

Markscheme

November 2020

Business management

Higher level

Paper 2

23 pages

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The markbands and assessment criteria on pages 3–5 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** features of a sole trader. [2]

Features include:

- Easy to set up - no legal formalities
- Owner has complete control - not answerable to anyone else
- Owner keeps all profits
- Able to choose times and patterns of working
- Able to establish close personal relationships with staff (if any are employed) and customers
- The business can be based on the interests or skills of the owner - rather than working as an employee for a larger firm
- Unlimited liability - all of owner's assets are potentially at risk
- Often faces intense competition from bigger firms, e.g. food retailing
- Owner is unable to specialise in areas of the business that are most interesting - is responsible for all aspects of management
- Difficult to raise additional capital
- Long hours often necessary to make business pay
- Lack of continuity - as the business does not have separate legal status, when the owner dies the business ends too

Accept any other relevant feature. However, do not credit 'unincorporated' and 'unlimited liability' as two features. They are the same thing.

Award [1] for each relevant characteristic stated to a maximum of [2].

Application to the organization is not required

(b) Using information in **Table 1**, for *JJ*, prepare:

- (i) a profit and loss account for the budgeted figures **and** the actual figures (*show all your working*); **[3]**

	Budgeted figure (\$)	Actual figure (\$)
Sales revenues	5000	4000
Cost of goods sold	3000	2500
Gross profit	2000	1500
Expenses	1000	800
Net profit	1000	700

If the profit and loss account is constructed following a generally accepted format and is correct in all respects, award [3].

Award [2] if the candidate produces a correct net profit but does not follow a generally accepted format. Award [1] if the candidate shows some understanding of what a profit and loss account is, but the actual account constructed is not in a generally accepted format and has numerous errors.

We need to be consistent with previous years where the format required is consistent with the guide – as 3 of the headings already given, then marks are for 2 headings and 4 calculations.

(ii) a variance analysis (*show all your working*). **[3]**

	Budgeted figure (\$)	Actual figure (\$)	Variance
Sales revenues	5000	4000	1000 adverse
Cost of goods sold	3000	2500	500 favourable
Gross profit	2000	1500	500 adverse
Expenses/overheads	1000	800	200 favourable
Net profit	1000	700	300 adverse

For a perfect understanding of variances award [3]. There must be calculations and explicit reference to variances that are favourable or adverse.

For variance analysis that has 1 calculation error and/or makes no reference to variances as favourable or adverse award [2].

For a vague understanding of variances award or more than one calculation error and no reference to favourable/adverse [1].

(c) Explain **one** possible economy of scale from which JJ has benefitted. **[2]**

- Purchasing economies of scale. Bulk buying of her raw materials such as the material for jeans, stitching and sewing needles. Unit costs may fall
- Technical economies of scale through the purchase of machines to help her produce jeans in larger quantities. Over the long run, unit costs will fall as the scale of production increases.
- Given rising demand, marketing economies of scale are possible for JJ as unit costs per jean falls as advertising costs may be constant over a larger range of output.

Accept any other relevant answer

Mark 1 + 1.

Award [1] for a relevant economy of scale explained and [1] for appropriate application to JJ to a maximum of [2].

N.B As there is limited stimulus information application must necessarily be in the form of reference to jeans, tailoring machinery or tailoring supplies. Do not reward generic references simply to 'machinery or supplies'

2. (a) Define the term *working capital cycle*. [2]

Working capital cycle is the period of time/interval between the actual cash paid for costs of production and the actual cash received from customers. It is the time period when net current assets is converted into cash. [2]

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

Award [1] for a basic definition that conveys partial knowledge and understanding but omits reference to 'time period' or 'cash'

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above.

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

	January	February	March	April
Opening Balance	0	(2930)	(4360)	(4940)
Cash inflows:				
Cash Revenue	1000	500	1250	1500
Credit cash revenue		1000	500	1250
Support for young entrepreneurs	150	150	150	150
Bank loan				3000
Total cash inflows	1150	1650	1900	5900
Cash outflows:				
Rent	1200			1200
Admin/own salary	1500	1500	1500	1500
Marketing	200	200	200	200
Tools/machinery	1000			
Cost of sales payments	0	1200	600	1500
Utilities	180	180	180	180
Total cash outflows	4080	3080	2480	4580
Net cash inflow	(2930)	(1430)	(580)	1320
Closing balance	(2930)	(4360)	(4940)	(3620)

Please note: Candidates do not have to split "cash revenue" and "credit cash revenue" or cost of sales and costs of sales on credit.

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast that is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the rent in the incorrect month then candidates should only lose [1] for that error.

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

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

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

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

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

*If the candidate omitted **both** headings of outflow/inflow but does include ‘Total’ Cash Outflow/Inflow headings do not penalize.*

*Missing any of **highlighted** headings = one error*

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

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

Full working is not expected.

- (c) Explain **one** strategy that *BB* could use to significantly improve its forecasted cash flow for January 2021. **[2]**

It is expected that candidates identify the main figures/categories that contributed to the negative cash flow. Clearly the options are either to reduce the cash outflow or increase the cash inflow. Candidates should provide concrete examples as application. There is no need to reproduce a new cash flow. It is expected the relevant terminology is used. As generally total revenue is increasing, apart from February, it is not expected that candidates suggest to increase total revenue inflow using marketing *etc.*

Increase inflows:

Candidates may suggest that *BB* should not give credit for the first months of operation. This will increase the inflow by a \$1000.

Dan can possibly ask the bank to give a loan in the first months of operation instead of the 4th months. \$3000 will help *BB* to significantly reduce the initial negative cash flow.

Increasing the price of benches will increase inflows. However, this may reduce competitiveness.

Reduce outflows:

Dan can reduce his own salary of 1500, especially in the first month or so. Own salaries and admin are the most excessive/large outflow that contributes to the negative cash inflow. A smaller self-reward can significantly reduce the outflow and therefore the net cash flow.

Dan can also negotiate his rental payments. Instead of paying a large sum of 1200 in January, monthly instalments of \$400 will significantly reduce the outflow in January Dan can also ask for at least one month's credit from his landlord. Do not accept an option of not buying the machinery/tools. Accept lease the machinery for a considerably lower fee per months. Generic comments like reduce donation, utilities etc will not make a significant impact. Hence not really applicable.

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

***[2]** cannot be awarded for the strategy if the response lacks either explanation **and/or** application. Explanation needs to cover the effect the strategy is designed to produce. It is not enough just to say 'reduce Dan's salary'*

*For example: For an identification or a description of the strategy like reduce cash outflow/ increase cash inflow **without explanation or application [1]**.*

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

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

Section B

3. (a) Describe **one** feature of a private limited company. [2]

One feature of a private limited company is that

- The number of shareholders may be limited to 20 depending on the country in which the business is owned.
- Shareholders have to be invited to join the board of directors as shares cannot be advertised
- Owners of the business will enjoy limited liability, which indicates that if a business experiences a financial collapse then the owners will only be liable for the capital contributed.
- There is normally no legal requirement to publish detailed financial accounts for the public or provide quarterly forecasts to an exchange or supervisory committee unless it is for corporate tax purposes.

Award [1] for a partial description and an additional mark for a full description similar but not exact to one of the above bullet points.

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

Theoretical answer – award [1] for each advantage and disadvantage:

- A mission statement allows a business to state its current purpose and can be used to position the organisation in the minds of its stakeholders.
- It can be a motivating force for employees and also provide a goal/purpose which potential investors may be attracted to
- However, some mission statements can only provide a vague goal or objective and a mission statement does not indicate how this objective will be achieved which could make them misleading or have little value.
- Focussed mission statements do require management time and resources to be effective.

MC's mission allows a clear differentiation for its business model away from rivals. Given that the number of young people eschewing musical instruments is rising, the mission could allow *MC* to create a USP. Clearly, musical instrument companies favour the mission and are willing to sponsor the potential concert adding a vital source of funds to allow it to proceed.

However, the mission seems to preclude the use of technology to a degree by artists. It is accepted that even real musicians will use technology but if participants who play in the concert use only technology then *MC* runs the risk of being “hypocritical”. There is evidence of a clear backlash (negative reaction) on social media, which could undermine *MC*'s perception. Of course, it is accepted that organising the concert will require some use of the latest technology but the mission runs the risk of confusing its stakeholders.

*Award [1] for application to MC for both the advantage or disadvantage
N.B[2] cannot be awarded if the response lacks either explanation and / or application.*

Mark as [2+2]

- (c) Explain **one advantage and one disadvantage** for *MC* of using venture capital to provide financial support. **[4]**

Theoretical advantage and disadvantage – award **[1]** for each.

Advantages:

Venture capital provides the company with an opportunity to expand. This would not have been possible through other methods like bank loans. Bank loans require collateral and there is an obligation to repay the loan. However, in venture capital, the investors themselves are ready to take the risk as they believe in the company's long-term success. Therefore, venture capital financing is beneficial for start-ups with high initial cost and limited operating history.

Venture capitalists are often people with significant experience in their respective industries and this can be extremely helpful for those starting out in these industries. They can help with building strategies, technical assistance, resources, etc. in order to make a business successful.

Venture capitalists have a huge network of connections in the business community. These connections could be advantageous for the start-ups to grow and become successful. They can help the start-up to enter into alliances with potential customers or business houses.

Disadvantages:

Venture capitalist provides huge capital to the start-ups in return for a stake in the equity of the company. If the start-up succeeds, then it helps them earn tremendous amounts of profit. VC's usually become a part of the Board. They actively participate in the company's decision-making. VC's will want to protect their investments. If there is a difference of opinion between the VC and the start-up founder, then things can get chaotic. Any major decision requires the consent of investors.

A venture capitalist may decide to redeem the investment within 3 to 5 years. Their primary focus is to earn capital gains. Venture capital may not be suitable for an entrepreneur whose business plan will take a longer time to provide liquidity.

Venture capital investors are taking high risks, hence take time in making decisions to invest. It can therefore be a lengthy process and not suitable when quick funding required.

Application (award [1] for application to MC for both the advantage or disadvantage).

Without the support of Abbi, *MC* would probably not be still able to carry out its mission. She is also able to provide some technological assistance on operations away from the playing of real instruments which will support *MC* in organising the concert. Rob clearly feels that *MC* does not have sufficient resources to do this on their own. The global concert may also attract other venture capitalists or other possible sources of finance from business angels for example.

The disadvantage, however, is that Abbi being a venture capitalist may see the concert as the only solution to *MC*'s current financial predicament and if not successful may decide to seek other ventures. The financial situation at *MC* could deteriorate further. She thinks the mission needs updating and any social media backlash could hit *MC* hard. There is a considerable risk here given the nature of venture capital. Rob may have to look for new investors.

Mark as [2+2]

- (d) Discuss whether *MC* should organize the live concert. **[10]**

There is a considerable tension between the need for financial sustainability outlined in the stimulus and the table and a violation of the mission statement if they decide to go ahead with the concert. There is no quick fix to *MC*'s problems.

The financial figures provide some ammunition for evaluation both positively and negatively. Musicology's solvency is at risk if they do nothing. But if they host the concert, they will use up valuable resources and the CEO doubts that the business will be able to cope. There is a forecast profit of 24million but what if budgets are exceeded or forecasts not met? Musicology is going beyond its normal operational ability and costs will be difficult to forecast. Even with pay per view it will be difficult to judge how many will actually pay.

Musicology is being kept "alive by venture capital". Will other potential investors tolerate a concert where musicians do not play real instruments? The mission statement is at risk and the gearing ratio is currently 75 %. They will not be able to borrow their way out of any financial difficulties.

A great deal of trust is being placed in Abbi. Her confidence may be a positive thing, but can *MC* have faith in her social media connections? It can be very difficult to measure exactly how many people will be willing to pay. Cash flow forecasting at a time of variable cash inflows and outflows may be very hard to do.

However, the global concert will spread the mission of *MC*. The reach could be considerable and new investors will probably come forward. The pay for view and sponsorship from the musical instrument manufacturers will offset revenue lost to illegal downloaded sites. If this concert goes well the future benefits to *MC* could be considerable. There may be future concerts and or other extension strategy possibilities. Angel investors may see the ethical approach *MC* is taking and bring forth newer investors reducing the dependence on venture capitalists.

It would seem that if *MC* wish to remain economically sustainable the concert will have to proceed. It is a risky strategy but one which could have longer term benefits if the exposure of the business via the pay per view model to a global audience generates significant funds and publicity. Abbie seems confident and well connected and this is important for *MC* who do most of their promotion and brand building through the internet and social media.

Marks according to generic markbands.

Candidates will not be able to proceed to the highest mark bands without using the quantitative data in the table. [max award 6]

Balanced analysis will imply two arguments in favour with two against. Judgements should be substantiated to move beyond the 5–6 band.

4. (a) Define the term *unique selling point/proposition (USP)*. [2]

A unique selling point is any aspect of the organization, brand or product that enables differentiation in consumers' minds from competitors.

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. There should be some reference **to differentiation from competition**.

Candidates may refer to either the product or brand aspect of the organisation only.

(b) Explain the importance of people and processes in the *EI*'s extended marketing mix. [4]

People and process are two out of the three extended marketing mix which that are highly relevant for an organisation that operates in the service sector like *EI*.

The stimulus refers to **people**, in this case the employees, who are highly motivated, skills, committed and interested. They serve the customers efficiently and interact well with the customers. The characteristics of the employees enhance the lack of some tangibility of the service on top of the actual ice cream of *EI*. People help to create USP.

Candidates can refer to the daughter as people, who are successfully searching and finding exotics flavours to enhance customers' satisfaction and create a USP. Do not penalize if candidates refer to employees or staff instead of 'people'

Processes

The employees of *EI* do not only serve the ice cream but constantly interact with those who wish to create their own flavours. Creative freedom and professional employees' support enable customers to try and create their own flavour. This adds significantly to the quality of their experience and is the basis for *EI*'s USP. The opportunities given for creativity and testing, enhances customers experience and as stated, create a USP/ clear basis for differentiation.

Candidates can also refer to the process of serving customers efficiently. However, the long queues reported also suggest that process is not always efficient.

Mark as 2 + 2.

Award [1] for each relevant feature – *P* – explained and **[1]** for appropriate application to the organization/type of products to a maximum of **[2]**.

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

For example:

- For an identification or a description of one *P* with or without application **[1]**.
- For explanation of a *P* with no application **[1]**.

- *For explanation of a P and application [2].*

(c) Explain **one** advantage **and one** disadvantage for *EI* of using a focus group. **[4]**

Focus group, a primary research method, involve creating small discussion groups to gain insight into and information about opinion, attitudes and behaviour of the respondents.

The possible advantages:

Lena's daughter can engage in meaningful discussion with the participants and ask probing questions regarding their willingness/ motivation to open an *EI*'s franchise, their expectations, experience, reservations and so on. Lena should be more aware of the support that might be needed to ensure that the brand is not damage. A thorough research using a focus group can reduce the risk of failure.

Asking local entrepreneurs may be a good starting point to get some initial responses about the level of interests, motivation, expectations, reservations and so on before a major strategic decision is made.

However:

The use of local entrepreneurs is unlikely to provide the right sample as *EI* is interested in local as well as national franchising. Moreover, local entrepreneurs are more likely to presume their own business ideas rather than using *EI*'s. The sampling/targeted group can be seen as inappropriate and might give Lena inappropriate information.

One may doubt Lena's daughter ability to conduct a focus group. She has no qualification and experience as she travels the world to find exotic flavours. Lack of knowledge and experience can result in inappropriate/ leading questions and hence inappropriate information for Lena to base her decision upon.

Accept any other relevant/ applicable advantage/ disadvantage.

N.B Allow responses that may attempt to cite COVID as a disadvantage of focus groups since they rely heavily on the interaction between participants. Can 'virtual' focus groups e.g Zoom, be as effective.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage- explained and [1] for appropriate application to the organization to a maximum of [2].

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

For example:

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

(d) Recommend which of the two strategic growth options, **Option 1** or **Option 2**, *EI* should implement. **[10]**

The two suggested options should enable *EI* to take advantage of its own strengths and reduce the main weakness of queues forming which can negatively impacted on *EI*'s main USP.

More specifically:

Option 1: Internal growth – Issuing shares to open eight shops locally and nationally

By reducing her holding to 51 % Lena can potentially raise enough capital for *EI* to pursue the organic internal growth option.

Pursuing an internal growth strategy, the nature and the pace of the growth can be fully controlled by Lena/the family especially in the short run. Lena will have full control of the process and the future operation of all of the shops as Lena/the family will still have the majority shares to retain the much-desired ownership, power, control and to make a major strategic decision. The collaborative culture of *EI* will be maintained. These issues are of high importance for the current owner.

Still Lena will have to get some approval of other shareholders. One may judge this argument as less significant in the short run as the family will have the controlling interest in the business. In addition the only other shareholders are her daughters

Still, if *EI* is to grow further, more shares will have to be issued and Lena and the family control will be eroded as it only takes 2 % for the family to lose control. Still, as shares are only sold to friends and family, one may judge this issue as less significant.

EI might also not raise all of the desired finance but this is unlikely as the targeted growth of 8 shops does not seem over ambitious.

Having more shareholders might generate useful strategic input but it appears that Lena is not after shareholders inputs/ involvement – only finance.

However, internal growth is a slower process than franchising and Lena is worried about the queues forming and its potential negative impact on the brand. **N.B** do not credit candidates that wrongly assume shares can be sold publicly on a stock market – this is a Private Limited Company.

Option 2: Franchising – External growth/Non-organic growth

Some of the arguments in favour:

The issue of ownership of the business is of no significance. No ownership will be lost.

One may argue *EI* will be able to expand further with 50 outlets over 5 years. This growth is a much more significant growth and enables *EI* to build on its strong brand name and enable the brand to spread quickly throughout the country. The issue of the queues and its potential negative impact perhaps be solved quicker. Moreover, a success might attract other franchises.

EI will receive royalty regardless if the franchise is making a profit or not. However, this is not really a n important argument as the motivation is not financial.

However, this method of growth relies on the skills, motivation, the quality of management of the franchises.

Despite some damage to *EI*'s USP if the franchisees do not follow the exact concept, Lena can terminate the agreement after few years. Still, some of potential damage to *EI*'s current strong brand/USP may be difficult to correct. It is however less likely as market research revealed that there are interested franchisees.

Still *EI*'s USP cannot be protected and franchises can get experience and support from *EI* and start a similar business in the medium term. One may judge this argument as a very significant one as it is easy to open an ice cream shop, it is more difficult to come up and implement *EI* processes that can be copied.

EI will have to spend money on training costs and to ensure that the same ingredients are sold to each of the franchises to ensure consistency and high standards. *EI* is currently a 'local' brand. If franchising is to go 'national' then investment in the brand name will be needed.

Control will be remained in the family but *EI* will have to ensure that each franchisee adheres fully to *EI*'s format. Poor service as well as poor quality ice cream will result in a major damage to the brand name.

Accept any relevant/ applicable argument for and against each option.

To sum up:

Candidates can recommend any option provided is well substantiated. For example:

Making more profit is not really a significant argument for *EI*. *The issue power/control and EI's USP are of higher significance perhaps more than the speed.*

Arguments for and against that simply mirror each other, cannot be judged as balanced/ or as two arguments.

Accept any other relevant argument for each option.

It is expected that candidates provide a conclusion with a substantiated judgment.

Accept any substantiated judgment.

Marks should be allocated according to the mark-bands on page 3.

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].

If a candidate evaluates / addresses only one option, award a maximum of [5].

*A balanced response is one that provides at least one argument for and one argument against **each option**. A balanced argument for Option 1 must consider **both the financing as well as the growth aspect***

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

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 response.

Maximum Mark award	Option 1	Option 2	Judgments/conclusion
3	One argument, unbalanced	N/A	N/A
4	One argument, unbalanced	One argument, unbalanced	N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7-8	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response

5. (a) State **two** types of external growth. **[2]**

Types of external growth include:

- Mergers
- Acquisitions
- Strategic alliances
- Joint ventures
- Franchising

Award [1] for each type of external growth up to [2]. Maximum award: [2].

(b) Explain **one** advantage **and one** disadvantage for *FI* of motivating its employees using Taylor's motivation theory. **[4]**

Taylor's motivation theory will clearly have advantages for *FI*.

Advantages:

- Setting 'specific targets' enhances production levels for *FI*
- Having 'close monitoring' enables better control for *FI*
- Due to the 'close monitoring' quality standards can be maintained and errors reduced
- Limited consultation enables quicker decisions by management
- Careful planning of tasks allow optimal use of resources for *FI*.

Disadvantages:

- The need to 'monitor closely' requires more management/supervisory time
- Reducing all tasks to fixed routines reduces flexibility
- Using Taylor does not allow team working which might otherwise give efficiency benefits
Does not encourage creativity and new ideas for production methods
- There is clearly potential stress under this motivational regime. Pressure to perform and meet international quality and safety standards. This could be demotivating for some workers and it could increase staff turnover at *FI*.

*Award [1] for a theoretical response with an additional mark for application to *FI*.*

Do not reward candidates who argue the advantages/disadvantages from the point of view of the worker and NOT the company.

Mark as a [2+2].

(c) Explain **two** reasons why Jacques may have found the transition difficult when *FI* became a public limited company. **[4]**

When *FI* became a public company, Jacques's situation changed. As a largely autocratic leader, he had not ever had to explain his decisions to anyone. He was in control. Now that he is the head of a public limited company with many shareholders, he had to explain his decisions to a board of directors that he had not personally selected.

As head of a privately held company, Jacques could use company resources as he saw fit. If he made a poor decision and it hurt the finances of the company, he was only hurting himself. Now, as head of a publicly traded company, he has a fiduciary responsibility with the resources of the company. All resources should be used judiciously with the aim of improving the return to shareholders.

As a public limited company, *FI* was subject to greater media scrutiny, which meant that any issue or problem was potentially subject to public viewing through the press. Jacques had always valued privacy. He largely controlled what information got to the press. Now as head of a publicly traded company, *FI* had to adopt an aggressive public relations strategy as a way to minimize informational risk and maximize shareholder value.

Accept any other valid and relevant reason Jacques may have found the transition difficult.

Mark as **[2 +2]**.

Award [1] for identification of a reason he may have found the transition difficult and an additional [1] for explanation and application.

- (d) Recommend whether Henri should choose **Option 1** or **Option 2**. **[10]**

The advantages of long-term debt are that *FI* gets money now and the repayment is over many years. Ownership is not affected by long-term debt, and, for a company as old and established as *FI*, financing from banks or other financial institutions would probably not be that hard to obtain.

The disadvantages of long-term debt are that interests costs will rise, which increases outflows and liquidity will decrease. Additionally, the bank may put some restrictions on *FI* in the loan agreement which might limit future liquidity solutions in the future.

The alternative method, issuing and selling additional shares of stock, has the advantage that it would raise equity, which has no interest payments. Thus, *FI* could raise money and invest it in current assets such that it could start taking trade and other discounts. Liquidity through increased cash inflow would improve.

The main disadvantage is that the ownership of *FI* would be diluted. The Fort family would own a lesser percentage of the company than they currently do. Further, with greater equity, return on capital employed ratios would probably initially go down. Stakeholders will be concerned by this perceived fall in profitability.

Any other strategies probably would not be appropriate or enough to fix the problems. Tinkering around with the composition of current assets is unlikely to make much of a difference. Presumably, *FI* turns its inventory as fast it can. Making debtors pay more quickly is not very likely to occur, as they will resist. This move could give *FI*'s competitors a competitive advantage if competitors do not alter payment terms.

Maximum Mark award	Debt	Equity	Judgments/conclusion
3	One argument, unbalanced	N/A	N/A
4	One argument, unbalanced	One argument, unbalanced	N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7-8	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response

“Balanced” means that the candidate has provided at least one argument for and one arguments against for each option.

Award marks according to the markbands on page 3.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

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.

Award a maximum of [6] if the answer makes no reference to the quantitative data in the question.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their response.

Section C

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

Candidates need not explicitly say “stakeholder”.

