

Markscheme

May 2023

Business management

Higher level

Paper 1

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The markbands and assessment criteria on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			The work does not reach a standard described by the descriptors below.
1–2			<ul style="list-style-type: none">• Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories.• Little use of business management terminology.• Little reference to the stimulus material.
3–4			<ul style="list-style-type: none">• A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories.• Some use of appropriate terminology.• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.• At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none">• An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories.• Use of appropriate terminology throughout the response.• Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
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 theory 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.

Section C, question 5

Criterion A: Knowledge and understanding of tools, techniques and theories

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques and theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques and theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. 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 evidence 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: Individual 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) Outline possible different interests of **two** external stakeholders arising from *SVT's Outreach Programme* (lines 96–115) **[4]**

External stakeholders could include: Government, suppliers, customers and consumers, local community, financiers, pressure groups, the media, NGOs, charities.

In this instance:

- **People** in less economically developed countries (LEDCs) would receive **free skilled labour**;
- **NGOs** would get **support** and **cooperation**;
- **customers** might benefit from **new products** that might arise from the programme eg WF15;
- possible **suppliers** for future **distribution channels**;
- the **media** might view **SVT in a better light** – important because of adverse publicity;
- **lower profits** might impact on potential **investors**;
- local people/**communities**: would **receive training**;
- school **education, infrastructure** would be repaired.

N.B. shareholders and the winner of the competition are not considered as external stakeholders.

Accept other relevant stakeholder and interests in context.

Mark as [2] + [2].

Award [1] for each correct external stakeholder identified and [1] for a description of how that stakeholder's interests are affected by the outreach programme. Award a maximum of [2] per stakeholder.

- (b) Explain the factors that SVT should consider when deciding on a marketing strategy for the WF15 water purifier (lines 116-138).

[6]

Factors include:

- market research carried out;
- marketing budget available;
- aspects of the 4 P's.

Product:

- **winning design**;
- produces sufficient potable water;
- meets **WHO standards**.

Place

- **not yet decided**;
- would need to be able to **deliver to remote places**;
- use of **agencies overseas?**;
- **no existing distribution channel**;
- **little experience** of distributing consumer products in LEDCs.

Price

- **under discussion** but one proposal is not-for-profit;
- pricing strategy not yet agreed;
- impact on **other products?**;
- can SVT afford this?;
- **subsidize product?** Affordable for families versus unhappy stakeholders?.

Promotion

- **choice of media** is important, few newspapers read, few televisions owned;
- however large and growing **use of social media**;
- can use the **CSR** aspect in general promotion for the business.

Candidates are not required to follow a 4P's approach and may use different parts of the course to answer this question. Finance, staffing etc. could be valid factors to consider.

Accept any other relevant factor and explanation.

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

*Award a maximum of **[3]** for a theoretical answer.*

*Award a maximum of **[4]** if the explanation is limited to one factor.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.*

2. (a) Outline **two** possible economies of scale that are likely to have been achieved through the takeover of *H4* (lines 49–81).

[4]

Possible economies of scale include:

Technical: Does the businesses have better technology? Would it be cheaper to install technology across a range of businesses?

Managerial: Perhaps it reduced the number of managers needed. Managers **specialize** in one job. They can work with greater **efficiency**;

Financial: The businesses taken over were small so maybe not much power in financial markets, but the **combined size might be significant**. Bigger businesses are **less risky** than smaller businesses. Banks will charge lower rates of interest on loans and overdrafts;

Marketing: We don't know much about how the products are promoted. We do know there's a **significant marketing budget** which needs to be spread over a wider range of products. They can direct more effective marketing campaigns.

Purchasing: Do the various firms share similar raw materials? **Bulk buying**;

Risk bearing: **Fewer competitors**, lower risk? They spread the risk of one product failing.

Mark as [2] + [2].

Award [1] for each economy of scale identified and [1] for an outline of how that economy of scale relates to SVT PLC. Award a maximum of [2] per economy of scale.

- (b) Explain the advantages of organizing SVT into divisions based on product (lines 10–14).

[6]

Possible **advantages** include:

- **decisions** can be made **quicker** eg Yannick’s quick response to a crisis;
- **leadership** style can be chosen to **suit needs** eg Ariadne versus Yannick;
- each **division** will have its **own areas of expertise** and it will be easier to ensure these skills are focused where needed eg Consumer Products will probably need people able to undertake consumer market research and have marketing and sales experts;
- **customers** will know **where** in the organization **to seek help and advice** eg potential customers seeking desalination equipment will have immediate links with the Desalination Division;
- it may be **easier to focus finance and** other **support** to areas where it is most needed eg if a new major project is to be undertaken, the Engineering Division might be the key focus.

Accept any other relevant advantage and explanation.

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

*Award a maximum of **[3]** for a theoretical answer.*

*Award a maximum of **[4]** for an answer that limits explanation to one advantage.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.*

3. (a) Outline **two** steps in the recruitment process for the 300 new employees needed for the former *H4* factories (lines 65–72).

[4]

Steps include:

Identification: of job role:

- doing a job audit;
- preparing job description;
- person specification.

Attracting applicants

Applications:

- job advertisement;
- application forms designed, circulated, received;
- recruitment by business or agency?

Selection:

- shortlisting;
- testing;
- interviewing.

Candidates can be rewarded for identifying any of the main headings or the sub-headings. These ideas can be contextualized by reference to the facts that:

- **300 vacancies** to fill is a large number;
- the vacancies are for **highly skilled people**;
- there are a **few** such highly **skilled people available**;
- range of skills needed, so **recruitment** may have to be spread over a **variety of methods**;
- the HR department should **choose carefully where to advertise** the vacancies;
- **teamwork** necessary: may require testing;
- there may **not** have been **sufficient suitable applicants in UK** alone;
- **recruitment methods** to be decided (interviews, tasks, tests, etc.): what **cost?** What might be best method for selecting?

N.B. Do not accept any form of training including induction.

Mark as [2] + [2].

Award [1] for each correct step identified and [1] for a description of how that step relates to SVT. Award a maximum of [2] per step.

- (b) Explain suitable sources of finance that SVT may have used when taking over the small water filter manufacturers in Europe and the United States of America (USA) (lines 91–92).

[6]

SVT is a public limited company so a range of sources could include:

- **Loans/mortgages/bonds/debentures** etc. business is profitable, works well, banks and other investors may want to lend with favourable conditions (interest rates, terms, favourable conditions for collateral etc.);
- **share** issue: conditions are good for a share issue: PLC, good reputation, sound profits successful business;
- **profits**: are there any retained profits not yet spent? Sufficient for such a development?
- **Joint ventures/venture capital**: no real evidence that these are needed. Would they want it?

Accept any other relevant source of finance and explanation.

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

*Award a maximum of **[3]** for a theoretical answer.*

*Award a maximum of **[4]** for an answer that limits explanation to one source of finance.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context. Eg if most of the context is mentioned but not developed.*

Section B

4. (a) Define the term *profit centre*. [2]

A **section** of a business where both **costs** and **revenues** can be **identified** and are **recorded**.

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

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

To gain both marks, answers must make reference to costs and revenues as well as some aspect or section of the business. The “section” is likely to refer to a department, a product, a process, a division etc.

Be careful not to reward a “place” or an “area” unless this is clarified.

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.

- (b) (i) Using the reducing/declining balance method of depreciation, calculate the total depreciation of the automated monitoring equipment after a period of two years (*show all your working*). [2]

Equipment cost \$100m

Value at end first year = $0.8 \times 100\text{m} = \80m

Value at end second year = $0.8 \times \$80\text{m} = \64m award [1]

Amount of depreciation = $\$100\text{m} - \$64\text{m} = \$36\text{m}$ award [2]

Alternative answer:

Year	Depreciation	Net book value
0	\$0	\$100 000 000
1	\$20 000 000 ($\$100\,000\,000 \times 20\%$)	\$80 000 000
2	\$16 000 000 ($\$80\,000\,000 \times 20\%$)	\$64 000 000
Total depreciation	\$36 000 000	

Award [2] for correct answer, with working and correct units.

Award [1] for a reasonable attempt or absence of working and/or correct units.

Award [1] for the calculation of \$64m for net book value.

Award [1] for an attempt, or for a correct answer that does not include the correct sign (\$).

Where there is no \$ sign in the final answer give benefit of the doubt (BOD) if the \$ sign is used in the working.

Do not reward formula only.

- (ii) With reference to SVT's automated monitoring equipment, explain **one** advantage of using the reducing/declining balance method of depreciation. **[2]**

- This is a **complex piece of technical equipment** (automated monitoring equipment); very **unlikely to deteriorate equally over time**. Even more unlikely to have a useful life of ten years due to **rapidly changing technology so will get close to its residual value early on**.
- It **matches the cost and revenue** of the business, because the higher amount of depreciation provided in the early years is matched against the larger amount of revenue generated by the increased production brought about by the use of the new asset;
- it **provides a more accurate measure of the depreciation compared to the straight-line method**;
- it **lowers the income tax expense in the early years**.

Accept any other relevant advantage.

*Award **[1]** for an appropriate advantage and an additional **[1]** for an explanation of how that advantage relates to SVT.*

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

There must be some reference to SVT' equipment as well as the advantage of using this method of depreciation.

For example:

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

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

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

- (c) Explain **two** ways in which effective contingency planning at SVT could have prevented the problems experienced in Dalgera. **[4]**

Contingency planning involves:

- identifying potential disasters;
- assessing the likelihood of these disasters occurring;
- reducing the potential impact of the crises;
- planning for the continuous operations of the business;
- developing a post-disaster recovery plan.

Solutions:

- **improve the process of considering possible disasters;**
- develop an action plan for each of these possible scenarios;
- set up improved and **automatic reporting/investigation procedures;**
- monitor, review, update levels of **equipment and other resources;**
- introduce **training** for dealing with crises;
- develop plans for how to return to normal working.

*To award **[4]** there must be some clear understanding of contingency planning in context.*

*Award **[3]** if the answer shows **two** ways that SVT could have prevented the problems without specifically explaining contingency planning.*

Accept any other relevant ways.

Mark as **[2] + **[2]**.**

*Award **[1]** for an appropriate way and an additional **[1]** for an explanation of how that way relates to SVT. Award a maximum of **[2]** for each way.*

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

For example:

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

*For explanation of a way with **no** application **[1]**.*

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

- (d) With reference to SVT, evaluate the opportunities and threats posed by entering international markets.

[10]

Opportunities could include:

- potential for **greater brand image** especially in LEDCs;
- far **greater markets** to tap e.g. Asia;
- **economies of scale**;
- **Asia** has greater **growth potential**;
- possibility of **new locations for manufacturing**;
- **diversification**: an opportunity to spread risks by investing in other countries;
- **enhanced brand image**: SVT can be perceived to be more successful than those that operate in the domestic market (brand prestige and loyalty);
- forming **new business relationships**.

Threats could include:

- when things go wrong, there are **repercussions worldwide**;
- problems partly caused by **lower standards in Dalgera**;
- more **difficult to manage**;
- **social issues** – problems would not have got out of hand in, for example, US, Europe where monitoring by television and society far greater;
- **political challenges**;
- **law challenges**: different countries = different laws;
- fluctuating and **different exchange rates and interest rates**.

Evaluation could relate to an assessment of the importance of the threats and opportunities and the specific impact on SVT. This could be related to specific threats and whether they might have an immediate or longer-term impact.

Accept any other relevant evaluation.

Marks should be allocated according to the mark bands on page 4 with further guidance below.

Theoretical answer or context limited to naming the business or lack of development award a maximum of [4].

Award a maximum of [5] if the explanation is only on opportunities or threats.

Award a maximum of [6] if the explanation only has one threat plus opportunities or one opportunity plus threats.

Award a maximum of [8] if the response is balanced but lacks clear evaluation.

Section C

5. Using the case study and additional information on pages 3 and 4, recommend whether SVT should choose **Option 1** or **Option 2**. [20]

Option 1

Arguments for:

- maintains independence;
- relatively small investment?
- existing field of expertise;
- how does investment of \$120 million relate to return of \$0.5 million per turbine?

Arguments against:

- rather early and rapid expansion;
- after providing the 30 turbines for the new desalination plant, will SVT find new customers to maintain the upgraded capacity? Will they be able to continue selling that quantity of turbines per year?
- the new break-even seems to be very high (40 units). It is 66.66% of the total capacity;

Option 2

Arguments for:

- guarantees availability of new turbines;
- further possible collaboration;
- does ZAZ have new expertise?
- construction costs and risks will be shared.

Arguments against:

- adverse publicity;
- loss of independence;
- must share operation fees;
- may depend on negotiated price for final five years of the project.

Other factors:

- What if they fail to complete the project on time and suffer the delay penalties?
- 30% probability of paying \$40 million and 10% chance of \$80 million.
- The investment is huge in both cases—do they want to do either? [assessment of risk].
- Are there other financial considerations?
- The need to finance any aspect of this investment?
- How good is their forecasting of the data?
- Some of the predictions are 15 + years away.
- Are there external factors (change in the market; technology; etc.) that could change during the life of the project?

Accept any other relevant recommendation.

N.B. if a candidate responds to this question without any reference to the additional stimulus material (the additional material that comes with question 5 in the examination paper), the maximum mark that the candidate can receive under criteria A, B, C, and E (all the criteria except structure) is **[2]** per criterion. Award a maximum of **[12]** overall.

Marks should be allocated according to the assessment criteria on pages 5-6 with further guidance below.

Criterion A: possible theories, management tools and techniques include: Accounting techniques and ratios, interpreting data, Decision Tree, Ansoff, Force Field Analysis (FFA), importance of assumptions, also, possibly, fishbone, Boston Consulting Group (BCG) matrix, marketing issues (market research, 4Ps), HRM/management issues (leadership, motivation), SWOT (if used with a sense of purpose).

For **[4]**: Tools, techniques and theory understood and developed well with some relevance to the additional stimulus material.

For **[2]**: some understanding of at least two tools, techniques or theories, but not developed.

Criterion B: the tools, techniques, theories and stimulus applied to the decision. Application will be judged by the use of the stimulus material.

Remember, understanding has been rewarded in Criterion A. So B is about USE.

For **[4]**: relevant tools, techniques and theories are applied well to the case study context and additional stimulus material, the application is convincing and relevant.

For **[2]**: some limited context/application but not developed. Use of tools limits candidate's ability to make reasoned arguments.

Criterion C: options discussed in balanced way, **conclusions drawn** and recommendation made/supported.

For **[4]**: there needs to be a clear recommendation supported by the data.

For **[2]**: some limited arguments but not justified. Or limited analysis (eg one-sided argument) but candidate arrives/draws a reasoned conclusion.

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 concluding paragraph. Please note this can be different from the concept of a conclusion/recommendation in Criterion C. D can be rewarded without a recommendation.*
- *fit-for-purpose paragraphs. This means: not too long, each focused on distinct issues;*
- *logical structure. This means whether there is a clear flow to guide the reader through the discussion, how the paragraphs are sequenced.*

For [4]: all four elements present, clearly organized.

For [2]: no logical structure but other elements present or logical structure with other elements missing.

Criterion E: Stakeholders:

- *individuals: SVT directors, production director;*
- *groups: foreign government, the board of directors, competitors, ZAZ.*

*For [4]: individual(s) **and** group(s) are considered in a balanced way. i.e needs one or more of both individuals and groups developed.*

*For [2]: one individual or one group considered appropriately, or several individuals **and/or** groups considered superficially.*

Award [0] if no stakeholders are considered.
