

Markscheme

May 2019

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) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]

- An executive summary
- A business description: accept mission and vision statements as “**one**” element for [1]
- A market analysis
- Other financial forecasts: award [1] for any type of forecasted financial account such as break-even forecast / profit loss / balance sheet if the candidate shows understanding that the financial information is forecasted / expected for the future, otherwise it is not a plan
- Marketing strategies
- Organization strategies

Award [1] for stating an appropriate example/element of a business plan (application not required), up to a maximum of [2]. The two examples/elements need not be articulated well.

(b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]

All figures in \$ Cash flow forecast for *Las Migas*

	Month 1	Month 2	Month 3	Month 4
Cash inflow:				
Sales	1500	1500	3500	3500
Total receipts (inflows)	1500	1500	3500	3500
Cash outflow:				
Rent	1000	1000	1000	1000
Interest	45		45	
Salary	390	390	390	390
Ingredients and supplies	450	450	1050	1050
Electricity	15	15	35	35
Total payments (outflows)	1900	1855	2520	2475
Net cash flow	(400)	(355)	980	1025
Opening balance	100	(300)	(655)	325
Closing balance	(300)	(655)	325	1350

Accept slightly different headings / format such as opening balance at the top or at the bottom.

Do not penalize if there is no overall title as it is not specified in the subject guide, unlike the profit and loss account / balance sheet where a title is expected.

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 it is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a

candidate has the interest in the incorrect month then they should only lose [1] for that error).

Allow candidate OFR if they use salary as an inflow deduct [1] for that error, do not double penalize as missing from outflow.

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

Award [2] if the cash flow forecast is in a generally accepted format, or is untidy and/or contains more than four errors.

Award [3] if the cash flow forecast contains three errors.

Errors 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 provides a heading of total inflow/outflow without using another heading above of inflow or outflow – **do not penalise as an omission.**

If the candidate omits **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 there is only one row for all cash outflows, deduct [1] from the total mark awarded.

Full working is not expected.

(c) Explain **one** problem that *Las Migas* may experience as a new business. [2]

- Banks and suppliers are sometimes reluctant to give credit to new businesses with no trading records. The local bank may not lend Carolina the money she needs to set up the bakery, especially as the market is already very competitive. Her personal savings, as for many start-up owners, are insufficient.
- Many start-up owners may lack financial / managerial skills, Carolina has no experience with financial records, account and estimates, her estimated forecast might be inaccurate and despite positive closing balances from month 3, *Las Migas* might still experience cash flow problems. Accurate financial planning and documents are vital for business survival. Carolina’s lack of managerial skills can be risky and jeopardize *Las Migas*’ survival.
- *Las Migas* will have to face competition from established bakeries. In a small town, will demand be enough for another bakery? As a start-up, *Las Migas* will have to find a USP to survive and build its own customer base. (More money will have to be spent to establish a USP.)
- Carolina’s monthly salary is expected to be low relative to her rent as she tries to establish her business. She might have a personal cash flow issue which may distract her from managing her business.

N.B. Accept cash flow problems/a need for finance, referring to the cash flow forecast constructed.

Award **[1]** for a relevant generic problem identified or described and **[1]** for any additional explanation in context.

[2] cannot be awarded for the problem if the response lacks either explanation **and / or** application to Las Migas as a new business.

For example: for identification or a description of the problem **with or without** application **[1]**.

For explanation of the problem with **no** application **[1]**.

For explanation of the problem **and** application **[2]**. Such as an explanation of the impact of competition, creation of brand loyalty / USP etc.



2. (a) State **two** methods of primary market research. [2]
- Surveys
 - Interviews
 - Focus groups
 - Observations

N.B. No application required. Do not credit examples. Sampling is not a method.

Award **[1]** for each relevant method of primary market research identified. Award a maximum of **[2]**.

- (b) Using the information provided above and in **Table 1**:
- (i) calculating **X** and **Y**, construct a profit and loss account for *Enjuice*; [5]

$$X = (360000 \times \$8) = \$2880000$$

$$Y = 160\,000 \times 10\% = \$16\,000$$

Profit and loss account for *Enjuice* for 2018: (all figures in \$000s)

Sales revenue	2880
Cost of goods sold	2440
Gross profit	440
Administration and marketing expenses	240
Net profit before interest and tax	200
Interest	40
Net profit before tax	160
Tax 10%	16
Net profit after tax	144
Dividends	120
Retained profit	24

Allow candidate own figure rule (OFR).

Award **[0]** if the profit and loss account does not reach a standard described below.

Award **[1]** if there is some limited understanding of a profit and loss account. There are **more** than three errors in presentation and calculations.

Award **[2]** if there are three clear errors. which includes omission of working, formatting error, mathematical error, presentation. There is limited evidence of a general understanding of the format.

Award **[3–4]** if the principal elements of the profit and loss account is constructed, but may not be entirely accurate. The calculations under each heading/component/part are largely correct.

Allow up to two mistakes in calculations **and/or** presentation for **[3]**.

Allow for **either** one error in calculation **or** one error in presentation for **[4]**.

Allow candidate OFR.

For example, if one irrelevant figure that belongs to the profit and loss account is added, the rest will not match.

Award **[5]** if the profit and loss account is accurately constructed in the expected IBO format. All the relevant headings of each component/parts are used and correctly classified. All relevant figures are presented. No extra irrelevant figures are included. The calculations under each part/component are correct and well-presented.

Deduct **[1]** for one omission including the overall heading/title. Accept a partial title.

N.B. If the candidate did not follow the IBO format award up to **[2]**.

- (ii) calculate the gross profit margin (no working required).

[1]

$$\frac{440}{2880} \times 100 = 15.27\%$$

Accept 15.2 % or 15.3%.

Award **[1]** for the correct answer (working not required). Candidates must show a percentage sign.

Do not accept 15%, or the formulae.

Allow candidate OFR.

(c) Explain **one** strategy that *Enjuice* could use to increase its gross profit margin. [2]

- *Enjuice* could increase its gross profit margin by reducing direct costs/cost of goods sold. It could use cheaper raw materials or instead, find cheaper materials for producing the cans or find cheaper suppliers of cans.
- *Enjuice* can reduce labour costs by reducing the wages / salaries of its labour on the production line, or by increasing automation in the canning process.
- *Enjuice* could decrease the price of its juices. Sales revenue might increase as the market for juices is very competitive and customers are likely to be very responsive / very price elastic.
- JIT – perhaps *Enjuice* can use JIT stock management for aluminum / fruit, or any other metals for the canning process to cut cost of holding stock.
- Technically, if the suggestion of the marketing manager is followed, increasing advertising will reduce net profit before interest and tax, but can increase total revenue with positive impact on gross profit.

N.B. Do not accept increase in price given the information in the stimulus.
Do not credit any suggestion to reduce expenses.

Award [1] for a relevant generic explanation and [1] for application.

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

For an identification or a description of a strategy **with or without** application [1].

For explanation of a strategy with **no** application [1].

For description of a strategy with application [1].

For explanation of a strategy **and** application [2].

Section B

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

A cooperative is a type of 'for profit social organization' that is established owned and managed collectively by members, *each of whom has a financial interest in the business and a say in how the business is run.*

A cooperative operated by its members for their mutual benefit and can be organized by producers, consumers or employees

Award [1] for a partial answer showing some partial knowledge of cooperatives such as that it is an organization which is owned and run by all its members.

Award [2] if there is a further understanding that cooperatives exist for profit but with some social objectives that benefit its members.

Candidates do not have to identify the different types for full marks

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.

- (b) Explain **one positive and one** negative impact of social media marketing on *JP's* promotional strategy. [4]

One **positive** impact of social media (Facebook, Instagram) marketing on *JP's* promotional strategy is cost effectiveness, the use of various types of social media is cheap and often free. This can positively impact on *JP's* finance given the financial difficulties outlined in the stimulus.

A second impact could be to strengthen the brand loyalty of the business, given that social media marketing is being used by famous musicians with a lot of followers which would be important given that *JP's* guitars are more expensive than those of the competition.

One **negative** impact is that celebrities endorsing *JP's* guitars can be unpredictable and beyond *JP's* control. Any poor behaviour or negative publicity can damage *JP's* branding in the eyes of potential customers. Increased competition has meant that *JP* will need to ensure that its social media marketing presents the right image for the business. A negative impact on branding can lead to a fall in demand and further financial difficulties.

Although cost effective, the use of social media marketing may make it difficult for *JP* to accurately measure the impact of its promotional strategy. Given that *JP* only uses social media it is very important for management to assess its effectiveness. Also, if social media marketing is not carried out professionally, it could contribute to a negative image such as a lack of response to customer complaints being viewed publicly.

Accept any other relevant positive impact / negative impact.

The impact has to be applicable to social media marketing not any type of promotion.

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 the impact of social media marketing on JP's promotional strategy.

- (c) Explain **two** benefits to *JP* of using quality circles. [4]
Candidates can refer to marketing, operation or Human Resource Management issues.
It is expected that the candidates demonstrate explicit understanding of the term/ practice of using quality circles.

The benefits to *JP* of using quality circles revolve around the motivational/productivity/teamwork/cooperation/possible empowerment benefits gained from participation. The fact that *JP* is a cooperative also implies that quality circles will align with the culture of the organization (supportive, common goals). Meeting together to find better methods of production/ practices creates high quality products/ guitars. *JP* established a Unique Selling Point based on quality which creates brand loyalty. Empowered staff are more motivated and therefore staff turnover is also very low which reduces recruitment costs and training as well as increased efficiency when the higher levels of needs/ the motivators of employees are met. There is evidence in the case study that *JP* workers are productive and take pride in their work.

Accept any other relevant benefit.

Mark as 2 + 2.

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

Application must refer to the benefits to JP of using quality circles.

- (d) Discuss whether *JP* should accept *XYZ*'s takeover bid. [10]

There are a number of compelling reasons as to why *JP* should accept the takeover bid.

Financially, one may argue that JP needs the financial strengths of XYZ. JP's financial future will be guaranteed. Price competition is eroding sales, indicating that financial sustainability is in doubt.

The number of redundancies will probably be reduced and jobs will be saved. The cooperative may be kept intact. However, if the takeover does go ahead then a number of roles may be lost due to duplication.

The stimulus indicates that *XYZ* has a strong balance sheet, large cash reserves and are also experts at marketing. *JP* is likely to benefit from *XYZ*'s expertise in the latter area given that its brand loyalty and awareness are dependent on social media marketing, which can be difficult to control and measure, as the stimulus indicates. This marketing expertise and finance will allow *JP* to promote its products through more traditional methods by enhancing/growing brand awareness and loyalty further. One may judge this argument as a significant one given the current problems that *JP* is facing

However, the motives for the takeover are narrow. They seem to be driven by financial considerations only. The takeover could change the culture at *JP* and the cooperative has already refused to consider the bid. Staff turnover is very low and the fear is that the takeover may force some staff to consider their position at *JP*. Staff turnover may rise, increasing recruitment and training costs, as it is assumed that quality circles would be kept. Expertise could be lost.

As a large company, the combination of *XYZ*'s financial power and *JP*'s determination to remain as they are will cause conflict. *XYZ* is likely to be a profit maximizing organization with few social objectives. *JP*'s culture will have to change. *JP* will not remain as a for profit social enterprise.

XYZ has experience in kitchen appliances rather than producing musical instruments. Given the competition, *XYZ* might not be successful unless it finds ways of reducing costs as marketing might not be effective. Still, one may argue that marketing and financial expertise are transferable.

XYZ's management tendency for strict control is highly likely to result in abandoning the practice of quality circles that requires empowerment and trust. The interest and motivation of *JP*'s employees is likely to be diminished considerably with further implications for quality and branding.

Perhaps *JP* should reject the offer and find some sources of finance to take the cooperative through this difficult time as it is likely that remaining as a cooperative is very important for the members while *XYZ* has just financial objectives. –as stated in the stimulus.

The members of the cooperative will have to prioritize their objectives- being a social enterprise with some mutual benefits of changing into a for profit corporation.

Ultimately, *JP* may have to revisit its financial forecasts and as a cooperative may have to take a more pragmatic view. If the warnings of additional jobs being lost come to fruition, the cooperative will have to accept the offer. The opportunities for growth in their market are considerable and may allow the business to regain market share. As the cooperative enjoys the successes of the business, the decision to accept the bid is warranted, although some concerns over culture loss and empowerment of the workforce must be taken into account if the transition is to be a smooth one.

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.

It is expected that a substantiated judgment is provided

Candidates cannot reach the top two mark bands if the issue of being a cooperative-for profit social enterprise is not covered.

Marks should be allocated according to the mark bands on page 5 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 stimulus.



4. (a) Outline **two** features of autocratic leadership. [2]

- Decision making is carried out by an individual or select few individuals.
- Communication tends to be one way only- top down.
- Organization is characterized by a role culture.
- Any other suitable feature outlined

Award [1] for each feature identified.

- (b) Explain **one** cost **and one** benefit of a high labour turnover of managers for *The Warriors*. [4]

Costs of a high turnover of managers include increased recruitment costs and a management system that may be confusing for the subordinates to follow if managers keep changing. This may have further motivational issues, as the work force may be unsettled and impact on the players' performance. From the stimulus, there is evidence that *The Warriors* recruitment costs are higher than desirable given the time spent looking for new managers. More costs will result in less funds being available to support *The Warriors* corporate social responsibility practices and risk Dave's achievement- see bullet points in stimulus.

Player turnover has also been high, which may impact on teamwork on and off the pitch and reduces *The Warriors* chances for commercial success. There is also evidence in the stimulus that two new players who presumably have not gelled yet with the team, or *The Warriors* culture, are unhappy and complained on social media. This is bad publicity for *The Warriors*.

The **benefits** are that poorly performing managers are not allowed to make things worse for the club. Underperforming managers can be moved on and fresh thinking and ideas can be introduced. Dave who is actually very popular with the fans, will probably enjoy even further support from the fans if he removes underperforming managers or players quickly. *The Warriors* have not yet won a trophy and the appointment of a dynamic new manager has put them on the verge of winning a final for the first time.

Accept any other relevant benefit/cost.

While managers are technically employees, It is expected that the candidates apply the advantages/ disadvantages to the roles/ behaviour of the managers and/or possible impact on the players due to the changes in management.

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 the high turnover of managers for The Warriors.

- (c) Explain **one** cost **and one** benefit to *The Warriors* of committing to corporate social responsibility (CSR). [4]

The costs to *The Warriors* of committing to CSR involve the opportunity costs. Reduced ticket prices and healthy snacks, etc, divert funds when the funds could be used to purchase improved players, hire more experienced managers or improve

spectator facilities. CSR improves the image of the team off the pitch in the eyes of the stakeholders, but perhaps greater consideration should be given to what is happening on it.

The benefits of the commitment to CSR include brand development and loyalty through the eyes of its junior supporter group – an important group of longer-term stakeholders – that are willing to come and watch the games despite lack of success which ensures some financial sustainability of the club at a time when they are still waiting to win their first trophy.

The benefits/costs should refer/ apply to *The Warriors* and not to different stakeholders.

The impact on different stakeholders may be used as long as the final costs/ benefits refer to *The Warriors*.

Accept any other relevant cost and 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 The Warriors committing to CSR.

- (d) Discuss **two** methods to resolve conflict for *The Warriors* **other than** a lock-out. [10]

The question asks candidates to examine the stimulus and make reasoned judgements to suggest appropriate methods to resolve the conflict for *The Warriors*. Candidates are expected to be familiar with:

- Conciliation and Arbitration
- Employee participation in industrial democracy
- No strike agreements
- Single union agreement

Given the stimulus, it could be argued that with an important final coming up and *The Warriors* being on the verge of winning their first trophy and given the lock-out, Dave is highly likely to push for **non-strike** agreement as any action such as **strike action** is likely to result in an irreversible negative impact and can easily be used by the players to send a message to Dave : they are serious about Dave's actions but do not wish to jeopardize being in the final. The players have clearly had enough of Dave's autocratic style and wish to see a change.

Dave and the fans are likely to be very worried as short term strike action is possible and could send a very serious message to stakeholders that the players' dissatisfaction is real.

However, the players are unlikely to agree without some form of compromise from Dave and the realization that a strike or not regularly training can reduce the chance of success. Also, loss of earnings, fear of management response etc might facilitate some conflict resolution.

Other methods could include **conciliation and arbitration**, where Dave will ask for an independent adjudicator to rule on the lock-out and other issues and bring both sides together. This, however, will take time and is a medium term solution and the final is approaching. Costs of organizing this could impact on *The Warriors'* CSR.

Dave's habit of impulsive behaviour towards his managers and staff indicate that he would not be able to see the value in this solution. Given the stimulus, this may be difficult, especially if the arbitrator rules against Dave's decision and the decision is binding. The players might support this method but need to ensure that they are able to represent their case or have a representative.

Candidates can use conciliation and arbitration as two different methods provided that there is a clear explanation of the differences.

Industrial democracy

Dave could seek to modify his management style and allow greater employee participation and publicly promise not to be so harsh on players. There is evidence that he is willing to consult with a former player to sort out the lock-out. But we must ask the question of, given Dave's autocratic style, how likely this modification would be given Dave's track record. Dave's management style has to change to be more democratic which might be challenging for him but acceptable for the players.

Dave is clearly a leader with a vision to do the right thing by his community. The conflict is affecting him, as he has admitted in private. He risks undoing some of the CSR that has put him in a favourable position with the supporters and in the absence of any trophy wins, he cannot afford to do this. It would seem that it would be in the best interests of the club and the fans to solve this conflict quickly. Dave will have to change his leadership style and allow greater employee participation. However, this could all change if *The Warriors* win this for the first time.

Students may also evaluate the **single union agreement**

A conclusion with judgment is expected.

The candidates should refer to methods of conflict resolution not actions/industrial relation that can be taken.

Please note that in the question, an example of industrial relation was given- a lock out hence some candidates may follow with other examples.

Candidates that refer only to industrial employee relations and not to methods of conflict resolution can- not reach the top mark bands- see below.

A balanced response is one that covers at least one argument for and at least one argument against each option.

Marks should be allocated according to the mark bands on page 5 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 one relevant issue/ method that is balanced with sufficient depth award up to [5] Accept methods/suggestions that are related to industrial democracy without naming the methods like- change leadership style, consultation/ discussion.

*If the candidates provided just examples of **industrial relations** and not conflict resolution, but the methods are well covered/ evaluated **award up to [6]***

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 Warriors.



5. (a) Define the term *retained profit*. [2]

Retained profit is the profit remaining after all expenses, taxes and dividends are paid and that is not distributed to shareholders. It is kept as part of shareholder equity which appears on the balance sheet to provide a source of funds for possible future activities.

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. A candidate must demonstrate an understanding that retained profit is part of shareholder equity/ or belongs to shareholders **and/or** that it can be used as a source of funds/ reinvestment for possible future business activities.*

- (b) Explain **one** advantage **and one** disadvantage for *CH* of having a mission statement. [4]

Advantages for *CH* of having a mission statement include:

- Informs the stakeholders of the common purpose of *CH*'s existence, -and its core values. *CH* produces vital anti-venom vaccines, but its mission statement demands that *CH* carry out its operations in a socially responsible manner. Mission statements can have an influential role in setting organizational objectives as well as getting support/ acceptance from various stakeholders like customers whom *CH* endeavors to put before profit could have contributed to *CH* being a market leader.
- *CH*'s mission statement may act as a motivating force for employees and managers and could lead to low staff turnover and/or benefits for the recruitment of new highly qualified employees especially if *CH* starts to develop new life-saving vaccines.

Disadvantages include:

- Some mission statements may be written as vague statements of intent. It can be difficult to ascertain exactly what the business stands for in terms of setting sustainable business objectives. This may discourage some investors. *CH* is stating that profitability is secondary after CSR. Yet this profitability is being used to finance future growth and research. Investors may not commit funds given this mission statement.

Accept any other relevant advantage/disadvantage.

Mark as 2 + 2.

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

*Application must refer to the issues around *CH* having a mission statement.*

- (c) Explain **two** possible external sources of finance *CH* could use to continue production of anti-venom vaccines. [4]

The question is sufficiently broad to allow candidates to explain a range of possible sources of finance, but any candidate who looks at internal organic sources, such as increasing sales/profits, **must be not** given credit.

Possible external sources include:

- As *CH* is a private limited company, the decision could be taken to raise funds through an initial public offering. *CH* could be “floated or listed” on the appropriate local share market to raise funds targeting ethical investors.
- Angel investors who have **strong ethical/CSR** intent could provide funds.
- The NGO has demanded action. Given the number of deaths and injuries from snakebites, the NGO could be approached to provide new finance or governments in those countries predominantly affected. There could be the possibility of a private public partnership.
- Bank loan. If candidates uses this source of finance, it is expected that the candidate either comments on the fact that is likely to come from banks with ethical objectives or from banks which accept the risk associated with *CH*'s mission statement or that the bank is likely to give a loan for a cause such as saving lives.

It is expected that the candidates incorporate the ethical investors/ ethical support issues given the current mission statement of ‘people before profit’ as application.

Candidates do not have to use the exact words as above but to show understanding that whoever provides the finance should believe in/ support *CH*'s mission/able to justify given the finance that might be risky due to *CH*'s mission and the possible impact on the population.

Accept any other relevant possible source. (grant, subsidies)

Donation is not really an applicable source of finance for what has to be done. CH is not a charity

Mark as 2 + 2.

- For an identification or a description of one possible source of external finance with or without application **[1]**.
- For explanation of one source with no application **[1]**.
- For explanation of one source and application **[2]**.

Application must refer to the possible sources of finance for production of anti-venom vaccines.

- (d) Discuss *CH*'s decision to stop producing anti-venom vaccines. [10]

Answers at the top level will look at the ethical arguments of retaining the production of anti-venom vaccines versus the financial implications for doing so.

CH's mission statement alludes to “putting customers first and profits second”. The decision to stop producing the anti-venom vaccines will be viewed as hypocritical by stakeholders and will lead to a loss of its market leader status. There could be a consumer backlash/boycott, and this will hamper marketing attempts for any new life-saving vaccines. The drop in revenue could be considerable and as a result there may be no profits to finance research and development. The comments from the NGO are unhelpful and will bring increased scrutiny and further unwelcome

publicity. Stopping production may damage the economic sustainability of *CH* to the point where they may cease to exist.

However, the increased competition and wave of price reductions cannot be ignored. We must assume that this new competition has a product that competes with *CH* on price because, as the market leader, we would assume *CH* has a certain degree of brand loyalty. Clearly, consumers see the competition from Brazil, Mexico and India as a substitute, and unit sales of *CH*'s vaccine have fallen significantly. Perhaps customers are not as ethical as *CH*'s management assume and are not very supportive of *CH*'s CSR. If *CH* does not stop production and cut its losses now, it may not have time or finance to develop new life-saving vaccines, through which it may be able to recreate its market leader status.

The profit motive is the reward for entrepreneurial initiative and risk. *CH* is quite within its rights to stop production of a loss-making vaccine and switch to a market that may be underdeveloped and gain the first mover advantage, albeit one with considerably more risk. Ironically, if the decision to stop production is made quickly, *CH* may be the beneficiary of some panic buying, boosting short-term revenues before the anti-venom vaccine is withdrawn from the shelves. Also, other segments of people can be helped by *CH* if people are put before profit.

Given the ethical and moral issues in this case, *CH* may be wise to wait and see customers' reaction to new competitors, carry out further market research on the competition and customers attitudes towards CSR. It is indicated that for two years, the new competition will be unable to fill the gap left by *CH* if it decides to leave this market. *CH* is still the market leader. Possibly *CH* could emphasize its product quality and its ethical mission over the competition and see if this acts as a spur.

Accept any other relevant argument.

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 5 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 stimulus.

Section C

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 6–7.

6. With reference to an organization of your choice, discuss the ways in which **ethics** can influence **innovation** in an organization. [20]
7. With reference to an organization of your choice, examine the impact of **culture** on organizational **strategy**. [20]
8. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **change**. [20]

N.B. Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

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.

Criterion B

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

Criterion C

1 + 1 arguments are expected per concepts.

- Questions 6 to 8 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 are 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 cannot be considered with a "group" of consumers or a management team.
- For **[4]**, a balanced response: 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.
- Please do not use the adjective '**inappropriate**' in the descriptor for 2 marks. If inappropriate award 1 mark

Candidates need not explicitly say "stakeholder".

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.

Additional guidance for questions 6,7 and 8

Q6

Accept examples of CSR /environmental issues as being ethical. The question expects application of one concept on another. Candidates are expected to discuss ethics and its impact on innovation and not to discuss these two concepts separately. In other words, each example of ethical behaviour should be applied to a real innovation the company created /adopted and thereafter the impact on various stakeholders. (the impact is really of innovation)

Q7

Accept organizational culture or national culture.

Accept any relevant organizational strategy.

Q8

Please note that the question is about organizational change / some major strategic change rather than a change in product/product adaptation strategy in marketing for example, McDonalds in India. To achieve the highest marks for Criterion E and Criterion B candidates are expected to examine the impact of organisational change due to globalisation on different stakeholders. Candidates may explain how globalisation impacted on a particular individual

(CEO) or a group in a position to create/initiate an organisational change. The question is not about the impact of globalisation directly on stakeholders.

