

Markscheme

November 2017

Business management

Higher level

Paper 2

25 pages

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The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

- 1. (a) Describe **one** reason why brand loyalty would be important to *PP*. [2]

Brand loyalty would be important to *PP* given that they operate in a local market with a number of competitors and that the prices they charge are higher. Given this fact, it would be critical for *PP* to have brand loyalty or their sales could fall (although not on the stimulus, sharp-eyed candidates may spot that *PP*'s pies are price inelastic given the additional information for 2018).

Accept any other relevant description.

Award [1] for a theoretical reason of the importance of brand loyalty.

*Award [1] for application to *PP*.*

- (b) Construct a profit and loss account for *PP* for the year ending 30 April 2017 based on the figures in **Table 1** (*show all your working*). [4]

Profit and loss account for *PP* for year ended 30 April 2017:

	\$
Sales (8000 × \$4)	32 000
Cost of goods sold (8000 × 1.75)	<u>14 000</u>
Gross profit	18 000
 Expenses	
Electricity (12 × 200)	2400
Rent (4 × 1000)	4000
Promotional	<u>1000</u>
	<u>7400</u>
Net profit before interest and tax	10 600
 8 % of \$40 000	 <u>3200</u>
Net profit before tax	7400
Tax @25 % on net profit	1850
 Net profit after interest and tax	 5550 _____

Award [1] if there is some understanding of how to construct a profit and loss account. The figures may be inaccurate and there are a number of errors in presentation and calculations.

Award [2] if there are two or more errors which includes omission of working, formatting error, mathematical error, presentation eg net profit before interest and net loss before tax are not clearly labelled.

*Award a maximum of [3] if the profit and loss account is correct and well-presented but there are no **full** supporting calculations.*

Award [3] if there is one error which includes omission of working, a formatting error or a mathematical error etc. Do not double penalize a candidate if they have made only one error earlier in the profit and loss account.

Award [4] for a completely correct profit and loss account, which conforms to the IB suggested format. Headings are clear, well-presented.

Candidates may not term each item under expenses.

The IBO format does not specify different items therefore, working of electricity, and rent per year are not expected.

Supporting working is expected with the calculation of **total revenue/costs/ interest/tax** are given.

- (c) Construct a forecasted profit and loss account for **PP for the year ending 30 April 2018** based on the figures in **Table 2** (show all your working). [4]

Profit and loss account for PP for year ended 30 April 2018:

	\$	
New sales quantity = 8000×1.2	9600	
New price ($\$4 - 30\%$) = $\$4 - 1.2 = \2.8		
Sales ($8000 \times 1.20 \times \2.8)	26 880	
Cost of goods sold (9600×1.75)	<u>16 800</u>	
Gross profit	10 080	
Expenses		
Electricity (12×200)	2400	
Rent (4×1000)	4000	
Promotional	<u>3000</u>	
	<u>9400</u>	
Net profit before interest and tax	680	
Interest of 8 % of \$50 000	4000	_____
Net loss before tax	3320	
Accept Net profit before tax	(3320)	
Accept "retain profit".		

N.B. Do not double penalize candidates if they use the same incorrect format from part (b).

Award [1] if there is some understanding of how to construct a profit and loss account. The figures may be inaccurate and there are a number of errors in presentation.

Award [2] if there are two or more new errors which includes omission of working, formatting error, mathematical error, presentation eg net profit before interest and net loss before tax are not clearly labelled.

*Award a maximum of **[3]** if the profit and loss account is correct and well-presented but there are no **full** supporting calculations.*

*Award **[3]** if there is one error which includes omission of working, a formatting error or a mathematical error etc.*

Please do not double penalize a candidate if they have made only one error earlier in the profit and loss account.

*Award **[4]** for a completely correct profit and loss account, which conforms to the IB suggested format. Headings are clear, well presented and supporting working to calculate figures of **total revenue/costs /interest** are given.*

Please note:

If the candidate was penalised for inappropriate structure or headings/format in part (b) and repeats the same in part (c) provided that the workings are correct and shown, do not double penalise and award full marks.

Generally, do not double penalise again any wrong headings/ omissions presented in part (b) and repeated in part (c). Question (c) is more about the manipulation/ calculation of the old figures.

Working is expected in part (b) and (c) and if there is no working in (c) as well as in (b), it is an omission.

2. (a) State **two** features of a partnership. [2]

Possible features include:

- more than one partner up to around 20
- share profits/risk
- unlimited liability.

Accept any other relevant feature.

Do not accept shares – they cannot be sold on the stock market as there are no shares.

Accept shares cannot be issued.

Award [1] for each correct feature stated. Award a maximum of [2]. Application is not expected.

(b) Prepare a monthly cash-flow forecast for *TC* for the first six months of operation. [6]

	January	February	March	April	May	June
Opening balance	3000	(3350)	(850)	2250	(1150)	1950
Cash inflows						
Cash sales	4550	5950	5950	5950	5950	5950
Cash in from credit sales		1950	2550	2550	2550	2550
Total inflows	4550	7900	8500	8500	8500	8500
Outflows						
Rent	6500			6500		
Labour	750	750	750	750	750	750
Raw materials	3250	4250	4250	4250	4250	4250
Overheads	400	400	400	400	400	400
Total outflows	10 900	5400	5400	11 900	5400	5400
Net cash flow	(6350)	2500	3100	(3400)	3100	3100
Closing balance	(3350)	(850)	2250	(1150)	1950	5050

N.B. Allow candidate 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. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the rent in the incorrect month then candidates should only lose [1] for that error.

Award **[1]** if the candidate conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

Award **[2–3]** if a cash flow forecast is drawn, but **either** it is not in a generally accepted format or it is untidy, **and/or** the forecast contains three or more errors, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or totals.

Award **[4–5]** if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for **[5]** or two errors for **[4]**.

Award **[6]** if the cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

If the candidate provided a heading of total inflow/outflow without using another heading above of inflow or outflow – do not penalise as an omission.

If the candidate omitted **both** headings of outflow/inflow = one error

Substituting the term “net profit in the cash flow forecast for “net cash flow” is inaccurate and **[1]** should be deducted.

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

Full working is not expected.

- (c) Calculate TC’s forecasted net profit at the end of June (show all your working). **[2]**

Closing balance in June – opening balance in January plus credit sales = 5050 – 3000 + 2550 = \$4600.

2550 are added as there was an additional amount of cash due which was credit before but should be added to the total revenue.

Accept any other relevant working provided the workings are clear and logically presented.

Award **[1]** for working and **[1]** for the correct answer. Award up to a maximum of **[2]**. If the credit sales are not added then this counts as one error and **[1]** should be awarded.

Award **[1]** for working correctly **either** the total revenue **or** the total costs.

Sales rev (\$)		49 000
COGS		24 500
Gross profit		24 500
Less rent	13 000	
Labour	4 500	
Overheads	2 400	19 900
Net profit		4 600

Total Revenue = 1300 × \$5 + 1700 × \$5 × 5months = \$49 000.

Credit candidates who included the labor costs under direct costs.

Section B

3. (a) Define the term *productivity rate*. [2]

Productivity rate is a relative measure of how efficiently inputs are converted into output/the ratio of outputs to inputs during production in **percentage**. A productivity rate gives an indication of how well resources are used in the production process.

$$\text{eg } \frac{\text{Total out in a given time period}}{\text{Total workers employed}} \times 100 = \frac{\text{Output}}{\text{Capital employed}}$$

Do not credit students who define the term as level of production or capacity utilization.

Formula is given so please do not credit the presentation of the formula

Accept any other relevant definition.

N.B. *no application required. Do not credit examples.*

Award [1] for a basic definition that conveys partial knowledge and understanding. Possibly without mentioning the measurement in percentage.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. For [2] there should be some indication that the organization converts inputs into outputs effectively or efficiently measured in percentage/ rate.

- (b) Explain how each of the two external threats arising from the STEEPLE analysis would have impacted on farmers' incomes in the developing world. [4]

The question is about the process of the external factors.

If orange producers from the developed communities employ new **technology** with higher productivity rates, the prices of oranges are likely to fall for the customer. Developing communities will likely experience a decrease in demand for their oranges and thus, even if prices of oranges do not change, will see a reduction in income.

A sustained and severe drought affecting the level of orange production in developing countries will likely lead to a shortage of oranges and thus higher prices for Pedro's stock. Customers are unlikely to purchase from higher price producers and coupled with the falling prices from the developed producers who are **competitors**, the developing farmers' **incomes** are likely to fall further.

Mark as 2 + 2.

- For an identification or a description of an impact / external threat with or without application **[1]**.
- For explanation of the impact of/ one external threat with **no** application **[1]**.
- For explanation of the impact of one external threat **and** application **[2]**.

Explicit reference to the demand and supply of oranges is not expected.

- (c) Explain **one** cost and **one** benefit to Pedro of conducting extensive research and development.

[4]

The question is essentially about researching and developing new technology rather than market research of customers' opinions etc.

Costs

Harvesting in the developing community is labour intensive, children will need supervising and the internet is unreliable. Pedro may not have the time and the resources to carry out research and development into new technology. The time taken to undertake research and development will lead to significant expenses for Pedro. Moreover, the opportunity costs in terms of not working in the field could be considerable for Pedro.

As the technology is untested, the poorer community can ill afford for this technology not to work as they have limited funds. There are significant risks/costs of failure for the developing communities at a time when incomes are falling.

Accept any other relevant/ applicable cost

Benefits

The potential benefits for the community of research and development are the productivity benefits allowing developing communities a more level playing field with respect to competition with the developed farmers. Unit costs could fall, and therefore prices to customers, increasing the demand for oranges. Perhaps it is a risk worth taking in terms of time and resources.

By conducting research and development, Pedro could attract an angel investor/innovator who for marketing or ethical reasons may be willing to allow Pedro to try new, untested technology at a deep discount or even for free as a public relations exercise. This could benefit Pedro and other community members especially if the cooperative is formed.

Accept any other relevant cost/benefit.

Mark as 2 + 2.

- For an identification or a description of one benefit/ cost with or without application [1].
- For explanation of one benefit/ cost with **no** application [1].
- For explanation of one benefit/ cost **and** application [2].

Application must refer to researching technology.

- (d) Examine Pedro's proposal to create an agricultural cooperative in his community rather than continuing to operate as a sole trader.

[10]

There are a few issues that the candidates can cover and evaluate. Issues could include the advantages of being a sole trader in terms of control over decision making, for example, as opposed to operating as a cooperative.

It is expected that the candidates show understanding of, if not explicit explanation as to what a cooperative is/relevant reference to cooperative, not just to the name. Creation of a cooperative is much more than just pooling resources, etc. While a cooperative is a for-profit organization, it will have the much-needed social objective to solve the problem of child labour, lack of education and

poverty. Something that each individual sole trader is clearly unable to do given the information in the case study. One may judge the above as a very strong argument in favour of the creation of cooperative as the issue of poverty and children working in the fields are acute.

It should be noted that creating a cooperative could enable Pedro and the other farmers to raise the much-needed finance as well as diversifying and engaging in secondary sector activity.

Being a sole trader, Pedro (and the other farmers) experience a lack of financial power and engage in a high-risk operation due to the nature of the business and living in a harsh environment. The stimulus indicates that these farmers are experiencing a high level of uncertainty, low income and even poverty, with little or no opportunity to improve. With no support, all can be lost as each farmer is facing unlimited liability.

By creating an agriculture/producers' cooperative, the farmers will pool resources together in order to raise the finance needed for investment in new technology, market their products to compete with international competitors and possibly diversify and produce an orange juice drink. Pedro, and the other farmers in the cooperative, through a division of labour, shared responsibility and mutual support might be able to negotiate better loans, better prices for crops and reduce the reliance on basic primary, unpredictable weather dependent crops if they diversify in the medium to long term. If the option of diversification is pursued it will guarantee a higher and steady income rather than a seasonal income. One may judge this issue as highly significant given the current harsh conditions and external threats.

Moreover, the farmers might be more motivated due to their ability to collaborate and make decisions in a democratic manner. The quality of the decision making may be better.

The financial gain will also be transferred into a social gain, which the community needs. Priority can be given to the children's education instead of the children supporting each sole trader in the fields. One may judge this issue/benefit as highly significant.

While there are theoretical and practical disadvantages of operating as cooperatives, like some disincentives to work due to low wages, slower and dependent decision-making processes compared to independent and fast decision making by Pedro and the other farmers. The main disadvantage is the cultural and linguistic differences among the farmers that might create some misunderstanding and possibly a clash as well as the long decision-making process in the short term. Moreover, the movement into the secondary sector might be too difficult for the farmers. Lots of training will be needed in terms of production and marketing and investment in different technology. This operational shift might be a hindrance but the farmers can decide that short term investment in farming methods is of the highest priority and perhaps in the longer term, when farming methods are more efficient, they can move into the secondary sector.

Some judgment:

Still, in this case, one may judge that the arguments for the proposal are more significant and outweigh the arguments against. Linguistic and cultural differences with training and wider community support can be overcome in the

medium to long term, especially if profit is made and can be further invested into some social projects. Remaining as sole traders will leave the farmers with little or no power at all. Decision making power is highly theoretical here given the level of poverty.

Pedro should seriously consider creating the cooperative.

Accept any other relevant issue.

Accept any other relevant examination.

A conclusion with judgment is expected.

A balanced response is one that covers at least two arguments for and at least two arguments against.

Marks should be allocated according to the mark bands on page 3 with further guidance below.

*For one relevant issue that is one-sided, award up to **[3]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4]**.*

*Award a maximum of **[6]** 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 **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

Candidates cannot reach the top marks if there is no relevant reference/application to the nature of a cooperative and its social context/relevance to the current life of the farming community.

4. (a) Define the term *secondary market research*. [2]

Secondary market research or desk research refers to the collection of second hand data by a business for decision-making that is derived from second hand sources /published sources by a third party. It has not been collected first hand by the business themselves.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. For [2] there should be some indication that the organisation is actually carries out a research/ action.

Some students are likely to define secondary sources while the definition is about research.

No examples are needed

No application is required.

- (b) Explain **one** advantage and **one** disadvantage for *MM* of using sales forecasting. [4]

One advantage of using sales forecasting is that it will allow a firm such as *MM* to look at future sales forecasts of its product portfolio and make changes where necessary. This will save the business considerable expense, stocking costs and influence future cash flow needs. Forecasting allows *MM* to plan ahead and can also impact on human resource planning and finance needs if cash flow forecasts indicate that there may be a shortage. There is evidence form the case study that *MM*'s product portfolio revenue streams are changing. *MM* is experiencing changing sales of all of its stock so is planning by using forecasts, André can avoid over stocking and tying up valuable capital in unsold DVDs or CDs for example or can transfer more resources towards the fast selling computer games. Decision making at *MM* may be more accurate. To be forewarned is to be forearmed.

Disadvantages for *MM* are linked to the inevitable fact that sales forecasts are merely that – future predictions are based on past data, which, given the existence of external factors some of which are mentioned in the stimulus and unexpected events, cannot be fully accurate. There is evidence from the stimulus that André expects sales to be variable (possible cyclical or seasonal variations) and even with all relevant future economic and social data at his disposal, forecasts can still be widely inaccurate. For example, vinyl record sales are expected to rise but what if another musical format is created within the next five years? André also has considerable experience in this industry and is aware that sales are changing rapidly. Sales forecasts may be out of date by the time the data has been collected if they are every month or quarter. Sales forecasts in this context may be of little value to *MM* in such a fast changing industry.

Mark as 2 + 2.

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and/or** application.*

For example:

- For an identification or a description of an advantage / disadvantage **with or without** application [1].
- For explanation of an advantage / disadvantage with **no** application [1].
- For explanation of an advantage / disadvantage **and** application [2].

Candidates are expected to show some understanding of sales forecasting methods.

- (c) Explain **one** cost and **one** benefit for *MM* of setting up an e-commerce website. [4]

The benefits to *MM* from setting up an e-commerce website will be linked to increasing customer awareness and sales.

- CD and especially vinyl sales should increase, as the e-commerce site may allow for targeting more potential customers in different regions who are interested in vinyl records and possibly CD. There is a greater chance of success as relying on customers for such a retro segment to visit the physical store is rather limited.
More detailed product descriptions, customer feedback/reviews will be possible. The e-commerce website will deepen customer relationships, especially if *MM* can run a social media campaign alongside building brand and customer loyalty to the site.
- The e-commerce platform will also allow *MM* to generate much needed advertising revenue through increased loyalty in the future.

The costs are linked to the inevitable restructuring of the business that e-commerce will demand and could be considered to be both short term and long term.

- The e-commerce site will need to be built, managed and monitored by a new staff member. This will drain *MM*'s cash reserves at a time when total revenue is falling.
- Existing staff will require training or newly employed staff hired such as technology experts to run and update the e-commerce facility and possibly create social media support. Costs are likely to rise in the short term and again, *MM* is facing fall in revenue and finance is limited.

If the e-commerce site is to be fully functional then new distribution channels around delivery of vinyl records and newly released CDs that are both growing in sales to the customer will need to be identified, researched and set up. This will also take time and André will have to find additional resources. The stimulus indicates that finance is limited.

An e-commerce website will add a new layer of complexity to *MM*'s operations and logistics and *MM* has not got the right experience therefore more finance will have to be raised for training, hiring people and so on.

Please note:

Whatever relevant costs that a candidate explains or describe needs to be applied specifically to *MM*'s lack of finance / lack of experience.

Mark as 2 + 2.

Award [1] for identifying or describing the cost / benefit for MM of setting up e-commerce and a further [1] for a development with respect to MM. Award a maximum of [2].

[2] cannot be awarded per cost / benefit if the response lacks either explanation **and/or** application.

For example:

- For an identification or a description of a cost / benefit **with or without** application **[1]**.
- For explanation of a cost / benefit with **no** application **[1]**.
- For explanation of a cost / benefit **and** application **[2]**.

- (d) Using the Boston Consulting Group (BCG) matrix, discuss the two new tactics André is considering to ensure *MM*'s future success.

[10]

Revenue is falling, computer games sales are rising and now André is considering the possibility of setting up an e-commerce business website. Although *MM* and André have been in the business for 25 years, external factors are changing the nature of his business model. The two tactics are to stop selling DVDs and start increasing below-the-line promotional spending on vinyl records.

By applying the BCG matrix, we could argue that:

- DVDs are a **dog** (low market share and growth)
- vinyl records are a **problem child** or **question mark** (low market share but potential growth).

Removing or divesting the dog will free up shelf space in the retail store. DVD sales could be transferred and sold via the e-commerce site so that *MM* is able to make some form of contribution. More space for games is now possible. However, removing a product line from the portfolio is a risk, as some of *MM*'s loyal customers will be unhappy.

Keeping DVDs – although a dog – may block potential new retail rivals if it creates *MM*'s USP. It is also indicated in the stimulus that computer games are not *MM*'s core business.

So perhaps it is worth keeping the core product for a little longer until *MM* is clear whether the new product is doing well. If e-commerce is to be used, *MM* can potentially use a market development strategy and find some segment in less technologically advanced economies that are still interested in DVDs.

Increasing spending on below-the-line promotion seems like an appropriate tactic. Although *MM* has not got sufficient internal sources of finance, the product is in a question mark position with a potential to grow and be profitable. Profit that *MM* needs. One, therefore, may judge this tactic as highly appropriate especially as below-the-line promotional tactics are cheaper than above-the-line promotional tactics. Moreover, external sources of finance can be used. André needs to use below-the-line promotion methods to move the vinyl records to a star and hopefully a cash cow position so in the medium term, he will be able to milk the potential cow. Short term spending versus medium to long term benefits/profit seems like a good tactic.

It is expected that the candidates show a clear understanding/application of below the line methods rather than just promotion generally.

Moreover, below-the-line methods can be considerably cheaper than above the line methods of promotion which are currently very appropriate to *MM*. *MM* can use short-term sales promotion to encourage buying the product. Below-the-line

promotion can complement the decision to use e-commerce. *MM* can generate viral marketing and or/ use social media for promotion.

Candidates should be credited for classification of the vinyl as **a dog** given the low growth of the market share and for suggesting to use below-the-line promotion to extend the life cycle or not to spend money on above-the-line promotion.

Judgment

The BCG provides some clues as to what André should consider but there are some difficult choices to be made. Removing DVDs will allow for a greater stock of vinyl but removing a product line and replacing it with a problem child is risky. It may be sensible in the short term to keep the DVDs, as they will still contribute to growth. Spending more on below-the-line promotion seems more sensible given his loyal customer base and the future potential. If André can't keep both options and has to choose one tactic, perhaps the second tactic is more viable as there is more longer term potential as the market is growing and *MM* will more responsive to changes in the external environment.

Accept any other relevant issue.

Accept any other relevant discussion.

A conclusion with judgment is expected.

Accept any substantiated judgment

A balanced response is one that covers at least two arguments for and at least two arguments against.

As there are two tactics to discuss, a balance response is one that covers one argument for and one argument against each option.

Marks should be allocated according to the markbands on page 3 with further guidance below.

For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].

For a lack of balance for both option award up to a maximum of [4]

Award a maximum of [6] 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 [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

If the candidate only considers one tactic then award [5] if the answer is balanced with a judgment.

If the candidate does not use the BCG matrix then award a maximum of [4] even if the response is fully balanced.

5. (a) Define the term *ethical objective*. [2]

Ethical objectives are the goals of a business based on a set of values or moral beliefs and guidance of the environment in which it operates. They should cover all the actions of an organization and guide its decision-making process and strategies/behavior.

Accept any other relevant definition.

N.B. *no application required. Do not credit examples.*

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. Some reference to the fact that ethical objectives are the basis for guidance regarding organisational behaviour, decision making strategies.

- (b) Explain **one** advantage and **one** disadvantage to *GC* of having low labour turnover. [4]

There is sufficient information in the stimulus for the candidates to apply. See below. The use of *GC* or a reference to “cleaners” does not constitute an application.

Low labour turnover has created a loyal workforce at *GC*. Recruitment costs are reduced and induction training will be minimal. Given that some workers have been at *GC* for nearly two decades. This kind of working environment creates a culture of trust and thus productivity and motivation. Evidence from the stimulus clearly show that *GC*'s USP is based on the reliability and quality of its employees.

However, low labour turnover may not allow for fresh new thinking or ideas to be introduced. This very advantage may render *GC* as an organization where some employees and their representatives may have become complacent and clearly there is evidence of inertia as *GC* was slow to react to the competitive forces. Also, there is the perception of resistance to change perhaps given the current culture of employees who have been working together for two decades. Given the new competition and slow reaction times, *GC* is in danger of stagnating.

Mark as 2+2

- For an identification or a description of an advantage/ disadvantage **with or without** application [1].
- For explanation of an advantage/ disadvantage with **no** application [1].
- For explanation of an advantage/ disadvantage **and** application [2].

- (c) Explain **two** possible steps in the recruitment process of gardeners for GC. [4]

Establish the nature of the job and create job analysis/job description/person specification – it is very important for GC to carry out a detailed job analysis/description and person specification as this will be the first time that gardeners' jobs have been created. In order to attract the most suitable gardeners such analysis is required. This makes the recruitment process quicker and more efficient and is likely to attract only the most suitable candidates.

Prepare a job advertisement:

As GC is going to recruit gardeners from wide geographical areas, they will have to advertise their new positions in a number of different media locations. Local job centres close to GC will not be suitable. GC should advertise nationally or even internationally through the internet or through gardening associations, as it is looking for professionally trained gardeners.

As GC has limited experience in this area, GC may have to find a recruitment agency external to the business to guide and manage the recruitment process. As GC is paying new gardeners 20% more than cleaners and possibly spending on a recruitment agency, GC will want to ensure that they hire the most professionally trained gardeners. The agency will be able to screen potential candidates and select the best for GC's management to consider. This will minimize possible recruitment mistakes. Accept this point even if it seems more like a method rather than a step. This is more like subcontracting the process:

- Short list applicants.
- Conduct interviews.
- Conduct testing.
- Issue a contract.

Accept any other possible step in recruitment as long as it is applicable.

Candidates must fully explain and find some relevant application to the nature of the job/ the types of employees/ experience of the organisation of recruiting new types of employees and so on.

The later examples above are more generic so credit candidates who refer to the gardeners or the nature of the job.

For an identification or a description of a step in the recruitment process **with or without** application [1].

- For explanation of a step in the process with **no** application [1].
- For explanation of a step in the recruitment process **and** application [2].

- (d) With reference to **two** motivation theories, examine the motivation of cleaners at *GC*.

The question is asking to examine the cleaners' motivation NOT how it might be changed. Hence therefore the approach might be to state:

- a) Why were the cleaners motivated or what provides their motivation and what theories support this?
- b) Why the cleaners are becoming de-motivated and what theories support this?

There is plenty to support a) – fair wages, ethical products/practices – feeling of job security as many worked for more than 20 years and implied good working conditions. **Maslow's** theory of needs can support the fulfilment of the lower level of needs. Moreover, having worked for the organisation for such a long time clearly enable the cleaner to achieve the third level of need of love and belonging. One may also argue that as the cleaners are professional, the higher level of needs of self-esteem can be reached when they feel accomplished and proud of their high quality and reliable job performance.

Herzberg's theory can explain how some of the issues above are seen as the provision of the hygiene factors and some as motivators.

Perhaps **Pink's sense of purpose** due to ethical behaviour and contribution to the community can be applied, sense of **mastery** as although cleaning service is provided, nevertheless, the cleaners are professional and proud of their performance. However, there are no direct references/application to **autonomy**. Therefore, Pink's theory is only partly applicable to explain the past motivation of the cleaners.

Adams' theory can be used to explain that until now the cleaners perceived their wages as fair in relation to their contribution and there were no other types of employees to be used as a point of comparison. The equity of equal job/effort/skills = equal payments existed.

However, *GC* wants to recruit professional gardeners and pay them 20 % higher wages. This decision is causing resentment, insecurity, injustice and hence demotivation among current cleaners at *GC*. They are afraid of change.

The changes announced by the management have created some uncertainty and conflict with the gardeners. The cleaners feel that the gardeners do not deserve the higher wage and that the employee-share ownership scheme may be treated as a Taylor bribe? This uncertainty may undermine the **security needs** of the cleaners (Maslow) and the new wage structure which is deemed as unfair (Adams). Consequently, the cleaners are becoming demotivated and may reduce their efforts to address the sense of inequity and create a new balance (Adams)

The question of an employee share ownership (ESO) scheme might work as long as the gardeners do not demand the same so the perception of inequity will resurface again. ESO can be seen using Maslow / Herzberg as financial rewards = lower level of needs/ hygiene factors or, if significant as self-esteem/ motivators. Moreover, the shareholders are now opposing to the proposal. They feel a sense of inequity. There could be some consequences to *GC*.

Some cleaners, however, might find the proposal fair in the long term when *GC* makes a profit, but currently money has to be invested in recruitment to diversify in an increasingly competitive environment.

If this scheme is not successful, GC will need to look at other ways of motivating the cleaners otherwise conflict will deepen.

A judgement could be made that the demotivation is likely to be short lived once the cleaners get used the gardener's presence. Many firms operate with wide ranges of staff on different pay structures. If the concern was about job insecurity then management could easily allay this fear with face-to-face talks. It could simply be pointed out that GC is paying the going rate for gardeners and that the additional revenue stream is likely make the cleaners' jobs more secure in a competitive market rather than less secure.

Accept any other relevant conclusion and judgment.

Accept any relevant theory that is applied to the information given in the stimulus material.

Theorists and theories should be applied not just mentioned.

Accept any other relevant examination.

A conclusion with judgment is expected.

A balanced response is one that covers two motivation theories.

A balanced response is one that covers some opposing arguments. Candidates may use different theories to present contrasting views

Marks should be allocated according to the markbands on page 3 with further guidance below.

For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].

Award a maximum of [6] 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 [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Section C

Marks should be allocated using the assessment criteria on pages 6 to 7 with further guidance below.

N.B. examiners should include a breakdown of each mark awarded per criterion and a brief note explaining the mark awarded at the end of each candidate's response.

The main aim of paper 2 (SL or HL) section C is to assess candidates' understanding of the six major concepts (change, culture, ethics, globalization, innovation, strategy) within a business context. Candidates are to demonstrate their understanding through an organization of their choice. The expectation of the use of an organization is to allow assessment of the depth of candidates' understanding through their ability to apply the concepts and their knowledge.

Assessment of candidates' knowledge of the organization itself is not an aim of the assessment. If a candidate makes minor factual errors and these minor errors have no genuine bearing on whether the candidate understands the concepts, examiners should not penalize. For example, a minor error of historical fact (the year when a company was founded, for example, or the year in which a change was implemented) which has no genuine bearing on candidates' understanding of the concepts does not warrant penalty.

Additional examiner guidance may be added during standardization.

6. With reference to an organization of your choice, examine the impact of **innovation** on operations management **strategy**. [20]

It is expected that the candidates will explain the nature of the innovation they refer to eg adaptive, radical, creative, process and so on.

7. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **culture**. [20]

Do not credit application to/ the use of national culture

8. With reference to an organization of your choice, discuss the ways in which **ethics** and **change** can influence human resource management. [20]

Do not credit application to marketing / operation management etc.

It is expected that the candidate explains the chosen theoretical direction / content of their response.

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

Criteria A, B, C and E: award up to a maximum **[3]**.

Criterion D: full marks can be awarded.

Where the question asks for impacts of two concepts on content, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

In section C, the question rubric explicitly states that “organizations featured in sections A and B and in the paper 1 case study may not be used as a basis” to candidate's answers to questions 6, 7 and 8. When this happens please award marks as follows:

Criterion A: award a maximum of **[1]**. The business management content cannot be relevant if the organization is fictitious.

Criterion B: 0 marks – there is no connection to a “real-world organization”

Criterion C: award a maximum of **[1]**. The arguments cannot be relevant if the organization is fictitious.

Criterion D: mark as normal.

Criterion E: award up to a maximum of **[1]**. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.

Criterion B

For **[2]**: “...connection is not developed” should be treated the same as superficial.

Criterion C

- Questions 6 and 7 require consideration of the impact of one concept on a second concept – therefore accept 2 + 2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there is some balanced arguments – some of which are justified.

Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.

Criterion E

- One example of an “individual” could be an individual consumer or an individual manager. However this could not be considered with a “group” of consumers or a management team.
 - For **[4]**, a balanced response: need to look at the perspectives of both individual and group(s). The chosen individual, group needs to be applicable and relevant to the question with specific explanation.
 - Candidates need to go beyond stating the stakeholder.
 - Candidates need not explicitly say “stakeholder”.
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