



# **MARKSCHEME**

**November 2012**

**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
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
<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 case study.</li> </ul>
<b>3–5</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 case study, not just to the name of the organization.</li> <li>• At the lower end of the markband responses are mainly theoretical.</li> </ul>
<b>6–7</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 case study.</li> </ul>

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
<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 case study.</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 case study, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5–6</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 case study are made at places in the response.</li> </ul>
<b>7–8</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 case study are made throughout the response.</li> </ul>

**SECTION A**

1. (a) **General Diane Pierce uses a situational leadership style (lines 33–34). Identify four key features of a situational leadership style.** [4 marks]

A situational leadership style has features such as:

- the leader adapts their style to different situations (hence the name “situational”)
- flexibility (e.g. General Diane Pierce may lead “the Olive Hats” differently according to changes in Loyka)
- it is influenced by the nature of the followers, or the nature of the organization, or the nature of the task
- the leader will sometimes delegate (as General Diane Pierce has done with Colonel Michael Donovan about the construction project), but may sometimes be more directive (e.g. when a strategic decision needs to be made and implemented)
- it can be presented as a combination of other leadership styles
- *accept any other relevant feature.*

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

- (b) **Explain why General Diane Pierce decided to order Colonel Michael Donovan to carry out surveys and also to organize focus groups (lines 97–101).** [4 marks]

General Diane Pierce decided to order Colonel Michael Donovan to carry out surveys because in addition to qualitative data providing an indication of “local community’s opinion” the results should give quantitative data (percentages, statistics) to help make a better informed decision about which facility to build, a hospital or a university (see Appendix 4). Surveying 2000 local residents should provide a “valid and reliable indication of the local community’s opinion” as this is a large sample, however the results proved inconclusive.

General Diane Pierce also decided there was a need to organize focus groups because the results would provide more detailed qualitative data, exploring in more depth some issues, for example about locals’ resistance to both projects. This would help interpret the results from the surveys. As she is aware of cultural differences, she also thought that the men and the women of Loyka would have different opinions, which is why she wanted focus groups composed differently (some of men only, some of women only, and some of both men and women).

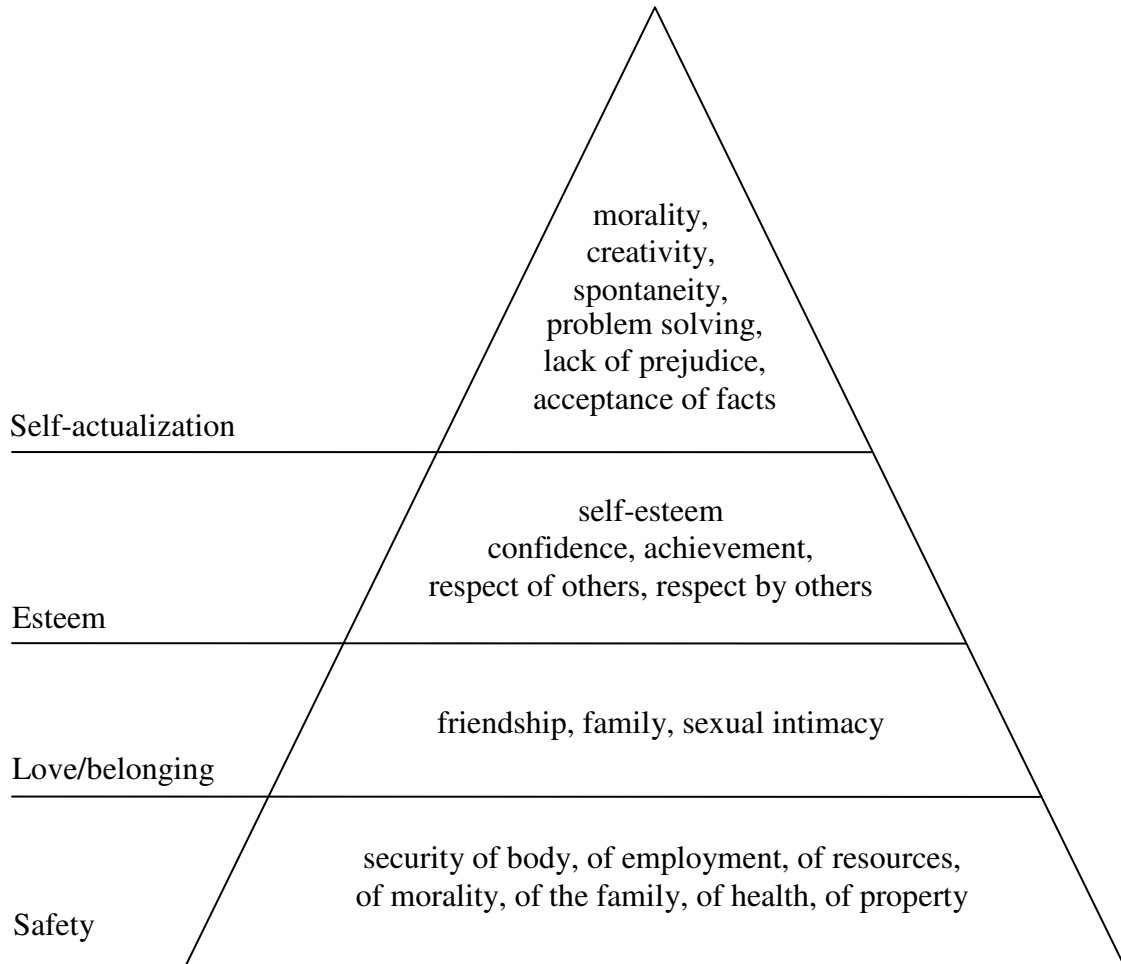
Award [1 mark] for reference to a survey as providing quantitative data and [1 mark] for mentioning that focus groups provide qualitative data. Award a further [1 mark] for an explanation of General Diane Pierce’s decision for each research method up to a maximum of [2 marks].

Award [1 mark] only for generic comments about data collection to make an informed decision.

- (c) **General Diane Pierce decided to use *UWP* resources to build either a new hospital or a new university campus. Using Maslow’s motivation theory, analyse the impact of this decision on *both* the local population and “the Olive Hats”.**

[7 marks]

Maslow’s motivation theory is usually represented through a pyramid of needs, ranging from safety (at the bottom of the pyramid) to self-actualization (at the top of the pyramid).



[Source: Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 125, Glasgow, U.K. Oxford University Press]

After a period of civil war, the Loykese population needs safety, especially security of resources and of property. General Diane Pierce’s project of building a hospital also corresponds to the safety needs at the bottom of Maslow’s pyramid, about health and security of the family. Her project of building a university is higher up on the pyramid model as it would address some locals’ needs of achievement and confidence through their studies and qualifications, even leading to self-actualization. According to this model, the hospital satisfies more basic needs than the university; this could be a factor to help General Diane Pierce’s decision.

With regard to “the Olive Hats”, General Diane Pierce is well aware of their security and safety needs at the *UWP* Mission where they work. The community-based military environment also offers the soldiers a sense of belonging and togetherness. The involvement of Colonel Michael Donovan’s engineering group would even satisfy their needs for esteem and self-actualization: “the officers in the *Civil Engineering Group* were excited by the opportunity to lead the project”. The soldiers’ “motivation was beginning to deteriorate” before her arrival, General Diane Pierce has well understood how to act in order to satisfy a range of needs, not only basic ones for safety and security, but also more complex ones.

*Accept any other relevant analysis.*

**N.B.** Candidates are not expected to draw the model itself. For maximum marks, candidates must refer to both the needs of the local population **and** the needs of “the Olive Hats”.

If the response is one-sided with only the local population **or** “the Olive Hats” being referred to then a maximum of [**4 marks**] should be awarded.

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

2. (a) Define the following terms:

(i) *economies of scale (line 121)*

[2 marks]

Economies of scale are defined as a cost saving which a business experiences when the long-run unit costs or production costs fall as a business engages in larger-scale production.

*N.B.* Examples are **not** required for full marks provided the definition is accurate.

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 of economies of scale (with reference to **both** decrease in cost per unit and increase in production volume).

For **only** a relevant example **or** application to the case study **or** statement about bulk buying award [1 mark].

(ii) *just-in-case stock control (line 140).*

[2 marks]

Stock control is about checking/monitoring the level(s) of inventory *i.e.* in the case of Kos Palouk's business: the amount of fresh produce he stores. There are two types of stock control methods: just-in-case (JIC) and just-in-time (JIT). JIC is about keeping a certain level of stock because of emergencies *i.e.* having a reserve (the buffer stock) just in case (literally) it might be needed (hence the name of JIC).

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) Explain how Kos Palouk’s fixed and variable costs would be affected by pursuing *Option 2* (lines 150–152). [4 marks]

**Option 2** is an increase in the scale of operation, though not as radical as **Option 3**. With **Option 2**, Kos Palouk would sell more produce, so his output would increase, yet without major changes to his business.

- Fixed costs are costs that do not change as output does; an example of a fixed cost is the rent of the storage facility, or the lorry loan repayment. Pursuing **Option 2** would mean an increase to such fixed costs.
- Variable costs are costs that do change as output does; an example of a variable cost is the cost of the products bought by Kos Palouk from farmers for resale to the *UWP Mission* and to the university or hospital. Pursuing **Option 2** would mean an increase to such variable costs.

*Accept any other relevant example of fixed costs and variable costs in the context of Kos Palouk and Option 2.*

*N.B.* Candidates may refer to economies of scale in their answer. This is acceptable as Kos Palouk could well realize economies of scale with **Option 2**, though there is no explicit indication in the case study.

*N.B.* Candidates are **not** required to give a detailed definition of fixed/variable costs.

*N.B.* Candidates may refer to maintenance costs for the lorry as either fixed or variable; accept either.

**Mark as 2 + 2: [2 marks]** for fixed costs and **[2 marks]** for variable costs.

Award **[1 mark]** for a clear understanding of the concept of fixed costs/variable costs and **[1 mark]** for relating this accurately to Kos Palouk, explaining any change, up to a maximum of **[2 marks]**.

- (c) Analyse the advantages and disadvantages for Kos Palouk of pursuing Option 2 (lines 150–152).

[7 marks]

**Option 2** has several advantages for Kos Palouk:

- he would benefit from economies of scale and would earn much more every month (he would have personal savings of \$950 a month, compared to \$100 with his existing, small-scale business model)
- once built, the university or hospital will represent a large volume new customer, without Kos Palouk having to do much marketing, promotion or advertising in order to target that market (first mover advantage)
- *accept any other relevant advantage.*

However, it also has the following disadvantages:

- there are strong elements of risk: risk for his own safety (the danger of driving to remote communities where he may be perceived as collaborating with the *UWP* troops), risk for his own property (as the bank wants his lorry as collateral)
- competition may become fierce, once other local entrepreneurs realize the potential and enter the market; if his business is not successful, Kos Palouk might regret leaving his safe job at the officers' dining hall
- Kos Palouk would need to leave his job at the officers' dining hall and lose his regular source of income
- *accept any other relevant disadvantage.*

*Accept any other relevant analysis.*

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

3. (a) **General Diane Pierce needs to remotivate her troops but cannot offer any financial rewards (lines 39–41). Describe two non-financial rewards that she could use.**

**[4 marks]**

General Diane Pierce could use several non-financial rewards to remotivate her troops, such as:

- Job enrichment: she could give her troops opportunities to use the skills they have, which will be the case for the officers when they start working on the construction of the hospital or university, as they have said that they are excited to do so.
- Job enlargement / job expansion: she could increase the range of tasks of the soldiers, motivating them by a variety of jobs and a change of routine (this can be called “job rotation”). As part of their job enlargement, they could be more involved in projects with the local population.
- Empowerment / increased responsibility / delegation: she could give some staff (especially officers) more power in decision-making, for example she could empower Colonel Michael Donovan by letting him follow his own recommendation to build a hospital in 30 weeks.
- Teamwork: although soldiers are likely to work in teams already, she could strengthen the importance of teamwork, for example by having the troops build the hospital using cell production.

**N.B.** The concepts themselves (e.g. “empowerment”) might not be mentioned explicitly in the answer, but candidates may achieve the marks nonetheless.

**Mark as 2 + 2.**

Award **[1 mark]** for each relevant non-financial reward and **[1 mark]** for a description of that non-financial reward in the context of the “Olive Hats”, up to a maximum of **[2 marks]**.

- (b) With reference to *Option 3 (lines 153–157)*, distinguish between a wholesaler and a retailer.

[4 marks]

In a long distribution channel, a wholesaler sells products to a retailer who, in turn, sells to customers. Wholesalers do not usually sell directly to the public, but to another agent: the retailer. Wholesalers buy and store large quantities and resell these in smaller quantities to retailers.

At the moment there is no wholesaler for the produce that Kos Palouk distributes; this means that the produce are bought directly from the farmers and sold directly to the *UWP Mission*. With **Option 3**, Kos Palouk would become a wholesaler: he would start selling to other retailers (other shop owners), creating a longer distribution chain.

*N.B.* A diagram of the supply chain is acceptable as part of the answer.

[1 to 2 marks]

Award [1 mark] for an answer that shows some basic knowledge of the definitions of a wholesaler and a retailer. Award [2 marks] for a theoretical answer that shows some clear knowledge of the difference between a wholesaler and a retailer.

[3 to 4 marks]

For [3 marks] the candidate refers to Kos Palouk. For [4 marks] the candidate refers to Kos Palouk and to the wholesale operation he may set up if he pursues **Option 3**.

- (c) **The *UWP* Mission has ethical objectives (*lines 5–7*). Examine whether the setting of ethical objectives by the *UWP* will be beneficial.**

**[7 marks]**

Organizations may set ethical objectives for several reasons, for instance:

- in the 21st century, there is an increasing expectation that organizations will behave as “good citizens”, hence the concept of corporate social responsibility (CSR), which in practice often means setting ethical objectives (in the case of the *UWP* Mission “to create stability, fulfilling the *UWP* Mission’s aim to maintain order, peace and security”)
- some organizations are aware that their actions and activities may negatively affect some stakeholders or the environment, which is why setting up ethical objectives will create a counterbalance (for example in the short term the *UWP* soldiers may have to restrict locals’ movements, but as a counterpart they will help create longer-term stability).

However, setting ethical objectives also has disadvantages:

- in some cases, it can appear as a mere exercise to give the impression that the organization is (suddenly) becoming ethical (*i.e.* what in English is called “paying lip service” to a cause), without anything concrete behind it
- in some cases, it can give the impression that the organization is trying to hide some bad practice by drawing attention to what they do well for the benefit of the wider society (for example opponents to the presence of “the Olive Hats” in Loyka could argue that the ethical objectives are just a way to justify the invasion of their land by foreign troops).

*Accept any other relevant examination.*

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

**SECTION B**

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

**(i) tertiary sector (line 2)**

**[2 marks]**

The tertiary sector of the economy is the sector of services (which is why it is also called “the service sector”) such as health, education or retail.

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

Award **[1 mark]** for a basic definition of tertiary sector (for example referring only to the term “services”).

Award **[2 marks]** for a clear description that conveys knowledge and understanding of tertiary sector (for example with a reference to “services” **and** at least one example such as retail/shops).

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

**(ii) workforce planning (line 91).**

**[2 marks]**

Workforce planning refers to the forecast of future human resources, especially in terms of recruitment and training. It normally involves assessing the current workforce and identifying needs for new skills or knowledge in order to help the organization meet its strategic objectives.

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

Award **[1 mark]** for a basic definition of workforce planning.

Award **[2 marks]** for a clear description that conveys knowledge and understanding of workforce planning.

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

**(b) Using relevant information from below:**

- (i) calculate the payback period (without depreciation) for Kos Palouk’s purchase of a new lorry (show all your working). [2 marks]**

$$\frac{43\,500}{17\,400} = 2.5 \text{ years or 2 years and 6 months}$$

*N.B.* 2 years and 5 months is **not** the correct answer. If the working is correct, award [1 mark] only.

Award [1 mark] for the correct working and [1 mark] for the correct answer.

- (ii) calculate the average rate of return (ARR) for Kos Palouk’s purchase of a new lorry (show all your working). [2 marks]**

$$\left(\frac{17\,400}{43\,500}\right) \times 100 = 40\%$$

*N.B.* Award [1 mark] only if the percentage sign (%) is not present.

Award [1 mark] for the correct working and [1 mark] for the correct answer.

- (iii) comment on the results to your calculations from parts (i) and (ii). [4 marks]**

The payback period of 2 years and 6 months means that it would not take long for Kos Palouk to recover enough cash to cover the initial investment. Payback periods are often over several years; the payback here is short – especially as the useful life of the lorry is almost three times longer (7 years). Although the purchase price is very high (\$43 500 *i.e.* more than 66 times Kos Palouk’s current monthly income), it seems that the lorry will enable him to make a higher income (see Appendix 5).

The ARR of 40% is very high, which again indicates that this seems to be a very good investment, however this is based on optimistic assumptions about high returns; the case study states that the bank would require the lorry as collateral, so if his revenues are below expectations, Kos Palouk may actually lose the lorry; other factors would need to be taken into account as part of the investment appraisal.

Apply Own Figure Rule (OFR).

Award [1 mark] for each valid point, up to a maximum of [4 marks].

*N.B.* To achieve [4 marks], the answer must cover **both** payback and ARR (though not necessarily with [2 marks] for each: for [4 marks] the

answer may include more explanations about one calculation than the other. It is not marked as 2+2).

- (c) **Advise General Diane Pierce whether the hospital or the university should be built. Justify your recommendation.**

[8 marks]

Several factors would suggest that the hospital should be built:

- there is an identified need for a hospital (for example the complications from the lack of prenatal care have recently increased) and this would have immediate, short-term benefits (as opposed to the longer term impacts of the university)
- the results from the survey showed that a slight majority (52%) prefer the hospital (so there is market research evidence)
- Colonel Michael Donovan (who has coordinated the research and has been in the country for longer than General Diane Pierce) recommends the hospital
- it would help the *UWP* Mission reach its strategic objective to improve the image of the Olive Hats and to display their corporate social responsibility by improving the healthcare of the Loykese.

However, some other factors suggest that the university should be built:

- there is a clear need for a university to train professionals such as teachers, nurses, doctors and engineers who will ensure the sustainable future of the country of Loyka
- from a business viewpoint, the university “could also attract private capital for future public-private partnerships in research and development”
- many locals have formulated objections to the hospital (for example about the presence of foreign male doctors): the survey showed that 17% of respondents strongly oppose the project (this is a large proportion: more than one person in six)
- the local governor prefers the university; although 10% of respondents strongly oppose it, he may still be able to rally support.

At the end of their answer, candidates need to have a clear conclusion.

*Accept any other relevant advice and recommendation.*

**N.B.** The arguments presented must be about Business and Management (for example with reference to costs, duration of building operations, survey results as market research, stakeholders views *etc.*); social aspects (*e.g.* about demographics) are useful, but they only provide contextual information.

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