



MARKSCHEME

November 2014

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

27 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 (f) | Q2 (d) | Q3 (d) | Q4 (c) | Q5 (d) | |
| Marks 0–5 | | | | | |
| 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 | | | | | <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 (e) | Q4 (d) | Q5 (e) | |
| Marks 0–7 | | | |
| 0 | | | |
| 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 and concepts. • 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. |
| 5–6 | | | <ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response. |
| 7 | | | <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) (i) Define the term *secondary sector*. [2 marks]

Secondary sector refers to the manufacturing and processes whereby raw materials (derived from the primary sector) **or** already manufactured components are transformed into finished goods for sale.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding. In general, the [1 mark] will key on use of the word manufacturing or production but with little elaboration.

Award [2 marks] for a definition that conveys knowledge and understanding similar to the answer above, through elaboration, comparison (to primary or tertiary sectors) or exemplification.

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

- (ii) Identify *two* advantages to *SF* of being a private limited company. [2 marks]

For *SF* the advantages could include:

- limited liability of shareholders
- capital raised through the sale of shares
- increased credibility of the business, which can facilitate borrowing and other activities
- no risk of loss of control of company
- continued legal existence of the business when a shareholder dies
- though the degree of privacy information varies from country to country, in general private limited companies have more privacy than public limited companies, and more privacy could be listed as an advantage
- *accept any other relevant advantage.*

It is easier to obtain financing, often in the form of additional share capital, but **not** necessarily from a bank loan or as an unsecured bank loan. In the context of this stimulus, becoming a private limited company would not increase the likelihood of getting unsecured financing.

Award [1 mark] for each correct and relevant advantage of *SF* being a private limited company identified. Award up to a maximum of [2 marks].

(b) Explain why electricity is a semi-variable cost for *SF*.

[2 marks]

Semi-variable costs have characteristics of both fixed and variable costs. *SF* has to pay a fixed monthly rate of \$100, which is a fixed-cost characteristic: this \$100 must be paid every month regardless of output. *SF* must also pay \$0.10 for each kilowatt hour, which is a variable-cost component: the amount of electricity usage (and, thus, the cost) will vary according to output.

Candidates are **not** expected to word their explanation **exactly** as above. Be attentive for candidates explaining variable costs rather than semi-variable. If they define variable cost (rather than using it as a contradistinction) award *[0 marks]*.

Award *[1 mark]* for an explanation that conveys knowledge and understanding of semi-variable costs (explanation but no application to the stimulus).

Award *[2 marks]* for an explanation of how electricity is a semi-variable cost for *SF* (explanation with application to the stimulus). For *[2 marks]* candidates must convey the idea (though they do **not** have to use the exact wording) of varying according to output.

- (c) Prepare a monthly cash-flow forecast for *SF* for the first four months of operation.

[6 marks]

All figures in \$

| | Month 1 | Month 2 | Month 3 | Month 4 | | Total |
|------------------------|---------|---------|---------|----------|---------------|---------|
| Sales revenue | 1000.0 | 1200.0 | 1440.0 | 1728.0 | | 5368.0 |
| | | | | | | |
| Payments | | | | | | |
| Manager's salary | 300.0 | 300.0 | 300.0 | 300.0 | | |
| Workers' wages | 350.0 | 525.0 | 700.0 | 875.0 | | |
| Variable costs | 400.0 | 480.0 | 576.0 | 691.2 | | |
| Electricity fixed | 100.0 | 100.0 | 100.0 | 100.0 | | |
| Electricity variable | 10.0 | 11.0 | 12.1 | 13.31 | | |
| Total payments | 1160.0 | 1416.0 | 1688.1 | 1979.51 | | 6243.61 |
| Net cash flow | -160.0 | -216.0 | -248.1 | -251.51 | | |
| Opening balance | 15000.0 | 14840.0 | 14624.0 | 14375.9 | | |
| Closing balance | 14840.0 | 14624.0 | 14375.9 | 14124.39 | | |
| | | | | | Profit | -875.61 |

Apply Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error.

N.B. if a candidate rounds, for example, 691.2 to 691, that is acceptable provided the candidate rounds correctly.

[1 mark]

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2-3 marks]

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4-5 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format (and includes clear rows indicating opening and closing balance), but there is one or two errors.

[6 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format (and includes rows opening balance, closing balance and net cash flow), and is error free. Substituting the term "net profit" in the cash-flow forecast for "net cash flow" is inaccurate.

If the candidate has only one row for all cash outflows, subtract [1 mark] from the total mark awarded.

- (d) Calculate *SF*'s forecast net profit for the first four months of operation (show all your working). [2 marks]

All figures in \$. Candidates may calculate this in several ways.

One method is determining first four months' sales revenue by adding monthly sales revenue:

$$1000 + 1200 + 1440 + 1728 = 5368$$

Then adding total monthly payments (all expenses):

$$1160 + 1416 + 1688.1 + 1979.51 = 6243.61$$

Then calculate net profit by subtracting all expenses from total sales revenue:

Net profit for first four months:

$$5368 - 6243.61 = (875.61), \text{ or } -875.61$$

Another method would be to subtract the opening balance from the closing balance:

$$14124.39 - 15000 = (875.61), \text{ or } -875.61$$

There might be other means whereby the candidate calculates the net profit (for example, adding up the monthly net cash-flow figures).

N.B. some candidates may read the question such that they calculate the net profit for each of the four months. In that case, award [1 mark] for correct procedure and [1 mark] for the correct answers (four different profit figures: -160, -216, -248.1, -251.51, in total -875.61).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

- (e) Calculate *SF*'s forecast net profit margin for the first four months of operation. **[1 mark]**

$$\frac{-875.61}{5368} \times 100 = (16.31\%), \text{ or } -16.31\%$$

Accept -16.3% but **not** -16% .

If the candidate calculates net profit margin by month, the correct answers are:

Month 1: -16%

Month 2: -18%

Month 3: -17.22%

Month 4: -14.55%

Award **[1 mark]** if the candidate provides the correct answer(s). Working not required.

- (f) Examine *two* potential stakeholder conflicts when Gepa opens his factory. **[5 marks]**

Potential stakeholder conflicts include:

- Gepa versus the residents of the village over the issues of pollution and smells and/or versus pressure groups;
- Gepa versus the local government employment office over working conditions at the factory;
- Gepa versus the potential workers over working conditions;
- potential workers versus employment agency and/or residents of the village over whether the factory should open
- *accept other relevant potential stakeholder conflict.*

Accept any other relevant examination.

If a candidate lists two stakeholder conflicts and names the stakeholders, and the response is based on the stimulus, the candidate should be awarded **[3 marks]**, provided what they have written is largely accurate (though is perhaps **not** well developed).

N.B. according to the stimulus, Gepa will own 100% of the shares of *SF*. Therefore, disagreement between shareholders, or between Gepa and other shareholders, is **not** an acceptable stakeholder conflict.

If a candidate examines only **one** stakeholder conflict, award a maximum of **[3 marks]**. In the case of only **one** stakeholder conflict addressed award **[1 mark]** for identification of the stakeholder and **[1 mark]** for identification of the stakeholder and their conflict, award an additional **[1 mark]** for application to the stimulus, and an additional **[1 mark]** for depth and nuance.

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

2. (a) (i) **Describe how *one* demographic change in Finland affects *RG*.** [2 marks]

The one demographic change mentioned in the stimulus is the higher level of education that Finnish youth have in contemporary society compared to some earlier periods. Thus, “recently, *RG* has struggled to recruit talented teenagers for the apprentice program.”

Though it is unlikely that many candidates would know of any other demographic changes in Finland (that is, a change not mentioned in the stimulus), accept it if it is correct and appropriate to the situation in the stimulus.

Award [1 mark] for a response that conveys partial knowledge and understanding of demographic change.

Award [2 marks] for a full, clear description of a demographic change in Finland affecting *RG*.

(ii) **Identify *two* features of a flow production process.** [2 marks]

Features of flow production include:

- Standardized/similar product
- comparatively easy to expand production
- finished product is completed continuously
- high degree of automation
- workforce can be unskilled or semi-skilled
- workforce can be specialized (even if unskilled)
- large scale of production (accept economies of scale)
- low cost per unit (do **not** accept just “low cost” or “cheaper”)
- high/higher fixed costs
- all stages of production are interdependent (accept: “if a problem occurs in one place in the assembly line, the whole production stops”).

Accept any other relevant feature of a flow production process.

Many candidates may struggle with the difference between a feature and an advantage/disadvantage. If the examiner can reasonably infer a feature from a stated advantage or disadvantage (such as large scale of operation versus economies of scale) award [1 mark].

Award [1 mark] for each correct feature of a flow production process identified. Award up to a maximum of [2 marks].

(b) Calculate for *RG* for *one* year:

(i) manager's and craftsmens' salaries (figure X). *[1 mark]*

$$(42 \text{ craftsmen} \times \text{€}50000) + \text{€}70000 = \text{€}2170000$$

Award *[1 mark]* for the correct answer (working not required).

(ii) the break-even level of output (*show all your working*). *[2 marks]*

$$\text{Break-even level of output} = \frac{\text{fixed cost}}{\text{contribution}}$$

$$\text{Fixed costs} = 120\text{k} + 480\text{k} + 2170\text{k} + 700\text{k} + 600\text{k} = 4070000$$

$$\text{Contribution} = 1200 - 275 = 925$$

$$\text{Break-even level of output} = \frac{4070000}{925} = 4400$$

Which means the break-even level of output is 4400 units.

Apply candidate own figure rule (OFR).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

(iii) the profit or loss last year (show all your working). [3 marks]

Profit is calculated by total revenue – total costs, where total costs equal total fixed costs + total variable costs.

$$\text{Total revenue: } 4920 \text{ units} \times \text{€}1200 = \text{€}5904000$$

$$\text{Total fixed costs: } 120000 + 480000 + 2170000 + 700000 + 600000 = \text{€}4070000$$

$$\text{Total variable costs: } 4920 \text{ units} \times (225 + 35 + 15) = \text{€}1353000$$

$$\text{Total costs} = \text{€}4070000 + \text{€}1353000 = \text{€}5423000$$

$$\text{Total revenue} - \text{total cost} = \text{€}5904000 - \text{€}5423000$$

$$\text{Profit} = \text{€}481000$$

Candidates may also use the contribution method, calculated as follows:

Sales in units – break-even quantity = margin of safety

$$4920 - 4400 = 520 \text{ units}$$

Margin of safety \times contribution = profit

$$520 \times (1200 - 275)$$

$$520 \times 925 = \text{€}481\,000$$

Apply candidate own figure rule (OFR).

Award **[1 mark]** if the candidate clearly demonstrates an understanding of how to calculate the profit (candidate shows revenue – expenses = profit, or an understanding of the contribution method).

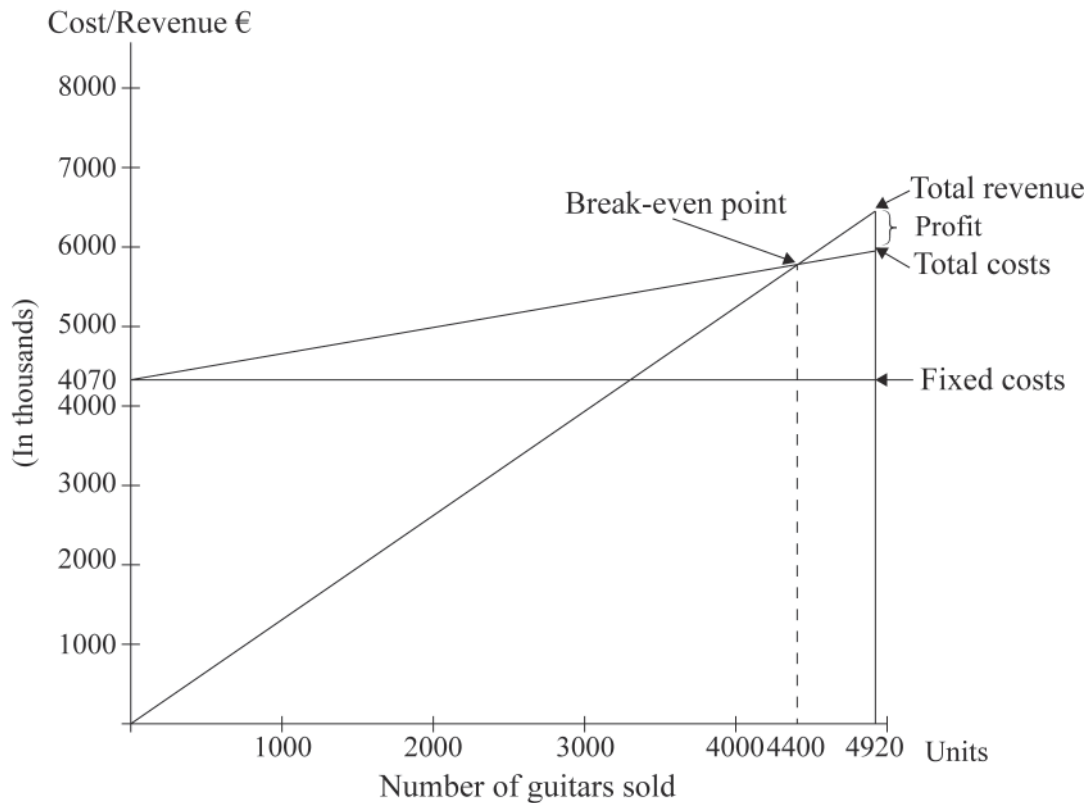
Award **[2 marks]** if the candidate demonstrates that the method properly but makes an error in the calculation.

Award **[3 marks]** if the candidate demonstrates the method (show working) and correctly calculates the answer.

If the candidate produces the correct answer, but does not show working, award a maximum of **[2 marks]**.

(c) Construct a fully labelled break-even chart for *RG*.

[5 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the *x*-axis to the break-even point provided that the line is labelled “break-even point”.

If the candidate does **not** specify the scale by placing numbers periodically on the axes (1000, 2000, 3000, *etc*) they have **not** demonstrated the scale, and, therefore, award a maximum of [3 marks].

If the candidate labels the *x* axis as “sales” **and** the numbering on the axis corresponds to the unit of output of *RG* (that is, the number scale is in the range of 0 to 5000 +/-) accept sales as a correct label.

- (d) Analyse the possible impacts of Anni’s proposed changes on the motivation of the workers at *RG*.

[5 marks]

The impact of the changes on the motivation of workers will be significant and mostly negative. Currently the workers enjoy the prestige and intrinsic rewards of being professional craftsmen. Those intrinsic rewards include the knowledge that they are making a high-quality product that requires specialized training and skill, and the camaraderie that comes from being in an “elite” group of skilled workers who know how to make their product. Because their skill is specialized, they also receive the extrinsic motivation of high pay (€50 000 per year).

When the factory is converted, the workers will go from doing jobs that require highly specialized skills to ones that require far less skill. The work routine will become more routine and less interesting. They will probably take less pride in their work as a professional craftsman will not be personally responsible for individual guitars that he and two apprentices made. While in the short run most workers retain some degree of their camaraderie, as people who had been trained in the craft, over time this sense of group consciousness will probably diminish.

One positive of Anni’s changes is that all current employees will retain their high salaries. Another positive is that the changes Anni is making may keep the business in operation. *RG* has high operating leverage (that is, high fixed costs) and must sell many guitars to break even. If *RG* lost the ability to attract teenagers into the craft, a reduced number of workers might mean an inability to produce enough guitars to break-even. Workers will at least be motivated by having a job and, for current workers, a well paying one.

In the long run, these changes will significantly adversely affect motivation. New employees will receive only half the pay of the skilled workers, even though they will be doing the same jobs. This will cause dissension. Eventually, when all the skilled workers have retired, *RG* will employ mostly low-skilled workers receiving low pay, which creates a difficult motivational situation.

Accept any other relevant analysis.

If the answer has some balance, has application to the stimulus, and effectively applies theory, an answer would typically be in the [4–5 mark] range. Be attentive when candidates use theory, for often they use it poorly or ineffectively. Just the use of a name (Maslow, Taylor, *etc*) is not sufficient to earn marks for theory.

If the response is a one-sided relevant approach with no analysis, award a maximum of [3 marks].

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

SECTION B

3. (a) **Identify *two* methods of primary market research that *SGS* may have used.**

[2 marks]

Types of primary research that *SGS* may have used include:

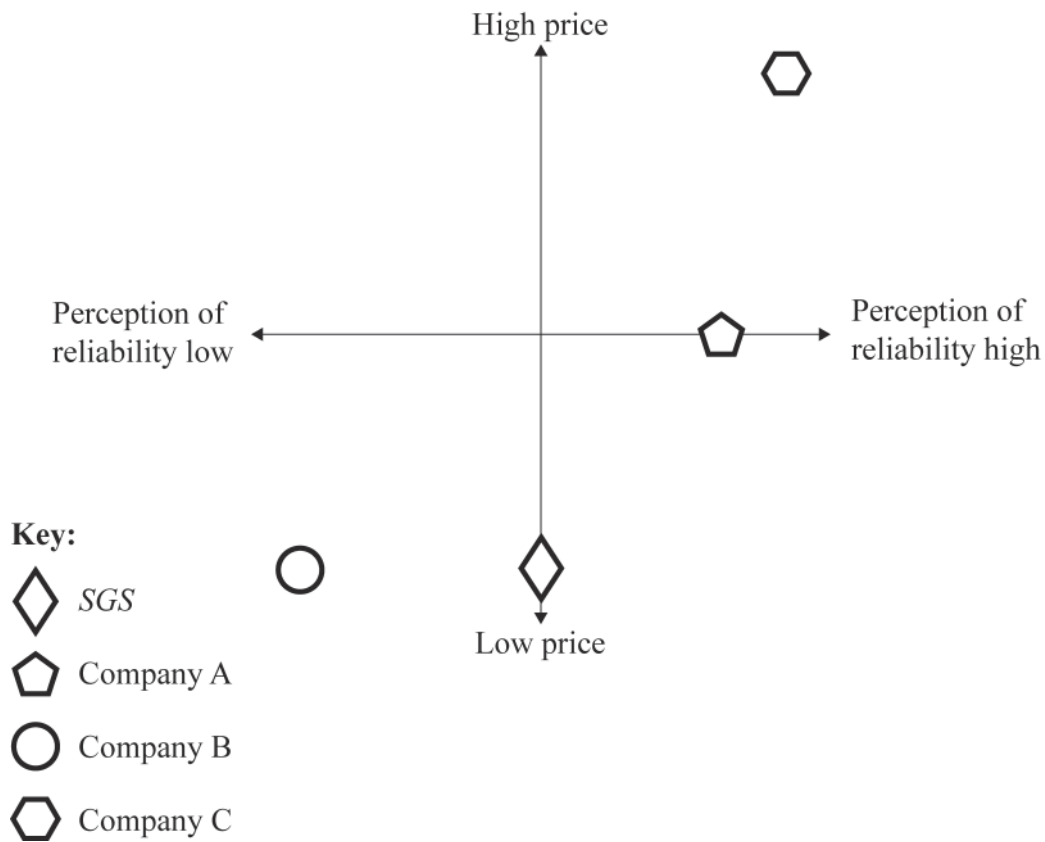
- surveys/questionnaires
- focus groups
- personal or telephone interviews.

Accept any other relevant type of primary market research.

Award ***[1 mark]*** for each type of primary market research identified. Award up to a maximum of ***[2 marks]***.

(b) Using information from the table, construct a fully labelled position/perception map of *SGS* and its three main competitors.

[4 marks]



Award [1 mark] if the candidate has some general sense of what a position/perception map is: two axes on which companies are placed according to a position in the market. Award [2 marks] if the candidate labels the axes, one for price, the other for perception of reliability.

Award [3 marks] if (i) the candidate labels the axes according to price and perception of reliability and the candidate places three or more of the companies in approximately the correct place.

Award [4 marks] if the candidate labels the axes according to price and perception of reliability and the candidate places all four of the companies in approximately the correct place.

- (c) Explain *one* disadvantage of Jean-Paul changing to a situational leadership style.

[2 marks]

The central idea of situational leadership is that leaders should adapt their style of leadership according to the situation. There is no best leadership but rather that different contexts (or situations), require different styles of leadership. Possible disadvantages of Jean-Paul changing to a situation leadership style is that:

- He has a bias toward an autocratic leadership style and changing leadership style according to contexts is not always easy. In the stimulus, Jean-Paul decides he will become more democratic, yet ample evidence in the stimulus indicates that a democratic style is not innate to him.
- People in the organization have probably grown accustomed to Jean-Paul's autocratic style and might often feel disoriented were he to change style. In the stimulus, workers and managers accustomed to “fearlessly autocratic” leaders may not find having the authority to make decisions on their own that easy.
- A third disadvantage is that people at *SGS* may not know when the style changed and the degree to which Jean-Paul wants change according to different situations. Thus, some workers may perceive more freedom when Jean-Paul did not intend that.

Accept any other relevant disadvantage with explanation.

N.B. when the answer is theoretical, with no real application to the stimulus, award a maximum of [1 mark]. Also, it is possible for some candidates to be awarded [1 mark] for correctly explaining a disadvantage without making fully clear that they understand what situational leadership is. For example, a candidate could explain that a change in leadership styles can disorient employees used to a different style of leadership for [1 mark] without otherwise clarifying what situational leadership is.

Award [1 mark] for a response that indicates some understanding of what situational leadership is (though they must go beyond the tautology that situational leadership is when leaders adopt a style according to the situation). Award [2 marks] for an explanation of a disadvantage of Jean-Paul changing to a situational leadership style. Award up to a maximum of [2 marks].

- (d) **Examine the relationship between investment, profit and cash flow for *SGS*.**

[5 marks]

There is a clear relationship between investment, profit, and cash flow at *SGS*. Jean-Paul's decision to transform *SGS* into a green company, a decision that will require investment in computers and new airplanes, should lead to several (or many) years of increased market share, which, Jean-Paul believes, will presumably lead, in the long run, to higher profits. In the short run, profits may actually decrease as the company has to absorb the costs of the new computer system and higher fixed costs of the more expensive airplanes. Short-term profits may also decrease as, initially, customers may be unaware of *SGS*'s decision to go green (a situation made worse by Jean-Paul's unwillingness to listen to his Marketing Director). Customers may believe that *SGS* is merely raising prices and, in response, go to a lower cost carrier. Nevertheless, in the long-run Jean-Paul believes that "going green" is a better strategy for *SGS* and he is willing to invest in the business for its longer term profitability. Cash flow will also be affected. With higher expenditures, *SGS* will see pressure on cash flow. This situation will be mitigated against by new sources of finance for airplanes. If the new strategy is successful, eventually *SGS* will see cash flow improve. Initially, however, that will not be the case.

N.B. balance, in this response, refers to some understanding between short term and long term (though the candidate does not have to use those exact expressions). However, to achieve **[4 or 5 marks]**, the candidate must convey the idea that investment in the short run reduces available funds but the intention is, in the long run, to have those investments paid off with higher profits and improved cash flow.

Accept any other relevant analysis.

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

(e) **Discuss the interrelationships between SGS’s aims, strategies and tactics.** [7 marks]

Aims refer to the approach that is often formulated in a broad way and often corresponds to ideas in the vision statement of an organization. The initial aim of *SGS* is “to deliver all packages on time, at low prices, anywhere in the world”. Strategies are medium-to-long-term means to reach the aims, are more specific, and often have quantifiable objectives supporting them. For example, *SGS*’s strategy includes specific and measurable elements: prices charged to customers, costs, on-time delivery rates, and customer satisfaction. These strategic objectives fit into a long-term framework (“deliver all packages on time, at low prices, anywhere in the world”), but they can be more easily measured. Tactics refers to how the strategy will be achieved. When Jean-Paul decides to change the aims (and strategy of *SGS* to delivering packages on time and, presumably, in as “green” a fashion as the business can achieve profitably), he knows that tactics must change. In this case, that is to transition the fleet to more fuel efficient planes as well as adopt new software for determining routes. Tactics are more precise and concrete approaches to meeting objectives. They have a bearing on day-to-day activities.

There is a hierarchy of objectives (from aims to strategies to tactics) that successful organizations do not always follow; some organizations also have corporate objectives, departmental objectives, team objectives *etc.*

Accept any other relevant discussion.

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

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

4. (a) Describe *one* source of finance, *other than* a bank loan, that Gavin could use to fund the start-up of the new salon.

[2 marks]

Sources of finance can include the following:

- Trade credit. Gavin could ask suppliers to delay his payments to lead the business to a better cash starting position.
- Leasing allows the firm to use an asset without actually buying it. Gavin could lease some of the equipment that he needs for the new salon.
- Overdraft. Gavin could arrange an overdraft with the bank to spend more money from his account than is currently in it. He could use this finance in the short term to pay wages or suppliers.
- Gavin could ask a friend or relative for a loan.
- Small business grant. Often local authorities or the national government will encourage small businesses to start with grants. These are often free money or a low interest loan.

Accept any other relevant source of finance.

Award [1 mark] for a response that conveys partial knowledge and understanding of a source of finance other than a bank loan.

Award [2 marks] for a full, clear description of a source of finance other than a bank loan for Gavin.

- (b) (i) Explain *one* disadvantage to *H&B* of introducing a flexitime workscheme.

[2 marks]

Disadvantages to *H&B* of introducing a flexitime workscheme could include:

- The workscheme itself could be time consuming to arrange. Bettina will have to ensure an optimal work flow and full coverage of all the services she offers.
- Supervision costs could be increased as Bettina will have to supervise and monitor that the required hours are worked by all the employees.
- A flexitime workscheme could also lead to communication problems between workers and Bettina.

Accept any other relevant disadvantage.

N.B. if a candidate says something to the effect that demotivated employees may not come to work or employees will take advantage of the situation, do not award any marks.

Award [1 mark] for a relevant and correct disadvantage identified and award an additional [1 mark] for an explanation that refers to *H&B* (application). Award up to a maximum of [2 marks].

- (ii) Explain *one* advantage *and one* disadvantage to *H&B* of using a commission-based financial reward package.

[4 marks]

Advantages to *H&B* of using a commission-based financial reward package could include:

- It is an incentive to motivate employees to produce more. Workers at *H&B* will put in more effort to increase their income by servicing more clients. Clients will spend less time waiting and as a result, customer satisfaction may be improved; customer base could grow.
- It could help to identify those workers who do not have enough talent or skills for the job; it could also help to identify the ones that need further training.
- Through the use of commission the more clients the higher the pay for workers. The contrary is also true; in times of low demand commission can be a way of adjusting costs for *H&B*.

Disadvantages to *H&B* of using a commission-based financial reward package could include the following:

- Customer service may be resented as workers may focus on quantity of clients serviced rather than providing a good quality service.
- It can cause resentment among workers and prevent employees from working as a team. Motivation can also be negatively affected.

Accept any other relevant advantage and disadvantage.

Mark as 2+2.

Award [1 mark] for an explanation that conveys knowledge and understanding of an advantage/disadvantage (explanation but no application to the stimulus).

Award [2 marks] for an explanation of an advantage/disadvantage to *H&B* of using a commission-based financial reward package (explanation with application to the stimulus).

- (c) Analyse the importance of Gavin’s business plan when seeking finance from his bank manager.**

[5 marks]

If Gavin asks for a bank loan, he will have to provide a business plan to the bank manager containing detailed information about the franchise he wants to start up. For instance, Gavin will have to explain his business idea, how he plans to develop and market his business, the resources he requires and who his competitors are. He will also have to back up arguments with documented research and include financial forecasts. A business plan will give the bank manager a summary of the key points of the business and evidence of Gavin’s payback possibilities. It is therefore an important tool for the bank manager to assess and minimize the risks of credit allocation.

Although important, business plans have some limitations. Gavin may find it difficult to gather reliable and precise data to cover some of the main points of his business plan. In addition, external factors such as the macro-economic environment could be very difficult for him to predict.

All in all, the bank manager should then supplement Gavin’s business plan with other sources of information, such as Gavin’s credit history records to fully evaluate the risks of giving him a loan.

Accept any other relevant analysis.

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

- (d) Evaluate the use of franchising as a growth strategy for Bettina and her salon, *H&B*.

[7 marks]

Through the use of franchising, Bettina can expand her business without the need to raise finance and investing her own funds to make her business grow. In addition, if the franchise is successful, Bettina will receive an annual fee of 10 % from Gavin's profits. The expansion will increase *H&B*'s brand value and contribute to local and regional brand recognition. Economies of scale such as purchasing economies of scale could be gained when buying hairdressing products.

Although, in general, franchising may be a quicker way of expanding the business rather than taking an organic-growth route. Franchising serves as a source of expansion for *H&B*, Bettina will still have to cover some costs such as the advertising and training expenses. In addition, if her brother Gavin does not respect quality standards or goes out of business, *H&B*'s brand reputation may be affected. Since Gavin and Bettina are siblings, their commercial relationship could be intermingled with personal or family issues. Their business relationship and the franchise strategy may be compromised. There are some risks to be faced, such as the fact that most of *H&B*'s success is based on Bettina's personal talent, networks and expertise.

Accept any other relevant evaluation.

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

5. (a) **Define the term *mission statement*.** **[2 marks]**

The term mission statement is an explanation of an organization's reason for existence. It also embodies the organization's philosophies, goals and ambitions.

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

N.B. award **[0 marks]** if candidates, as part of their response, write down *RP*'s mission statement. Please bear in mind that *RP*'s mission statement is in the stimulus and, thus, just re-writing, with nothing else, does not really demonstrate any understanding.

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.

(b) **Explain *one* formal method of communication that might be used at *RP*.** **[2 marks]**

Formal methods of communication that might be used at *RP* could include the following:

- Oral communication: one-to-one talks, telephone, meetings *etc.* Oral communication can be planned or spontaneous. If someone is an effective speaker, he or she can sharpen the message by control of tone and use of facial expressions and body gestures. With oral communication, the speaker runs the risk of going “off script”, which can weaken or compromise the intended message.
- Written communication: memos, reports, notices pinned on boards *etc.* Written communication allows the writer to say exactly what they intend and a permanent record of the communication exists, which can thus be referred back to. With written communication – emails are notorious for this because they are often written in haste – the author has to worry about spirit in which the message will be read and thus the writer has the difficult challenge of conveying tone in writing. Email, letters, or other types of written communication can be considered a substitute for written communication.
- Visual communication: videos, posters, charts *etc.* Visual communication can get people's attention and, if done well, send a message that is easy to remember. With visual communication, the producer can use pictures, format, and other visual cues which shape the viewers understanding. With visual communication, some risk exists that the message will be oversimplified. At other times, visual communication gets to the heart of the matter (YES! to the question of collective action, for example).

Accept any other relevant explanation.

Award **[1 mark]** for a correct and relevant identification of a formal method of communication and **[1 mark]** if the candidate provides a reasoned explanation. Candidates do not have to say exactly what is written above, but some relevant explanation of the method they have identified. Award a maximum of **[2 marks]**.

- (c) Explain *one advantage and one disadvantage* for *McMikey* of having a corporate social responsibility policy.

[4 marks]

Possible advantages: brand image and reputation could be improved as customers will associate *McMikey's* brand name with *RP*; good relationships with local authorities or government enables doing business easier.

Possible disadvantages: costly to maintain; in addition it may cause a disadvantage against competitors who do not have social responsibility programs and thus reduced costs.

Accept any other relevant advantage and disadvantage.

Mark as 2+2.

Award **[1 mark]** for an explanation that conveys knowledge and understanding of an advantage/disadvantage of having a corporate social responsibility policy (explanation but no application to the stimulus).

Award **[2 marks]** for an explanation of an advantage/disadvantage for *McMikey* of having a corporate social responsibility policy (explanation with application to the stimulus).

- (d) Analyse the impact on *RP* of *McMikey*'s offer to pay for the books. [5 marks]

As a non-governmental and non-profit organization, *RP* is financially supported by national businesses. Internal sources of finance are not available and public funding seems to be quite difficult to obtain at the moment.

If Alice wants to launch a new literacy program she does not have many options. She could accept *McMikey*'s donation as a starting point to finance the program and then contact other national businesses for following up the program.

However, if Alice accepts the offer, the program runs the risk of lacking continuity. If *McMikey*'s Finance Manager's views prevail, the new literacy program will only have financial support for two years. If the program is stopped *RP*'s image could be damaged; and staff morale could be negatively affected.

Alice should perhaps revise her expectations and postpone the program until she finds suitable support for a minimum of five years.

Accept any other relevant analysis.

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

(e) Evaluate *RP*'s use of a very large number of part-time volunteers.

[7 marks]

The use of a large number of part-time volunteers has a direct impact on *RP*'s finance. Using unpaid workers is a low cost and effective way for *RP* to complete the teaching tasks that may not otherwise be done due to a lack of time and resources. *RP*'s savings in recruitment costs would be very important. With a large number of volunteers, *RP* will be able to cover most parts of the city; it will also allow the permanent staff to dedicate their time to plan new projects instead of doing direct teaching. In addition, volunteers are usually vocationally involved and supportive to the cause. It could be very valuable for *RP*'s working environment to have a large number of motivated volunteers.

However, a large number of volunteers can be time-consuming in terms of training; *RP* will have to provide them with adequate training if they want their programs to be successful. In addition, a large number of volunteers will be difficult to coordinate; communication problems may arise. As volunteers don't usually work under a contract they could leave unexpectedly and put at risk the continuity of the teaching programs.

All in all, a large number of volunteers can be difficult to manage, however, so far it seems to be the only realistic possibility for *RP* to actually reach its strategic objective.

Accept any other relevant evaluation.

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