



MARKSCHEME

May 2009

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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

Section A			Level descriptors
(c) questions			
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (b)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • The response is purely descriptive and demonstrates little understanding of the topic. • There is little or no use of appropriate terminology. • There are few, if any, relevant examples from the case study to support any explanations. • Little or no reference is made to the case study.
3–5	<ul style="list-style-type: none"> • The response exhibits a reasonable explanation that demonstrates some understanding of the topic. • There is some use of appropriate terminology throughout the response. • Some relevant examples from the case study are given to support explanations. • At the bottom of the band, the answer may be descriptive and lack some detail.
6–8	<ul style="list-style-type: none"> • The response exhibits an accurate, specific, well-detailed explanation of the relevant issue(s) and demonstrates a thorough understanding of the topic. • There is an appropriate use of the appropriate terminology throughout the response. • Relevant examples from the case study are given to support explanations within the response.

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A

1. (a) **Define the terms *sole trader* and *tertiary sector*.**

[4 marks]

Sole trader

A sole trader (or sole proprietor) can be simply defined as a person owning and running a private business. The most basic form of business organization, sole trading is a legal form of business where the business entity has no separate existence from the owner, unlike a limited company; as a consequence, the sole trader has unlimited liability and bears the financial risks of the business on their own. “Sole” refers to the fact that the entrepreneur is the only owner without business partners, though they may employ other people.

Tertiary sector

The tertiary sector can be defined as the third industrial category of a national economy, the other two being the primary sector (agriculture, fishing, forestry, mining) and the secondary sector (manufacturing, industry). It is also called the “service sector” or the “service industry” as it provides services, such as education, health, finance or leisure. (Candidates are not expected to refer to the other sectors: they can score **[2 marks]** for a full, clear definition which mentions services and provides examples.)

Mark as 2+2.

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

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

- (b) **Explain why the setting of strategic objectives is important in managing *Les Maisonnettes*.**

[4 marks]

Strategic objectives refer to middle-term and/or long-term targets; they give a sense of direction to the management of the business (*Les Maisonnettes* in this case) and they provide guidelines for growth in order to develop competitive advantages. Strategic objectives could here refer to Sophie's plan to make eco-tourism the core focus of her business, but it would be even better for Sophie to set precise targets (for example: to ensure a 20% occupancy rate in the winter months by offering new winter products).

Setting strategic objectives would give Sophie a sense of purpose and vision, which she rather lacks at the moment; she has let the business develop in an *ad hoc*, organic way, but she ought to start thinking more professionally at a strategic management level. Moreover, should she apply for further funding (for example for the Options 2 and 3), she would need to formulate a business strategy, rather than just working and managing at an operational level.

It may be helpful for examiners to think of this question as **[2 marks]** for theory and **[2 marks]** for application to *Les Maisonnettes*.

[1 to 2 marks]

For **[2 marks]**, the answer refers to strategic thinking and/or to the case study, yet in descriptive way without explanation. For **[1 mark]**, the answer is limited or generic.

[3 to 4 marks]

For **[4 marks]**, the explanation is clear, with references to strategic thinking and to the case study, mentioning why Sophie ought to formulate and adopt strategic objectives. For **[3 marks]**, the explanation is clear, yet without mentioning why Sophie ought to formulate and adopt strategic objectives.

- (c) **Examine two advantages and two disadvantages of *Les Maisonnettes* restructuring as a private limited company (line 24).**

[7 marks]

Key advantages include:

- Sophie herself would then have limited liability (she would not bear the financial risks of the business in case of major problems such as a lawsuit or bankruptcy)
- it may be easier to raise further capital (*e.g.* by selling shares)
- the status of a limited company may give more credibility to *Les Maisonnettes* as a business (for example some banks might be willing to lend money to a limited company).

Key disadvantages include:

- Sophie would have to find shareholders (her parents? Old school friends?) willing to get involved financially, including one who would be the company secretary
- the owners (shareholders) of a private limited company have to prepare and publish each year a set of legal accounts (put another way, the legal/accounting side would be more complex and possibly more costly than it is at the moment for Sophie)
- it might later be more difficult to sell the business as a whole (**Option 4**).

Some other facts could be interpreted as an advantage or a disadvantage, depending on the perspective, for example the fact that Sophie herself would become a director, *i.e.* an employee of the company.

To achieve the top markband two advantages **and** two disadvantages need to be fully examined.

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

2. (a) (i) **Identify *two* appropriate sources of finance for *Les Maisonnettes* to fund the development of the barns (*Option 2 or 3*) (lines 162-177).** [2 marks]

Appropriate sources of finance include:

- a bank loan (capital loan) – the most likely answer
- selling shares (private limited company)
- grants from EU government, Chamber of Commerce or local authorities (*e.g.* as part of a scheme to support the development of eco-tourism)
- private investors such as business angels
- sale and lease back.

Short-term sources such as overdraft or retained profit are not appropriate to fund the expensive development of the barns.

Award [1 mark] for each relevant and correct source of finance identified, up to a maximum of [2 marks].

- (ii) **Define the term *gearing* (line 177).** [2 marks]

Gearing helps measure and understand the extent to which a business is dependent on borrowings (typically bank loans). The gearing rate corresponds to the percentage of capital employed that is financed by loan capital (long-term finance) as opposed to share capital. The higher the ratio, the higher the dependence on borrowings and long-term financing. A high gearing ratio will also mean that the firm incurs higher debt servicing costs and is much more exposed to changes in interest rates. (Conversely, a lower gearing ratio means more dependence on internal funding and less exposition to fluctuations in interest rates.)

Candidates are asked to define gearing, not to give the formula to calculate gearing. A copy of the formula is provided for students in the examination, so copying the formula cannot be credited. The formula may be included in the answer, but it will not result in any extra mark.

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

Award [2 marks] for a full, clear definition that is similar to the model answer above.

- (b) Using data from appendices 3 and 4, calculate the gearing ratio and return on capital employed (ROCE) of Sophie’s business in the financial years 2005 and 2008.

[4 marks]

The following formulae are provided to students in the examination:

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

$$\text{Return on capital employed (ROCE)} = \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}^*} \times 100$$

*Capital employed = shareholder’s funds + reserves + long-term liabilities

So the expected results are:

	Gearing ratio	ROCE
2005	43.1 % (43 %)	13.04 %
2008	34.4 % (34 %)	10.05 %

Award [1 mark] for each correct calculation.

- (c) **Analyse the reasons for the changes in gearing ratio and return on capital employed (ROCE) you have identified in part (b).**

[7 marks]

Both the gearing ratio and the ROCE declined between 2005 and 2008.

- The gearing ratio is within an acceptable range. The slight fall is typical as the retained profits have increased as a result of the growth of the business. Retained profits have increased (as *Les Maisonnettes* is a successful business that made a retained profit of €60 890 in 2005, and Sophie has reinvested the money in the business); the relative part of the loan capital is decreasing as Sophie gradually pays back the 25-year loan.
- ROCE is a profitability ratio; the fall in ROCE shows that *Les Maisonnettes* is becoming less efficient and less profitable. Although the business is still profitable, sales revenues have decreased from 2005 to 2008; as shown in Appendix 1, the occupancy rate is decreasing in summer 2008 (after the peak of 100% in summer 2005). Although Sophie is diversifying her strands of income (*Appendix 2*), her gross profit has declined. Expenses have increased, notably with new activities, funded by a short-term loan, as explained in the case study. This problem is even more visible if one calculates net profit margins: 41.5% in 2005 but only 33.4% in 2008 (though candidates are not required to do so).

Candidates whose calculations in (b) were not accurate may still properly analyse the changes.

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

3. (a) (i) **Define the term *market share* (line 155).** [2 marks]

The market share of a business is the percentage or proportion of the total available market (or market segment) that is being serviced by that business. It enables a business to compare itself to its competitors in terms of sales quantity, *e.g.* a business that has a 100 % market share is in a situation of monopoly.

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

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(ii) **Identify *two* methods of secondary research available to Sophie.** [2 marks]

Secondary research available to Sophie includes:

- research findings, analysis and statistics produced by organizations mentioned in the case study: *Logis de France*, *Association Française d’Ecotourisme*, French Tourist Board, Chamber of Commerce, local bank, Saint-Germain council, even UK low cost airline (about the number of anticipated passengers)
- research findings, analysis and statistics from sources not mentioned in the case study but acceptable in this context (*professional judgment of the examiner*), for example from a local university, tourist office, Tourism Observatory, Office of National Statistics, professional association *etc.*

Candidates may interpret “methods of secondary research” in different ways: they may refer to quantitative data (published statistics) as opposed to qualitative data, or existing literature (professional literature versus academic literature) – all these answers may be acceptable, as long as they are secondary research (as opposed to primary research carried out by Sophie herself).

Award [1 mark] for each relevant and correct method of secondary research identified up to a maximum of [2 marks].

- (b) Explain two ways in which *Les Maisonnettes* can differentiate themselves from *Sanctuary*.

[4 marks]

Les Maisonnettes can differentiate themselves from *Sanctuary* in several ways. The 7 Ps of the marketing mix can help identify a range of ideas, for example:

- With regard to product, Sophie can offer holidays with a local cultural dimension (e.g. French language class to complement the French cooking class, *line 87*) whereas *Sanctuary*, as a global company, provides standardized products that would be similar in all its holiday centres irrespective of the location.
- With regard to physical evidence, *Les Maisonnettes* can strengthen the originality of its French style (*line 19*), contrasting with the uniform style of the holiday centre.
- With regard to promotion, Sophie can further stress the fact that her restaurant offers local cuisine with local products, whilst *Sanctuary* uses cheap imported produce (*line 79*). The possible joint-venture with a local winery (*line 33*) could give Sophie a competitive advantage.
- Any other relevant answer is acceptable.

Candidates are not expected to write about two different Ps of the marketing mix; for example they could write about two different aspects of the Product, as long as the differences are clear.

Mark as 2+2.

Award [1 mark] for each relevant and correct way in which *Les Maisonnettes* can differentiate themselves from *Sanctuary* and [1 mark] for each appropriate explanation, up to a maximum of [2 marks].

- (c) Examine the importance to *Les Maisonnettes* of adopting a total quality management (TQM) approach.

[7 marks]

Quality is already an important issue for Sophie (the high quality of her service has enabled her to gain two *Logis de France* fireplaces, she has won a number of regional awards for the quality of her food, and the quality of the décor made her feature in promotional tourism brochures). However, *Les Maisonnettes* also has a number of weaknesses and flaws with regard to human resources (“staff absence and poor punctuality”, lack of training to comply with the new legislation). An integrated TQM approach would help Sophie ensure that quality permeates the whole business, including areas where this might be more difficult to implement and control. As Sophie has many new ideas (development of a web site, partnership with a local winery, branding the name *Les Maisonnettes* as a socially responsible brand), it would be useful for her to have a quality framework in place to maximize customer satisfaction all across the organization (as opposed to only in some areas such as décor and food).

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

SECTION B**4. (a) Comment on the appropriateness of Sophie's leadership style.****[4 marks]**

Sophie's leadership style is described as paternalistic. Paternalistic managers typically pay more attention to the social needs, views and happiness of their workers. Consciously or not, Sophie has adopted this style because she knows her workers very well (many are long-term family friends). It is appropriate to a certain extent: it creates a sense of belonging (*Les Maisonnettes* is not just a business but also a family); however, Sophie is not fully able to control (discipline, reprimand) her staff. This can become a problem with situations of staff absence and poor punctuality, as Sophie may not have the necessary distance or authority to manage them.

Candidates are not asked to define paternalistic leadership style; they cannot be penalised if they do not define it.

[1 to 2 marks]

For **[2 marks]**, the answer is superficial: it may explain what a paternalistic style is, yet without commenting on the appropriateness for the case study, or it might identify some generic advantages and disadvantages, yet without proper reference to the context. The answer may be theoretical only. For **[1 mark]**, the answer is limited, with little evidence of understanding of what a paternalistic leadership style implies.

[3 to 4 marks]

For **[4 marks]**, the appropriateness of Sophie's paternalistic style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages. For **[3 marks]**, the answer is clear but it may lack balance or precision.

- (b) **Explain the impact of the external environment on *Les Maisonnettes*' workforce planning.**

[8 marks]

Candidates are not expected to refer to a particular number of external factors/forces. Please note that this is a HR question: candidates are not just asked to write about the external environment, but to link their answer to workforce planning.

Aspects of the external environment which are particularly important for workforce planning for *Les Maisonnettes* include:

- Political environment: because of the new legislation, Sophie needs to review her staffing, as currently some of her staff are not adequately trained, which is not acceptable as *Les Maisonnettes* must comply with the legislation. (Sophie could sponsor their training or she could instead employ properly trained staff, both kitchen staff with food hygiene qualifications, and horse-riding instructors trained with regard to safety.)
- Social environment: Because of the ongoing rural exodus, it is increasingly difficult to find young staff in areas such as Saint-Germain, as they prefer to move to urban areas, such as Lyon. Sophie needs to find extra incentives and/or to attract non-local workers (*e.g.* international students).
- Competition: *Sanctuary* is looking to recruit additional part-time staff for its holiday complex so there might be some local labour shortages.
- Other external factors may be acceptable if they are relevant.

Marks should be allocated according to the markbands on page 4.

- (c) **With reference to the external environment, to what extent will the proposed rewards package of *Les Maisonnettes* ensure successful recruitment and motivation of employees?**

[8 marks]

The proposed rewards package includes both financial incentives (fringe payments such as on-site accommodation) and non-financial incentives (such as the experience of immersion in rural French culture, language development, life skills and the ideals of eco-tourism). It particularly targets international workers with a strong interest in eco-tourism values, as the aim is twofold: (a) to recruit non-local staff (as there is a decline in the number of potential local employees, because of the rural exodus and the competition from *Sanctuary*), (b) to motivate them to stay working at *Les Maisonnettes* and to deliver the high quality service customers expect. The package is designed as a counterpart to some of the negative factors that employment at *Les Maisonnettes* may present for a foreign workforce: relative isolation (rural France), harsh conditions (semi-mountainous environment, very hot summers) and limited pay (as the business is less profitable than it used to be). For core staff, Sophie proposes an enhanced pay structure and loyalty bonus; it is important as some staff may otherwise prefer to work for *Sanctuary*. When designing the rewards package, Sophie paid close attention to the external environment; as she does not require a large workforce (only a handful of staff), she is likely to be successful.

Candidates who apply relevant theory should be rewarded. To achieve the top markband candidates must cover **both** issues of recruitment and motivation.

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