



MARKSCHEME

November 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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The markbands on pages 3–4 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 (d) | |
| 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 have balanced analysis and demonstrate 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) *N-Pharma* is now a successful business, but it initially struggled: “poor cash flow meant that the early years were financially challenging” (*lines 6–7*). Outline *two* problems that Yukio Nakamura’s business start-up may have faced. *[4 marks]*

Problems that Yukio’s business start-up may have faced include:

- a limited budget available for research and development (R&D) (critical in that industry: *line 20*)
- a limited budget available for promotion and advertising
- a limited, erratic or unreliable income
- a lack of customer base
- difficulties in finding external sources of finance (such as investors or bank loans)
- difficulties in planning strategically
- *accept any other relevant problem outlined.*

Mark as 2+2.

N.B. Do not credit the sentence “poor cash flow meant that the early years were financially challenging” alone because this is just a direct quote from the case study (*lines 6–7*).

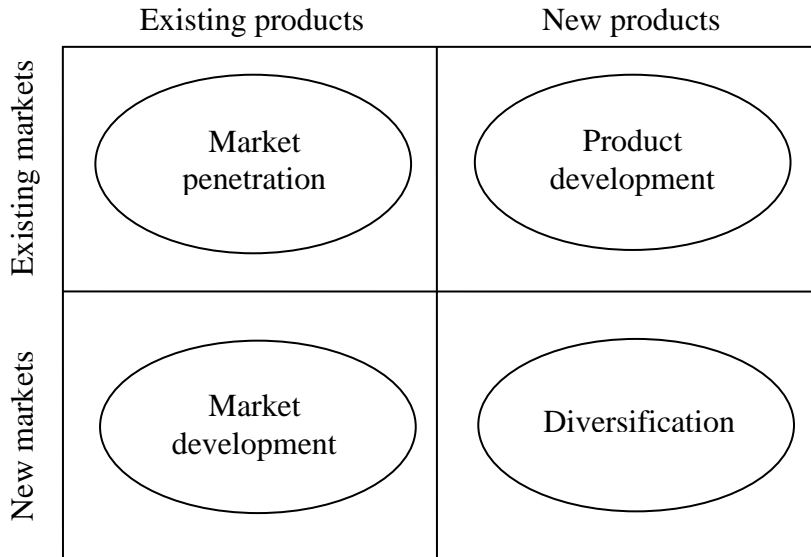
Each problem may be awarded up to *[2 marks]*.

Award *[1 mark]* for a basic outline of each possible problem, conveying partial knowledge and understanding.

Award *[2 marks]* for a clear outline of each possible problem, conveying knowledge and understanding through exemplification or application to the case study.

(b) Construct a fully labelled Ansoff matrix to show *N-Pharma's* possible growth strategies. [4 marks]

The Ansoff matrix is as follows:



N-Pharma already uses or could use the four strategies:

- ongoing product development (*lines 20–27*)
- option 1: market development in Europe (*lines 121–136*)
- option 2: market penetration within China (*lines 137–147*)
- option 3: diversification (*lines 148–153*).

The breakdown of marks is as follows: up to [2 marks] for the theory (or Ansoff matrix), **and** up to [2 marks] for application to the case study.

Award up to [2 marks] for an accurate, fully labelled presentation of the Ansoff matrix – only [1 mark] if one term is absent or not correct.

Award an additional [2 marks] for the application to *N-Pharma* – only [1 mark] if one of the strategies is absent or not correct.

- (c) Analyse the value of “social and environmental audits” (*line 107*) to *N-Pharma*. [7 marks]

It has become common for large companies to carry out social and environmental audits because of an increasing awareness, by all stakeholders, of the social and environmental impacts that large companies have on local communities and on the environment.

In the case of *N-Pharma*, some other factors explain why Tadashi plans to carry out such audits:

- *N-Pharma* operates in an industry which has been criticised for its lack of conscience and social responsibility, being more motivated by money than by healthcare and polluting through chemicals
- *N-Pharma* itself has suffered PR problems and a poor image because of some of its practices
- *N-Pharma* employs over 30000 staff globally (*line 2*), so it directly affects thousands of households (any restructuring such as closing one subsidiary would have substantial socio-economic impacts on local communities).

However, such social and environmental audits present some drawbacks too:

- they can be expensive (especially in a period of recession when some staff may fear for their jobs and would not understand why substantial amounts would be spent to employ auditors and consultants rather than on the core business of *N-Pharma*)
- they can be seen as unreliable or biased (as they are commissioned by *N-Pharma* which expects certain results); they may seem little more than a PR/communication exercise
- their results may be difficult to implement.

Accept any other relevant substantiated analysis.

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

2. (a) Define the following terms:

(i) *span of control (line 60)*

[2 marks]

Span of control refers to the number of people under a given manager. The more people under the control of one manager, the wider the span of control.

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

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

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

For **only** a relevant: example **or** application to the case study award [1 mark].

(ii) *empowerment (line 64).*

[2 marks]

Empowerment is a HR practice that consists of allowing employees to make autonomous decisions without consulting their line manager. One aim is to help employees develop a sense of ownership over their work and to take responsibility for their results. It also gives managers more time to concentrate on other strategic and/or operational issues.

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

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

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

For **only** a relevant: example **or** application to the case study award [1 mark].

- (b) **Comment on the effectiveness of Susan James’ leadership style in the Canadian subsidiary of *N-Pharma*.** **[4 marks]**

Susan’s leadership style can be defined as autocratic as she tends to impose her decisions without listening to employees’ requests and desires (she has “dismissed requests for greater empowerment” (*line 64*), she seems unable to communicate with them (*line 67*)).

On the one hand, that style may seem ineffective as it is exacerbating the tensions between employees and direction at the Canadian subsidiary (threats of industrial action and strike (*line 65*)). This is rather the view from the employees who are unhappy with Susan’s leadership style.

On the other hand, that style may be effective as strict measures must be implemented in order to redress the productivity problems (“the Canadian subsidiary has recently suffered lower levels of productivity compared to other *N-Pharma* subsidiaries” (*lines 60–61*)). Only an autocratic leadership style may result in productivity improvements. This is rather the view from Yukio and the directors at the *N-Pharma* headquarters, which is why they appointed Susan.

Accept any other relevant answer.

[1 to 2 marks]

For **[1 mark]** the answer is limited, with little evidence of understanding what an autocratic leadership style implies. For **[2 marks]** the answer is superficial; it may explain what an autocratic leadership style is, yet without commenting on the appropriateness for the Canadian subsidiary, or it may identify some generic advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective), yet without proper reference to the case study.

[3 to 4 marks]

For **[3 marks]** the answer is clear but it may lack balance or precision. For **[4 marks]** the effectiveness of Susan’s autocratic leadership style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective).

- (c) **Analyse the appropriateness of a cost-based pricing strategy (line 29) for *N-Pharma's* drugs.** [7 marks]

A cost-based pricing strategy simply means that the prices (of *N-Pharma's* drugs) are partly/mainly based on the costs (to cover all the costs, both fixed and variable, from R&D to distribution). It is the simplest pricing method; it is a common model in the pharmaceutical industry (line 29) and in many other industries, such as the construction or retail industry. A “cost-plus” approach is often used:

Price = cost of production + margin of profit

A cost-based pricing strategy can be appropriate for *N-Pharma's* drugs for the following reasons:

- it is relatively easy to calculate
- it can help ensure break-even, recovering all the previous costs, especially the long-term ones of R&D (see *Appendix 1*)
- it can ensure a margin of profit (usually a percentage mark-up)
- it has an ethical advantage: the so-called “just price”.

However, it may also be inappropriate for two key reasons:

- it takes no account of demand: there is no way of determining if potential customers will purchase the drugs at the calculated price, which is a problem as “in periods of economic difficulties, many people prefer to buy generic drugs, which are cheaper” (lines 53–54)
- it takes no account of competitors’ prices (both branded and generic ones).

Accept any other relevant substantiated analysis.

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

3. (a) **Tadashi Agi has been appointed to the new post of “director of corporate social responsibility” (*line 101*). Outline *two* methods of recruitment that could have been used in this appointment.** ***[4 marks]***

Recruitment can be:

- internal
- external (which clearly was the case for Tadashi as he was working at the National University of Tsukuba).

The four most common methods of external recruitment are:

- job centres
- job advertisements
- recruitment agency
- personal recommendation
- *accept any other relevant method of recruitment.*

Mark as 2+2.

Award ***[1 mark]*** for each valid method of recruitment identified up to a maximum of ***[2 marks]***, and ***[1 mark]*** for a correct brief explanation of each of these methods of recruitment up to a maximum of ***[2 marks]***.

- (b) **Explain how Tadashi Agi could use new technologies within *N-Pharma* to communicate his ethical vision effectively with stakeholders (lines 105–106). [4 marks]**

To communicate his ethical vision with external stakeholders, Tadashi could keep a blog focusing on the (new) ethics of *N-Pharma* or he could commission and publish video clips. For internal stakeholders, an online corporate newsletter may be more appropriate, or regular updates on the company portal; this would help Tadashi “encourage ethical practices in all departments” (lines 104–105) as he could reach all staff and would thereby remind them of the new ethical objectives of *N-Pharma*.

Accept any other relevant explanation.

N.B. Candidates may refer to a range of Web 2.0 tools and may give precise examples – but the question is not just about imagining and describing what Tadashi could do. In order to score above [2 marks], candidates must explain how these technologies can be used (what they would enable Tadashi to do, which objectives he could reach).

[1 to 2 marks]

For [1 mark] the answer is limited, with little evidence of understanding of the use of new technologies to communicate with stakeholders. For [2 marks] the answer is superficial; it may comment on the importance or potential of new information technologies, yet without precise reference to the case study.

[3 to 4 marks]

For [3 marks] the answer is clear but it may lack depth or breadth (for example only writing about blogs). For [4 marks] the answer is clear and detailed, with explanations about the use of new technologies, with explicit references to some examples of technology and stakeholders.

- (c) **Tadashi Agi is now writing a “Charter of Ethics”, setting ethical objectives for *N-Pharma* (lines 102–103). Examine the reasons why organizations consider setting ethical objectives. [7 marks]**

Organizations may set ethical objectives because they are increasingly aware of their corporate social responsibility (CSR) or because they want to respond to the public demand for transparency and business ethics. It could also increase employee motivation and reduce negative publicity from pressure groups. However, this is sometimes regarded as a sudden knee-jerk reaction to scandals e.g. “experiments on animals” (line 90) (the appointment of Tadashi could be cynically interpreted that way) or as a way to pay lip-service to political agendas and to external pressure (from stakeholders such as campaigning organizations). Ultimately, one could argue that the exact motives themselves may not matter (is it a genuine interest in ethics?) as long as the objectives are set and achieved.

Accept any other relevant substantiated examination.

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

SECTION B

4. (a) **Outline *two* alternative strategies that could have been used to deal with the liquidity problem at the USA subsidiary of *N-Pharma* (line 111).** [4 marks]

The USA subsidiary could have used the following strategies to deal with the liquidity problem:

- delaying purchases (or getting longer payment terms from vendors and suppliers)
- considering long-term borrowing (including from *N-Pharma*'s headquarters or other external sources of capital) to repay short-term debt
- reviewing credit policies with clients and customers (possibly adjusting them to minimize the time it takes to collect payment)
- reviewing how assets are being used: they could have sold some unproductive assets (such as buildings, equipment and vehicles)
- reviewing the profitability on some of the *N-Pharma* drugs on the USA market (e.g. they might have increased some prices to maintain or increase profitability)
- *accept any other valid suggestion.*

Mark as 2+2.

Award [1 mark] for each valid strategy identified up to a maximum of [2 marks], and [1 mark] for a correct brief explanation of each of these strategies up to a maximum of [2 marks].

- (b) **Explain the importance of quality assurance and quality control (lines 26–27) for *N-Pharma*.** **[4 marks]**

Candidates may refer to the following points in their answer:

- *N-Pharma* operates in the pharmaceutical industry where drugs must be carefully tested (otherwise it could be dangerous, even life-threatening, for consumers)
- quality assurance and quality control give *N-Pharma* its reputation: any problem with drugs safety could escalate and be very detrimental to the company's image/brand (and even to its very existence)
- quality control is also important (for *N-Pharma* as well as any other company) because it can help reduce costs
- quality control is an old fashioned approach increasingly replaced by quality assurance to ensure that the whole organization focuses on quality production (as opposed to just one quality controller).

Accept any other relevant explanation.

Candidates are not asked for a precise number of points. They could write one long answer or cover a range of separate elements.

Award **[1 mark]** for each correct element of the answer, and **[1 mark]** for the development/explanation of that element, if appropriate up to a maximum **[4 marks]**.

- (c) “*N-Pharma* already sells some of its drugs in China, especially through business-to-business (B2B) operations with private clinics” (lines 137–138). Explain the benefits for *N-Pharma* of using B2B operations compared to business-to-customers (B2C). **[4 marks]**

“Business-to-business” (B2B) means that *N-Pharma* does not directly distribute and commercialize its drugs into the Chinese market, but through private clinics. This means fewer resources spent on direct promotion, but more promotional activities with the private clinics. The disadvantage is that *N-Pharma* is dependent on its relationship with the clinics (as intermediaries and brokers): should this relationship break down (for a range of reasons *e.g.* the clinics change supplier), *N-Pharma* would lose its main channel of distribution in China. On the other hand, “business-to-customers” (B2C) requires more resources spent on promotion (advertising, developing brand recognition, convincing consumers to switch from their usual drugs, creating brand loyalty *etc.*) – but *N-Pharma* would have a more stable customer base.

[1 mark]

The answer shows some confused or limited understanding of the differences between B2B and B2C.

[2 to 3 marks]

The two concepts are understood and described, but the explanation or the application to the case study (*N-Pharma* in China) remains limited. For **[3 marks]** there is reference to the case study but the explanation is partial.

[4 marks]

The two concepts are well presented and the benefits for *N-Pharma* of using B2B operations compared to B2C is clearly explained, with references to the case study.

- (d) ***N-Pharma* subsidiaries have a double role: they “are responsible for both production and distribution of *N-Pharma* drugs in their national markets” (lines 18–19). Discuss the advantages and disadvantages of such a double role.**

[8 marks]

Advantages include:

- there is no need to import drugs produced abroad, which cuts costs and may represent a competitive advantage for *N-Pharma*'s branded drugs
- some consumers may prefer to buy drugs produced in their own country (this could be for political reasons, for example to support national economies, or because they feel safer about the quality control systems in place)
- managerial economies of scale can be achieved (and all the operations may be in one location, which is beneficial for the organizational structure and for the supply chain)
- knowledge of the national markets is important for marketing and distribution (because of the cultural differences between Vietnam, USA and Chile for example)
- *accept any other relevant advantage.*

Disadvantages include:

- economies of scale for the manufacturing of drugs cannot be achieved (the same drugs are produced in all the countries where *N-Pharma* has subsidiaries)
- if one area/department of the subsidiary suffers (as in Canada or Australia), the entire subsidiary may be financially affected
- subsidiaries may end up working in isolation from one another, which is not good for R&D as it may lead to duplication of efforts and waste of time
- the Japanese headquarters at Tsukuba may only become aware of problems when it is too late (as with the USA subsidiary)
- *accept any other relevant disadvantage.*

The candidate's answer should be a balanced substantiated discussion that is supported by evidence from the case study.

Candidates may come to a conclusion/judgment for the top markband that the advantages outweigh the disadvantages or vice versa.

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