



# **MARKSCHEME**

**May 2011**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 2**

29 pages

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
<b>0</b>					<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>					<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>
<b>3–4</b>					<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> </ul>
<b>5–6</b>					<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the stimulus material.</li> </ul>

<b>Section B</b>			<b>Level descriptors</b>
<b>(d) questions</b>			
<b>Q3 (d)</b>	<b>Q4 (d)</b>	<b>Q5 (d)</b>	
<b>Marks 0–9</b>			
<b>0</b>			<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the stimulus material.</li> </ul>
<b>3–4</b>			<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5–7</b>			<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses relevant and appropriate terminology.</li> <li>• Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding.</li> <li>• Explicit references to the information in the stimulus material are made at places in the response.</li> </ul>
<b>8–9</b>			<ul style="list-style-type: none"> <li>• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the stimulus material are made throughout the response.</li> </ul>

**SECTION A**

**1. (a) Define the following terms:**

- (i) *secondary research* *[2 marks]*

Secondary research is a desk research method which collects existing data from previously published sources such as the Internet, journals and industry magazines.

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

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

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

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

- (ii) *just-in-time stock control.* *[2 marks]*

Just-in-time stock control is a stock control method where a business (such as *Strider Retail* orders goods/stock for sale only after an order has been made by customers to avoid tying up working capital.

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

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

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

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

- (b) (i) Calculate the closing stock value for *Strider Retail* at the end of December 2010 under FIFO and LIFO using a table to clearly identify for each month the number of plasma televisions purchased, sold and stock remaining. [8 marks]

Month (2010)	Stock purchased (units)	Stock sold (units)	Stock remaining (units)
Opening stock of plasma televisions on 1 July 2010			150 @ US\$900
July		120	30 @ US\$900
August	100 @ US\$900	90	40 @ US\$900
September	75 @ US\$850	75	40 @ US\$850
October	60 @ US\$825	40	60 @ US\$825
November	75 @ US\$800	100	35 @ US\$800
December	100 @ US\$800	120	15 @ US\$800

FIFO closing stock value in December = 15 @ 800 = US\$12 000.

Month (2010)	Stock purchased (units)	Stock sold (units)	Stock remaining (units)
Opening stock of plasma televisions on 1 July 2010			150 @ US\$900
July		120	30 @ US\$900
August	100 @ US\$900	90	40 @ US\$900
September	75 @ US\$850	75	40 @ US\$900
October	60 @ US\$825	40	40 @ US\$900 20 @ US\$825
November	75 @ US\$800	100	35 @ US\$900
December	100 @ US\$800	120	15 @ US\$900

LIFO closing stock value in December = 15 @ 900 = US\$13 500.

One table may be presented provided another column is added for LIFO.

**Mark as 4+4.**

**[1 to 2 marks]**

The answer is largely inaccurate. The candidate shows only a superficial understanding of the FIFO/LIFO stock valuation method for **[1 mark]**. Award **[2 marks]** if there are two mistakes, or the table is poorly presented.

**[3 to 4 marks]**

Allow for up to one mistake for **[3 marks]** where the table is well presented. Award up to **[3 marks]** if the final stock value is not presented/calculated. For a correct answer which is well presented award **[4 marks]**. Opening stock must be included for full marks.

Apply Own Figure Rule (OFR).

- (ii) Comment on the implications for *Strider Retail* of using LIFO as a method of valuing its stock.** **[3 marks]**

Closing stock value under LIFO is higher than for FIFO although this is not surprising given the falling costs of purchasing new plasma televisions. Under LIFO, *Strider Retail* is left with the older and more expensive stock of plasma televisions.

A higher closing stock figure under LIFO will imply a lower cost of sales and a higher final gross profit calculation. Higher level of profit will result in higher taxes for *Strider Retail*.

Other implications for *Strider Retail*, however, are that with LIFO they will be left with stocks of older plasma televisions and as a result the value of closing stock will be higher than the actual realizable value given the rapid changes in technology. *Strider Retail* may be forced to sell these plasma televisions at discounted prices and may make losses next year.

**[1 mark]** for a relevant theoretical answer without any references to the figures and to *Strider Retail*. Or **[1 mark]** for only one point such as the value of closing stock under LIFO will be higher than for FIFO.

**[2 marks]** for two distinct implications for *Strider Retail* such as the difference in closing stock under LIFO **and** the subsequent effect on gross profit.

**[3 marks]** for three distinct comments/implications to include the above two and the fact that *Strider Retail* may have to sell its stock of plasma television at discounted prices as product life cycle's shorten.

Please note: some of the candidates may give a generic textbook response on the closing stock, level of profit, taxes *etc.* Normally under FIFO "gross profit is higher" but not for *Strider Retail*. If the candidate does not recognize the different scenario, no credit should be given.

- (iii) Briefly explain *one* advantage and *one* disadvantage for *Strider Retail* of using the just-in-case stock control method for plasma televisions. [4 marks]

The information from the stimulus implies that with seasonal factors now becoming less of a priority for customers, *Strider Retail* may need to move to a just-in-case stock control method.

**Advantages** could include the following:

- satisfy customer demand more quickly as the customers do not have to wait for the plasma television to arrive
- avoid missing out on potential increase in sales if they used just-in-time. *Strider Retail* can become more responsive to customers' needs and demands
- may act as a point of differentiation from its competitors who may run out of stock of plasma televisions if they continue to use just-in-time
- purchasing economies of scale can be gained if a large quantity of plasma televisions are bought.

**Disadvantages** could include the following:

- given the rapid changes in technology and the consequent shorter life cycle of the plasma televisions, *Strider Retail* will need to order stocks of new plasma televisions carefully otherwise *Strider Retail* may be left with a large stock of obsolete and unsold products
- just-in-case will tie up valuable working capital in current assets which may also be difficult to liquidate, if economic times or trading conditions become more difficult
- employees' motivation might decrease as the delegation and responsibilities of ordering stock when needed will be taken away.

**Mark as 2+2.**

Award [1 mark] for a relevant and correct advantage/disadvantage identified and [1 mark] for a relevant and correct brief explanation and application to *Strider Retail* or to its product (television).

Please note: Just mentioning the name of the organization cannot be considered as application.

Accept a reference to plasma televisions as a form of application.

If there is no relevant application to the stimulus material award up to a maximum of [3 marks].



- (c) **Analyse the impact of a shorter product life cycle for plasma televisions on *Strider Retail*'s cash flow.** **[6 marks]**

The rapid change in technology and the increase in availability of new and updated models of plasma televisions may have impacted both positively and negatively on the cash flow of retailers such as *Strider Retail*.

**Negative impacts could include the following:**

- The pressure is on *Strider Retail* to sell plasma televisions faster given that new models or versions will appear more quickly than previously. This may lead to smaller profit margins as well as cash inflow as indicated in the stimulus material *Strider Retail* will have to reduce prices to force higher volumes to be sold. This could lead to a problem of over-trading for *Strider Retail*.
- Due to a shorter life cycle *Strider Retail* will have to update stock more often even if the older models have not been sold. Thus increasing the need to increase the cash out flow.
- Given the above, *Strider Retail* will have to analyse carefully its supply chain to ensure supplies when demand is strong without holding excessive stock.
- *Strider Retail* may have to offer credit terms in addition to cash as a promotional tool, which may also lead to less cash coming into the business.

**Positive impacts could include the following:**

- A new competitive position / advantage could be established on price and this may lead to an increase in cash flow, “if” other companies offer only just-in-time stocks.
- Deep discounting, especially if the market is becoming more price elastic, may lead to further increases in revenue.
- If *Strider Retail* moves to a just-in-case stock control method, an improvement of the cash flow may be seen due to lower prices negotiated from buying in bulk.

*Accept any other relevant analysis.*

For one relevant issue that is one-sided, with no analysis award up to a maximum of **[3 marks]**.

For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

A balanced analysis is one that incorporates at least one negative impact and one positive impact. Given that the question asks for the impact and not impacts.

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

2. (a) Define the following terms:

(i) *research and development*

[2 marks]

Research and development is discovering new knowledge about products, processes and services (research), and then applying that knowledge to create new and improved products, processes, and services that fulfil market needs (development).

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding (*e.g.* for defining **only** research **or** development).

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

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

(ii) *snowballing.*

[2 marks]

Snowballing is a method of primary market research based on gathering data from pre-selected small samples of influential customers, who will then network with other like-minded individual customers. These influential customers will then inform the company of other like-minded customers who could be useful in the market research process.

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

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

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

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

- (b) Briefly explain *one* advantage and *one* disadvantage for *Esperanto* of only conducting primary market research. [4 marks]

The advantages of using primary market research are linked principally to the fact that the UniTran is a new innovative product and thus there will be no secondary data available.

By using a snowballing research method, *Esperanto* will be able to get quick informed feedback on the product as used by professionals in their field. The link with the NGO (*Medicine Sans Frontiers*) may also give rise to some early marketing and promotional opportunities.

- Primary market research of snowballing can save *Esperanto* money by forgoing a large pre-launch run of UniTran to test the device. Moreover, expert opinion will be given.
- *Esperanto* can tailor the research to its specific need.
- Only *Esperanto* will have the ownership of and access to the information gathered. This is very important given the nature of such an innovative product.
- Accept any other relevant advantage.

Disadvantages of using primary market research are linked to the problems of a small sample chosen for the snowballing exercise.

The sample chosen will be biased and thus will the information given to *Esperanto* be useful especially given that:

- The respondents chosen for the research may not have had to pay for the device and one notes its high initial cost.
- Will the snowballing exercise take too long and be too expensive to organize? Some of the respondents may be difficult to reach for quick survey feedback.
- Accept any other relevant disadvantage linked to the snowballing exercise “or” to primary market research in general.

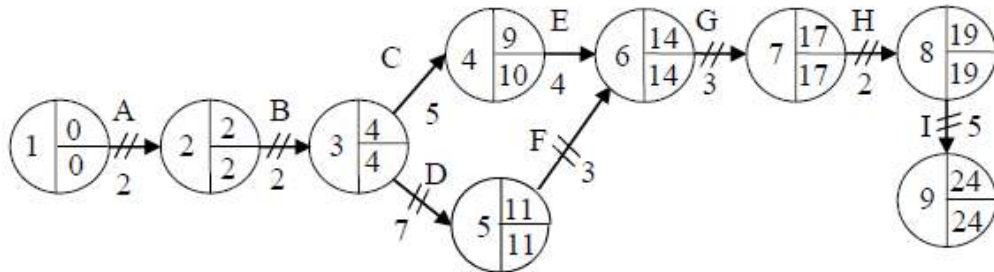
**Mark as 2+2.**

Award [1 mark] for a relevant and correct advantage/disadvantage identified and [1 mark] for a relevant and correct explanation, up to a maximum of [2 marks].

If a candidate does not contextualize their answer or simply writes that the primary research will be accurate but costly then award only [1 mark] as this answer is not developed.

If there is no relevant application to the stimulus material award up to a maximum of [3 marks].

- (c) (i) On the lined paper provided for your answer, construct a fully labelled network diagram to represent the sequence of activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity *and* the critical path. [6 marks]



// = Critical path  
 EST = Earliest starting time  
 LFT = Latest finishing time

Critical path: A → B → D → F → G → H → I

Duration 24 weeks

**[1 to 2 marks]**

There is some evidence of understanding the model and some attempt at construction and ESTs and LFTs are shown. For [1 mark] there is minimal understanding but the diagram bears no resemblance to the markscheme. For [2 marks] there are more than two errors.

**[3 to 4 marks]**

The network is constructed, but may not be well drawn and may not be entirely accurately presented. For [3 marks] there are two errors, the critical path may not be identified and a key may not be present. The ESTs and LFTs are largely correct but some errors (up to two) may be included for [4 marks].

**[5 to 6 marks]**

For [5 marks] there is one error **or** the critical path is not identified **or** a key is not present. For [6 marks] the network is accurately constructed and well presented. The critical path is identified and a key is provided. The ESTs and LFTs are correct.

*Do not penalize a response more than once for errors that are carried forward.*

- (ii) Calculate the total float on the network diagram and comment on its implications for *New World* (show all your working). [3 marks]

Please allow Own Figure Rule (OFR) if the candidate has calculated the floats based on incorrect figures on the diagram in part (i).

LFT of an activity – Duration – EST of the activity

At node 3 for activity C: EST of C = 4.

At node 4 for activity E: LFT of C = 10.

Duration of C = 5.

Hence total float = LFT of C – EST of C – duration of C = 10 – 4 – 5 = 1 week.

E also has a float of 1 day  $14 - 4 - 9 = 1$  week

All the other activities on the critical path have 0 float (no need for calculation).

Either activity C or E can be delayed by 1 week (if the preceding activity starts on time) but if activity C is delayed by 1 week and so is E then the whole network will be delayed by 1 further week.

Implications for *New World* could include:

- Activity C can be delayed by 1 week without impacting on the critical path and the project can still be completed in 24 weeks.
- If a delay occurs on any of the activities on the critical path that have 0 total float, the management can transfer resources from either C or E to those activities, provided a delay in any of the activities will not exceed 1 week.
- If activity C or E is completed within 5 weeks, then labour could be transferred to other tasks for the float week to ensure other tasks on the critical path are completed on time.

Award [1 mark] for correct calculation of the total float with working shown of either C or E.

Award [2 marks] for two correct implications identified.

- (iii) Briefly outline *one* benefit to *New World* from constructing the network diagram. [2 marks]

The network diagram will allow *New World* to:

- see a visual display – the diagram clearly illustrates and hence makes it easier to follow the type/nature of the activities, the order of activities and the dependency between some activities so that the marketing and product launch can be completed
- see those activities, which are critical and must be completed without delaying the marketing and product launch
- identify float time on the network so that resources can be transferred from non-critical activities to critical activities with no overall impact on the duration.

For [1 mark] the benefit is accurate but is generic and makes no mention of *New World* being able to complete the marketing and product launch on time.

For [2 marks] the benefit is accurate and relevant to *New World's* marketing and product launch.

- (d) Analyse *New World's* suggestion to use short distribution channels for the UniTran. [6 marks]

Arguments in support of the idea of a short channel such as direct marketing, the use of specialized retailers or agents for distribution of this new technological product could include:

- It is a technical product which will require additional support such as guidance on use and other after-sales services.
- *Esperanto* will be able to better control the quality of the service and distribution as well as being closer to its customers. Feedback can be collected more easily about the product features, suggestions *etc.* In short, the preferred method of primary research can be more easily carried out by *Esperanto*.
- A short channel would be appropriate for ease of communication with the manufacturer in case of product failure or technical queries.
- A short channel could be cheaper and some price reductions might be possible to make the UniTran more affordable.
- Logistical difficulties or breaks in the supply chain may be more difficult to handle if the product is sold in longer channels.

However:

- If sales do exceed targets and the product can be sold into a global market, then short channels may be inappropriate.
- Given *Esperanto's* desire to see the product as “global”, longer channels may be required in international markets, for example the use of local agents or other intermediaries like wholesalers and retailers of electronic goods.
- Longer channels may allow economies of scale. As product familiarity grows and the target market are no longer the early adopter and innovators, a more mass market distributor can be used. Larger retail stores will be able to offer wider distribution and lower prices, increasing retail volumes further.

*Accept any other relevant analysis.*

The candidates are expected to refer to the nature of the product – innovative, new and unique. They are also expected to specify and explain with the use of some relevant examples the nature of short and long distribution channels to reach the top markband.

For one relevant issue that is one-sided, with no analysis award up to a maximum of  
**[3 marks]**.

For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

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

**SECTION B**

**3. (a) Define the following terms:**

**(i) *profit* [2 marks]**

Profit is calculated by subtracting total costs from total sales revenue earned. Profit can be defined as the reward for successful risk-taking in business. It is a reward for the entrepreneurs.

For [2 marks] the candidates are expected to refer to what is profit and what it is for – “the meaning of profit” and how it is calculated.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding. For example if a candidate writes only that profit is total revenue – total costs.

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

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

**(ii) *takeover*. [2 marks]**

A takeover is a form of business integration where one company decides to purchase a controlling interest in another company. Controlling 51% of shares allows for the control of the taken over company. A takeover may be hostile if the company taken over (target) does not wish to be owned.

If a candidate writes **only** “a takeover is when a company buys or purchases another company” then award [1 mark].

Note: For the IB syllabus, we assume that mergers are voluntary agreements to join together and that takeovers are involuntary *i.e.* they are different. Please note in some countries a merger and a takeover are defined as the same thing and candidates should not be penalized for using the word merger.

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

If a candidate writes **only** “a takeover is when a company takes over another company”, give [0 marks].

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



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

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

(b) (i) **Briefly explain two benefits of brand loyalty to Lego.** [4 marks]

- Brand loyalty creates price inelastic customers. Customers could possibly be charged higher prices than rival toy brick manufacturers due to brand loyalty.
- Information from the stimulus material that *Lego* has enjoyed brand loyalty and trust at a time of recession, which has allowed sales to grow. Customers did not switch to other brands.
- Brand loyalty may lead to an increase in the value of the company beyond the accounting value of its assets. It adds to the value of its intangible assets. It is said in the stimulus material that *Lego* created intangible assets due to brand loyalty. This would increase the purchase price of the company and could deter possible takeover advances from companies such as *Mattel*.
- Possible savings in promotional costs as the brand is well-known by parents and children.
- *Accept any other relevant benefit linked to brand loyalty.*

**Mark as 2+2.**

Award [1 mark] for each relevant and correct benefit identified and [1 mark] for a brief explanation.

If there is no relevant application to the stimulus material award up to a maximum of [3 marks].

(ii) **Calculate the net profit margin for Lego for 2004 and 2009.** [2 marks]

For 2004 = -21.94 % to 2 d.p.

For 2009 = 18.91 % to 2 d.p.

Award [1 mark] for each correct calculation which must be a percentage (workings not required).

(c) Analyse *two possible reasons why Mattel would have tried to takeover Lego.* [6 marks]

Possible reasons for the takeover attempt could include:

- Clearly as a global brand, *Lego* would be an attractive target for takeover. The brand loyalty gained could be considerable.
- There could be a number of economies of scale gained through distribution channels, purchasing of supplies and in marketing.
- *Mattel's* management might have assumed that the dissatisfied stakeholders which must includes some of the family shareholders, might be willing to sell their shares given the losses in 2004 and the unsuccessful diversification.
- It would allow *Mattel* to spread risks as an American company enabling a number of managerial synergies with a family business based in Europe. *Mattel* could also find it easier to enter into some new geographical markets.

However:

- Possible culture clashes between the two companies. *Lego* is a family run business and *Mattel* is a large American toy manufacturer. There could also be time lags/delays in the takeover process.
- The family members were unlikely to sell their shares and would have liked to protect the family ownership of *Lego*.
- Given the considerable goodwill of *Lego* would the purchase price of *Lego* be too high for *Mattel* to afford?
- *Mattel* would also have to absorb the losses which *Lego* had made from their ill-fated diversification into new markets.

*Accept any other relevant analysis.*

For one relevant issue that is one-sided, with no analysis award up to a maximum of [3 marks].

For more than one relevant issue that is one-sided, with no analysis award up to a maximum of [4 marks].

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

- (d) **Given the changes in the external environment, discuss whether *Lego* has changed its objectives towards achieving larger profits.** [9 marks]

As a global brand does *Lego* perceive that they are immune to the changes in the external environment?

*Lego* has retained the same ownership structure since 1932, which assumes that objectives have been consistent, however, the external environment will have changed and there will be many more competitors in the toys/games market.

From the stimulus material there seems to be some mixed messages as to what *Lego*'s current objectives towards achieving larger profits might be and how the external environment has impacted on their decision-making process. The question is open-ended to allow a number of suitable appropriate responses.

It is stated that maximizing profit has not been a focus for *Lego*. However, there is evidence from the stimulus material that the company is trying to position itself in new markets with existing products, or diversifying, which may suggest a deliberate action/response taken to move towards achieving larger profits given changes in some elements of the external environment such as the increased use of computer games. One might argue that *Lego* devised a strategy to take advantage of some social and technological factors and used these factors as opportunity to achieve profit.

If not aiming for larger profits why the move into the Internet and the production of a film? These could be perceived as non-core activities and another indication that the company is aiming to achieve larger profits given a changing external environment.

Ironically, however, the large profit was influenced by the recession of 2008–9 as *Lego* customers looking for value for money returned to trusted brands. One might argue that *Lego* **has not** changed its objective and decided to maximize its profit. *Lego* benefited for some economic opportunities in the external environment.

However, the word “achieving large profit” might indicate that *Lego* indeed changed its objectives regarding profit maximization.

Given that *Lego* is family-owned and globally successful, does *Lego* need to pursue significant larger profit opportunities?

*Accept any other relevant discussion. A conclusion / judgment must be given to achieve the top markband marks.*

A balanced response is one that covers at least **two** arguments in favour and at least **two** arguments against.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

**4. (a) Define the following terms:**

(i) *price elasticity*

**[2 marks]**

Price elasticity of demand/supply measures the responsiveness of customers' demand for and supply of a product to changes in the price of the product. It is calculated by dividing the percentage change in quantity demanded/supplied by the percentage change in the price of the product.

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

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

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

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

**Do not award candidates who reproduce the formula as it is given.**

(ii) *shareholder.*

[2 marks]

A shareholder is an individual who by purchasing shares in a company obtains part ownership. Share ownership may give the owner a profit dividend, and/or a vote at the company's Annual General Meeting to decide on who serves on the Board of Directors.

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

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

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

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

(b) Explain two advantages to *Enigma* of using price discrimination.

[6 marks]

Using price discrimination allows *Enigma* to offer lower prices to those rural communities, subsidized by the business community who will pay higher prices. The stimulus material indicates how much of a necessity product electricity is to all citizens of this cold country in Northern Europe.

Advantages could include the following:

- Offering electricity at a subsidized rate will build up significant goodwill for *Enigma*, especially in rural poorer communities. Loyalty is likely to be created which will be very beneficial if more competitors enter the market. *Enigma* may also be able to create an ethical image with all the benefits associated with such an image.
- Price discrimination and the resulting higher revenues from the business community who is assumed to be more price inelastic than households given the need to produce/generate high level of profit. The profit allows *Enigma* to invest in new technology, in order to become more productive in the future and guarantee future supplies of electricity.
- *Enigma* might fend off the intervention of the government and or any other regulatory body and pressure groups.
- Accept any other relevant advantage.

**Mark as 3+3.**

Award [1 mark] for identifying each appropriate advantage of an organization using price discrimination (which may be generic), [1 mark] for an appropriate explanation that directly refers to *Enigma* and [1 mark] for a further development of this explanation up to a maximum of [3 marks].

- (c) **Using Herzberg’s motivational theory, analyse the motivation of *Enigma*’s senior managers.** [6 marks]

It is expected that candidates will refer to Herzberg and demonstrate knowledge of the two factor theory. Candidates must refer to “motivators” such as those prescribed by “job enrichment” (such as personal growth, recognition, *etc.*) to access the top markbands, given that hygiene factors which are present in themselves do not motivate.

Answers should also be in context with respect to senior managers and not workers or other stakeholders involved in *Enigma* in order to access the top markbands.

It is expected that the candidate present and explain the theory either separately or throughout their response. The distinction between the two types of factors must be made.

Arguments **for** senior managers being motivated:

- Given the amount of money given as bonuses, one can assume that the hygiene factors are met. Moreover, there is no information about lack of facilities, problems in working condition and so on in the stimulus material.
- There is evidence from the stimulus material that some of the key motivators suggested by Herzberg’s motivation theory of job enrichment could motivate the best university graduates to work at *Enigma*. The amount of the bonuses given also indicated appreciation, fulfilments *etc.*
- Senior managers may also feel a great deal of responsibility towards ensuring future supplies, which is another feature of the job enrichment theory of motivation.
- The university graduates would eventually become highly-skilled, which according to the job enrichment school of thought surrounding personal growth is a key motivating force.

Arguments **against** senior managers being motivated:

- Senior managers may not be motivated according to the “motivators” as the stimulus material refers to “million dollar reward packages” available to those higher up the hierarchy. If these packages are intended to satisfy hygiene needs, then the senior managers may feel that the hygiene factors are being provided regardless of whether they are efficient or not – as stated by some of the stakeholders. The package may seem excessive and unjust in a country where the average annual wage is the lowest in Europe. The hygiene factors may actually cause dissatisfaction as the senior managers may feel dissatisfied with the excessive package.
- We must also assume that some senior managers may be demotivated, due to the perceived unethical position the company appears to be taking by awarding million dollar reward packages during a recession.

*Accept any other relevant analysis.*

For one relevant issue that is one-sided, with no analysis award up to a maximum of **[3 marks]**.

For more than one relevant issues that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

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

**(d) Evaluate solutions to two possible stakeholder conflicts present at *Enigma*. [9 marks]**

This question is open-ended, inviting candidates to consider a number of stakeholder conflicts.

Candidates are expected to:

- identify and explain the conflicts
- provide a solution or solutions for each of the two conflicts identified
- and evaluate the solution(s) and provide a judgment.

Please note: the solution(s) for each conflict should be evaluated for the candidates to reach the top markband.

**Pressure groups versus *Enigma***

Profits have become too high according to pressure groups. But CEO Bjorn Andersson argues that the profits are necessary for *Enigma* to guarantee electricity supply through the cold months. The government may have to insist that *Enigma* reveals details of its operations to pressure groups to ascertain whether the profit is too high. One problem is that *Enigma* does not have any competitors (“distributes electricity to over 90% of households”) so it will be difficult to judge what is meant by high. Pressure groups may have looked for international comparisons. The Internet has provided greater transparency for pressure groups to get information about high profits and make international comparisons.

Judgment:

This solution is difficult to resolve given the nature of the service which *Enigma* generates and distributes. Also, funds for further investment are essential. It is vital to have this power in such a cold country. *Enigma* will need to show how it uses its profits to guarantee electricity supply. Other methods of price discrimination might have to be considered like time of day. Moreover, *Enigma* might have to reduce bonuses especially given the substantial loss in 2010. Such action as well as a possible promise of green investment may somewhat satisfy the pressure groups.

**Government/shareholders versus *Enigma***

A government rescue package would demand that *Enigma* uses this money for ensuring electricity supplies and not for rewarding managers for producing significant losses. (Ethical conflict of using public money for private gain.) Shareholders are upset that money in the company is being used to reward inefficient senior managers.

*Enigma* (Bjorn) could argue that the losses were created by the recession and not the senior managers and that future supplies of electricity are threatened if it does not offer “superstar reward packages” to recruit and motivate future senior managers.

Possible solution(s):

- *Enigma* to be forced to pay the money back to the government when profitability is restored.
- Shareholders to demand greater transparency around what constitutes the rewards package. Performance criteria should be established and made transparent. A representative from the government might participate in the appraisal process.
- Given the monopoly power of *Enigma*, the government can step up regulations, intervention with the organization.
- Some managers to offer to pay back their bonuses. Although this may be considered just a “public relations” exercise by the shareholders and not treated seriously.

Given the previously high profits the company has earned, *Enigma* should make every attempt to pay back the rescue package when the recession is over otherwise another public relations disaster is likely to happen. This should calm the shareholders but may anger the pressure groups again if we assume that very high profits will return.

### **Business community of electricity versus rural poorer community**

A conflict may arise between two stakeholder groups affected by price discrimination.

This conflict could be resolved by adjusting the current prices charged to the two customers to reflect more appropriate market conditions, but given the nature of the product (electricity) and the cold climate, *Enigma* runs the risk of raising the anger of the pressure groups at a sensitive time given that *Enigma* supplies over 90% of households.

*Accept any other relevant conflicts between stakeholders.*

There are a number of conflicts here with some being very difficult to reconcile. *Enigma* will clearly have to take the ethical stance and pay back the money owing to the government when profits return. The onus will be on Bjorn Andersson who will need to prove that these “superstar rewards packages” are really rewarding superstars.

A solution for a conflict may easily create another between other stakeholders. Some short-term solutions might create long-term ones.



It is expected that the candidates produce substantiated judgment – *accept any substantiated judgment*.

For one conflict between two stakeholders with evaluation, award a maximum of **[5 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

**5. (a) Define the following terms:**

**(i) *corporate culture***

**[2 marks]**

Corporate culture refers to the set of values, attitudes, norms and beliefs present in a given organization. Corporate culture determines the working practices of an organization, the structure and the management styles used.

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

A connection between the culture and practices must be made.

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

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

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

**(ii) diseconomies of scale.****[2 marks]**

Diseconomies of scale refer to the increase in the average or unit cost of production as an organization's scale of operation grows beyond a certain level.

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

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

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

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

**(b) Explain two reasons for the growth of multinational telecommunications companies in Uruguay in the home telephone market since 2005.****[6 marks]**

- New legislation. The Uruguayan home telephone market remained closed until 2005 when the government passed legislation to allow foreign competition. The liberalization of the market enabled multinational telecommunications companies such as *Allo* to enter, compete, and grow in the home telephone market segment.
- Multinational telecommunications companies use Uruguay as a first point of entry/penetration to enable a further expansion into much larger South American markets. Gaining a foothold in one country might provide the multinational telecommunications companies a cultural, operational experience that can be transferred to other countries in the region. Moreover, some trade barriers may be overcome.
- A multinational telecommunications company might want to take advantage of a current fragmented telecommunication market in Uruguay. *Ansell* only has 25% of the market, hence opportunities exist to establish a significant market share in Uruguay especially if (and only if) the quality of the service provided by a state owned organization is not of the highest quality.

Some more generic points:

- Economies of scale. Multinational telecommunications companies such as *Allo* can benefit from economies of scale and fiercely compete against relatively small local companies like *Ansell*, which are generally less efficient and struggle to find financial support and update technology. But the real answer is the opening of the market which allows the multinational telecommunications companies into Uruguay. The point above refers to some incentives/benefits to the organization.
- Research and development. Multinational telecommunications companies such as *Allo* are able to make strong investments in innovation and technology that allow them to offer better services and lower prices to potential customers. Such investments are generally difficult to be achieved by smaller companies like *Ansell*.
- Marketing expertise and marketing campaigns. Multinational telecommunications companies such as *Allo* can benefit from marketing expertise. As they operate globally, they have vast experience and know how to better commercialize telecommunication services. They are also able to make strong advertising and marketing campaigns that are not financially accessible to small scale operators such as *Ansell*.
- *Accept any other relevant reason.*

*Accept any other relevant explanation.*

Candidates may use one reason that is directly applicable to Uruguay and another more generic one to achieve full marks.

**Mark as 3+3.**

Award [*1 mark*] for identifying one appropriate reason for the growth, [*1 mark*] for an appropriate explanation that applies to the stimulus and [*1 mark*] for a further development of the explanation up to a maximum of [*3 marks*].

- (c) **Analyse the consequences of clashes in leadership styles if *Ansell* and *Ronaldo* merge (first option).** **[6 marks]**

Clashes occur when two merging companies find dissimilarities in their corporate cultures. The resulting ambiguity can possibly change the nature, orientation and character of one or both of the merger partners.

Due to its autocratic leadership style, *Ansell* is likely to concentrate decision-making on managers, with low levels of delegation and minimal employee consultation. Autocratic leadership styles are generally unsuccessful when employees are independent and highly-skilled. Clashes with *Ronaldo*'s different leadership style could cause staff confusion, dissatisfaction, and difficulty to adapt to the new situation could lead to lower productivity levels diseconomies of scale – as stated in the stimulus and increased staff turnover. Subsequently, the merge will be unsuccessful and both companies will be unlikely to reap the financial and marketing benefits from this option.

On the other hand, one may argue that:

*Ansell* and *Ronaldo*'s merger and its inherent clashes will inevitably lead to an adaptation process of their leadership styles. Perhaps some management of change strategies may ease the integration. The closer the companies are in their cultures, the less painful the process will be.

Moreover, perhaps the merger could be a defensive one and save both companies from further financial problems. The financial and marketing benefits may outweigh the clashes in leadership styles. Employees may accept the nature of the autocratic style given the current problems. If and when the financial situation improves, perhaps the leadership style should evolve.

*Accept any other relevant analysis.*

For one relevant issue that is one-sided, with no analysis award up to a maximum of **[3 marks]**.

For more than one relevant issues that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

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

**(d) Discuss the second and third options available to *Ansell*.**

**[9 marks]**

As a second option, *Ansell* can form a joint venture with the Italian multinational telecommunications company *Pronto*. It is an external growth strategy which should enable quick growth. Due to its experience in the global market, *Pronto* could enable *Ansell* to better operate its services in the home telephone segment currently dominated by *Allo*. It can be seen as a defensive move against the market leader – a market follower or even a market challenger strategy. *Ansell* could benefit from *Pronto*'s technological upgrade and support to increase its market share.

In return, *Ansell* will share its knowledge and understanding of the local market with *Pronto* that they could use as a platform to explore market potentialities in other countries in the region. The joint venture can provide *Ansell* with a stepping stone for further expansion. Ownership will not be lost and a synergy can be created between the two companies of the venture.

However, *Pronto*'s venture with *Ansell* seems to be a very short-term deal; a one year commitment may not give *Ansell* enough time to compete effectively against the market leader *Allo*. Some disagreement may occur given the possible differences in work practices in two companies from different countries. A disagreement may arise regarding the sharing of the profit unless all very clearly set out.

As a third option, *Ansell* can choose to grow internally. The company is developing a new service called “Rural-Ansell” to meet the needs of the rural market segment. This could let *Ansell* gain a first-mover advantage and stand out from its rivals. *Ansell* will then gain a broader customer base and will keep control and ownership of the company. However, it is likely that this alternative may take a long time to develop. In the meantime, potential rivals entering the market due to the new legislation may expand and gain a competitive advantage. If the first-mover advantage in the rural market segment is not properly capitalized by *Ansell*, then *Allo* or any other competing company may in turn gain second-mover advantage. In addition, the financial limitations that *Ansell* is experiencing are likely to slow down or even threaten the company’s growth process.

All in all, the two options entail both opportunities and risks for *Ansell*. However, given the size of competitors and the increasing competition that the new legislation will enable, *Ansell’s* internal growth seems to be a weaker alternative. A joint venture with the Italian multinational *Pronto* may seem a better choice for the relatively small *Ansell* to compete in the new context.

*Accept any other relevant discussion.*

A balanced response is one that covers at least **two** arguments in favour and at least **two** arguments against.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

To achieve the top markband, the answer must contain a judgment which is consistent and supported by the discussion of the two options.

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