share capital		\$13 500
Retained profit		\$10 000
Equity		\$23 500

Accurate presentation refers to the correct heading, sub-heading and to the inclusion of all and only the relevant figures.

Allow OFR.

The presentation of the B/S can be done in one column.

Award **[0]** if the B/S does not reach a standard described below.

Award **[1]** if the B/S is not accurately constructed, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is **limited evidence** of a general understanding of the format. More than four mistakes/ omissions are evident.

Deduct 1 mark for each irrelevant addition of figures/irrelevant heading/ omission which includes the overall heading.

Award **[5]** if the B/S is accurately constructed in the expected IBO format. All the relevant headings of each component/ parts are used and correctly classified. Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/ component of the B/S are correct and well presented.

To get full marks the candidate has to present the format in full as presented in the IB programme. For example, the presentation, calculation of working capital, the subtraction of LTL to arrive at Net Assets.

N.B. If the candidate did not follow the IBO format award up to **[2]** marks.

- (ii) Calculate the acid test (quick) ratio for VT for 2018. **[1]**

Current assets: \$9000
Stock: \$4500
Current liabilities: 47 500

$$\text{Acid test ratio: } \frac{\$9000 - \$4500}{\$7500} = 0.6$$

Award **[1]** for a correct answer.

As the formulae is given and the question does not specifically ask for working, do not penalize for a lack of working. However, do not credit 0.6 expressed in percentage or \$.

- (c) Explain **one** reason for *VT* to use the reducing balance method of depreciation. **[2]**

Using the reducing balance method of depreciation will reflect the reality of depreciation better. The use of percentage will result in higher depreciation figures in the early life of the asset. As a highly innovative 3D printer is used, it is likely, given fast-changing technology, that this asset depreciates more rapidly at a higher rate in the early part of the product life cycle and at a slower rate later on. Hence the B/S figures for each year will be more realistic and be balanced overall.

Therefore, *VT*'s balance sheet net fixed assets will reflect more accurately the real value of its fixed assets.

If the financial manager uses the reducing balance, the allowance will be higher in the early years of 2017/18, hence net profit before interest and tax is lower and therefore *VT*'s tax bill will be lower. In line with the financial manager's objective.

Accept any other relevant explanation.

Award [1] for a relevant generic reason identified or described and [1] for any additional explanation in context.

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

The exact advantage/ impact/ reason to the organisation must be explained. For example, realistic for what? Accuracy of the B/S, payment of lower taxes earlier in the life of the machine before a replacement for example:

- *for an identification or a description of one reason **with or without** application [1]*
- *for explanation of one reason with **no** application [1]*
- *for explanation of the limitation **and** application [2].*

2. (a) Define the term *supply chain*. [2]

The term supply chain refers to a system, a process of organising people, activities, information and resources to move a product or service from supplier to customers/end users.

Award [1] if the definition is only partial or considers supply chain as the same as distribution channel.

Award [2] for a definition similar to the one above, which looks as supply chain as the whole mechanism of production from raw material purchase to final delivery.

- (b) Calculate:

For any calculation, do not penalise for the lack of \$ sign.

- (i) the total contribution of existing meals sold per month (*show all your working*); [2]

$$\text{The contribution per unit of existing meals} = \$8 - \$5 = \$3$$

$$\text{Number of meals sold} = 800$$

$$\text{Total contribution of existing meals sold per month} = 800 \times \$3 = \$2400$$

Award [2] for a correct final answer of \$2400 with full working.

Award [1] for a correct answer without working.

Do not credit when only contribution per unit is presented as a final answer.

- (ii) the total profit or loss on existing meals for May 2018 (*show all your working*); [1]

$$\begin{aligned} \text{TR-TC} &= \text{profit} \\ \$8 \times 800 - [\$2400 + \$5 \times 800] \\ \$6400 - [\$2400 + 4000] \\ \$6400 - \$6400 &= 0 \end{aligned}$$

Accept any other method of working.

Candidates are not expected to set out their answer in this manner.

Award [1] for a correct answer with working. Candidates do not need to state that Jill is breaking even. (As the question asks for working)

- (iii) the forecast profit or loss if Jill decides to **make** and sell gluten-free meals (show all your working); [2]

Contribution = \$14 – \$10 = \$4 per meal
 Total contribution = 1200 x \$4 = \$4800
 Total forecast profit = 4800 – (2400 +400 **extra** fixed cost for gluten meals)
Total forecast profit = \$2000

OR

Profit = TR – TC
 Profit = (14 x 1200) – (2800 + (1200 x10))
 Forecast profit = 16 800 – 14 800
Forecast profit = \$2000

Award [1] if there is one error in calculation, eg forgetting to add the extra fixed cost component, or the correct answer is given but there is no working.

Award [2] for both the correct answer and clear and suitable working.

- (iv) the contribution per unit of a gluten-free meal, if Jill decides to **buy-in** gluten-free meals (show all your working). [1]

The contribution per meal if Jill decides to buy-in = \$14 – \$8 = \$6

Award [1] for the correct answer only with working shown.

- (c) Using your answer from (b) (iii) and (iv), explain whether Jill should buy-in or make the gluten-free meals herself. [2]

Buys in:
 1200x\$14 – [2400+1200x\$8]
 \$16800- [2400+9600]
 \$16800-\$12000
 4800 profit

Which is **\$2800** higher than in (iii) - the cost to **make** with profit of **\$2000**
 Candidates do not have to repeat all of the working above if presented in the previous answers especially in (b)(iii).

Or:
 Buys in:
 12000x\$6 - 2400 (using contribution method)

\$16800- [2400+9600] \$7200-\$2400= **\$4800 profit**

\$16800-\$12000

\$4800 profit

Which is \$2800 higher than the profit of \$2000 if she makes them herself in part (iii).

Accept any other method.

Given the nature of the question regarding reference to (b)(iii) and (iv) it is expected that the candidates incorporate references to the change in contribution and or profit

Award [1] for just using the extra contribution to support but without reference to/ or calculation of profit before and after.

Award [1] for a response that mentions some relevant qualitative issues with reference to or comparison with the option to make.

*Award [2] for a correct numerical answer with some references to the **exact** figures of profit before and after.*

Do not credit a response that just says that Jill should accept the offer without any calculation or reference to profit or contribution when buying.

Please note:

Some candidate just referred to a fall in fixed cost- not to contribution or profit. Do not award.

Do not credit a response that does not demonstrate some attempt to calculate the option of buying or refer to profit after buying.

Allow OFR

Section B

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

Market share can be defined as a percentage of an organization's total sales revenue in relation to the total market sales revenue within a specific industry.

Accept any other relevant definition.

N.B. *no application required. Do not credit examples.*

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

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

Accept the formula as an indication of percentage.

- (b) Explain **one** advantage **and one** disadvantage for *SD* of working at almost full capacity utilization. [4]

Referring to the 98% capacity utilization as mentioned in the stimulus should not be treated as application.

Some of the **advantages** of working at almost full capacity utilization:

- Almost full capacity utilization indicates that there is **sufficient demand** for *SD*. All resources are nearly fully utilized, in this case the delivery people, so it is likely that their financial rewards are higher, especially if paid by meals delivered. Even if a fixed salary is paid, high demand at near full capacity utilization may provide opportunities for working overtime.
- Constant work could also increase the motivation of the delivery people due to job security.
- If a fixed salary is paid, *SD* does not pay its workers for idle time. Better financial management is evident as can be seen by the high 20% GPM.
- Due to satisfying the assumed high demand the profit is likely to increase. See figures presented.

Disadvantages:

- *SD* flexibility might be reduced if a new organization approaches it to act as a subcontractor. *SD* will lose out on potential new clients in the currently growing market and growing competition for home delivered, freshly cooked meals.
- The cyclists/delivery people may be overworked and unmotivated. Accidents are more likely to occur when the cyclists are rushed to deliver.
- Quality compromised and *SD* might lose some contracts, especially as more competitors are entering the markets. There is evidence in the stimulus of some late deliveries, which reduced the quality of the meals delivered.
- The bicycles are more likely to break down, leading to increased costs and further delay of the arrival of the meals to customers. *SD* will lose many contracts, especially as a stronger competitor is entering the market. *SD*'s highest market share/ power will be eroded.

Accept any other relevant and applicable advantage/disadvantage.

Mark as 2 + 2.

Award **[1]** for identifying or describing the advantage/disadvantage for working at full capacity and a further **[1]** for a development with respect/ application to SD. 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 or a 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** advantage **and one** disadvantage for SD of using an internal growth strategy. **[4]**

Internal growth strategy is proposed. It is expected that candidates describe the nature/meaning of this type of growth where the company grows from within using their own resources and capabilities to expand and grow in size/market share by investing in scooters and employing more staff to deliver the meals.

Advantages:

- The management of SD will have full control of the process of growth in terms of speed, priorities and the amount of capital spent. As the stimulus outlines a large amount of finance is needed and the management could decide on the number of scooters etc. There will be no need for consultation and discussion with another organization be it through merger/takeover, joint venture or strategic alliance. Therefore, SD can react quickly to the current problem of late deliveries.
- It appears that SD is a successful company given the profit margins and perhaps operating within a successful organizational culture. SD will not lose its independence and/or culture. Nor will it experience any cultural clashes with the management and employees of a different organisation. Less change management is required/ less disruption to SD.
- Internal growth is likely to be cheaper than the external growth option of takeover. However, the stimulus outlines that a lot of capital has to be raised, so this option is theoretical rather than applicable. Nevertheless, the 6% return on the investment in scooters is relatively high and the investment is profitable.
- The proposed internal growth strategy will make the working life of the staff easier and more efficient. Motivation is likely to increase.

Disadvantages:

- This method of growth is considerably slower compared to external growth. SD might not be able to compete with the newly merged competitors who are likely to be stronger. SD is likely to struggle against the new competitor and lose its current market leader position. SD will not be able to take immediate advantage of the growing market as the CEO plans.
- Some shareholders are against this option perhaps due to a large sum of finance being required. Shareholders tends to expect short term, quick results/dividends and are likely to block the proposal. The proposed option is against the current trend of consolidation. SD might not be able to compete with the newly created powerful competitor.

Please note that while some text books may say that internal growth is cheaper, there is an indication in the stimulus that this particular option may pose a financial challenge to SD. Options such as a strategic alliance or franchising could be cheaper.

Accept any other relevant/applicable advantage / disadvantage.

Mark as 2 + 2.

Award **[1]** for identifying or describing the advantage / disadvantage of internal growth and a further **[1]** for a development with respect to SD. 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 or a 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) Discuss **two** appropriate sources of finance for SD to purchase the scooters.

[10]

Some of the possible sources of finance:

Issuing more shares – as a private limited company, SD can definitely issue more shares. Currently, SD is **highly geared = 65 %** so the option of shares might be an appropriate one, especially if the banks will not offer finance. Issuing shares will not require any payback of the loans and will not subject SD to vulnerability of interest rate fluctuations. GPM (20%)/NPM (9 %) are healthy in this industry, so dividends are likely to be paid. The payback is relatively short and the ARR is quite high / reasonable. If the current shareholders buy extra shares, ownership will not be diluted; if other friends and family buy the shares, the current shareholders' control might be diluted and they may raise objections. However, the current shareholders still control who buys the shares. Control will be not lost.

Going public (IPO) – an expensive and very time consuming source of finance that may not be judged as suitable for SD as a quick reaction to the competitors is needed. However, SD can raise a significant amount of finance needed to purchase the scooters which is much needed as stated in the stimulus. Ownership may be diluted with a risk of losing control. However, a very low current ratio of 0.9 indicates liquidity problems which might deter investors.

Long term bank loans – If agreed, the money can be given quickly / quicker than issuing shares, this is a very significant advantage for SD given the urgent need for action. However, the banks will be worried about SD being highly geared with its current obligation to pay interest as well as to pay back the loan. Moreover, given the low current ratio, it is likely that the bank's financial manager will refuse the loan due to liquidity problems. Also, SD does not manage its short term liquidity- see debtors and creditors hence the bank may be worried of insolvency.

Leasing the scooters – could provide a good solution for *SD*. The scooters can be leased quickly and maintained by the leased company. This fits the managers' objectives of a quick response. *SD* will pay a relatively small amount every month, which mitigates the problem of raising a large sum of money. However, while, if bought, the scooters will become *SD* fixed assets after **3.2 years (payback)**, if leased, they will never be *SD*'s. Still, one may judge this issue as less significant as the need for a quick reaction is vital

Venture capitalists/business angel – As *SD* is highly geared, coupled with the likelihood that the banks refuse a loan, the use of the above might seem highly suitable especially if there is potential to make a quick /significant profit as seen given the GPM 20% and NPM 9 %. However, venture capitalists/business angels might be reluctant to join *SD* due to the merger between competitors and some discord with shareholders re: the methods of growth. However, a very low current ratio of 0.9 indicates liquidity problems which might deter investors.

Accept different arguments for the above option if fully justified.

Using retained profit - *SD* is profitable. GPM is 20 % and NPM is 4%. While we do not know the industry norm, one may judge this option as highly suitable as *SD* will not be subject to fluctuating interest rates and repayments. It is also likely that being Ltd, the shareholders will agree to have less dividends to pursue the strategic option of internal finance.

However, some shareholders might object to this option. Despite the percentage given of the profit margin, it might not be sufficient to generate the large sum of finance required and *SD* might have to opt for external source of finance.

Sell fixed assets – The main assets are bicycles. Selling these assets can generate some finance. However, it might be judged as a limited source /method to raise finance, as the bikes will not generate the cash needed, if any. Another possibility is to sell some fixed assets like the office.

Accept different arguments for the above option if fully justified.

Please note:

- *Long-term or medium-term sources of finance only should be considered.*
- *Do not accept some short-term sources of finance such as an overdraft, short term loan or creditors.*
- *Accept debtors or debt factoring if the candidate comments on their unsuitability given the liquidity problem.*
- *Accept 'loan'*
- *If the candidate wrote 'short term loan' instead of just 'loan' but the arguments for /against are relevant /applicable give some credit.*
- *It is expected that the candidates suggest the suitability or otherwise of two different sources of finance. Within the above categories, candidates can suggest any source of finance, including some, which might not be highly appropriate, as long as they evaluate the appropriateness of their chosen sources. Candidates are expected to use the **financial information provided** as part of their evaluation. Not using **any** quantitative information reduces the quality of application and makes the response rather generic, therefore award up to **5 marks**.*
- *Candidates should not divert into a solution to some cash-flow problem given the debtor and creditors ratios*
- *It is not expected that the candidate incorporate all of the above arguments.*

- *Accept any other relevant issue.*
- *Accept any other relevant discussion.*
- *A conclusion with judgment is expected.*

A balanced response is one that covers at least one issue/argument for and at least one argument against each option.

Marks should be allocated according to the markbands on page 5 with further guidance below.

*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]**.*

*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) Describe **one** role of a vision statement for *HS*. [2]

The role of a vision statement for *HS* is to inform different stakeholders of its preferred ideal future, direction/aspiration regarding life - long healthy eating habits and the recruitment of school leavers.

This will help *HS* to set long-term objectives regarding life - long healthy eating habits/ recruitment of school leavers.

It is likely to act as an important driver for recruitment, selection and motivation of its young, unskilled workforce made up of school leavers.

Award [1] for describing one role of a vision statement. Award an additional [1] when candidates apply their response to the stimulus.

Award [1] if only a definition of vision statement is given rather than the role.

- (b) Explain how the following can benefit *HS*:

Please note that the question is about the benefits to an organisation - HS not to the employees. Do not credit just the benefits to employees without further explanation as to how any organisation which may be HS will benefit.

- (i) job enlargement; [2]

Job enlargement will increase the range of skills and tasks able to be performed by the school leavers but at the same level in *HS*. The school leavers lack direct experience of working and qualifications for work in a national chain and or batch production. Job enlargement will give the school leavers the chance to acquire new skills before they can experience some job enrichment and become future managers. The employees will become more motivated with all the associated benefits to *HS* such as improved quality of their food, increased output due to being more efficient, costs reduction due to economies of scale and consequently be able to compete with the global fast food providers.

*Award [1] for identification of an appropriate benefit to an **organisation** which may be *HS* and an additional [1] for an explanation of the benefit and application to the stimulus. Application may not be merely nominal.*

- (ii) intrapreneurship. [2]

Intrapreneurship allows for risk taking, creativity and innovation by employees within *HS* without taking their own financial or any other risks. The risk is on *HS*. Given the intense competition from the global fast food restaurants, the opportunity to school leavers to develop new healthy snacks or find ways of reducing the portion will be vital to maintain market share as well as keeping up with/ fulfilling *HS*'s social vision.

*Award [1] for identification of an appropriate benefit to an organisation which may be *HS* and an additional [1] for an explanation of the benefit and application to the stimulus. Application may not be merely nominal.*

For example:

- *for an identification or a description of a benefit to an organisation **with or without** application [1]*
- *for explanation of a benefit to an organisation with **no** application to HS [1]*
- *for explanation of a benefit **and** application to HS [2].*

- (c) Explain **two** possible economies of scale available to global fast food restaurants but not *HS*. [4]

Possible economies of scale available to the global fast food restaurants include:

Marketing economies of scale: the global fast food companies are likely through their global reach to experience significant economies of scale in marketing/selling across a whole range of markets. *HS* is a national chain and will not be able to spread advertising/ promotion costs, for example, across a whole range of markets. Unit costs of marketing will be much lower for the global restaurants.

Bulk-buying economies of scale: to develop and meet global demand and to fill supply chains, global fast food manufacturers are likely to achieve significant economies through the bulk-purchase of raw ingredients (a number of fast food manufacturers have vertically integrated with suppliers to ensure that logistics are in place). Again, unit costs of operations are likely to be lower than *HS*'s.

Financial economies of scale: being present in global markets allows global fast food manufacturers to borrow funds for expansion at much lower rates than a national chain. It is indicated in the stimulus that *HS* finances its training and professional development through retained profits.

Accept any other relevant economy of scale.

Mark as a 2 + 2.

Do not credit just a definition of the term.

*Award [1] for identification/ description of an appropriate economy of scale and an additional [1] for an explanation and application to the stimulus. Application may not be merely nominal. It is expected that the candidates refer to **lower costs** per unit rather than just lower costs.*

Maximum award per economy of scale: [2]

- (d) Discuss the **two** options that Tom is considering for *HS* in response to the intense competition.

[10]

The first option, which is to implement flow production, is likely to lead to an increase in production and productivity because of the new technology and specialized roles. Currently, *HS* uses batch production. With improved productivity, *HS* can increase its portion size without raising prices. This will address the criticism found in the on line review about the portion size. *HS* will be perceived as more customers' focus. As a result, *HS* may be able to compete more effectively with the global fast food manufacturers.

However, the introduction of flow production may result in a reduction in the opportunities for job enlargement, enrichment and intrapreneurship. If the new production process is going to lead to specific jobs on the production, then apart from job rotation, the current employees may become demotivated through a restriction on personal growth and development opportunities. Staff turnover may increase as employees seek more innovative or challenging work. Moreover, the above may contradict the vision statement of *HS*.

It is likely to be expensive to implement flow production both in terms of the financing and inevitable changes in organizational culture at *HS*. Reduced profit to be put back into *HS* to finance job opportunities for the school leavers also contradicts *HS*'s vision statement.

One may judge the erosion of the vision statement as a significant arguments against this option.

The second option may be quicker to organize and much cheaper. The online reality TV show will have established *HS* firmly in the minds of existing and potential customers. A social media campaign will amplify the brand value of *HS* and should increase market share. *HS* will directly communicate with its target market who also express their discontent using social media.

However, measuring the success of social media on market share will be difficult even though the target market should be familiar with this method of promotion. The biggest argument against this campaign, however, is that as a competitive tool against the global manufacturers it might not be successful. Emphasising the health benefits of the snack does not address the problem of the portion. It does not mention in the stimulus that there is an issue with *HS*'s perceived health benefits. There will still be this perceived difference in portion size. A social media campaign will not address this aspect. In fact, there is a danger that negative response to the campaign may reduce market share even further.

Both of the responses have some merit, but it would appear that the first option is the most appropriate to tackle the issue of competition with the global fast food manufacturers. The changes in the production process will take some time to bed in and a few staff may leave to work for other snack food manufacturers who have more dynamic or challenging roles. However, the social media campaign will not close the perceived gap between the products offered by *HS* and those offered by their competitors and, thus, could backfire.

Candidates are expected to provide conclusions and judgments (for top marks). Candidates may conclude that either option is better or they may conclude that *HS* should do both, given that Option 2 would not be very expensive.

Marks should be allocated according to the markbands on page 5.

A balanced response is one that covers at least one issue for and at least one argument against each option.

*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]**.*

*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 *redundancy*. [2]

When the business can no longer afford to employ a worker or the job does no longer exist or is considered necessary hence a person is unemployed. The business is eliminating the role.

N.B. *no application required. Do not credit examples. 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 definition that conveys knowledge and understanding similar to the answer above. Redundancy occurs through no fault of the employee.

- (b) Explain **one positive and one negative** impact of the multinational company, *RE*, on the developing country. [4]

Positive impacts on the developing country:

- *TM* has new competition; consumers will have access to different taxi services, hence more choice at lower prices for the consumers.
- Tax revenue to the government of the developing country from profits made by *RE* taxi drivers.
- Working opportunities for drivers in the developing country will grow as any person with a car can download the *BT* app and begin his/her employment. Income will increase, standards of living will improve. Also, for drivers at *TM* there will be job creation and job security.
- In the future *RE*, with a possible increase in demand for the *BT* app may increase capital spending/infrastructure to manage operations. The developing country will benefit from an increase in economic activity.
- Technological transfer – the introduction of the *BT* app can be used in other industries to improve efficiency.

Negative impacts on the developing country:

- *BT*'s competition is threatening *TM*'s market position and even forcing it out of business.
- *RE* as a multinational company, is probably a powerful company, which makes *TM*'s survival even more difficult. *TM* as a local business cannot compete and has started to experience a fall in sales and profit. *TM* might end up closing and this would lead to increased unemployment in the country which may result in the government intervening to ensure that the political fallout from such a move is minimized.
- *RE* takes advantage of a lack of compulsory regulation and *BT* drivers have a higher rate of road accidents as well as safety issues- assaults and robbery.
- Profits from *RE* could be repatriated to their home country. The financial benefits may be limited- this argument is not really applicable.
- *Award [1] for theoretical possibility.*
- *Accept any other relevant positive/negative impact.*

Mark as 2 + 2.

*Award [1] for identifying or describing one positive/negative impact for *TM* and a further [1] for a development with respect to *TM*. 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 or a description of a positive / negative impact **with or without** application [1]*
- *for explanation of a positive / negative impact with **no** application [1]*
- *for explanation of a positive / negative impact **and** application [2].*

(c) With reference to Maslow's motivation theory, explain **two** reasons that some *TM* drivers left to drive for *BT*.

[4]

- **Maslow's physical needs** refer to the basic physiological requirements of food, water and shelter. As *TM* drivers' incomes are falling they may not be able to earn enough money to meet essential needs. Therefore, even the lowest level of needs is not fulfilled hence the drivers are demotivated. They will leave *TM* for *BT* as it seems that many drivers are making considerably more money.
- **Maslow's safety** needs refer to the needs of security and protection. *TM* drivers may want to meet safety needs such as job security. *TM* is experiencing financial problems and there are rumors of redundancies. Uncertainty at *TM* could force many drivers to quit *TM* to a more stable position.
- *Poor management may lead to a lack of love and belonging on the part of the workers. There is evidence implied by the stimulus of a lack of teamwork and cooperation, as TM's drivers are effectively self-employed. Therefore, it could argued that TM's drivers cannot reach the third level- Love and belonging.*
- *If the candidate does not use Maslow's exact classification of any need Award [0]*
- *The inability to fulfil the higher level of needs are **not relevant/ applicable in this case.***
- *Only credit relevant needs based on the stimulus*
- *Given that only 2 marks are available per need, a full explanation of the Maslow theory/ model is not expected.*

Mark as 2 + 2.

For each need:

- *for an identification or a description of one relevant Maslow need **with or without** application [1]*
- *for explanation of one relevant Maslow need with **no** application [1] for explanation of one relevant of Maslow needs with **and** application [2]. Award a maximum of [4] in total.*

- (d) Discuss the new strategy to differentiate *TM* from *BT*. [10]
The focus of this question is on differentiation in the eyes of the customers.

- *TM*'s new strategy is to downsize and reposition the company as a high price and high quality traditional taxi service. Customers that are willing and able to pay for a more exclusive service will probably find the service attractive. This will put *TM* in a different target segment and will enable differentiation from *BT*.
- Current security and safety problems due to customers being assaulted by *BT* drivers and the higher rate of road accidents could help *TM* to develop a unique selling point emphasizing the fact that all *TM* drivers have professional licenses and cars have regular safety inspections.
- Leasing new luxury cars seems to be a good financial and operational alternative for *TM* as they won't need to cash purchase the new vehicles. New luxury cars emphasize *TM*'s USP regarding comfort and differentiation from *BT*. Moreover, the taxi can be upgraded and regularly serviced for extra comfort to the newly targeted segment. Furthermore, customers are unlikely to be concerned whether the taxis are leased or not. This issue can be judged as of minimal / no importance. Leasing is cheaper in the short term and might enable *TM* to stay competitive in terms of quality/ price ratio.
- Technology can be a barrier for many people such as using mobile apps or even smart phones. Many customers, especially the elderly groups will find it simpler to telephone for a taxi instead of using a mobile app.

On the other hand:

- Using a mobile app to book and pay for a taxi service can be difficult for some groups of consumers, the increasing usage of technology and mobile apps shows that *BT* is very practical for most groups of potential consumers.
- *BT* as a multinational company is a strong competitor for *TM*, probably benefitting from managerial and marketing economies of scale. They may also introduce a service offering an exclusive maintenance that will compete with *TM*'s new market positioning. *TM* cannot patent their new service. The idea/service is very easy to copy especially by a MNC.
- Leasing is usually an expensive option in the long term as payments will have to be made over the duration of the agreement. However, this point does not impact on differentiation unless *TM* increases its price and becomes uncompetitive. This is unlikely.
- Accidents could be reduced if *BT* makes professional driving license a compulsory requirement to become a driver. Getting a professional driving license is not an important barrier of entry for *BT*. *TM*'s USP is easy to imitate and could be quickly eroded.

Overall, *TM* is in a very delicate situation. *BT* is a strong competitor and threatens *TM*'s market position. Although the new positioning strategy has several weaknesses it is a viable alternative to try in the short term before *BT* or other competitors move in. *TM* may be able to benefit significantly from first mover advantage. Otherwise, survival of the company is at stake.

Marks should be allocated according to the markbands on page 5.

- *It is not expected that the candidate incorporate all of the above arguments.*
- *Accept any other relevant issue.*
- *Accept any other relevant discussion.*
- *A conclusion with judgment is expected.*

A balanced response is one that covers at least one issue for and at least one argument against each action or the candidates may answer holistically by providing at least two arguments for and two arguments against repositioning

*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]**.*

*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 6–8. Please mark the candidate response using the assessment criteria on pages 6–7.

6. With reference to an organization of your choice, examine the impact of **globalization** on human resources **strategy**. [20]
7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **change**. [20]
8. With reference to an organization of your choice, examine the impact of **innovation** and **culture** on an organization. [20]

N.B. When 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 the second concept (the one being acted on).

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

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 asks 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 [1]: "...connection is **inappropriate**" – ignore **superficial**.

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

Criterion C

1 + 1 arguments are expected per concepts.

- Questions 6 and 7 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 occurs. 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”.

If a candidate chooses an organization from another part of the exam (for example, an organization in the stimulus of section B), their response should be marked as follows:

Criterion A – Award a maximum of [1], as the candidate might understand the essence of the two concepts but the content selected is irrelevant as the organisation is fictitious but the candidate may display some understanding of the concepts.

Criterion B – Award [0], as there is no connection to a real organization.

Criterion C – Award a maximum of [1]. The arguments cannot be relevant and justified as the organisation is fictitious.

Criterion D – Mark as normal.

Criterion E –Award [0]. The individual and/or group perspective(s) cannot be relevant if the organisation is fictitious.

Specific comments

Q6

Accept application to human resource strategy. Do not accept operations strategy.

Q7

Accept any relevant organizational change including a major change in product strategy. For example, diversification.

Do not accept the simple adaptation of products to different cultures etc as organizational change.

Accept a relevant example that may demonstrate that ethics had minimal or no impact therefore organizational change has not occurred.

Q8

Candidates can choose any aspect of the chosen organization. They should introduce the chosen aspects.

*Candidates can choose organizational **or** national cultures **or** both.*
