

# Markscheme

November 2019

Business management

Higher level

Paper 2

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

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

**Assessment criteria for Section C**

**Criterion A: Knowledge and conceptual understanding**

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

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

**Criterion B: Application**

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

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

**Criterion C: Reasoned arguments**

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

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

**Criterion D: Structure**

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

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

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

**Criterion E: Individuals and societies**

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

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

## Section A

1. (a) Describe **one** disadvantage for an organization of operating at high capacity utilization.

[2]

Some of the disadvantages for an organisation of operating at high capacity:

- Workers might feel the pressure / tiredness / mistakes / demotivation, which can reduce productivity.
- Machinery is more likely to break down, so production may be halted.
- Higher maintenance costs, due to constant use.
- Inability to respond to a sudden increase in demand, so potential customers may be lost.

*Accept any other relevant disadvantage.*

*Award [1] for a relevant disadvantage with appropriate description up to a maximum of [2].*

*For [2] marks responses must link the disadvantage to an outcome as in the examples above.*

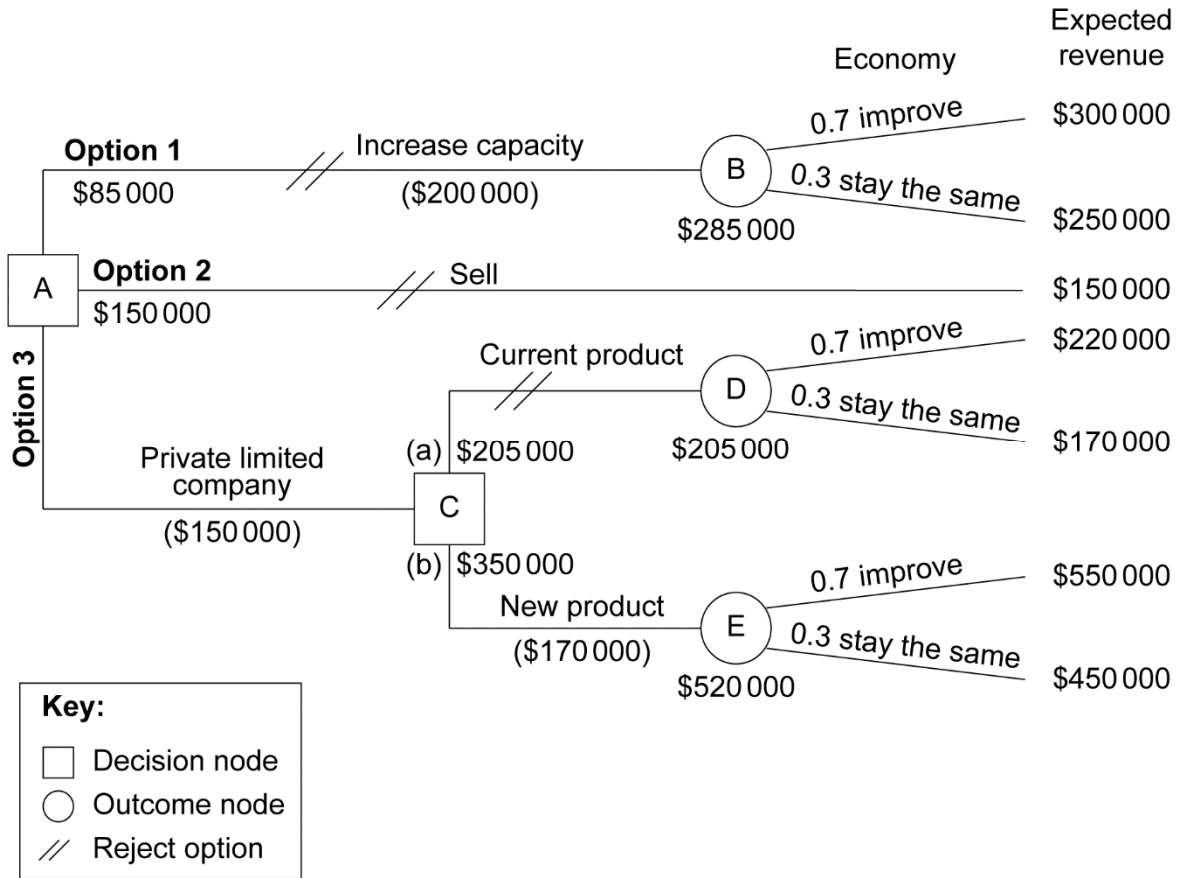
*It is not expected that candidates explain the benefits to any stakeholder.*

*Application to the organization is not required.*

*Do not credit an example.*

(b) Construct a fully labelled decision tree and identify the best option for Sassy (show all your working).

[6]



Calculations:

$$EMV 1 = (300\,000 \times 0.7 + 250\,000 \times 0.3) - 200,000 = \$85\,000$$

$$EMV 2 = \$150\,000$$

$$EMV 3a = (220\,000 \times 0.7 + 170\,000 \times 0.3) - 150\,000 = \$55\,000$$

$$EMV 3b = (550\,000 \times 0.7 + 450\,000 \times 0.3) - (170\,000 + 150\,000) = \$200\,000$$

Best option 3(b) should be followed.

[0]

The decision tree does not reach a standard described below.

[1–2]

The decision tree is not accurately constructed, and / or the calculations of each option are not presented or accurate. However, there is some evidence of a general understanding of the model.

[3–4]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct. Allow up to three mistakes in calculations and / or presentation for [3].

Allow for either two errors in calculation or two error in presentation [4].

For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [3].

*For an accurately constructed decision tree with EMV calculations, but no working [4].*

**[5-6]**

*The decision tree is accurately constructed. The calculations of each option are correct and well presented. A key is provided. Workings are shown. As well as the rejected options [6]. Full marks can be awarded even if the headings of expected return/forecast revenue and probabilities are not explicitly written.*

*Deduct [1] if a key is not provided.*

*Deduct [1] if the best option is not identified either on the diagram OR following the EMV calculations.*

*N.B. for only correct calculations of all options without a decision tree award a maximum of [2].*

*Essentially treat the lack of key or rejected options as presentation errors as errors. Hence three presentation/calculation errors = [3].*

*Apply candidate own figure rule (OFR) throughout this response.*

- (c) Explain **one** limitation for Sassy of using a decision tree as a planning tool. **[2]**

While a general limitation of the decision tree model is the nature of the predicted outcome, here the use of the model is even more limited as it has been done by the partners who are designers. Due to lack of experience/qualification, they ignored the possibility that the economy might deteriorate. The predicted financial returns for each option might be inaccurate, especially in the volatile, ever-changing fashion industry. Hence, possible bias and different numerical outcomes.

NB. Do not accept “worsening economy” if there is no other reference to the stimulus since this is often cited as a generic limitation.

*Accept any other relevant limitation.*

*Candidates do not have to cover all of the applicable issue above. One is sufficient.*

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

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

*For example:*

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

*For explanation of the limitation with **no** application [1].*

*For explanation of the limitation **and** application [2].*



2. (a) Define the term *internal growth*. [2]

Internal growth occurs when a business expands existing operations rather than growing by merging or acquiring other businesses. Typically, internal growth occurs when a business expands its capacity and sells to a wider market.

Candidates do not have to have wording exactly as above.

Award [1] for some understanding of internal growth (such as “expands existing operations”) and [1] for additional wording that gives precision (“rather than growing by merging or acquiring other businesses” or “internal growth occurs when a business expands its capacity and sells to a wider market”).

NB. the question is about internal growth and not about growth generically. Do not award beyond [1] mark if the response does not make this distinction

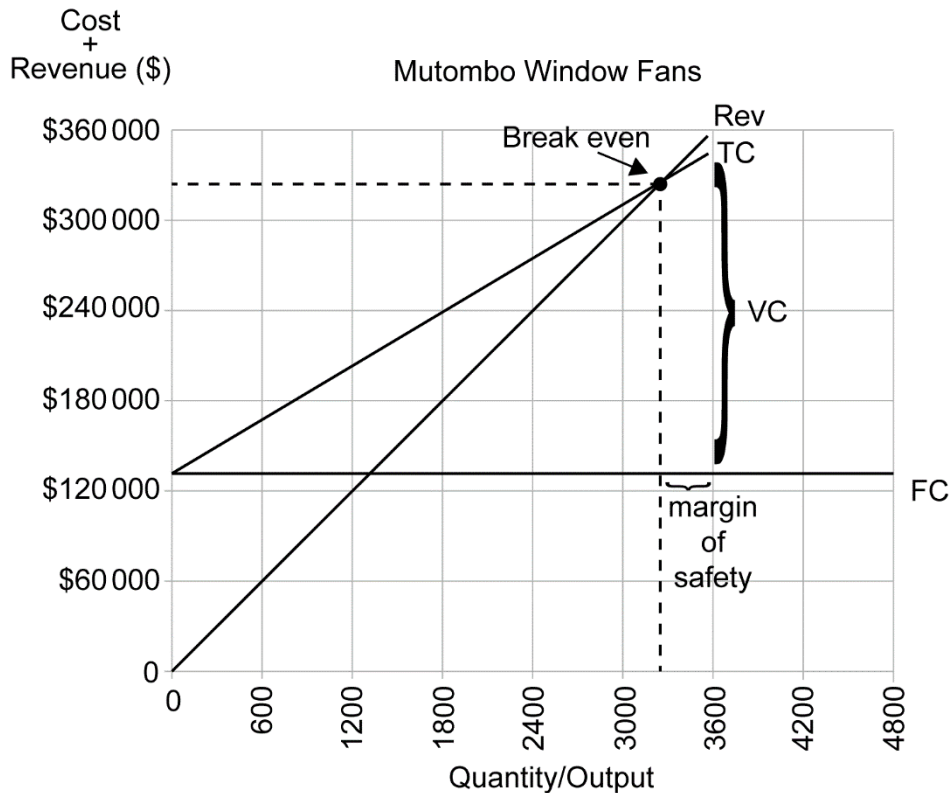
- (b) (i) Calculate, for MWF, the break-even level of output for 2020. [2]

Total fixed costs: \$130 000  
 Contribution: \$100 – \$60 = 40

Break-even point:  $\frac{130\,000}{40} = 3250$  units

Award [2] for correct answer and workings. Award [1] for correct process but with a mathematical error.

- (ii) Construct a fully labelled, to scale, break-even chart for MWF for 2020. [4]



Award marks as follows:

**[1]** for both appropriately labelled axes – y-axis must include both costs and revenue. The x-axis can be any suggestion of quantity: units, fans. Responses should be penalised if using \$ sign in x-axis. If x or y axes show no units or scale is inaccurate then it follows that TR and TC must also be inaccurate

**[1]** for accurately drawn and labelled total cost line.

**[1]** for accurately drawn and labelled total revenue line.

**[1]** for indication of break-even point. OFR applies from part b(i). The breakeven value does not need to be stated but the diagram must be consistent with the value in b(i) Do not award lines simply drawn from the BEP to the x and y axes without further annotation.

Award a maximum of **[2]** if the chart is not neat, not drawn with a straight edge, or is not to scale.

If a candidate produces a table rather than a chart, award **[0]**.

NB. The Fixed Cost (FC), Variable Cost (VC) and Margin of Safety do NOT need to be shown as in diagram.

- (iii) Calculate the profit if MWF sells 3600 window fans in 2020. **[2]**

Total revenue – Total cost = Profit

$$(3600 \times 100) - (130\,000 + 3600 \times 60) = 360\,000 - (130\,000 + 216\,000) \\ = 360\,000 - 346\,000 = \$14\,000 \text{ Net profit}$$

Alternatively, profit can be calculated using the total contribution – fixed costs.

$$\text{Total contribution} = 3600 \times 40 = 144\,000$$

$$\text{Profit is } (3600 \times \$40) - \$130\,000 = \$14\,000$$

Or

$$\text{Profit} = \text{Contribution per unit} \times \text{Margin of safety} \\ = (\$100 - \$60) \times (3600 - 3250) \\ = \$14\,000$$

Award **[2]** for correct answer and workings. Working does not need to be as extensive as shown above. Award **[1]** for correct process but with a mathematical error.

## Section B

3. (a) Define the term *corporate social responsibility (CSR)*. [2]

CSR is the decision/attempt by a business to take responsibility for their action/activities by considering the interests of and the impact on a wide range of stakeholders in society. The business accepts the moral and legal obligations to society, not just to investors, that result from its operation.

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

*Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that there is some morale guidance.*

*Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Individual stakeholders do not need to be named to gain full marks*

*Do not credit an example.*

- (b) Explain **one** advantage **and** **one** disadvantage for *CM* of using a cost-plus (mark-up) pricing strategy. [4]

One **advantage** for *CM* of using a cost-plus pricing strategy is the fact that it will be *CM* that covers all the costs and ensures a certain percentage of profit to be made. It is evident given the figures above that *CM* makes a profit. *CM*'s ability to make a profit ensures long-term survival. *CM*'s meals are perceived as good value for money, hence the strategy is effective.

Given the increase in competition, *CM* can be flexible and reduce the margin set above the costs. Flexibility in pricing is an important factor when there is an economic downturn, as well as increased competition.

A possible **disadvantage** is that *CM*'s costs are likely to be higher than competitors who supply non-organic meals. Together with the customers' unwillingness to pay a premium price during an economic downturn, *CM* might see a further fall in demand as seen in the fall in total revenue in 2018.

Accept any other relevant advantage / disadvantage.

*Award [1] for each role identified and an additional [1] for development with application to *CM*. Award a maximum of [2] per advantage/disadvantage. [2] cannot be awarded per role 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 relevant advantage/ disadvantage with **no** application [1].*

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

- (c) Explain **one** advantage **and one** disadvantage for *CM* of changing its stock control method from just-in-case (JIC) to just-in-time (JIT). [4]

A possible **advantage** for *CM* of changing the stock method from JIC to JIT: As *CM* buys agriculture produce/ stock, these products need to be well stored and possibly refrigerated. Moving to JIT will significantly reduce costs of storage and spoilage. The gross profit margin, which has fallen by 2 %, is likely to increase rather than decrease. The very high current ratio of 2.4 will fall, as *CM* will not stock financially unproductive assets.

A possible **disadvantage** for *CM* of changing production /stock method methods from JIC to JIT:

Given the nature of the industry, the farmers are likely to prefer *CM* buying large quantities seasonally. Ordering lower quantities when needed might create problems/costs for the farmers, who might not prioritize *CM* any longer. *CM* will also lose its reputation for CSR based on long-term commitment to farmers to buy large quantities.

Moreover, given the unpredictable nature of farming, not having buffer stock could result in *CM* being out of stock with the consequences of losing clients/reputation and therefore revenue and profit. *CM* is likely to lose its reputation for flexibility with the retailers in terms of quantity and delivery if not enough agriculture produce is available.

Accept any other relevant/applicable advantage / disadvantage.

*Award [1] for each advantage / disadvantage identified and an additional [1] for development with application to CM. Award a maximum of [2] per advantage / disadvantage.*

*[2] cannot be awarded per role 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 a relevant advantage/ disadvantage with **no** application [1].*

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

- (d) Using the financial information in **Table 1**, evaluate **two** strategies that *CM* could use to improve its financial position **other than** changing to a just-in-time (JIT) stock control method. [10]

It is expected that candidates make constant reference to/use of the figures and other relevant information in the stimulus combined with theoretical understanding of the advantages and disadvantages of the possible strategies.

Some of the possible strategies:

**Reduce cash outflow.** *CM* is facing cash flow crisis as seen by its deteriorating acid test ratio of 0.6. Without stock, which contributed to a high current assets ratio, *CM* cannot meet its long-term liabilities. It is evident that there is a big difference between debtors and creditors days. *CM* paid the farmers within five days in 2018, which is very quick and got significantly quicker – twice as fast – but received money from the retailers after 70 days in 2018, a significant increase from 50 days. *CM* is too generous to retailers with the credit term. Despite the

fact that the relationship with retailers and the suppliers is *CM*'s competitive advantage, it is financially dangerous given the decreasing and very low acid test.

**Seek alternative suppliers** with cheaper agriculture produce might be seen as an extreme solution, as *CM*'s relationship with the farmers and the quality of the organic ingredients are key to its competitive advantage. It might take a long time to find different suppliers. Perhaps **agreeing a longer credit term would be a better solution**. Currently, *CM* pays after five days. One can assume that the farmers are likely to prefer a request for a longer pay period than a more drastic one.

**Cut expenses.** Gross profit margin is considerably higher than net profit margin for a manufacturing company and is getting worse over time. *CM* should look at some unnecessary expenses like marketing or administration. However, cutting salaries or staff might impact on the employees' motivation and cutting marketing might create some difficulties in competing with the new competitors. However, going out of business due to lack of cash can be judged as a more significant threat.

Do not accept better stock control due to JIT.

**Tighter credit control.** Cash payments only for the retailer will clearly reduce/eliminate debtor days. The acid test ratio is worrying and *CM* must take immediate actions to solve this short-term liquidity problem. However, the relationship with the retailers might deteriorate and they might start buying non-organic frozen food from the emerging competitors. It appears that *CM*'s bargaining power with the retailer is weak and this option is unlikely to be successful. One, however, may argue that increasing the creditor days is unlikely to be met with much objection from its suppliers given the very low starting figures and long-established trust. *CM* might also be able to ask its debtors – the retailers – to pay sooner, even after two months, a demand which is likely to be seen as reasonable.

**Changing pricing policy.** *CM* can possibly reduce the price of its products. While *CM* may be more competitive and this strategy may work well given the economic downturn and the increased competition, *CM* may suffer losses or a reduction in profit. However, customers may perceive the frozen organic meals as even better value for money and increase demand. Moreover, perhaps *CM* can withstand a reduction in profit in the short term and we can see that *CM* is profitable. The liquidity issue ought to be sorted. *CM* should prioritize its cash flow problem first, then deal with a low acid test to generate cash to survive.

**Enhance marketing** to generate more sales in cash. *CM* might be able to reduce its increasing level of stock and reduce stock turnover in days, which has clearly deteriorated considerably from 20 to 40 days. However, any type of promotion may incur more expenses, especially in cash. The data indicates that the net profit margin is considerably lower than the gross profit margin, which indicates that *CM* does not control its expenses well.

**Improved product portfolio.** Perhaps *CM* should also consider non-organic meals or other types of products to enhance its portfolio and create more revenue streams. However, cannibalism can be created – *CM* may also have to compete more directly with the increasing number of providers of non-organic frozen meals. Market research has to be done so perhaps this option is not the most appropriate one in the short term.

**Seeking alternative short term sources of finance.** Accept relevant applicable suggestions like the use of overdraft and short-term loans, to deal with CM's short-term liquidity crisis. However, these options are more of first aid rather than solution to some ongoing problems and are likely to be more theoretical given the lack of information in the stimulus.

It is not expected that the candidates cover all of the above.

Accept any other relevant arguments for and against any relevant suggested strategy.

*Accept any other relevant examination.*

*A conclusion with judgment is expected.*

*A balanced response covers at least one argument for and one argument against each of two different strategies.*

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

*It is expected that the candidate goes beyond just providing some relevant arguments for or against any suggested strategy and finish off with some conclusions and judgment.*

*Award a maximum of [4] marks if the answer, regardless of balance and judgment makes no reference to either the figures or headings in Table 1*

*Candidates, in order to reach to the top markband, should show clear evidence of substantiation/well supported.*

*For the top markband, candidates must make use of the financial information given in their discussion.*

4. (a) Describe **one** feature of a multinational company (MNC). [2]

- MNCs operate in many countries. Their headquarters are located in one country (home country) while operations are carried out in a number of other countries (host countries).
- Because of their global operations, they usually have large physical and financial assets and turnover.
- MNCs are predominantly large-sized and exercise a great degree of economic dominance.
- MNCs may control production activity with large foreign direct investment in more than one developed and developing countries.

*Award [1] for each feature stated and award an additional [1] for a description up to a maximum of [2].*

(b) Calculate TS' market share in 2018 (*show all your working*). [2]

$$\text{Market share \%} = \frac{\text{firm's sales}}{\text{total market sales}} \times 100$$

$$\frac{5\,000\,000}{50\,000\,000} \times 100 = 10\%$$

*Award [1] for the correct market share number (percentage) [1] for correct working.*

*If no workings are shown, but the final answer is correct, award a maximum of [1].*

*Do not credit full marks if the answer is not a percentage.*

(c) Explain **two** disadvantages **and one** advantage to TS of selling its products online. [6]

Like other businesses in the industry, TS may find selling online increasingly problematic due to the associated costs. Customer complaints about TS' website and ordering problems are already increasing. Costs of dealing with customer complaints, technical issues and delivery problems may increase and reduce profit.

TS' brand image may be eroded due to its inefficient way of dealing with online sales. Its unfriendly website and increasing customer complaints are probably eroding its brand image and market share. If TS wants to increase international presence and expand its market, it should improve its current online sales system.

On the other hand, TS' sales and profits can increase by taking advantage of e-commerce's rapid growth. It can also take advantage of a potential market opportunity left by the competing businesses in the industry that are experiencing problems with online sales.

TS' international presence is weak; selling online can help to create brand awareness in international markets and reach a worldwide audience with relatively low costs.

*Accept any other relevant explanation.*

**Mark as 2 + 2 + 2.**

*Award [1] for each correct advantage/disadvantage identified and [1] for a relevant explanation with application to TS. Award up to a maximum of [2] per advantage/disadvantage explained.*

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

*For example: For an identification/description of an advantage/disadvantage with or without application [1]. For explanation of an advantage/disadvantage with no application [1].*

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

- (d) With reference to *TS*, evaluate the two merger options.

[10]

**Merging with *All Champion*:**

The merger with the footwear manufacturer *All Champion (AC)* will produce gains in economies of scale, and will give *TS* the possibility of growing.

As a multinational company, *AC* has access to more and cheaper resources such as finance. Additional finance will allow for research and development of new products. *TS* will be able to develop the new line of running shoes and expand its product portfolio.

Merging with *AC* will also allow for rationalization of resources, such as concentrating output on one site and concentrating managerial and technical capacities. For instance, *TS* will have access to larger IT and marketing departments to improve its website and deal with online sales more efficiently.

A merger with *AC* eliminates a strong competitor in the market. The two companies might have different strengths and experiences and they, therefore, could fit well together. The new merged company will probably be stronger and could therefore increase its competitive power in the market. *AC*'s market share (only 10 %) will increase.

**On the other hand**, a merger with *AC* may have a number of drawbacks. In a merger process, the smaller company, such as *TS*, could be cannibalized by the larger one. *TS*' culture may be dissolved within *AC*'s way of doing things. There are also high chances that some of *AC*'s factories will be closed, causing discontent within the local community. The finance manager is right to be suspicious about this merger. *TS*' reputation may be hurt due to the possibilities of closing factories and sales may fall.

**Merging with a footwear retailer:**

If *TS* merges with a footwear retailer with a strong presence in domestic and international markets, it will secure an outlet for its products. *TS* will be able to increase its domestic market share of 10 % and additionally access the international markets, using the experience, knowledge and expertise of the footwear retailer. *TS* will keep the manufacturing process and then factories will not close. In addition, the risks of cannibalization of this option are low.

**However**, this merger may not exclude a strong competitor such as *AC*. Production economies of scale will not be gained, as the footwear retailer has no experience in the footwear manufacturing process.



**Overall**, merging with AC will give *Top Star* the competitive edge needed to grow and develop its product portfolio. On the other hand, merging with a footwear retailer also has some evident advantages, but it seems that merging with AC looks like a stronger choice.

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

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

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

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

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

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

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

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

5. (a) Describe **one** disadvantage of operating as a public limited company. [2]

Disadvantages of operating as a public limited company include:

- The expense of going public and the ongoing expenses of reporting to the government or shareholders.
- Loss of privacy, as the company must report to the public and to shareholders.
- Strategic decisions can take longer, as management has responsibility to communicate with the board, shareholders, and, often, other stakeholders.
- Possible loss of control since shares are available to the public to buy on a stock exchange

*Award [1] for an identification of a disadvantage and another [1] for sufficient description thereof.*

- (b) Explain **one** benefit **and** **one** cost to FA of having an autocratic leadership style. [4]

In the stimulus it is indicated that FA has an autocratic leadership style. This style appears to dovetail with the culture of the less economically developed country. Also, the factory is profitable and has been efficient through lower costs. It is possible that the leadership style fosters loyalty in this country because of the cultural fit. Accept the likelihood that workers are less skilled and less educated and likely to accept poorer working environment due to high unemployment rate

The costs to FA include that autocratic leadership may stifle creativity and innovation, which could be available in a more democratic system. Also workers less likely to accept a demotivating work environment as they have a high degree of industrial relations leverage. Productivity in Germany could be higher than in a less economically developed country. The fact that FA's leadership is thinking of

relocating to Germany indicates that they see problems in moving to a new, higher-price segment.

**Mark as 2 + 2.**

*Award [1] for each relevant benefit / cost explained and [1] with application to FA. Award up to a maximum of [2] per benefit/cost explained.*

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

*For example: For an identification/description of a benefit / cost with or without application [1]. For explanation of a benefit / cost with no application [1].*

- (c) Explain **one positive and one negative** impact of *FA* on the less economically developed country. [4]

Positive impacts of *FA* on the developing country include:

- Provides employment at wages better than those available in the less economically developed country.
- Was loyal during the civil war.

Theoretically possible other positive impacts include:

- Technology and skill transfers from *FA*'s host country to the less economically developed country.

Negative impacts of *FA* on the less economically developed country include:

- *FA* relies on an autocratic leadership style.
- *FA* does not use the most advanced technology in the less economically developed country.
- *FA* could leave the country, leaving many people who are currently dependent on the company out of work.
- *FA* does not provide the same employee rights provisions or health and safety provisions that it would in a less economically developed country.

Theoretically possible other negative impacts include:

*FA* may pollute to a level in the less economically developed country that it would not in Germany. In addition *FA* may cause an overdependency of the LDC on its presence in the country

*Mark as [2 + 2]. For [2], candidates must identify a positive and a negative impact, explain it, and apply to the less economically developed country.*

*Award [2] for a positive impact with application to the less economically developed country.*

*Award [2] for a negative impact with application to the less economically developed country.*

*If there is no application to the less economically developed country at all then the maximum mark per impact is [1].*

- (d) Evaluate the option of building a factory in, and relocating to, Germany. [10]

The option of building a factory in and relocating to Germany is a major strategic decision. In certain respects, *FA* would be an entirely different company: new products, new processes, new types of workers and new leadership styles, as well as a wholly new cultural context. Going into highly sophisticated high-tech manufacturing with robots has the potential to position *FA* for a future of highly automated manufacturing. Without making these changes, *FA* runs some risk of remaining stuck in much lower value-added processes, which in the long run are less profitable. The risks are very high. The potential rewards are high as well.

Perhaps a strategy for *FA* would be not to sell the older factory but to continue to operate it and rely on those profits to support the new factory as it gets started. Whether *FA*'s balance sheet is strong enough to operate both factories is an open question, as is the question of whether its management has sufficient depth to operate two major plants.

Balance in this context means having two arguments for opening the plant in Germany and two arguments against, which could be partially couched in a discussion of leaving the old plant open.

*Accept any other relevant examination.*

*A conclusion with judgment is expected.*

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

*There is considerable stimulus material. Candidates that largely repeat the stimulus material with little or no analysis award up to a maximum of [4]*

*It is expected that the candidate goes beyond just providing some relevant arguments for or against any suggested strategy and finish off with some conclusions and judgment.*

*Candidates, in order to reach to the top markband, should show clear evidence of substantiation/well supported.*

## Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]
7. With reference to an organization of your choice, examine the impact of **innovation** on distribution **strategy**. [20]
8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]

**NB.** Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially 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 **[2]**: "...connection is not developed" should be treated the same as superficial.

### Criterion C

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

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

### Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not to have explicit headings for each structural element.
- A body is the area in which the substance of arguments 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".

Some reflections on Specific Questions

**Q6.** Although similar in wording to Q7 – there is no selected business content. Therefore, responses should clearly address some content genre related to, either, HRH, Marketing or Operations Management. Do not credit 'Globalisation definitions which simply refer to expansion overseas – even though the examples used may utilise this. Many candidates mistake ethical for legal obligations. Many candidates also confuse ethics with culture

**Q7.** The business content here is quite specific i.e. distribution strategy. Do not credit responses that simply refer to general marketing. It is acceptable for candidates to choose logistics companies such as DHL, FedEx, TNT etc. E-commerce is acceptable as innovation but better responses should put into time/competitive context ie. a high street retailer introducing an online platform in 2002 is more innovative than one doing it in 2018

**Q8.** Is worded differently to most of the previous sessions. Both organisational culture or country culture are acceptable but candidates must be careful to establish changes related to culture and not some other business factor. Change should be evidenced by examples showing a change from one state to another. Simply stating that a company did something is relatively meaningless unless it is known what took place before. It is not necessary to contrast "promotion" versus "inhibition" – it is promotion OR inhibition. However, for full marks in Criterion C some type of analysis is needed for one state or the other.

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