



MARKSCHEME

November 2011

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

16 pages

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

Section A			Level descriptors
(c) questions			
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A

1. (a) Describe Andrew Grandin’s:

(i) chain of command at *Reach Out* [2 marks]

Chain of command is the formal line of authority through which orders and decisions are passed down from top to bottom of the hierarchy in a given organization. In the case of *Reach Out* and Andrew, the chain of command is very short as there are only three levels: Laura and Neil on top, Andrew in the middle of the chain and all the therapists at the bottom of the chain/hierarchy.

Award [1 mark] for a basic description, which shows some understanding of the concept of “chain of command”.

Award [2 marks] for a clear description correctly applying the concept of “chain of command” to Andrew Grandin.

(ii) span of control at *Reach Out*. [2 marks]

Span of control is the number of people who report directly to one manager in a hierarchy – in this case: all the therapists report to Andrew as he is their manager. It is a wide span of control because there are many therapists.

Award [1 mark] for a basic description, which shows some understanding of the concept of “span of control”.

Award [2 marks] for a clear description correctly applying the concept of “span of control” to Andrew Grandin.

- (b) Using the case study, comment on *two* sources of income (current or potential) for *Reach Out* other than the therapist scheme. [4 marks]

Besides the therapist scheme, *Reach Out* has several other sources of income (current ones and potential ones):

- as shown in Appendix 1: the sales of subsidized PECS cards – although the cash flow shows that this is not an actual source of income yet (as *Reach Out* has not started selling the PECS cards)
- as shown in Appendix 1: the charity contributions (donations) of \$200 every month (a very small amount but a regular one)
- as mentioned in the case study (**Option 2**): the possible sale of branded products such as clothes and accessories with the *Reach Out* name and logo
- as mentioned in the case study (**Option 3**): the possible sponsorship from *N-Pharma*.

Mark as 2+2.

Award [1 mark] for each appropriate source of income identified and [1 mark] for an appropriate comment that directly refers to *Reach Out* up to a maximum of [2 marks].

- (c) Analyse the social *and* economic impacts of the actions of the non-profit organization *Reach Out*. [7 marks]

The social and economic impacts of the actions of *Reach Out* include the following:

- *Reach Out* provides a social service without which many families could not afford treatment for their children with autism: *Reach Out* has a positive social impact on these families, especially on the children.
- Some private sector providers must be affected by the competition from *Reach Out*; they may lower their fees (currently up to four times higher); they are affected economically in a negative way as they run the risk of losing business.
- The popularity of the actions of *Reach Out* contributes to the awareness raising of autism and could make it a funding priority for policy makers (this would be a positive impact).
- The public sector (national or local government) may decide that they do not need to spend money on autism support, as organizations such as *Reach Out* now cater for it (this would be a negative impact for families).
- *Accept any other relevant impact.*
- *Accept any other relevant substantiated analysis. Theoretical comments from outside the case study are acceptable.*

Candidates are **not** expected to refer to all the above points for top marks, but their analysis must be balanced with regards to the positive and negative social and economic impacts, in order to reach the highest level of the markband.

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

2. (a) Describe Laura Chan’s desired pricing strategy for *Reach Out’s* PECS cards. [4 marks]

Laura’s pricing strategy may be described in several ways:

- Laura’s starting point (mentioned in *Reach Out’s* mission statement) is the fact that competitors’ PECS cards are very expensive: she wants her PECS cards to be much more affordable. Her pricing strategy is therefore competition-based strategy.
- As *Reach Out* is a new entrant, it needs to create and gain market share against its competitors; the pricing strategy could be described as penetration pricing (as Laura may later decide to put her prices up, once she has developed brand loyalty towards *Reach Out’s* PECS cards).
- Cheaper PECS cards affordable to all families can be classified as market-based strategy, which further supports the fact that she does not use cost-based pricing strategy.

Accept any other relevant answer.

Award [1 mark] for each valid point, statement or application to *Reach Out*, up to a maximum of [4 marks].

- (b) Explain *two* reasons why Neil Johnson prepared a STEEPLE analysis for *Reach Out* (line 31). [4 marks]

Neil prepared a STEEPLE analysis for several reasons:

- Preparing a STEEPLE is necessary in order to write a SWOT analysis (as the O and T refer to the external environment).
- As a businessman, Neil knows that the external environment must be analysed and taken into account when deciding on any strategic move, STEEPLE is a very important initial step for the development of any business plan.
- The use of a STEEPLE is vital for the identification of opportunities and threats which Neil can use to strategically match with *Reach Out's* internal strengths and weaknesses. (For example some candidates may answer by outlining some key findings from the STEEPLE model like political factors: in the absence of support from the public sector, there is a demand for affordable therapists such as the ones provided by *Reach Out*).
- The STEEPLE framework is comprehensive as it covers social/cultural technological, environmental, economic, political, legal and ethical factors.

Accept any other relevant explanation.

Candidates are **not** expected to write a STEEPLE analysis for *Reach Out*.

Mark as 2 + 2.

Award [1 mark] for each correct reason identified and [1 mark] for an appropriate explanation that directly refers to *Reach Out* up to a maximum of [2 marks].

- (c) **Laura Chan “did not see how marketing objectives could help *Reach Out* achieve its goals” (lines 148–149). Examine how appropriate it is for *Reach Out* to have marketing objectives.** [7 marks]

On the one hand, marketing objectives can be associated with profit-making organizations, as shown by the terminology of “marketing” and “market”; Laura does not embrace this approach, which is why she is “not interested in brand development and product development”. Marketing objectives may not be appropriate for *Reach Out* because *Reach Out* does not operate as a commercial organization that needs to maximize profit to satisfy its owners or shareholders. Having marketing objectives may lead to some external stakeholders feeling that *Reach Out* has become too commercialized.

On the other hand, *Reach Out*, like all other organizations in the non-profit sector does operate in a competitive environment, even if some people (such as Laura) find it difficult to apply business concepts to charities (or other non-profit organizations such as churches and political parties). Having marketing objectives could help *Reach Out* identify targets and devise a strategy to generate further income (hence Neil’s three options) and possibly to reduce cost; from that viewpoint, marketing objectives would be appropriate, especially if they choose **Option 2**, which will involve developing and distributing products: a whole new marketing philosophy would then be needed for *Reach Out*, including setting marketing objectives and striving to reach them. Having marketing objectives can help to increase donations by increasing public awareness of *Reach Out*. The existence of marketing objectives allows for a more accurate performance analysis.

Accept any other relevant substantiated examination.

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

3. (a) Define the following terms:

(i) *commission (line 40)*

[2 marks]

A commission is the payment an employee receives when he or she sells a good or service. Commissions are typically a percentage of the value of the good or service sold, which encourages employees to sell more products.

Organizations sometimes pay their employees a base salary plus commission; other organizations (where permitted by law) pay only commission.

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

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

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

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

(ii) *dismissal (line 109).*

[2 marks]

Dismissal occurs when an employer terminates the contract of an employee; it is colloquially called “firing”. The employee must have been incompetent or breached the terms of their contract to be dismissed.

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

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

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

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

(b) Using the additional information on page 3 about publishing company B, calculate (*show all your working*):

(i) the payback period (to the nearest month) *[2 marks]*

Cost = \$100 000

Income streams to payback:

$$20\ 000 + 30\ 000 + 40\ 000 + \left(\frac{10\ 000}{60\ 000} \times 12\ \text{months} \right)$$

Payback = 3 years and 2 months.

Award *[1 mark]* for the correct answer and *[1 mark]* for workings.

(ii) the average rate of return (ARR). *[2 marks]*

Total net return over 4 years = 150 000 – 100 000 = \$50 000

$$\text{Average annual net return} = \frac{50\ 000}{4} = \$12\ 500\ \text{per year}$$

$$\text{ARR} = \frac{12\ 500}{100\ 000} \times 100 = 12.5\ \%$$

Award *[1 mark]* for the correct answer and *[1 mark]* for workings.

- (c) **Neil Johnson “eventually decided to donate the \$10 000 himself” (line 36). Analyse the consequences for *Reach Out* of Neil’s decision.** [7 marks]

Neil’s decision has several consequences for *Reach Out*:

- *Reach Out* does not need to pay him back (even without interest), which is financially better for the charity, especially in its first months of operation.
- *Reach Out* is not dependent on any bank or any community grant scheme from the local public authorities; this gives *Reach Out* more autonomy.
- Neil may be more motivated to make *Reach Out* successful as he has invested some of his personal money.
- This decision shows Laura that Neil is really committed to *Reach Out*, giving her further confidence in the venture.
- Having donated towards the setup of *Reach Out* Neil may have a sense of ownership and may expect to have more decision-making power. This may cause tension between Laura and Neil, which in turn may affect the performance of the charity.

To be balanced the answer must consider both the positive and negative consequences.

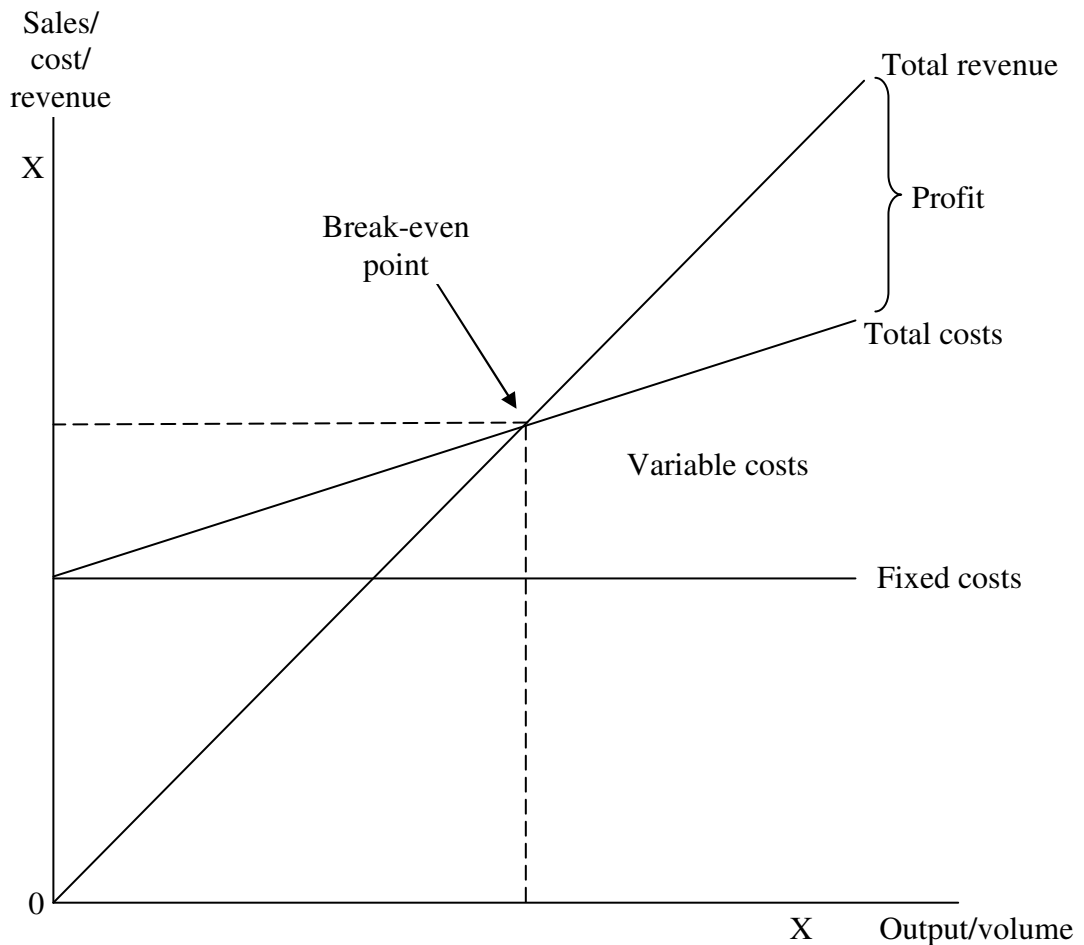
Accept any other relevant substantiated analysis. Theoretical comments from outside the case study are acceptable.

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

SECTION B

4. (a) Neil Johnson tried to convince Laura Chan that (*Option 2*) would be a worthwhile investment by using a break-even model (*lines 130–131*). Use a fully-labelled diagram to illustrate the break-even analysis model (*no figures are required*). [4 marks]

The answer must be in the form of a diagram. No figures are required. Only the diagram enables candidates to gain marks. If there is no diagram, the only mark that may be awarded here is 0.



Award [1 mark] for each correct drawing and/or labelling of the following, up to a maximum of [4 marks]:

- axes
- total costs
- total revenue
- profit **or** variable costs **or** fixed costs
- break-even point.

- (b) Explain the difference between internal and external sources of finance for *Reach Out*. [4 marks]

The only conceivable internal source of finance for *Reach Out* is surplus (*i.e.* the “retained profit” of a charity) – and it is most relevant for them, as they start earning a surplus from the end of month 2 onwards, as shown in Appendix 1. *Reach Out* does not have other internal sources of finance, as there is no asset to sell (except arguably the IT equipment in Laura’s office, but this is negligible). Depreciation and utilizing working capital more effectively are not relevant either.

Several external sources of finance may be considered, such as bank overdraft (short term), bank loan (long term) or community grant from the local public authorities (short or long term, not specified in the case study).

Due to the nature of *Reach Out* as a charity and because of its objectives (ultimately selling affordable PECS cards), an internal source of finance is more appropriate for their projects.

Accept any other relevant explanation.

Award [1 mark] for a basic answer showing some limited knowledge of what constitutes internal *versus* external source of finance (such an answer could take the form of a couple of bullet points with the candidate only writing down what they have learnt and remember about sources of finance).

Award [2 marks] for an answer which shows some knowledge and understanding of different types of sources of finance in the context of *Reach Out*.

Award [3 marks] for an answer which lists different types of sources of finance in the context of *Reach Out*.

Award [4 marks] for a good answer which clearly explains the difference between internal and external sources for *Reach Out*.

- (c) **With reference to *Reach Out* and to *one* organization of your choice, explain two reasons for setting up a business.** **[4 marks]**

Reasons for setting up a business include:

- passion about an idea, an area or a cause; this has been the case of Laura for *Reach Out*
- having identified a business opportunity or a gap in the market; this too has been the case for Laura and *Reach Out*
- family tradition: being entrepreneurial is sometimes seen as a family trait; many entrepreneurs have had parents and even grandparents who too ran their own business
- redundancy: someone lost their job and, rather than struggling to find another employer, they decide to be self-employed.

Accept any other relevant explanation.

Mark as 2 + 2.

Award **[1 mark]** for each relevant and correct reason for setting up a business identified and **[1 mark]** for an appropriate explanation in context up to a maximum of **[2 marks]**.

One reason **must** include a reference to *Reach Out*. The choice of the other organization is not important, it is not directly assessed. It may well be a small business from the candidate's community or family circle; this is entirely acceptable.

- (d) **Laura Chan has a laissez-faire leadership style (line 115). Evaluate the effectiveness and implications of her leadership style for *Reach Out*.** [8 marks]

Laura's laissez-faire leadership style is particularly apparent in the way she deals with Andrew, as she gives him free rein (autonomy) and trusts him (too much, according to Neil). Such a leadership style means that power and authority are given to employees who determine their goals, make decisions and resolve problems on their own. It is an effective style with Theory Y workers (to use McGregor's typology) or with employees who are highly skilled, experienced and educated. This type of leadership style may not be appropriate for Andrew.

Laura's leadership style has several consequences for a range of stakeholders:

- Andrew may only feel comforted in his own beliefs and may not change his approach/behaviour, in his work.
- Neil is feeling more and more antagonized and irritated by Laura; this may convince him that he and Laura cannot actually work together. Laura does not see the point of raising income/revenue (**Options**) in a business sense.
- Parents and therapists alike may lose their trust in the scheme, if it is not properly managed – and indirectly the wider community could have a negative image of *Reach Out* because of Laura's ineffective leadership style.

Accept any other relevant substantiated evaluation.

There is no right or wrong conclusion that candidates can reach at the end of their evaluation (though they are likely to conclude that Laura's style is not effective, which mainly has negative implications for *Reach Out*); however for top marks there must be a final conclusion.

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