

**Mark Scheme
Mock Exam
Business Management
Higher Level
Paper 1
For May 2023 Examination**

The mark bands and assessment criteria on pages 2-3 should be used where indicated in the mark scheme.

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.

Source for markbands and assessment criteria: IBO

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.

Source for markbands and assessment criteria: IBO

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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.

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Section A

1. (a). Describe **one advantage** and **one disadvantage** of SVT being a public limited company
[4]

Public limited company: A type of company that offers limited liability, or legal protection for its shareholders, with the legal right to sell shares to the public through the stock exchange market.

Advantages:

- Limited liability to shareholders (if SVT experiences a loss, the loss will not exceed the amount invested by the shareholders. In other words, investors' and owners' private assets are not at risk if the SVT fails)
- Often large businesses (SVT is a large company operating in over 20 countries)
- Huge amounts of money can be raised from the sale of shares to the public. The shares are quoted on the Stock Exchange or the Alternative Investment Market (AIM). (SVT can use the sales of shares on the stock market as a source of finance for growth and expansion)
- Production costs may be lower as firms gain economies of scale. (SVT already has gained economies of scale through its internal and external growth strategy)
- Because of their size, plc can often dominate the market. (SVT has a regional monopoly in each country in which it operates)
- It becomes easier to raise finance

Disadvantages:

- Legal formalities involved in setup
- High costs when creating a plc.
- Share prices can be subject to fluctuation (SVT's investors' might be affected)
- Final accounts must be shared with public
- Risk of takeover (SVT may be at risk of a takeover by a bigger company)
- Directors influenced by short-term objectives of major investors (this may affect SVT's long-term objectives and plan)

Accept any other relevant/ applicable advantage/ disadvantage.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage explained and [1] for appropriate application to SVT to a maximum of [2].

[2] can- not be awarded for each reason used if the response lacks either explanation and / or application.

For example:

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

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

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

(b) Explain possible economies of scale that may apply to SVT.

[6]

Economies of scale: Reduction in the average costs of a business as the scale of production increases. In this context, “scale” means productive capacity (*ie*, the physical size of the business) rather than the actual level of production.

SVT is a large multinational so it can:

- Technical EOS: afford the best and most efficient equipment, for SVT further expansion in production capacity (e.g. wind turbines)
- Marketing EOS: direct effective marketing based on a whole range of products (SVT already offers a range of products)
- Managerial EOS: employ a range of professionals and managers, in the countries SCVT operates.
- Financial EOS: access to a wide range of sources of finance, hence cheaper finance for SVT, as a way of growth except mergers and acquisitions
- Purchasing EOS: SVT can buy raw materials from suppliers in large quantities decreasing the average cost per unit.
- economies of scale have already proven beneficial for SVT after reorganising and modernizing H4.

Accept any other reasonable explanation/application of EOS.

*Marks should be awarded according to the mark bands **on page 2**.*

Award a maximum of [2] if the discussion is only about SVT without theoretical content.

Award maximum [3] for a theoretical answer.

*Award maximum [5] if the analysis is mainly descriptive but in context. **N.B.** Some textbooks refer to average costs going down when production goes up (because of fixed costs being spread out more).*

Technically this is incorrect, as this is about production efficiency rather than scale so should not be allowed.

2. (a) With reference to SVT, explain **one advantage** and **one disadvantage** of using secondary market research (**line 134**)

[4]

Advantages of using secondary market research include:

- Efficient in terms of time – the data on spending patterns of low-income families in LEDCs, for example, has already been collected by someone else and is available. SVT needs it for the right promotional mix of WF 15.

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- Effective in terms of cost – often secondary research is free and, when it is not, is typically less expensive than the process of gathering primary research. As SVT is looking for launching WF 15 in LEDCs at an affordable price, it would be very time consuming and expensive to sample many countries. Often, sample secondary research already exists. It has allowed SVT to better understand the spending patterns in LEDCs where they have no previous experience.
- SVT directors can conduct a STEELPE analysis on different LEDCs to evaluate social, economic and legal factors before a decision is made.
- Low cost to gather various information/ opinions.
- SVT directors can conduct also secondary market research to choose the appropriate pricing strategy for WF 15
- SVT directors can conduct also secondary market research to choose the appropriate distribution channels for WF 15
- SVT directors can collect data about the trends of the markets they operate in for future expansions

Disadvantages of using secondary market research include:

- Lack of precise focus on the issue or problem concerning the business. The stimulus refers to LEDCs / Sudan. SVT may have to consider carrying out primary market research in LEDCs /Sudan to get specific responses to specific issues like the use of water purifiers or household filters.
- Lack of most up to date information– often secondary research is outdated. If SVT is going to target different markets they need to be confident that this secondary research is relevant and up-to-date. What if external factors have changed since the data was collected?
- Uncertainty about the quality of the data collection/research. Some information, may be inaccurate and biased.

Accept any other relevant/ applicable advantage/ disadvantage.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage explained and [1] for appropriate application to SVT to a maximum of [2].

[2] can- not be awarded for each reason used if the response lacks either explanation and / or application.

For example:

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

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

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

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(b) With reference to Yannick and Ariadne, explain the differences between a situational and an autocratic leadership style **(line 19)**. **[6]**

An autocratic leader like Ariadne, retains control and takes all the decisions (centralized). There is little or no consultation with workers and subordinates are expected to follow instructions. In SVT's case, Ariadne's autocratic leadership style, may have led her division being one of the industry leaders in productivity per employee.

On the other side, a situational leadership style, like Yannick's leadership style, varies in styles, and a leadership style is chosen depending on the task, the skills and the situation. This has enabled Yannick and his division to respond quickly to unexpected changes in the external environment.

Accept any other relevant point

Accept any other relevant application to SVT, Ariadne or Yannick.

*Marks should be allocated according to the markbands **on page 2**.*

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

*Award a maximum of **[5]** if the explanation of the difference between the two leadership styles is mainly descriptive but in context.*

For full marks, the explanation needs to be developed and in context.

3. (a) With reference to SVT, explain **one** advantage **and one** disadvantage of an organizational structure based on product. **[4]**

SVT is organised into four divisions based on product.

Advantages

- Product divisions can work well because they allow a team to focus on a product, with an appropriate leadership structure. (SVT can develop new specialised products or enter new markets for each division)
- Having a senior executive – often a member of the Board of Directors – makes it more likely the division will receive the resources it needs from the company. (SVT has a director for each division)
- A product division's focus allows it to build a common culture that contributes both to higher morale and a better knowledge of the division's range of products (SVT has developed successful product and has entered more than 20 countries)

Disadvantages

- Product divisions may compete with each other for available financial resources and this might reduce cooperation between them. (There have been clashes between Yannick and Ariadne regarding the machinery needed to update water treatment plants)

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- Divisions can result in compartmentalisation that results in lack of coordination or even duplication of operations.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage explained and [1] for appropriate application to SVT to a maximum of [2].

[2] can- not be awarded for each reason used if the response lacks either explanation and / or application.

For example:

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

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

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

(b) Explain how internal and external growth have helped SVT to grow. **[6]**

Internal growth is the expansion of a business by means of opening new branches, shops or factories (also known as organic growth). In the case of SVT internal growth has been achieved by opening new factories or operations such as the desalination plants around the world. Internal growth has also supported the growth of the consumer products division.

External growth is the business expansion achieved by means of merging with or taking over another business, from either the same or a different industry. In the case of SVT, this is the main growth strategy SVT follows in order to enter new markets, new sectors or develop new products. As an example SVT acquired Geng PLC a major water supplier in the UK for expanding its fresh water provision, it has taken over H4 expanding its engineering division as well as it has taken over small filter manufacturers in order to increase market share in the water home filter industry.

Both types of growth have enabled SVT to expand effectively, to achieve economies of scale, to increase market share and its revenue streams.

Accept any other relevant point

Accept any other relevant application to SVT.

*Marks should be allocated according to the markbands **on page 2.***

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

Award a maximum of [5] if the explanation of internal and external growth is mainly descriptive but in context.

For full marks, the explanation needs to be developed and in context.

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SECTION B

4. (a) Outline **two** characteristics of cost-plus pricing (mark up). [2]

- Price is set by calculating the total costs (variable/direct + fixed/indirect) of a product and adding a profit margin.
- Ignores what competitors are doing with their pricing
- It ensures that profit is made from each unit sold

Candidates are not expected to word their definitions exactly as above.

Award [1] for each characteristic identified

(b) With reference to SVT, explain **one** advantage **and one** disadvantage of using total quality management (TQM). [4]

total quality management (TQM): an approach to quality that aims to involve all employees in the quality improvement process

Advantages:

- Competitive advantages for SVT as customers' needs at the centre
- Cost-effective as it aims at eliminating defects
- Increased brand reputation for SVT focusing on high quality and consistency
- Quality issues that could be addressed – SVT faces issues with components
- batches are being rejected.
- It could increase efficiency.
- It could motivate SVT's employees as it requires the involvement of all employees.

Disadvantages:

- Requires change in attitude and commitment as it involves all SVT's employees
- Training costs
- Not all workers in SVT are to be motivated by job enrichment or empowerment
- Accreditation fees may need to be paid by SVT in order to certify their TQM system

Beware of answers that are only about general quality issues which should not be rewarded unless linked to TQM.

Accept any other relevant advantage/disadvantage.

Context comes from issues identified in the case and the nature of the business.

Award [1] for each advantage/disadvantage of TQM up to a total of [2].

Award [1] for putting each advantage/disadvantage into context up to a total of [2].

(c) Explain the usefulness to SVT of the variance analysis in **Table 1**. [4]

- The variances suggest seeking answers to questions, helping future budgeting and identifying problems.
- The calculations show lower than expected sales. This helps SVT and the consumer products division to plan production quantities based on demand.
- Higher than expected expenses. This helps SVT identify which fixed/indirect costs turned out to be higher than expected and identify possible ways of reducing them
- The overall profit figure has changed to a loss so considerable need for concern.

Candidates are likely to explain the general meaning of variances and then illustrate their use by reference to the data in Table 1. However, do not reward a simple interpretation of the table without reference to use as this doesn't answer the question.

A description only/definition only does not gain marks however a very clear description of variance analysis together with a very good example of use from Table 1 could achieve [4]. Otherwise: Award [1] for each usefulness identified and [1] for its relevance to SVT, usually with reference to numbers.

(d) Using information from the case study and additional information from page 3, evaluate the two options SVT's Board of directors is considering. [10]

Option 1

Advantages

- Lean production methods will reduce waste for SVT and therefore costs
- Their capacity will increase by 10% so SVT can respond to the increased demand of water filters
- TQM will eliminate the quality issues due to faulty components by suppliers.
- The ecological sustainable machines could improve SVT's brand image and ethical stance

Disadvantages

- If there is a decrease in future demand for water filters SVT will be operating at lower capacity
- High capital expenditure
- Opportunity cost of the 300,000\$ that could possibly be invested in other divisions' growth
- If demand for WF 15 increases, the new lean production methods cannot cover excess demand

Option 2

Advantages

- No capital expenditure required

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- CF produces high-quality filters which could ensure the quality of the products and solve the issues SVT has with faulty components by suppliers
- CF is well established and specialised in the production of filters
- SVT can adjust their orders up to 5% depending on demand for filters

Disadvantages

- SVT cannot control the production of the outsourced filters
- If there is any issue with CF's products, SVT's brand image will be damaged
- If CF delays orders, SVT's customers may be dissatisfied
- If demand changes more or less than 5%, SVT will not be able to adjust the order and will have excess stock
- Communication issues with CF

Accept any other relevant argument for each option.

Accept any other substantiated judgment.

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 option, award a maximum of [5].

*A balanced response is one that provides at least one argument for and one argument against **each 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 their answer

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5. Using the case study and the additional information above, recommend either Option 1 or Option 2 for SVT. You will find it useful to calculate the payback period for the two options. [20]

Payback period Option 1: 4 years and $100,000/350,000 \times 12 = 3.4$ months: 4 years and 4.3 months

Payback period Option 2: 5 years and $250,000/650,000 \times 12 = 4.6$ months: 5 years and 4.6 months

Discussion could include:

Option 1:

- Introduction of new more automated and digitalised machinery that will increase the capacity of water treatment
- It will support the water division that has a regional monopoly
- The new machinery will ensure the quality of the potable water lowering the risks of fault and brand image damage
- SVT will not need to increase price due to the high maintenance costs and therefore avoid negative publicity
- Employees may be more motivated after the training to a more automated and digitalised machinery
- Lower capital expenditure (1,5 mil\$) in comparison to Option 2 (3,5 mil.\$)
- Lower annual costs for maintenance than option 2
- Faster Payback period than Option 2

But

- Additional costs will occur due to the training needed for the new machinery
- ARR 3.33% lower than option 2 (8.6%)
- Possible conflict with engineering division as the machinery will be bought by an external supplier
- Opportunity cost of the investment for other divisions with higher growth market

Option 2:

- Increase of production capacity of wind turbines so SVT will be able to accept more orders.
- Potential of increased sales and market share in market that is growing
- Economies of scale
- Hiring new employees may bring new ideas and motivation in the division

But

- Higher capital expenditure (3,5 mil\$) in comparison to Option 1 (1,5 mil.\$)
- Higher annual costs for maintenance than option 1
- Slower payback period than Option 1 but the long-term objectives of SVT should be considered
- Opportunity cost of the investment for other divisions with higher growth market

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Only some of these issues need to be discussed for a full response

Accept any other relevant discussion.

Marks should be allocated according to the assessment criteria on pages 7–8.

Criterion A: Knowledge areas include: risk, investment appraisal, strategic decision making. No understanding of investment appraisal, marks limited to **[3]**.

Criterion B: Application will be judged by the use of the stimulus material, in particular the extra material. If only one option considered, award a maximum of **[2]**. If both options considered but no use of additional material, award a maximum of **[3]**. If no payback based on the original data or payback not used limit to **[3]**.

Criterion C: Reasoned argument. For full marks there needs to be a comparison between the two options and a supported recommendation. If analysis of only one, award a maximum of **[3]**. If no comparison but analysis of both options award a maximum of **[2]**. For simplistic analysis max **[1]**.

Criterion D: Structure – see criterion.

Criterion E: Likely issues include: Groups: impact on employees, directors, shareholders, competitors, local communities. Individuals: Jannick and Ariadne.

0 = no relevant mention of any groups, individuals

1 = only group(s), or only individual(s) or both treated superficially

2 = group(s) and individuals(s) considered but either groups or individuals superficial

3 = groups and individuals considered more than superficially but not balanced

4 = groups and individuals given balanced consideration

Note: a recommendation that a decision cannot be made due to lack of information or additional data can be regarded as a decision provided the arguments are supported.

Do not penalise candidates who make little or no reference to the original pre-release material.