

# Markscheme

November 2020

Business management

Higher level

Paper 1

16 pages

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The markbands and assessment criteria on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			The work does not reach a standard described by the descriptors below.
1–2			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories.</li> <li>• Little use of business management terminology.</li> <li>• Little reference to the stimulus material.</li> </ul>
3–4			<ul style="list-style-type: none"> <li>• A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.</li> <li>• At the lower end of the markband, responses are mainly theoretical.</li> </ul>
5–6			<ul style="list-style-type: none"> <li>• An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories.</li> <li>• Use of appropriate terminology throughout the response.</li> <li>• Effective use of the stimulus material.</li> </ul>

Section B Q4 (d)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> <li>• Little understanding of the demands of the question.</li> <li>• Few business management tools (where applicable), techniques and theory are explained or applied and business management terminology is lacking.</li> <li>• Little reference to the stimulus material.</li> </ul>
3–4	<ul style="list-style-type: none"> <li>• Some understanding of the demands of the question.</li> <li>• Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used.</li> <li>• Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.</li> </ul>
5–6	<ul style="list-style-type: none"> <li>• Understanding of most of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time.</li> <li>• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.</li> <li>• Some evidence of a balanced response.</li> <li>• Some judgments are relevant but not substantiated.</li> </ul>
7–8	<ul style="list-style-type: none"> <li>• Good understanding of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used.</li> <li>• Good reference to the stimulus material.</li> <li>• Good evidence of a balanced response.</li> <li>• The judgments are relevant but not always well substantiated.</li> </ul>
9–10	<ul style="list-style-type: none"> <li>• Good understanding of the demands of the question, including implications, where relevant.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response.</li> <li>• Effective use of the stimulus material in a way that significantly strengthens the response.</li> <li>• Evidence of balance is consistent throughout the response.</li> <li>• The judgments are relevant and well substantiated.</li> </ul>

**Section C, question 5****Criterion A: Knowledge and understanding of tools, techniques and theories**

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques and theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques and theories is demonstrated.

**Criterion B: Application**

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. 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 evidence 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.

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

**Criterion E: Individual 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.

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

## Section A

1. (a) With reference to *DA*, outline **two** suitable methods of sampling (line 112–113). [4]

*DA* used sampling for recognition of brand name. It would have used sampling to set up focus groups and surveys. It also used focus groups in five different European countries for click and fix.

Context can be achieved by making reference to:

- The market(s) that *DA* operate in (mass vs niche)
- The geographical markets (five European countries)
- The need for *DA* to gain information within financial constraints
- The type of information required (brand awareness, customers in Europe etc)

Methods could include:

- quota
- random – may not be suitable as customer population is only a small part of whole
- stratified/systematic – probably for 5 European countries
- cluster
- convenience – most convenient unlikely to be those influenced by brand, bias
- snowball – but for the European market?

*Award [1] for each **suitable** method identified and [1] for a description of how that method relates to *DA*. Award a maximum of [2] per method. Unsuitable methods cannot get context mark*

- (b) Explain the factors that *DA* would need to consider before deciding to outsource some of its production (line 110). [6]

Factors include:

- Quality: *DA* produces high quality products for the top end niche market, would outsourcing produce this quality
- Employment issues: *DA* currently looks after its employees. How would this continue if work is sent elsewhere? Redundancy costs.
- Control: To what extent do they want to keep in control of everything. It's a family business so this may be important
- Costs: They are already under cost pressure. Would outsourcing help or hinder?
- Production issues: Could they benefit from better production techniques at the outsourced business? (No evidence of this in the case)
- Logistical issues: Possibly greater flexibility but no evidence
- Customer issues: Would they know? Would it make a difference? Maybe 'upmarket' customers would prefer locally made products.

*Accept any other relevant explanation.*

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

*Award a maximum of [3] for a theoretical answer, often a pre-prepared textbook answer or if there is only one factor*

*Award a maximum of [5] if the explanation is mainly descriptive, but in context.*



2. (a) Outline **two** STEEPLE factors that have influenced DA's business strategy. **[4]**

The STEEPLE factors are:

Most relevant:

- Economic: Evidence in case of recession, periods of economic growth
- Political: Events in 1940s
- Environmental: issues to do with plastics
- Social: DA's attitudes towards employees and their families
- Technological: Battery technology, new plastics, introducing robots etc
- Legal: No evidence in case – not relevant
- Ethical: Decisions made within DA particularly with regards to culture.

Although STEEPLE strictly refers to external factors reward can be given where external factors have influenced decisions within DA such as its focus on employee welfares (ethics) and its use of technology in design/manufacture.

**Mark as 2 + 2.**

*Award [1] for each relevant factor identified and [1] for a description of how that factor relates to DA. Award a maximum of [2] per factor.*

- (b) Explain how knowledge of the product life cycle may have influenced DA's product range. **[6]**

References include:

- Vacuum cleaners launched and then reaching saturation which led to:
- Washing machines at introduction then eventually maturity hence other products
- Some other products in growth, others in decline
- Reversing declining trends by introducing rechargeable batteries
- Extension strategy using click and fix

Throughout the business's life, new products have been introduced when others are in maturity/saturation, and existing products are given revitalized lives through extension strategies. Candidates may draw a product life cycle. This is not necessary but may help the explanation.

*Accept any other relevant explanation.*

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

*Award a maximum of [3] for a theoretical answer or for an answer that does not identify any stages of the product life cycle.*

*Award a maximum of [5] if the explanation is mainly descriptive, but in context.*

3. (a) Outline **one** benefit of Viv’s leadership style **and one** benefit of Salah’s leadership style (lines 82–84). [4]

Leadership styles identified:

**Viv:** Autocratic when re-establishing business. Benefit is that it got things done and she had very clear determination. Later more democratic when she consulted engineers. Benefit is that manager may have been in a better position. Overall situational which may be appropriate for an evolving business.

**Salah:** Largely laissez-faire although some elements of democratic. Candidates will have to identify this for themselves. Creative employees work best when left alone – suitable for the innovation division.

There is no need for answers to identify the leadership style – the question is about benefits.

*Award [1] for relevant benefit identified and [1] for a description of how that benefit relates to DA. Award a maximum of [2] per benefit.*

- (b) Explain suitable sources of finance for **Option B**. [6]

Key factors:

- Amount: It’s a large amount needed.
- Private limited company: so shares could be issued to family members but may not raise a lot. Would family members be able to buy more shares?
- Converting to public limited and raising share on the stockmarket
- Family business: so ownership and control very important so venture capitalists, business angels and other external investors may **not be suitable** unless argued otherwise
- Retained profits: Seems like a major impact on Dividends. Would shareholders be happy with that?
- Loans/mortgages/Debentures: has a policy of internal finance. With disagreement in the business would it be willing to change this policy?
- Leasing the necessary machinery for the option
- Short term sources: Overdrafts, debt factoring, trade credit, hire purchase/leasing not sufficient finance. Short term sources are **not suitable**.
- Sale of assets: **not suitable** - no evidence of underused or unused assets but is contextual with leaseback
- Selling shares on the stockmarket is not suitable unless linked with converting to plc.

*Remember the concept of positive marking – full marks can be achieved with more than one suitable method even if some unsuitable methods are identified.*

*Accept any other relevant explanation.*

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

*Award a maximum of [3] for a theoretical answer (unsuitable methods) or if there is only one source.*

*Award a maximum of [5] if the explanation is mainly descriptive, but in context. E.g. if most of the context is mentioned but not developed.*

## Section B

4. (a) Define the term *public limited company*. [2]

A limited company (incorporated), often a large business, with the legal right to sell shares to the general public (publicly traded). Its share price is quoted on the national stock exchange. It has limited liability (not necessary in answer but helpful)

References to 'owned by the government' or 'local authorities can be rewarded as state involvement in plcs is common in some countries

*Award [1] for a partial definition and [2] for a full, clear definition. This answer does not need to be in context and the definition does not have to use the words above. A full, clear definition needs more than just a reference to limited liability.*

- (b) Explain **one** advantage **and one** disadvantage for *DA* of changing from function-based cost centres to the cost centres proposed by Pierre. [4]

A cost centre is a section of a business to which both costs and revenues can be allocated.

Currently cost centres are based on functional areas such as Marketing, HRM. Proposal is to base them on product (washing machines, vacuum cleaners, toasters etc,) and, where appropriate, project (eg click and fix).

Advantages of change include:

- Easier to monitor and control production of products
- Easier to see which products to drop, or modify
- Easier to set targets – difficult for large functional areas
- This is because functions are not directly related to products.

Disadvantages of change include:

- Costs of implementing change
- Disruption
- Lack of continuity
- Possible unwanted competition between products or projects.

Please note context may be a challenge. Candidates need to mention functional areas, products, projects that appear in the case.

References to budgets need to be linked to cost centres.

*Award [1] for each relevant advantage identified and [1] for a description of how that advantage relates to AFA. Award [1] for each relevant disadvantage identified and [1] for a description of how that disadvantage relates to DA.*

*Where a candidate ONLY refers to **existing** cost centres max award [1], for understanding cost centres.*

*Where a candidate does not refer to new cost centres but does mention impacts of changing: max award [2].*

- (c) (i) Calculate the difference between the cost for DA to make the rechargeable batteries and the cost to buy them from XL. [3]

Cost to make =  $10\,000 \times \text{€}15 + \text{€}30\,000 = \text{€}180\,000$

Cost to buy =  $10\,000 \times \text{€}17 = \text{€}170\,000$

Difference/Saving =  $\text{€}10\,000$  in favour of buying

*Reward alternative methods of getting to the same answer e.g. by starting with unit costs and cost differences. Although working is preferable the question does not require it.*

*The answer € 10 000 also achieves [3]*

*Award [3] for a correct answer which must include €.*

*Award [2] for a correct answer with wrong units or reasonable attempt with units. E.g. not making a final subtraction.*

*Award [1] for an attempt.*

*If the answer does not appear in (i) but does appear in (ii) then (i) can be rewarded retrospectively – you will have to go back to mark entry for (i).*

- (ii) Suggest **one** other factor that DA should consider before deciding whether to make the rechargeable batteries or buy them from XL. [1]

Factors could include:

- Quality control issues (in-house easier to control)
- Reliability of suppliers
- Suitable workforce at DA
- DA's experience with manufacturing
- Policy on core activities
- Impact on employees
- Impact on DA

*Award [1] for any relevant factor – does not have to be in context. Do not reward relative costs.*

- (d) Discuss the likely impact on DA's organizational culture of the changes recommended by the management consultants. [10]

Changes include:

- Changing from an annual salary to low basic wage with bonuses
- Reducing social benefits
- Penalties for failing to meet targets
- Some elements of changing to task culture from person culture (candidates do not need to name these culture types)

Culture currently based on:

- Family business
- Strong social values
- Benefits to employees and their families such as housing, hospitals etc
- Looked after employees in hard times
- Recently included employee focused HRM strategies and management including consultation, redeployment

- CSR

Focus is changed to managing costs. The switch is from 'soft' to 'hard' HRM, part of the culture.

The current 'soft' approach is more consistent with a family business than 'hard' HRM.

'Balance' could be achieved by comparing old and new methods; positive and negative impacts on stakeholders and/or DA.

*Marks should be allocated according to the mark bands on page 4.*

*Theoretical answer or context limited to naming the business or simplistic development max [4].*

*Discussion of only either the existing situation or the new situation or only focuses on motivation, or on impacts other than on culture [5]*

*Discussion of culture with no clear balance [6]*

*Cultural change considered, good use of evidence, particularly from section B, but no effective conclusion award a maximum of [8].*

*For [10] the answer needs to be clearly relevant to DA, with good use of context, a clear sense of how culture will change and a clear conclusion.*

## Section C

5. Using the case study and additional information from Sections B and C, recommend whether *DA* should choose **Option A** or **Option B**. You may find it useful to complete and use the decision tree and to analyse **Table 1**.

### Option A Louise's plan

Arguments for:

- Huge market, not just France
- High volume, mass production using technology, some customization
- Benefits of offshoring
- Reasonable ARR of 30 % and a 2 year payback.

Arguments against

- Salah and Mia object to offshoring
- Disadvantages of offshoring
- Impact on existing employees. Redundancies? Low morale? Fear of losing jobs. Not like family business
- Would there be an impact on 'upmarket' brands?
- High risk in Ansoff (new product, new markets)
- ARR based on many assumptions
- In decision tree most likely outcome gives little return. Disastrous if poor outcome.

### Option B Salah's plan

Arguments for:

- Innovative
- Very positive market research
- Benefits of cell production and flow production
- Could increase sales and brand loyalty
- New income stream need as poor profits at the moment
- High chance of good performance in decision tree
- Marginally better net expected value (38 million euros)
- Potential high returns if successful, small chance of low returns.

Arguments against:

- Higher investment costs \$100m
- No dividends for 5 years
- Benefits may not last long – Louise thinks it only extend product life cycle
- Could lead to higher prices, lower sales
- 3 years 2 months, longer than **option A** 16% ARR, lower than **Option A** (could miscalculate as 36% which is higher)
- Opposed by Louise and Mia
- Will demand last (Mia thinks it will fall in 5–7 years, but that is a long time)?

Decision tree favours Option B, all products converted with EV €38m compared with €35m for Option A. 'All products converted' (€138m) is preferred to 'gradual conversion of products' (€126m). NB Some candidates might average the EVs for Option 2 and get the answer €32m. This is incorrect but allow OFR.

Option B seems to have higher chance of success and higher returns but at a higher cost.

*Accept any other relevant discussion.*

*Marks should be awarded according to the mark bands on page 5.*

**Criterion A:** possible theories, management tools and techniques include: Investment appraisal, decision trees, interpreting data, Ansoff, importance of assumptions, also, possibly but less likely, marketing issues, HRM/management/motivation issues, SWOT/Force Field (Each of these needs to be used with a sense of purpose especially Ansoff, SWOT, FFA),

*For [4]: Tools, techniques and theory understood and developed well with some relevance to the additional stimulus material.*

*For [2]: some understanding of at least two relevant tools, techniques or theories, but not developed.*

*Beware that if, for example the Decision tree is not used then that is recognized in the Criterion A mark and should not be reflected in Criteria B and C marks.*

**Criterion B:** The stimulus and the tools, techniques, ideas, theories applied to the decision. Application will also be judged by the use of the stimulus material.

*Remember, understanding has been rewarded in Criterion A. So B is about USE..*

*For [4]: relevant tools, techniques and theories are applied well to the case study context and additional stimulus material, the application is convincing and relevant.*

*For [2]: some limited context/application but not developed. Use of tools limits candidate's ability to make reasoned arguments.*

**Criterion C:** Options discussed in balanced way, conclusions drawn and recommendation made/supported.

*For [4]: There needs to be a clear recommendation supported by a balanced comparison of the options using the relevant evidence and data for both options.*

*For [2]: Some limited arguments but not justified. Or limited analysis (e.g. one-sided argument) but candidate arrives/draws a reasoned conclusion.*

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

- an introduction
- a concluding paragraph. Please note this can be different from the concept of a conclusion/recommendation in Criterion C. D can be rewarded without a recommendation.
- fit-for-purpose paragraphs. This means: not too long, each focused on distinct issues,
- structure. This means whether there is a clear flow to guide the reader through the discussion, how the paragraphs are sequenced.

*For [4]: all four elements present, clearly organized.*

*For [2]: No logical structure but other elements present or logical structure with other elements missing.*

*Beware of under-rewarding weaker work which may have all/most of the elements but very few paragraphs and little to say within them.*

**Criterion E: Stakeholders:**

- individuals: Louise, Salah, Mia, Ben, possibly Pierre, Dodi
- groups: Employees, Shareholders (as a group as opposed to the individuals above) the Board, customers, communities, governments.

Please be aware that a simple mention of groups, for example using the phrase 'shareholders will be pleased...' which is a phrase from the case is insufficient to be consideration of a group.

*For [4] Individual(s) **and** group(s) are considered in a balanced way. ie needs 1 or more of both individuals and groups developed*

*For [2]: one individual or one group considered appropriately, or several individuals and/or groups considered superficially.*

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