



MARKSCHEME

November 2014

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

33 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 (d)	Q2 (d)	Q3 (c)	Q4 (d)	Q5 (c)	
Marks 0–6					
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 stimulus material. The response is mainly theoretical.
3–4					<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 stimulus material, not just to the name of the organization.
5–6					<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 stimulus material.

Section B			Level descriptors
Q3 (c)	Q4 (e)	Q5 (d)	
Marks 0–9			
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 stimulus material.
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 stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–7			<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 stimulus material are made at places in the response.
8–9			<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 stimulus material are made throughout the response.

SECTION A

1. (a) Describe *two* features of a sole trader. *[4 marks]*

A sole trader runs an unincorporated business. There is therefore no legal separation between the owner and the business. A sole trader has unlimited liability and is responsible/liable for the debt of the business that may be paid with the sole trader's personal assets.

A sole trader will not face long and expensive setting up procedures. A sole trader/sole owner has complete control and is free to make decisions about the business without any consultation.

Accept any other relevant feature.

N.B. credit candidates that mention an **advantage** resulting from being a sole trader.

Mark as 2 + 2.

Award *[1 mark]* for each relevant and correct feature of a sole trader identified and *[1 mark]* for an appropriate description up to a maximum of *[2 marks]*.

- (b) (i) Using the table above and the last-in-first-out (LIFO) method of stock valuation, calculate the value of the closing stock of fish on Sunday (present all your working in table format). [8 marks]

Day of the week	Kilograms of fish caught by DSC and the cost of fishing	Kilograms of fish supplied by DSC to the hotels	Value of fish in stock	Fish sold to processing factory
Monday	20 @ \$5	10 @\$10	10 @ \$5	
Tuesday	30 @ \$8	20@\$10	10 @ \$5 10 @ \$8	
Wednesday	20 @ \$6	20@\$10	10 @ \$8	10 @ \$4
Thursday	40 @ \$5	30 @\$10	10 @ \$5	10 @ \$4
Friday	20 @ \$8	20@\$10	10 @ \$5	
Saturday	40 @ \$8	30@\$10	10 @ \$8	10 @ \$4
Sunday	40 @ \$5	30 @\$10	10 @ \$8 = \$80 10 @ \$5= \$50	
Total	\$1340	\$1600	\$130	\$120

N.B. do not penalize errors which are carried through.

N.B. candidates can reach the top markband **without** presenting the column “Kilograms of fish supplied by DSC to the hotels”.

[1 to 2 marks]

For [1 mark] there must be some understanding shown. There are many inaccuracies/mistakes and the layout and working are poor. Or the layout is clear despite inaccuracies for [2 marks].

[3 to 4 marks]

The calculations contain two to three errors. The layout and/or the working is unclear/untidy.

[5 to 6 marks]

The layout and the working are largely clear and the calculations are essentially accurate. If the candidate does not incorporate the sale of the fish after two days, award a maximum of [5 marks].

[7 to 8 marks]

The layout and all working are clear and all the calculations are accurate. The last column may not be presented, but the closing stock is correct, hence the sale to processing factory was essentially incorporated. For [8 marks] all the relevant calculation for both processing stock and for stock held are present, the closing stock figure should also be correct.

- (ii) Using the information provided, calculate *DSC's* typical weekly gross profit after taking into account the number of fish sold to the processing factory (*show all your working*). [3 marks]

A typical weekly gross profit for *DSC*:

Total revenue – Total cost = profit

Total revenue from selling the fish to the hotels = \$1600 (160kg × \$10)

N.B. the candidates are not expected to repeat all of the calculations from the question above.

Total revenue from selling the fish to the processing factory = \$120 (30kg @ \$4)

Total revenue = \$1600 + \$120 = \$1720

Less cost of goods sold

Opening stock = 0

Purchases = \$1340

Less closing stock \$130

= \$1210

Total revenue – Total costs = \$1720 – \$1210 = \$510

Award [1 mark] for limited understanding of how to calculate the gross profit, working may not be shown, or may be inaccurate.

Award [2 marks] for some understanding of the method/process of calculating gross profit, but with an error in the calculation that might affect the final figure.

If the candidate does not incorporate the sale to the processing factory, but the remaining calculations are correct, award up to [2 marks].

Award [3 marks] for a correct method/process, clear and correct working and correct final answer.

If the candidate produces the correct final answer but does not show working, award [1 mark].

Allow candidate own figure rule (OFR).

- (iii) Calculate *DSC's* typical weekly gross profit margin (*show all your working*). [2 marks]

$$\frac{510}{1720} \times 100 = 29.65\% \text{ Accept } 29.6\% \text{ or } 29.7\%$$

Award [2 marks] for a correct figure in percentage with working.

Award [1 mark] for a correct answer which is not in percentage.

Award [1 mark] for the correct answer in percentage without working, or for some implied understanding (candidate own figure rule [OFR] applies).

Award [0 mark] if OFR applied, but the answer is not in percentage.

- (c) **Explain *one* advantage for *DSC* if they provide fish meeting national quality standards.** [2 marks]

Fish is a highly perishable product that can affect human health / well-being. Meeting national quality standards should provide the following advantages for *DSC*:

Given the information in the stimulus, *DSC* avoids possible litigation about the food quality as well as avoids facing a threat of closure by the government.

Other issues may include:

- it should gain recognition for providing quality fish which can lead to a competitive advantage from doing so (a marketing advantage)
 - it may attract higher quality workers
 - it can lead to increased motivation for *DSC*'s workers
- Candidates can explain that the above two human resource issues can lead to improvements in the service provided.

Accept any other relevant advantage with an explanation.

Award [1 mark] for a relevant and correct advantage for *DSC* of providing fish that meet national quality standards identified and [1 mark] for an explanation of this advantage up to a maximum of [2 marks].

N.B. if the explanation is generic and not applied to *DSC* award [1 mark].

- (d) **Using the PEST model, examine the impact of the external environment on DSC.** [6 marks]

It is expected that the candidate shows clear understanding that the question refers to the **external environment** only.

N.B. do not credit any relevant internal issues.

It is also expected that the candidate **applies** the external forces identified to *DSC* rather than producing a theoretical / potential examination of some of the PEST factors. It is also expected that as part of the examination, candidates identify/refer to opportunities and threats (similar terminology may be used).

Below are some suggestions as to the structure and content of the answer.

N.B. accept pressure groups as either a political, or a social factor.

Political/legal

The government has a restriction on *DSC* regarding the amount of daily fishing. Potentially one can argue it is a **threat** as the given permit limits the flexibility of *DSC* to respond to a possible increase in demand. However, from the figures given, it is clear that *DSC* is not near the 70 kg limit, hence it is an opportunity for *DSC* to adhere to the limit while the competitors may be more restricted and possibly use this as a USP: **an opportunity** to increase its competitive position.

The suggested legislation for a compulsory installation of new and sophisticated technological equipment for fishing may be seen as a **threat** for *DSC* given the current financial position.

Economics

The competition is intensifying; this is a big **threat** to *DSC* who adheres to all of the regulations. Due to the competition, the bargaining power of the buyers (the hotels) is increasing, which has resulted in a fixed price of \$10 per kilogram of fish.

Social

The local hotels have demanded the fishermen to be socially responsible. This is an **opportunity** for *DSC*, as the organization adheres to the strict demand. As a result, *DSC*'s competitive position can be stronger.

The environmental pressure group that is pressurizing the government can be seen as an **opportunity** as *DSC* adheres strictly to the regulations and would see a less severe competitive environment if some of the illegal competitors stop operating.

Technological

The stimulus implies an availability of advanced technology for ethical fishing. This can be seen as an **opportunity** for *DSC* who is truly committed to ethical fishing if they are able to purchase the new equipment. However, *DSC* might find it difficult to purchase the new technology given its financial position; hence an imposed change of technology can be seen as a **threat (this point cannot be repeated twice under two different PEST headings)**.

Weather conditions, the physical environment also impacts on the operation of *DSC*, on occasions it can be judged as an opportunity in others a threat.

It is expected that the external factors are identified and clearly indicated.
Do not credit a response that does not mention a specific factor, but only makes some reference to “competition” or “pressure groups” *etc.*

Accept ethics or environment as external factors.

Accept any other relevant / applicable examination of opportunities or threats classified under the relevant PEST factors.

Accept similar terminology such as advantage / disadvantage, positive and negative impact / pressure on / beneficial / non-beneficial.

N.B. it is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** of the PEST factors as well as **two** opportunities and **two** threats.

N.B. Candidates can create a balanced response by using different factors / forces, one as an opportunity and the other as a threat. In other words do not expect a coverage of opportunity and a threat for each factor(s)/force(s).

For a list and/or a superficial description of up to 4 relevant external factors award up to **[2 marks]**.

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

For more than one relevant factor, even up to four, that are one-sided award up to **[4 marks]**.

For one relevant PEST factor that is balanced, with examination of an opportunity and a threat, award up to a maximum of **[4 marks]**.

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

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

2. (a) Describe *two* features of *SF* operating as a private limited company. [4 marks]

Two features of *SF* operating as a private limited company may include:

- The company is incorporated. There is a separate legal entity between the shareholders namely Ori and Dan and other members of the family and the company itself.
- The shareholders have limited liability. Dan, Ori and the remaining shareholders can only lose up to what they invested in *SF*. Their private assets will not be affected in the event of any financial problems.
- The current owners, Dan and Ori cannot sell shares publically on the stock exchange in order to raise more money to solve the current cash-flow problem. Shares can only be sold privately with the agreement of the other shareholders of 25%. This is usually to people known to the current shareholders.
- *Accept any other relevant feature.*

Mark as 2+2.

Award [1 mark] for identifying each appropriate feature and [1 mark] for an appropriate description (application **not** required), up to a maximum of [2 marks].

- (b) Explain *two* advantages and *one* disadvantage for *SF* of operating “The Single” and “The Quad” as separate profit centres. [6 marks]

The possible advantages for *SF* are:

By not managing *SF* as single entity, possible diseconomies of scale can be avoided. Dan and Ori might find it increasingly difficult to control every aspect of the organization if *SF* grows. The decentralization of power through delegation of power and authority from each brother to employees in each profit centre can improve the speed and the quality of decision making, as well as the motivation of employees. Dan and Ori will be able to monitor performance more accurately, including variance analysis of each centre. Different strategies can be devised and implemented for each. Healthy competition between each profit centre in the production of each model can also improve quality and efficiency.

*Accept any other relevant benefit for *SF*.*

The possible disadvantages for *SF* are:

Unhealthy competition between the workers of “The Single” and “The Quad” may reduce morale. The focus of the employees in the different profit centres may become too narrow and the overall aims / objective and strategy of *SF* may be lost / ignored. Some decision taken by the employees in one centre / one type of boat may not be in the best interest of *SF*. Some duplication of resources may occur, such as design, marketing and so on. Resulting in possible loss of opportunities of economies of scale. The employees might concentrate on profit rather than the quality of the boats. *SF* can lose its competitive advantage / brand image if any of the models are not built to the expected high standard.

It might be difficult to allocate the fixed costs of *SF* accurately; hence costs might be allocated in an arbitrary way which may impact negatively, or positively, on the assessment of the performance of each profit centre.

*Accept other relevant disadvantage for *SF*.*

Mark as 4 + 2.

Award [1 mark] for identifying **each** appropriate advantage for *SF* of operating each model as a separate profit centre up to a maximum of [2 marks] and [1 mark] for an appropriate explanation of **each** advantage with relevant application to *SF* up to a maximum of [2 marks].

[4 marks] in total for **two** advantages.

Award [1 mark] for identifying **one** appropriate disadvantage for *SF* of operating each model as a profit centre and award an additional [1 mark] for an appropriate explanation of the disadvantage with relevant application to *SF* up to a maximum of [2 marks].

(c) Calculate for *SF* (show all your working):

(i) the current capacity utilization in 2014.

[2 marks]

The current capacity utilization:

$$\frac{10}{20} \times 100 = 50\%$$

Award [2 marks] for a correct answer in percentage with working.

Award [1 mark] for a correct answer in percentage without working.

Award [0 marks] if only the figure 50 is given without percentage, or working.

(ii) the break-even quantity for “The Single” if the subcontracting option (Option 2) is chosen.

[2 marks]

The break-even quantity for “The Single” if the subcontracting option is chosen:

$$\text{New fixed cost} = \$50\,000 - \$14\,000 = \$36\,000$$

$$\text{Contribution per boat} = \$15\,000 - \$12\,000 = \$3\,000$$

$$\frac{\$36\,000}{\$3\,000} = 12 \text{ boats}$$

Break-even quantity = 12 “The Single” boats.

Award [2 marks] for a correct answer with working.

Award [1 mark] for a correct answer without working.

Award [1 mark] if either the new fixed cost or the contribution is correct — implied knowledge.

- (iii) **whether the production of “The Quad” should be subcontracted overseas, assuming that the sales of “The Single” stay the same as in 2014.** *[5 marks]*

All figures in US\$.

Current profit without subcontracting the production of “The Quad”:

$$\text{Total revenue} = (15000 \times 6) + (25000 \times 4) = 190000$$

$$\text{Total cost} = 50000 + (6 \times 12000 + 4 \times 18000) = 194000$$

A loss of –4000

Profit if the production of “The Quad” is subcontracted:

SF still to produce “The Single”:

$$\text{Total revenue} = 6 \times 15000 = 90000 \text{ (assuming the same production level)}$$

$$\text{Total cost} = 36000 + (12000 \times 6) = 108000$$

A loss of –18000

“The Quad” produced at new location:

$$20\% \text{ sales price reduction} = 5000$$

The new price is 20000

$$\text{Total revenue} = 20000 \times 8 = 160000$$

$$\text{Total cost} = 0 + (8 \times 14000) = 112000$$

A profit of 48000

$$\text{Overall profit for } SF = -18000 + 48000 = 30000$$

Which is 34000 better than not subcontracting “The Quad”.

Accept any other logical method of working.

Award **[0 mark]** if the response just say that *SF* should subcontract without any evidence.

Award **[1 mark]** if only the **final answer/figure** regarding profit is presented and the answer is correct.

Award **[1 to 2 marks]** for some relevant calculations which may include three or more mistakes. The calculations may be unclear.

Award **[3 to 4 marks]** for mostly correct calculations and clear presentation of the profit before and after subcontracting “The Quad”. Allow for two mistakes for **[3 marks]** and one mistake for **[4 marks]**.

Award a maximum of **[3 marks]** for an incomplete response that either incorporates the profit before or after subcontracting “The Quad”. The calculations for one option is shown and correct.

Award **[5 marks]** for correct calculations of the profit before and after subcontracting “The Quad”. All of the relevant figures are incorporated and the calculations / working are shown and are clearly presented.

- (d) **Analyse the suggestion that *SF* should change from job production to flow production (Option 1).** [6 marks]

It is expected that the candidates provide a short description, or explanation of the change / the main differences between the production methods.

The possible benefits to *SF* if it changes the production method from job to flow might be:

Lower production costs due to an increase in scale of production / economies of scales, less-skilled employees – especially in the medium to long run will also alleviate the cash-flow problems.

If sophisticated automated machines are bought, some mass customization may be possible, hence, *SF* will still be able to be somewhat flexible and customer focused.

The lower cost per unit due to large scale production will enable *SF* to reduce the price per boat and hence to compete with the mass producers of rowing boats.

Accept any other relevant, applicable issue.

However,

Changing to flow production method will significantly reduce *SF*'s ability to offer custom-made rowing boats and remain a market-orientated organization as in the case when a job production method is being used. *SF*'s USP is likely to disappear as the quality is likely to be reduced. A quick production method will not create a USP as the customers are willing to wait.

SF will not be able to use a price skimming strategy for its new rowing boats. The motivation of the highly-skilled employees is likely to fall given the new production method. With automated machinery, they will not be able to use their specialized skills.

Ori, the Finance Director, is worried about the initial cost of buying the new technology resulting from the move to job production. More borrowing might increase *SF*'s cash-flow problems.

Accept any other relevant, applicable issue.

To achieve the top markband candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of changing the production method.

To achieve full marks, [6 marks], candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of changing the production method with explicit description, albeit short one of the nature / characteristics of the two methods.

For one relevant impact that is one-sided, with no analysis award up to a maximum of [3 marks]. For two relevant impacts that are one-sided, with no analysis award up to a maximum of [4 marks].

For one relevant impact for and one relevant impact against award up to a maximum of [4 marks].

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

SECTION B

3. (a) Describe *one* feature of:

(i) job enlargement.

[2 marks]

One feature of job enlargement is when a business increases the number of tasks/roles to be carried out by an individual along the **same level** of hierarchy/difficulties/parallel tasks/roles without changing the challenge. Job enlargement occurs horizontally in an organization increasing the range but not the depth of tasks. Job enlargement is a non-financial motivator.

Accept any other relevant description.

Candidates do not have to implicitly refer to **horizontal loading**, but to show some understanding that the job is to be carried out at the same level/roles/responsibility.

N.B. specific application is not expected.

Credit relevant / applicable examples for *[1 mark]*.

Award *[1 mark]* for the relevant feature identified and *[1 mark]* for the description of that feature. Award up to a maximum of *[2 marks]*.

(ii) international quality standards.

[2 marks]

One feature of international quality standards is that it is an **international benchmark**, or an agreed predetermined level of quality which a good or service must meet, in order for this good or service to be awarded an accepted standard which is recognized by many countries throughout the world.

Accept any other relevant description.

Award *[1 mark]* for the relevant feature identified and *[1 mark]* for the description of that feature with reference to a **wider than own country** recognition. Award up to a maximum of *[2 marks]*.

N.B. just repeating the word international is not sufficient for *[2 marks]*.

N.B. credit an example, only if it is described; otherwise award *[0 marks]*. A repetition of the term / word such as ISO cannot be accepted as an example.

- (b) **Explain how each of the three issues identified, could have impacted on C4U's revenue leading to its first loss in 11 years.** [6 marks]

The first issue might have irritated and frustrated customers who through word-of-mouth promotion and social media raised complaints, leading to a loss of goodwill. The delays and cancellation were perceived as poor customer service, it resulted in a fall in demand of existing customers as well as lower demand from new customers and hence revenue – informed through social media of the unreliability on the part of C4U.

The second issue is an ethical one. If the advertising is misleading and flight prices for return fares are deemed unfair, existing and new customers would have possibly transferred to competitors, leading to a fall in demand for C4U services and thus lower revenue for its flight services.

The third issue is the increase choice availability of substitutes / bargaining power of consumers. A larger number of competitors with higher efficiency levels are likely to result in customers being taken away from C4U, hence a fall in total revenue and profit.

Mark as 2+2+2 for each issue.

Award [1 mark] for application to C4U, award an additional [1 mark] for a developed explanation of how the **fall in** revenue / demand / sales could have occurred up to a maximum of [2 marks] per issue.

N.B. given the fact that this question is very easy, it is very important that the candidate actually explains how / why the total revenue falls / fall in demand / sales. It is also expected that for full marks, the candidates go beyond just copying the information from the stimulus.

Do **not** credit explanation of “increase in cost”.

- (c) **Analyse two appropriate sources of finance that C4U could use to purchase the new aircrafts for the new Q4U service.** [6 marks]

As C4U is a plc, an obvious source of finance for the new aircrafts would be to issue new shares to existing shareholders and/or to the public. The existing shareholders would be confident in buying these shares given that C4U is attempting to reverse the first loss in 11 years by introducing this new Q4U service. Other investors might be interested in buying shares in an organization that was profitable for many years apart from the last one. The gearing ratio will also improve, as extra shares reduce the relative percentage of current loans.

However, C4U will have to spend funds preparing for organizing and raising the awareness of the share issue and it will take time to receive the fresh capital. Of course, the other problem is that the share issue may not be fully taken up, *ie* successful, given the emerging financial difficulties (first loss) and the industrial unrest, and there will not be funds for the new aircrafts. This “embarrassment” may also jeopardize future share issues and create a further loss of goodwill in the eyes of the share markets.

A second source of finance, given the risk involved, is to lease the new aircrafts. By leasing, *C4U* is not committing significant funds (at a time of a rising gearing ratio) and periodically will be able to take advantage of any new technological developments, which may arise in the airline industry as newly leased aircrafts will be updated by the manufacturer. Leasing will also give *Q4U* more flexibility regarding the number of aircrafts to be used given the future demand.

However, working capital remains limited and the leasing costs will lead to an additional outflow expense from the profit and loss account. If the launch of *Q4U* does not go well then sales revenues may not rise enough to pay for the leasing costs of the new aircrafts. *C4U*'s losses will be sustained and could worsen.

Given the increasing gearing ratio, it is not expected that *C4U* will take on any additional loan finance to finance the purchase of the new aircrafts. However, if the candidates use this option, they must provide a counter argument why this option is not really viable for *Q4U*.

Accept the option of selling fixed assets like current aircrafts as long as the candidate provides a counter argument for this option as the capacity to keep operating the low cost service will be seriously affected.

Accept government grants as long as the rationale as to why the government might give grants to a public limited company / private ownership organization is well explained.

Accept any other relevant analysis.

For one appropriate source of finance that is one-sided, with no analysis, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with analysis, award up to a maximum of **[4 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

Please do not accept additional loan financing as an answer unless there is a clear balanced analysis given the rising gearing ratio.

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

- (d) **Evaluate the two new methods of training and examination that C4U are considering to prepare flight staff for the new Q4U service.** [9 marks]

The two new methods of training are **off-the-job** training by the hotel with experience of offering high quality service and more self study with staff expected to reach international quality standards by studying for and sitting an examination in their own time.

C4U lacks experience in the high income “luxury market”. The training by the hotel, although not exactly in the same industry, the vital issue of customer service can be easily transferred. For example, the people and the process mix of the service industry will be enhanced and will provide C4U with upto date successful training methods in a market which tries to provide a high quality customer service.

As C4U relies on non-financial motivation for its staff through job enlargement, this training will increase the skill set of flight staff (leading to perhaps greater job enrichment as well) and further non-financial motivation. Productivity at C4U may increase. The training will hopefully lead to improved customer service, lifting the reputation of C4U as an airline and quantity demanded of all flights may increase.

Moreover, compared with the second option, staff will have to be released from their daily task to be trained externally in the hotel. Not during their own free time hence the training will be less stressful.

However, the cost of this training will need to be borne by C4U and the working capital is limited. Q4U may have to borrow/raise finance to finance its human assets as well as its fixed assets. One may argue that given the new type of business, and the market positioning as well as the nature of the industry/service, it is worth investing in the quality of the staff even by borrowing.

Still the training is to be conducted in a different industry. How relevant will it be? There will also be some disruption to workforce productivity given that the training is off-the-job and away from C4U’s headquarters, C4U is already experiencing staff shortages.

Moreover, the organization culture of this particular hotel may not fit the organizational culture of Q4U.

The introduction of exam training to allow flight staff to become internationally recognized in customer service will be a powerful motivator for those staff who study and pass in their own time. It is likely that the staff will appreciate the advantages of being internationally recognized in terms of their qualification and the great opportunity of international mobility, or even just job mobility in the industry. Wages for qualified staff may rise in order to encourage success (although this is a form of financial motivation), C4U has staff shortages and the creation of a new flight service, Q4U and international accreditation may help to reduce current recruitment issues.

However, the process of studying while working can be extremely stressful as the workload is too great. The current staff are complaining that they are already overworked and are threatening to take industrial action. *C4U* cannot afford this conflict and the inevitable poor publicity that industrial action brings. Revenue could fall further. The situation is made worse by new competitors whom it is assumed would gladly take over *C4U*'s market share for both flight services in the event of a work-to-rule or industrial stoppage such as strike action. These customers may not return to *C4U* at all.

It will be difficult to monitor the learning process throughout, but passing the examination will ensure the management at *C4U* that internationally accepted standards have been reached. The same cannot be said of off-the-job training by the hotel. No objective criteria is currently available to assess the quality of the training and the employees' achievement.

Accept any other relevant and applicable arguments for, or against, the two options.

Given the two difficult human resource situations, it is likely that *C4U* will accept the off-the-job training from the hotel rather than ask all overworked flight staff to study for and pass an additional examination. The off-the-job training by the hotel will lead to improvements in *C4U*'s current customer service and if marketed accurately lead to increases in revenue given that *C4U*, although entering a new higher income market will wish to preserve their positioning as the lowest priced airline. *C4U* given its first loss in 11 years and growing competition, cannot afford a prolonged bout of further human resource conflict and the examination will only breed more discontent especially among staff who seem to be struggling with a work-life balance and job enlargement.

Accept any other relevant and substantiated conclusions.

It is not expected that the candidates contrast "off-the-job" and "on-the-job" training.

N.B. accept the classification of the second training option as either off or on the job or no classification at all, as long as the answer is applicable and relevant and not merely theoretical. There is enough information in the stimulus to evaluate the two options without using the classification of the training as a base for the evaluation.

N.B. it is not expected that all of the above issues are incorporated.

It is not expected that the candidates evaluate or even refer to different types of examination, but look at the second option as "one package". For example, study in their own free time in order to take the required exam.

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

For a fully balanced answer candidates are expected to provide 2 + 2 arguments for and against for both the possibility of off-the-job training and the preparation for the examination in order to reach the top markband.

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 term *organizational culture*.** [2 marks]

Organizational culture is defined as the values, beliefs and norms which exist in a workplace underpinning working relationships, ways of communicating, reward systems, workforce planning, *etc* between both internal and external stakeholders.

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

Award [1 mark] for a definition like “the way we do things around here”.

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.

N.B. do not credit as an example, or a definition, candidates that just copy the sentence from the stimulus describing *CB*'s culture.

(b) **Identify *two* key features of intuitive decision-making.** [2 marks]

Key features of intuitive decision making could include the following:

- relies on the “gut feeling” or natural instinct of the leadership team when making decisions
- relies on experience of previous decisions which have been made and reflects on how the decision making could be improved
- contradicts scientific decision-making which relies more on numerical, or statistical, data, or the analysis of past data trends
- *accept any other relevant feature.*

Award [1 mark] for each correct feature of intuitive decision-making identified, up to a maximum of [2 marks].

- (c) **Explain two benefits and one cost to CB of using an employee share-ownership scheme.** [6 marks]

A share-ownership scheme at CB is likely to be seen as a financial incentive as well as gratitude and trust of employees from management. Better performance of CB employees will likely to result in more profit and hence more dividends, as well as potential for capital gain if the price of shares increases due to a sound organizational performance. Hence, a clear stake for the employees in the company, creates greater likelihood for the employees to be motivated, creative, fit the organizational culture, and contribute to a better performance of CB. There is evidence in the stimulus that the employees are creative, loyal and as a result, CB has been awarded a substantial contract.

An employee share-ownership scheme will enhance the current culture and complements the democratic leadership style of Jennifer. The financial and other rewards from share ownership create the much needed self-motivated and creative employees.

There is evidence in the stimulus that this is indeed the case at CB with three of Jennifer's college friends still at the company. Higher staff retention / low staff turnover reduce costs of recruitment for CB, enhances its reputation, which will further reduce the costs of future recruitment due to its reputation.

Profit sharing via share ownership might be also perceived as fair by employees further increasing motivation. If profit is not made, CB's management may not be obliged to provide extra financial incentive. Such a decision is unlikely to create resentment among the employees.

Accept any other relevant and applicable argument.

However,

Jennifer wants CB to grow and expand even internationally. The possible cost to CB is that as the company grows and more employees are added, each individual share-ownership reward is potentially diluted. This situation may cause some resentment between current employees. The former may feel that it is unfair that the latter may receive the same share-ownership reward.

More shareholders will prolong the strategic decision-making process and with more people some disagreements are likely to emerge, which may reduce the current flexibility and responsiveness of the creative teams.

If the share-ownership scheme is related to CB's share price and this falls, then morale within CB could decrease. Employees' motivation may be negatively affected.

Accept any other relevant and applicable issue.

Application should extend beyond just stating the issue to be credited.

Mark as 4+2.

Award *[1 mark]* for identifying **each** appropriate benefit for *CB* of using an employee share-ownership scheme up to a maximum of *[2 marks]* and *[1 mark]* for an appropriate explanation of **each** benefit with relevant application to *CB* up to a maximum of *[2 marks]*.

[4 marks] in total for **two** benefits.

Award *[1 mark]* for identifying **one** appropriate cost for *CB* of using an employee share-ownership scheme and award an additional *[1 mark]* for an appropriate explanation of the cost with relevant application to *CB* up to a maximum of *[2 marks]*.

(d) Analyse the effectiveness of using flexible project teams for *CB*.

[6 marks]

The structure of *CB* is essentially the matrix structure. Using flexible project teams implies temporary use of different project groups that incorporates the most suitable employees for particular projects. A project team is an example of a flexible structure that fits the creative, technological and task-orientated culture of *CB*. There is clear evidence in the stimulus that the project teams have clearly worked well.

CB has produced many innovative television commercials and is a sustainable business employing 24 people. Project teams would be conducive to the democratic leadership style employed by Jennifer and would allow greater generation of new and creative ideas. An effective strategic fit was created between culture, leadership style and structure at *CB*.

On an individual level, the matrix structure also benefits the employees through more freedom to use ones own skills and talents. The rotation of team leadership provides employees with opportunity to acquire new skills. This structure creates job enlargement and enrichment. For certain types of employees it is highly rewarding and motivating.

There is plenty of evidence in the stimulus that so far the matrix structure was highly successful.

Accept any other relevant and applied argument in favour of flexible / project team structure.

However, project teams may suffer from “paralysis by analysis” if the democratic process becomes too long as the team tries to include all voices and ideas of highly qualified and experienced employees in the decision-making process. Each project team will require fresh leadership. There is no evidence in the stimulus that such negative consequences occurred so far, but as *CB* is facing strategic options to agree upon, the above issues might materialize especially in the long run when *CB* keeps on growing.

Moreover, the project team's leadership objectives may be based more on short termism and might conflict with *CB*'s overall strategic objectives. Resources will also need to be allocated to ensure the smooth running and cooperation of all the team members and this could lead to an increase in administration costs. Potential managerial economies of scale could be lost, as project teams are dissolved after the problem-solving exercise has taken place and new teams are created to solve future problems.

While this type of structure was very suitable for *CB* as a small organization, the structure may bring about new challenges in terms of coordination and control especially if integration with overseas employees will occur – cultural and linguistic problems may be created which will reduce the efficiency of *CB*.

Accept any other relevant and applied argument against flexible / project team structure.

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]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

If the candidate does not make a reference to the temporary / flexible / rotating nature of the group, but only refers to the advantages and the disadvantages of working in groups/teams award up to a maximum of **[4 marks]**.

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

- (e) **Recommend which of the *two* strategic options *CB* should pursue.** [9 marks]

The **internal growth** by producing the TV commercial presents a very important strategic move for *CB*. Growing internally may seem like the easier option given the current success resulting from a strategic fit between the culture and the democratic leadership style of Jennifer.

By choosing the first option, *CB* capitalizes on their strengths and possibly their unique selling point to take advantage of some opportunities. The effective / important culture, structure and the leadership will be maintained.

The above can be judged as very significant arguments for this option as due to their creativity, employees' motivation, and flexibility, *CB* was given the contract.

However, it represents a significant short-term financial risk given the need to solely finance the TV commercial and the current short-term working capital issues. Many organizations go into liquidation due to short-term liquidity problems and Jennifer has to be very careful that she finds ways of raising short-term finance.

Perhaps internal growth limits the long-term potential for growth for *CB*.

Moreover, South Korea is an unknown market with *CB* having to employ additional staff of whom they may not know. In addition, they will need inducting into *CB*'s organizational culture. There will be a period of transition required – true in fact if either option is chosen. This argument may be judged as less significant compared to the issues above, as the above issue is really just applicable for both options, but less for option 1.

N.B. accept any relevant, applicable argument for option 1.

The **joint venture** allows *CB* to share the risk and cost. *CB* will be able to gain local knowledge to produce an innovative commercial. Sharing costs and risk can reduce, or even eliminate the current worries about the working capital of *CB*. A significant short-term argument in favour of the joint venture option.

However, the scale of operation for *CB* will increase dramatically and Jennifer may have to modify her democratic leadership style as inevitably spans of control will widen. The current very effective structure of flexible project teams might be stopped, or Korean employees will have to participate as well. Large size and possible cross-cultural issues may negatively affect *CB*'s USP / creativity. The relocation of one of her teams may impact on some of the long standing relationships Jennifer has created. The current low staff turnover at *CB* and relocating trusted and valued colleagues may create some short-term tensions.

However, a success in South Korea can open many a new opportunity for *CB*. If the option is successful, Jennifer can look for other joint venture opportunities in different countries. Opportunities that Jennifer may desire.

Conclusion/judgment

The decision will depend on the degree to which Jennifer wishes to change her business to take up this new opportunity. Assuming that revenues from the TV commercial will be the same if either *CB* grows internally or externally, the deciding factor may be initial costs, Jennifer’s concern about using up all her working capital and the degree to which *CB*’s culture will change if she works alongside a new partner. If these restrainers can be minimized, *CB* should look to the joint venture as the financial opportunities from creating this TV commercial in a new market are considerable.

It is expected that one option is recommended and that candidates produce a substantiated recommendation / judgment.

Accept any other relevant issues with a substantiated recommendation / judgment.

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]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments.

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) (i) **Identify *one* possible variable cost of production, *other than wages*, that a manufacturing company may face.** [1 mark]

Examples of variable costs include:

- raw materials
- utilities
- overtime payments
- *accept any other relevant variable cost.*

Award [1 mark] for the relevant cost identified. Candidates are not expected to provide a definition or directly apply.

- (ii) **Identify *one* possible fixed cost of production that a manufacturing company may face.** [1 mark]

Examples of fixed costs include:

- rent/leasing costs
- salaries
- fixed-price contracted services (for maintenance, or cleaning, *etc*)
- *accept any other relevant fixed cost.*

Award [1 mark] for the relevant cost identified. Candidates are not expected to provide a definition or directly apply.

- (iii) **Define the term *offshoring*.** [2 marks]

Offshoring is the relocation by a company of a business process from one country to another – typically an operational process, such as manufacturing, or supporting processes, such as accounting.

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.

N.B. do not credit candidates that give the definition of subcontracting/outsourcing only.

N.B. accept a reference to the possibility of outsourcing as well as offshoring together for [1 mark].

- (b) **The *Boston Consulting Group* analyst used the same technique as sales forecasting to predict changes in wages. Explain one advantage and one disadvantage of using this technique.** [6 marks]

By using the same technique as the *Boston Consulting Group* analyst used — **time-series analysis and moving averages** for forecasting future wages.

One possible advantage is that such a technique will enable the identification of a trend and will provide a basic and initial extrapolation / prediction / indication of future costs of production and hence provide a good basis for managers of these companies in terms of planning or budgeting.

The forecasting is based on past-known data and hence provides the initial step for forecasting. Moreover, the forecast was done for a rather short period into the future (2015) (yearly) and hence a forecast for a short period is likely to be more accurate.

However,

The assumption of this technique is that what happened in the past is likely to continue. When identifying a trend it can be seen as unrealistic and possibly misleading. It is stated in the stimulus that wages of factory workers in China rose by 69% which is a considerably higher figure than the likely moving average and the forecasted figure based on moving averages.

The forecasting might have also been made based on unreliable information and data, as the examples are given by government sources in these emerging economies.

The unstable external environment with some examples in **the stimulus** may also considerably reduce the accuracy of the forecasting.

Accept any other relevant advantage and disadvantage.

Mark as 3 + 3.

N.B. accept responses that generally refer to sales forecasting as a technique / planning tool rather than the specific technique of using **time-series analysis and moving averages**.

Award [1 mark] for identifying an appropriate advantage / disadvantage, [1 mark] for an appropriate explanation and [1 mark] for a further development of this explanation with reference to any relevant decision maker, and/or to the issue of changes in the wages in China, and/or any other relevant application. Award a maximum of [3 marks].

N.B. accept any relevant application from the stimulus – not necessarily just wages (especially for the disadvantages).

Award up to a maximum of [2 marks] for each disadvantage or advantage if no relevant reference is made to the stimulus material.

- (c) **Examine the possible impacts on China of the US multinational companies offshoring manufacturing to China.** [6 marks]

Although the question may seem rather theoretical, it is expected that candidates make some reference to some specific effects of a **manufacturing company**.

Some of the positive impacts may include the following:

- A manufacturing company big enough to locate around the world / possibly an MNC, is likely to provide a significant number of jobs / employment and possibly training in its plants. The quality of the labour force can increase.
- Local customers do not have to rely only on local providers. Hence more choice is provided for the citizens / better standards of living.
- Global competition in the Chinese market can lead to improvement in efficiency, quality and a reduction in price of these manufactured products. Transfer of technical knowledge/know-how can also be seen as a positive impact on economies like China.
- A manufacturing MNC is likely to source local raw material and local labour – more revenue in terms of expenditure and wages is injected into the economy. Wider economic benefits can be gained in countries like China (the multiplier effect).
- A manufacturing MNC is likely to provide further employment to some supporting industries such as distribution, packaging and other industries in the supply chain as stated in the stimulus.
- These manufacturing companies are likely to be profitable and are taxed by the host governments. Revenue is generated for host governments providing further positive consequences for the host economies.
- *Accept any other relevant positive impact.*

However,

- Offshoring in emerging / developing economies like China, may destroy local competitors as they cannot compete in terms of size, resources, economies of scale / efficiency and so on.
- A well-established American MNC can actually monopolize a market rather than encourage healthy competition and choice.
- A manufacturing MNC is likely to deplete the national resources such as raw materials.
- A manufacturing MNC may ignore environmental and ethical concerns.
- A manufacturing MNC might also create an external diseconomy of scale – the location may become congested. It is possible that the wage increase in China is the result of high demand for labour.
- Due to some practices of transfer pricing and/or local government support, not much taxes on profit are paid to the host government.
- *Accept any other relevant negative impact.*

Accept any other relevant examination.

To achieve the top markband candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of manufacturing in the host country.

For one relevant impact that is one-sided, with no analysis award up to a maximum of **[3 marks]**. For two relevant impacts that are one-sided, with no analysis award up to a maximum of **[4 marks]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

For one relevant impact for and one relevant impact against award up to a maximum of **[4 marks]**.

N.B. if the response is based on the benefits to a MNC, award up to **[2 marks]**.

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

- (d) Discuss the suggestion that US multinational companies are likely to increase the scale of manufacturing at home. [9 marks]**

Some of the arguments for the above may include the following:

The labour cost of offshoring is likely to increase even more as the countries become more developed. The cost advantage will be further eroded or disappear. If the main market is indeed the US, American MNCs/companies, they will benefit from being close to their customers and address their needs. Not only will the flexibility of the American MNCs/companies increase in terms of being more customers' focus and responding to their customers' needs quickly and more accurately, savings can be made on transportation of the goods back to their US customers.

If the main suppliers are in the US, or relatively close by, the supply chain will be more reliable and efficient. It is stated in the stimulus that the cost of labour is increasingly less significant and other issues like the supply chain and other relevant external factors are becoming more significant for strategic decision making. It is stated that many American companies had issues with less than effective supply chains and with some significant threats in the external environment like oil prices, natural disasters and so on. If serving American customers **is their focus** and the stimulus indicates that for some it is, it is likely that many American companies will return to manufacture their products at home.

The stimulus has provided evidence that some well-known manufacturing MNCs, have already made the decision to stay at home and invest in a manufacturing facility in the US.

On a more theoretical note, being located in the US will reduce the possibility of cultural clashes and language barriers and also the possible loss of management control. Coordination and communication between the American head office and the other plants are likely to improve.

Given the fact that some companies are returning and some made a decision not to leave the US the scale of manufacturing in the US will increase.

Accept any other relevant argument for.

However,

The prediction of the growth in the wage rate may not be accurate especially given the technique used.

Staying or returning home is more appropriate, as stated in the stimulus, for MNCs that essentially serve the local market, however, many MNCs serve the global market. Perhaps this argument can be judged as a significant one.

The fast growing demand in developing countries, may intensify the need to be located close to the new / emerging markets. The labour cost is indeed not the main issue, but being close to customers is a highly significant argument against the notion of coming home. MNCs could be able to assess the customers' needs more closely and serve the market better. The number of American customers is likely to be of less significance for these companies in the near future. The current financial incentive given to the US MNCs is likely to stop as stated by Mr Pisano. A lack of government support might hinder a future returning home and may be a driving force for seeking cheaper locations with other advantages apart from labour costs. MNCs may be given some financial incentive from emerging economies. Transport costs may also be reduced.

The US may lack the infrastructure, or as stated in the stimulus, the supply chain for other production apart from basic manufacturing.

One of the most significant argument against this notion is that the *Boston Consulting Group's* comments/predictions are most relevant to the manufacturing industry and when the main market is the US / American customers.

As stated in the stimulus, in India, despite rising wages, its innovative software development and call centre offshoring industries are likely to retain its cost advantages because of increasing productivity – MNCs may be looking for **innovation and flexibility**, not just cost savings. Moreover, despite a rising wage rate, the workers abroad can still be more productive, hence overall cost of production will fall due to efficiency and productivity.

Overall judgment/conclusion it appears that even the analyst (Mr Pisano) who highlighted the new trend of staying, or returning to the US, is aware that the examples are not sufficient to draw a full conclusion and that there might be other more significant reasons why many MNCs especially the American ones will continue to offshore, especially if their main competitors do and the new markets are to be found in emerging economies. We are quite likely to see the movement of many MNCs including American ones throughout the world as there will be more emerging countries rather than China. For example, India where different and more sophisticated skills are required.

N.B. it is not expected that the judgment is the same as the above. It is essential however, that the candidate provides a substantiated judgment. Not just repetition of previous arguments.

Accept any other relevant judgment/conclusions.

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]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

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.
