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International Baccalaureate®
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BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1

Monday 20 May 2013 (afternoon)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** *case study* is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** *formulae sheet and discount tables* are required for this examination paper.
- The maximum mark for this examination paper is *[80 marks]*.

SECTION A

*Answer **two** questions from this section.*

1. (a) Define the following terms:

(i) *regional trading bloc (line 30)* *[2 marks]*

(ii) *corporate social responsibility (lines 88–89)*. *[2 marks]*

(b) Explain **two** reasons why innovation is important for *RDB*. *[4 marks]*

(c) Anna Holstein believes that "the marketing department should start carrying out market research" *(lines 114–115)*. Analyse the roles that primary and secondary research could play for *RDB*. *[7 marks]*

2. (a) Using a SWOT analysis framework, identify **two** weaknesses and **two** threats to *RDB*. *[4 marks]*

(b) Using data from the additional information on page 3, calculate *RDB's*:

(i) return on capital employed (ROCE) in 1965 **and** 1975. *[2 marks]*

(ii) stock turnover in 1965 **and** 1975. *[2 marks]*

(c) Interpret your results from part (b). *[7 marks]*

3. (a) Define the following terms:

(i) *retrenchment (line 133)* *[2 marks]*

(ii) *commission (line 153)*. *[2 marks]*

(b) With reference to *RDB*, distinguish between flow production and job production *(lines 63–66)*. *[4 marks]*

(c) Analyse the advantages and disadvantages for *RDB* of forming "strategic alliances with ball bearing companies in Brazil, China and India" *(line 155)*. *[7 marks]*

SECTION B

Answer ***the compulsory*** *question from this section.*

4. (a) With reference to *RDB*, outline **one** advantage and **one** disadvantage of offshoring. *[4 marks]*

(b) Explain why shortening the working capital cycle would be "an important benefit for *RDB*" *(line 83)*. *[4 marks]*

(c) Valdemar Holstein has adopted management techniques "such as total quality management (TQM), benchmarking and Kaizen" *(lines 36–37)*. With reference to *RDB*, explain what is meant by TQM and Kaizen. *[4 marks]*

(d) Using Lewin's force field analysis model, discuss the differences between Anna Holstein's driving forces for change presented in her strategic plan "*RDB* 2020" and Valdemar Holstein's resistance to these changes. *[8 marks]*

Additional information for question 2(b) and 2(c)

Selected information from *RDB's* financial accounts:

	(€000 000)	
	1965	**1975**
Average stock	29	54
Gross profit	35	56
Net profit before interest and tax	22	34
Total capital employed	121	203
Sales revenue	113	194

SECTION C

Answer ***the compulsory*** *question from this section.*

5. Just before the Board of Directors voted on "*RDB* 2020", Anna Holstein had a serious car accident. She would require years of physical therapy before working again.

Board members now have two important decisions to make:

- Whether to approve the "*RDB* 2020" strategic plan. Despite Valdemar Holstein's opposition, some board members still supported it, especially because of a recent workforce planning study *(Item 1)*. To help them decide, the board requested and received a decision tree and critical path analysis *(Items 2 and 3)*.
- Who would replace the 83-year-old Valdemar? The succession plan had always been to promote his daughter Anna to Chief Executive Officer (CEO).

There are two candidates for Valdemar's post:

- Jens Holstein, 68, is Valdemar's younger brother. He currently manages the large law firm responsible for most of *RDB's* legal affairs. He understands all the legal issues related to "*RDB* 2020". He always pays close attention to detail. In the law firm, he is well respected for his efficient management style, although some lawyers feel that he monitors their work too closely.
- Per Pederson, 44, is the manager of *RDB's* Swedish megafactory. Though originally hired because of his engineering degree, he was rapidly promoted thanks to his excellent "people skills". Quickly bored with budgeting and industrial planning meetings, Per preferred building relationships with employees and mentoring junior managers. He loved talking to workers and giving speeches about *RDB*. Valdemar was proud of having "discovered" Per, though some employees criticise his lack of attention to detail.

Regarding the management succession, Valdemar said that "choosing between Jens and Per is the same as choosing between a manager and a leader: it is a key strategic decision for *RDB*".

(a) Referring to Item 1, identify for *RDB* **one** opportunity and **one** threat as a result of demographic changes forecasted in the twenty-first century. *[2 marks]*

(b) Explain Valdemar's statement that "choosing between Jens and Per is the same as choosing between a manager and a leader: it is a key strategic decision for *RDB*". *[7 marks]*

(c) Using information in Item 2, calculate the expected values for each option using **only** the five-year net profit after interest and tax totals. Interpret the results and information from the decision tree *(Item 2)* and the critical path analysis *(Item 3)* to help the board decide on whether to approve "*RDB* 2020". *[9 marks]*

(d) Using information contained in the case study and Items 1 to 5, discuss how *RDB* could plan strategically for any future crises. *[12 marks]*

Additional Information

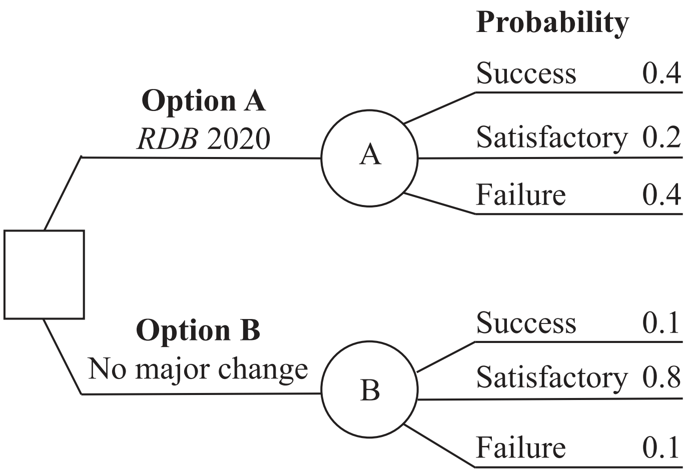
Item 1: Extract from workforce planning study

Northern Europe: Population by age groups, 1950 – 2050

	000s					**% of total population**				
	1950	**1970**	**1995**	**2025**	**2050**	**1950**	**1970**	**1995**	**2025**	**2050**
Age 0 – 14	18 498	21 102	18 199	15 967	14 616	23.7	24.2	19.4	16.7	16.1
Age 15 – 64	51 552	55 289	60 997	59 450	53 288	66.0	63.3	65.1	62.0	58.8
Age 65+	8045	10 957	14 485	20 459	22 756	10.3	12.5	15.5	21.3	25.1
Total	78 095	87 348	93 681	95 876	90 660	100.0	100.0	100.0	100.0	100.0

[Source: http://webarchive.iiasa.ac.at]

Item 2: Decision tree regarding "*RDB* 2020" (all figures in € millions)

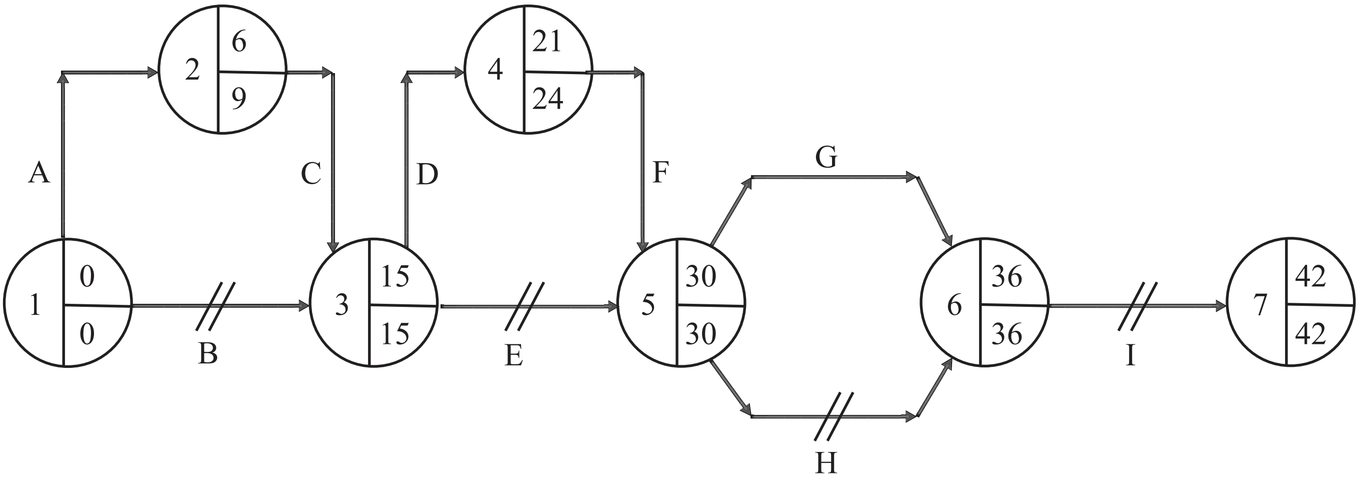


Year	**1**	**2**	**3**	**4**	**5**	**Total**
Net profit after interest and tax	41	51	55	60	62	269
	40	41	42	51	60	234
	35	30	25	20	25	135

Year	**1**	**2**	**3**	**4**	**5**	**Total**
Net profit after interest and tax	39	40	41	42	43	205
	38	39	40	41	42	200
	37	38	39	40	41	195

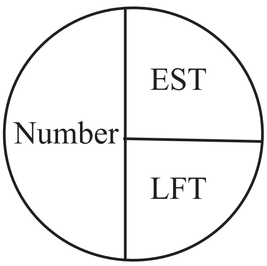
Item 3: Critical path analysis for restructuring resulting from "*RDB* 2020"

	Activity	Order/Dependency	Estimated duration (months)
A	Construct and open two factories in Brazil	Can start at the same time as B	6
B	Sell megafactory in Sweden	Can start at the same time as A	15
C	Construct and open two factories in India	Must follow A	6
D	Construct and open two factories in China	Must follow B and C	6
E	Sell megafactory in northern Germany	Must follow B and C	15
F	Construct and open two factories, one in Australia and one in Kenya	Must follow D	6
G	Construct and open one factory in Chile	Must follow E and F	3
H	Downsize megafactory in Denmark	Must follow E and F	6
I	Construct and open three more factories in China	Must follow G and H	6
			42



Key:

EST = Earliest starting time
LFT = Latest finishing time



Item 4: Extract from *The risky century: Crisis management in the twenty-first century* (2012), by Toujours Paura

The twenty-first century will be the riskiest era for businesses since the fall of the Roman Empire. Technological change, environmental catastrophe, uncertain energy sources, employee theft and terrorism are just some of the many risks that businesses will face. Chief Executive Officers (CEOs) can no longer imagine that their job is merely to manage their organization, to lead change, and to manage traditional business risks. The twenty-first century CEO must also be creative in anticipating potential threats, both direct (traditional business threats) and indirect (crises of any variety). They must have detailed crisis management plans for every crisis imaginable, however unlikely …

The risky century: Crisis management in the twenty-first century (2012), by Toujours Paura

Item 5: Extract from *The creative century: How creative firms will win in the twenty-first century* (2013), by Robert McFerrin

In the twenty-first century, business, especially Western business long accustomed to critical business advantages, will have to be creative. Because of their high cost structure, Western businesses must seek to add value through creativity. Many forces can prevent creativity and above all create a climate of fear and kill creativity. When Chief Executive Officers (CEOs) plan for every crisis possible, they foster a climate of fear. They communicate the message that any threat of loss matters more than the rewards of innovation and adaptability. The responsible CEO of the twenty-first century will reasonably plan for contingencies, but never to the degree that it cultivates fear … Any catastrophe must be viewed as an opportunity.

The creative century: How creative firms will win in the twenty-first century (2013), by Robert McFerrin