



MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

13 pages

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

Section A			Level descriptors
Q1 (c)	Q2 (d)	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) **General Ron Meiri was autocratic (lines 8–9). Identify four key features of an autocratic leadership style.** [4 marks]

An autocratic leadership style has features such as:

- the leader wants to hold on to as much power, authority and control as possible
- the leader does not delegate
- employees are not involved in consultation
- employees are just expected to obey
- *accept any other relevant feature.*

N.B. Answers about organizational structure (centralized, tall) are not directly relevant and should **not** be credited.

Award [1 mark] for each correct feature identified, up to a maximum of [4 marks].

- (b) **“The organizational structure of the UWP Mission was tall” (lines 9–10). Explain one advantage and one disadvantage of this type of structure.** [4 marks]

A tall organizational structure has the following advantages:

- hierarchies and managerial chains of command are clear and unambiguous
- roles, posts and departments tend to be highly specialized
- rules and procedures are written and formalized
- the working environment is often very stable
- *accept any other relevant advantage.*

A tall organizational structure has the following disadvantages:

- it may appear impersonal, overly administrative and bureaucratic
- decision-making can be slow and centralized
- employees are not encouraged to participate or share their views
- responding to changes in the internal or external environment can be slow
- *accept any other relevant disadvantage.*

Accept any other relevant explanation.

Mark as 2 + 2.

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

- (c) **Analyse the appropriateness of a bank loan as a source of finance for Kos Palouk’s new lorry (lines 129–130).** [7 marks]

The bank loan is appropriate because it is a well-established method of external funding to buy fixed assets such as machinery or property. In Loyka, Kos may not have access to other sources of external funding such as venture capitalists. Moreover, due to the small size of his part-time business and the fact that he can only save \$100 a month before tax (Appendix 5), he probably does not have enough savings or retained profit for internal funding.

However, the bank loan may not be appropriate because Kos would have to pay interest, even if he is not very successful at the start. Besides, the bank manager requires the lorry as collateral: this means that one day Kos could lose his lorry if he does not keep up with repayments, which is vital for the business, even if he has paid back some of the loan.

N.B.

- Candidates may refer to other sources of finance (such as leasing); this is an acceptable way to analyse the appropriateness of the bank loan, as opposed to other sources of finance. This should be credited.
- As in all answers, correct use of subject terminology (*e.g.* about retained profit) should be credited.
- Candidates are **not** required to make any recommendation at the end; the ones who do so will **not** receive extra marks, as the command term is “analyse” and not “recommend”.

Accept any other relevant analysis.

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

2. (a) **Loyka’s economy is mainly in the primary sector (line 1). Briefly describe the nature of business activity in this sector.** [2 marks]

The primary sector of an economy includes agriculture as well as fishing, forestry and mining. It converts natural resources into primary products.

Accept any other relevant description.

Award [1 mark] for each correct element of the description up to a maximum of [2 marks].

- (b) **Outline *one* reason why Kos Palouk does not need to do any additional marketing at the *UWP* Mission.** [2 marks]

Kos does not need to do any additional marketing at the *UWP* Mission because he is already known there: he already has an established base of customers who trust him (customer loyalty) and will be ready to buy more produce from him.

Accept any other relevant answer.

Award [1 mark] for a basic outline that shows some knowledge and understanding.

Award [2 marks] for a clear outline that shows clear knowledge and understanding.

- (c) **Using information from Appendix 5a,**

- (i) **calculate the net profit margin *and* the gross profit margin for Kos Palouk from his current operation (*Option 1*).** [2 marks]

$$\text{Net profit margin} = \frac{150}{400} \times 100 = 37.5\%$$

$$\text{Gross profit margin} = \frac{200}{400} \times 100 = 50\%$$

Award [1 mark] for each correct answer, up to a maximum of [2 marks].

- (ii) **calculate the net profit margin *and* the gross profit margin for Kos Palouk from his forecast operation (*Option 2*).** [2 marks]

$$\text{Net profit margin} = \frac{1600}{4000} \times 100 = 40\%$$

$$\text{Gross profit margin} = \frac{2200}{4000} \times 100 = 55\%$$

Award [1 mark] for each correct answer, up to a maximum of [2 marks].

(d) Interpret your results from part (c) and the data from Appendix 5a and 5b. [7 marks]

The calculations show that the net profit margin for the forecast operation increases by 2.5% and the gross profit margin increases by 5% (from 50% to 55%).

For the forecast operation (**Option 2**), gas and vehicle maintenance are eight times higher (\$400 as opposed to \$50) as it involves more driving, and there is a new type of expense (rent of storage facility for \$200 per month), however Kos can multiply his sales by ten (from \$400 to \$4000) and realize economies of scale. The forecast operation also means that he would multiply his income more than twice (from \$650 to \$1500, see Appendix 5b). As he needs \$550 to support himself and his family, he currently saves \$100 every month (before tax). With the forecast operation, if he expands, he could save over \$900 a month ($\$1500 - \$550 = \950) though not all of it would be personal savings as he would need to pay back the bank loan (currently \$100 interest a month) and any tax (he is likely to pay more taxes).

The profitability ratios overall show that Kos' operations (the current one as well as the forecast one) are financially healthy, however the forecast one (**Option 2**) shows a slightly higher margin (for both net and gross profit), which could support the choice for that option.

Apply Own Figure Rule (OFR).

Accept any other relevant answer.

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

3. (a) **Kos Palouk prepared a business plan (line 142). Identify four elements of a business plan.** [4 marks]

Business plans usually include the following elements:

- mission statement and/or vision statement (*count as one answer*)
- aims / objectives / strategic objectives (*count as one answer*)
- information about the business environment (industry, competitors), PEST analysis (*count as one answer*)
- description of operations
- marketing plan / marketing strategy / marketing intelligence (*count as one answer*)
- information about staffing / HR (*count as one answer*)
- financial statements / cash-flow forecast / start-up costs (*count as one answer*)
- *accept any other relevant element.*

N.B. The list above is not exhaustive.

- Do **not** award a mark for “appendices” or “table of contents” or “executive summary”.
- Do **not** award a mark for just “SWOT analysis”.

Award [1 mark] for each correct element up to a maximum of [4 marks].

- (b) **With reference to Kos Palouk’s business, distinguish between just-in-time and just-in-case stock control (lines 136–138).** [4 marks]

Just-in-time (JIT) stock control means that Kos was only buying stock (fresh produce) from suppliers (farmers) when required, for example when he had particular orders from the *UWP* Mission. This was a good way for him to avoid storage and wastage.

Just-in-case (JIC) stock control means that Kos would need to buy produce and keep a reserve (the buffer stock); he would need to store the produce, which is why he would require a storage facility with a refrigerated room for the eggs, vegetables and poultry. With just-in-case stock control, Kos would be ready to deliver larger amounts of produce to the new university or hospital, whenever required.

Accept any other relevant answer.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some knowledge of stock control methods. Award **[2 marks]** for an answer that refers to the difference between just-in-time and just-in-case stock control at a generic, theoretical level.

[3 to 4 marks]

Award **[3 marks]** for an answer that combines “theory” (*i.e.* definitions) and “practice” (*i.e.* reference to the case study). Award **[4 marks]** for an answer that fully and clearly distinguishes between just-in-time and just-in-case stock control with reference to Kos Palouk’s business.

- (c) Analyse the value of the social and environmental audit (line 96) for both General Diane Pierce and the local community. [7 marks]**

The results of the formal social and environmental audit of the construction of both facilities will enable General Diane Pierce to assess the relative impacts of the two proposed facilities (university vs hospital) and to make a more informed decision. Some of the results of the audit will probably be positive in the short term (*e.g.* by increasing access to medical sources straightway) and in the long term (*e.g.* by training the next generation of Loykese engineers, teachers and nurses), but some others may be negative (*e.g.* the destruction of the botanical gardens).

The audit will also be of value for the local community as it represents a channel to express their views, either to express approval (*e.g.* as there is a lack of doctors in Loyka) or disapproval (*e.g.* about the issue of foreign male doctors looking after local female patients). Audits make it possible to go beyond the anecdotal (*e.g.* the earlier conflicts between the local governor and General Ron Meiri) and to have a more holistic, objective view with recommendations.

Accept any other relevant analysis.

N.B. candidates may not refer much to environmental aspects; this is acceptable as there is little in the case study about that. There is no expectation that candidates will cover social and environmental aspects to the same extent, as the focus here is on social impacts.

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

SECTION B

4. (a) Define the following terms:

- (i) *span of control (lines 10–11)* [2 marks]

Span of control refers to the number of subordinates under a single line manager. When a manager has many subordinates reporting directly to him/her there is a “wide” span of control, and a “narrow” span when there are few.

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) *primary research (line 97).* [2 marks]

The aim of primary research is to create data that does not already exist. Primary research is carried out (first-hand) by the researcher (for example through interviews or surveys); data is collected for a specific purpose, as opposed to secondary research which means re-using and analysing data already collected by someone else, for another purpose.

N.B. Just writing “surveys and focus groups” is not enough for [1 mark].

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) Prepare a SWOT analysis of Kos Palouk's current produce distribution business (with no changes) showing *only the strengths and weaknesses*. [4 marks]

The strengths of his current produce distribution business include the following:

- he has a network of reliable suppliers (local farms)
- he has an established reputation at the *UWP* Mission where he has good contacts (such as Colonel Michael Donovan) and good customers (the troops)
- his just-in-time (JIT) stock control system ensures fresh produce, avoiding wastage
- his business model is simple yet effective (he has a gross profit of \$200 a month)
- *accept any other relevant strength.*

The weaknesses of his current produce distribution business include the following:

- he is a sole trader with no employee, so if ever he is ill and cannot work, he has nobody to cover for him
- he has limited capital (working capital) and limited resources
- he is very dependent on his car: what would he do if it breaks down?
- he is overly dependent on one large customer (*UWP*)
- his current business is so small that there is no scope for economy of scale
- *accept any other relevant weakness.*

N.B.

- Do **not** credit external factors (such as the opportunity for expansion coming from the *UWP* Mission's development of a new facility, or the threat coming from road attacks); the strengths and weaknesses must be **internal** and must refer to the current operation.
- To receive a mark, each point must be clear, precise and without any ambiguity.

Mark as 2+2.

Award [1 mark] for each correct strength, up to a maximum of [2 marks], and [1 mark] for each correct weakness, up to a maximum of [2 marks].

- (c) **Explain *two* social factors that could influence General Diane Pierce’s decision regarding the construction project.** **[4 marks]**

The following social factors could influence General Diane Pierce:

- current decline in healthcare
- the need for education, especially in a forward-looking sustainable way (by training professionals such as teachers, nurses, doctors and engineers)
- the relative poverty of a developing country that relies mainly on the primary sector
- the social values and cultural attitudes of the local community (the Loykese) towards: foreigners, the *UWP* Mission or the construction project itself
- *accept any other relevant social factor.*

Accept any other relevant explanation.

Mark as 2+2.

Award **[1 mark]** for each correct factor identified, and **[1 mark]** for an appropriate explanation of that factor (how can it influence General Diane Pierce’s decision).

- (d) **With reference to the *UWP* Mission to Loyka when General Diane Pierce arrived, discuss the relationship between aims, strategic objectives and operational objectives.** **[8 marks]**

Aims refer to long-term goals which are often formulated in a generic way (thereby comparable to the vision statement of an organization); the aim of the *UWP* Mission is “to maintain order, peace and security”. Strategic objectives are more specific: General Diane Pierce’s strategic objective is “to improve the image of ‘the Olive Hats’”. Such objectives have a long-term dimension, but they can be more easily measured. They need to be broken down into tactical objectives with specific targets and timelines to make it possible to assess if/when they have been reached. Operational objectives are more precise and refer to day-to-day activities. The main operational objective for General Diane Pierce is to remotivate her troops.

There is a hierarchy of objectives (from aims to strategic objectives to operational objectives), however the vocabulary of strategy relies heavily on semantic distinctions that successful organizations do not always follow; some organizations also have corporate objectives, departmental objectives, team objectives *etc.*

Accept any other relevant discussion.

N.B. Do **not** credit the elements of an answer that only copy the case study: quotes may be useful, but they must be integrated into the discussion.

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