

# Markscheme

November 2021

Business management

Higher level

Paper 1

12 pages

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The markbands and assessment criteria on pages 3–4 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 A

1. (a) With reference to *MM*, describe **two** features of a merger (lines 20–22). [4]

Answers could include:

- Two or more businesses join together (*Chilmin* and *MM* in this case)
- The result is another single business, in this case retaining the name *Megamin Mining*
- The Directors made up of people from both businesses (in this case the two great grandchildren and three Chilean shareholders and two workers' representatives)
- Generally mergers are friendly (in this case it was by agreement)
- This type of expansion occurs when two businesses become integrated by joining together and forming a bigger combined business. The owners of two businesses agree to join their firms together to make one business
- They can take advantage of synergies.

*Accept any other reasonable description.*

*Award [1] for each feature up to a total of [2].*

*Award [1] for putting the feature into context up to a total of [2].*

- (b) Explain the strategies used by *MM* to achieve sustainability. [6]

Sustainability has three dimensions: environmental (ecological) sustainability, social sustainability and economic sustainability.

Environmental sustainability

Most of *MM*'s strategies are concerned with environmental sustainability and include:

- Carbon offsetting
- Supporting research to reduce use of harmful emissions
- Reviewing *MM*'s own practices to get more energy efficient production methods
- Improved targets
- New environmental policies
- Switching to lithium for electric cars

Social sustainability

- “*MM* is reducing its operations in Alberta in response to Canadian concerns about the impact of the industry on First Nations (indigenous) peoples” (lines 60-61)
- Fairness of working conditions and other employment practices in different countries (incl. safety and pay issues in Egypt): no clear strategy in place, however “*MM*’s board is concerned”

Economic sustainability

- To achieve economic sustainability, *MM* diversified a lot over the years (e.g. when they invested and expanded into property esp. the hotel division)
- Regarding the current problems with the hotel division (which does not seem economically sustainable) *MM* is “conducting primary market research to help identify methods to increase hotel bookings” (line 81).

- Regarding the Egyptian mine (which is operating at a loss, which is not economically sustainable) MM does not have any strategy in place yet, but “is exploring ways in which it could reduce its costs” (line 107).

Accept any other reasonable point about MM’s sustainability strategies.  
*Explanation/analysis should come from discussing these in relation to the situation that MM is in.*

*Marks should be awarded according to the mark bands on page 3.*  
*Award maximum 2 marks for only explaining one strategy.*  
*Award maximum 3 marks for a theoretical answer or an answer that describes two (or more) strategies without explaining them.*  
*Award maximum 5 marks if the explanation of two strategies or more is mainly descriptive but in context.*

2. (a) Describe **one** advantage **and one** disadvantage for *MM* of decentralization (lines 44–45). [4]

Decentralization: Some decision making is delegated to lower level managers – in this case to subsidiary businesses

Advantages

- Decision making delegated to the mines (operations, wages, contracts) and hotels (prices and menus)
- Not all decisions will be decentralized (in this case strategic decisions remain with the Board).
- Better focus on core activities
- Better understanding of local issues (hotels are in Europe which might face completely different problems from mines in Africa).

Disadvantages

- Decision-making is not necessarily strategic as hotel managers and managers at mines are not part of higher- level decision-making process at board level
- More difficult to ensure consistent practices and policies across different locations. Hotel customers may prefer consistency.
- More difficult to achieve financial control if individual managers have more budgetary autonomy
- As contexts and needs are different, some conflicts may arise or may lead to inter-divisional rivalry if divisions compare each other, when making decisions on budgets, wages, employment, contracts, etc. (i.e. wages in Canada vs. in Africa)

*Accept any other reasonable advantage/disadvantage.*

*Award [1] for each advantage and one mark for each disadvantage up to a total of [2].*

*Award [1] for putting each advantage and [1] for putting each disadvantage into context up to a total of [2].*

- (b) Explain how *MM* could reduce stakeholder conflict in relation to its gold mine in Egypt. (lines 103–107) [6]

Stakeholder issues can include:

- Managers: Technical problems, safety issues, risk of flooding. These will be difficult to manage and will have conflict with which employees who are threatening strikes. Costs will then have an impact on shareholders through lower prices.
- Employees: Threatening strikes over pay and other issues with the way mines are managed. Will want spending conflicts with owners/managers
- Shareholders: Will want dividends maintained but mine producing below breakeven and this affects profits. Will want costs reduced, profit increased. Will not want safety issues to get out of hand – bad publicity and impact on share price. High dividends may prevent investments, may put pressure on wages. Conflict with managers/employees.
- Other stakeholders may include government (taxes, licenses), the general public, pressure groups but these do not feature much in gold mines so are non-contextual.
- Resolution of conflict: Safety is important to all – should be resolved with managed costs
- Strikes are damaging to shareholders. Employees will lose pay. So communicate and work towards a solution
- Managers need to create a less combative environment and find satisfactory ways of reducing costs and solving problems without upsetting employees.

Some possible solutions could be:

- Identify technical problems in advance and improve processes;
- think of a maintenance plan to prevent production outages;
- invest more in industrial safety (but this will increase costs – possible conflict managers vs. shareholders?);
- improve employees' motivation and job satisfaction, focusing on employees' needs or maybe adopting a reward programme and/or health insurance (this will increase costs: will shareholders be happy with that?);
- find a way to improve sales (look for new markets, segments, etc.), reduce costs or/and add value to their products in order to increase profits.

The use of stakeholders might be implied especially when referring to 'conflict with the business'. In this case the 'business' might mean managers, shareholders or owners if the candidate makes this clear without using any of those terms.

*Accept any other reasonable explanation/application of stakeholder conflict.*

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

*Award maximum 2 marks for only explaining one strategy.*

*Award maximum 3 marks for a theoretical answer or an answer that describes two (or more) strategies without explaining them.*

*Award maximum 5 marks if the explanation is mainly descriptive but in context.*



3. (a) Describe **two** differences for *MM* between marketing its minerals (a product) and marketing its hotels (a service). [4]

Marketing minerals

- B2B so advertising may not be necessary
- Role of promotion unclear
- Based on contracts
- Based on market prices
- Targeted at other industries
- Long-term contracts

Marketing hotels:

- B2C so essential to promote
- Some promotion has not worked (ads in travel mags, price promotion)
- Customers are general public
- Market competitive but relatively stable. Fierce competition from Homehol.

*Accept any other reasonable difference.*

*Award [1] for each difference up to a total of [2].*

*Award [1] for putting the difference into context up to a total of [2].*

- (b) Explain strategies *MM* could use to improve cash flow in its palladium mine in South Africa. (**Table 1**) [6]

- Delay spending on major improvements – one month delay will improve Q2 cash flow but will make Q3 worse
- Reduce credit terms on sales. These are on 2 months credit which is quite a long time. What is industry norm
- Get a short-term loan – however this impacts on the profits/liquidity/gearing and does not solve the problem
- Wages are not suitable for change, nor, probably are other costs
- Investigate ways to spread out maintenance costs or reduce them. Different credit terms?
- Incentivize early invoice payment;
- Renegotiate credit options if possible and delay vendor payments as long as possible; (e.g. credit terms are currently 60 days—could be reduced to 30 days)
- Consider invoice factoring;

*Explanation should come from how relevant the strategies are.*

*Marks should be awarded according to the mark bands on page 3.*

*Award maximum 2 marks for only explaining one strategy*

*Award maximum 3 marks for a theoretical answer or an answer that describes two (or more) strategies without explaining them.*

*Award maximum 5 marks if the answer is mainly descriptive but in context*

## Section B

4. (a) Define the term *just-in-time* production (*JIT*). [2]

Candidates can answer in terms of JIT production where the focus is on processes that reduce the time within production systems (work-in-progress) and response times with suppliers/customers. The mention of lean production (of which JIT is a part) is useful.

Candidates can also answer in respect of managing stocks (raw materials, work-in-progress, finished products) so that these are available exactly when needed and not before. *Award a max of [1] if the answer is only related to JIT stock control.*

Candidates can use 'inventories' rather than 'stocks'.

*Award [2] for a complete definition.*

*Award [1] for some understanding of JIT e.g., it mentions 'lean production' or 'stocks' but not the idea of reducing to a minimum.*

*Award a max of [1] if the answer is only related to JIT stock control.*

- (b) With reference to **Table 2**, explain **one** benefit **and one** limitation for *MM* of using sales forecasting. [4]

Benefits:

- businesses need to plan so forecasts are important
- oil industry has been predictable so suitable for the sales forecasting technique and helpful to *MM*
- Trend is clearly downward, and *MM* need to plan for this
- Energy demand is clearly seasonal so broad trends not enough
- Better workforce planning: planning staff required;
- Better cash flow management: considering "cyclical and seasonal variation" factors;
- Increased efficiency, assisting production department in knowing the number of goods to produce and when to produce them;
- Better tracking and finding problematic issues (deviations), etc.

Limitations

- Assumes future is same as past – clearly not the case with unexpected decrease in demand and that long-term predictions are more difficult (economic change and global warming)
- Major problems can affect predictions e.g., strikes

*Award [1] for one benefit or one limitation, up to a total of [2].*

*Award [1] for putting each benefit/limitation into context, i.e., reference *MM*/ Table 2 up to a total of [2].*

*i.e Award [3] for answers that put a benefit and/or limitation into context but does not make use of Table 2 in relation to sales forecasting for *MM*.*

*Only award [4] for answers that make explicit use of Table 2 in relation to sales forecasting for *MM*.*

- (c) With reference to *MM*, explain the difference between crisis management and contingency planning.

[4]

Contingency planning; Planning how to respond to unlikely events that are a threat to a business

- Forward looking
- *MM* are likely to have plans for broad issues such as strikes, fires, floods, earthquakes, failure of IT systems
- Will have gathered relevant information
- Decide which problems are disruptive and which are critical
- Plan likely to be tested and will involve training
- Contingency planning can be used to help improve crisis management

Crisis management: The process by which a business deals with a major event that has happened and poses a threat to the business

- Dealing with an actual not a possible threat
- Information will be available as to the extent of the crisis. e.g., *MM* may not have planned for so many miners to be trapped underground in Egypt, nor the extent of the Chilean earthquake and the response of the Chilean government
- The plan for an oilfield fire may not have been so extreme as catastrophic
- Actual events can help future contingency planning

*Accept any other relevant difference.*

*Context comes from issues identified in the case and the nature of the business.*

*Award [4] for a clear distinction between the two with effective use of the context.*

*Award [3] if both crisis management and contingency planning are understood in context, but there is no clear distinction made.*

*Award [2] If there is clear understanding of contingency planning and crisis management but no context is shown.*

*Award [1] for limited understanding.*

- (d) Using information from the case and additional information above, discuss whether *MM* should sell its tar sands mining operation to *JG*.

[10]

Arguments for the sale:

- It provides finance for expansion into Lithium mining which looks very positive
- There are local issues with First Nation Canadians which does not fit in with *MMs* ethical values and could bring bad publicity. Selling could improve corporate image
- Is \$50 million enough if they have already spent \$45 million?
- Lower than average ARR
- *MM* has difficulty selling Sulphur, a by-product of tar sands production.
- how about NPV (\$46m); is \$50m enough?

Arguments against the sale:

- Production at capacity and has no major issues, more so than other operations
- It provides a reliable source of income – important if other commodities have fluctuating prices
- They have invested \$15 million, and the mine is possibly worth more than \$45million so is \$50 million enough?
- Employees at the tar sands operation are against selling the operation to *JG*

Judgement/evaluation

- depends on whether they need the money
- is the return strong enough?
- Can they afford to upset the workforce?
- Who will ultimately make the decision? —what are their views?
- If the business is doing well, why sell it?

Final judgement should relate to points raised.

Candidates can use information from Section A and Section B.

Candidates who attempt to make use of Section B information may not write with the same level of depth but should be rewarded positively.

*Accept reasonable alternative answers.*

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

*Award a maximum of **[4]** for a purely theoretical answer or with no effective use of the case (e.g., only repeating case material without development).*

*Award a maximum of **[5]** for a one-sided answer.*

*Award a maximum of **[6]** options are considered but there is limited use of data or if there is good analysis of data with limited consideration of issues.*

*Award a maximum of **[8]** if options are considered and there is good use of data but there are no significant judgements.*

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