IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
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M04/370/H(2)

BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2

Thursday 6 May 2004 (morning)

2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. IBM

Louis Gerstner, former chairman and CEO of the US computer giant *IBM*, once said that in the 1990s *IBM* stood for a "big, traditional company" with "controlled and reliable staff" in "dark suits, ties and white shirts". What was interesting is that this description referred to people and culture, rather than to products or services.

Clear vision, strategy and marketing, combined with good financial management can carry a company, but no enterprise can succeed in the long run if these do not become part of the company's culture. Inevitably, as the world changes, the culture may no longer reflect the purpose of the business, and may affect sales and profits. For *IBM*, worldwide standards were essential to ensure common products for customers operating on a global basis. However, in the 1990s, *IBM's* departments and branches appeared to be bureaucratic and competing against each other rather than cooperating. Activities were repeated at every level of the organization, because managers did not trust their colleagues.

Although Gerstner recognized that the external environment was changing and that *IBM* needed to adapt to fast moving markets and new technologies, he found it difficult to update the firm's existing highly structured company culture. Gerstner realized that only the workforce itself could change the culture of *IBM*; change could not be imposed. Gerstner created the conditions and provided the incentives for change. Employees began to take personal responsibility for outcomes, without waiting to be told what to do. *IBM* developed the ability to handle a high level of internal change and rather than hiding from conflict, employees began to manage, and even benefit from it.

[Source: adapted from *The Battle to Change Corporate Culture in IBM*: Louis Gerstner *The Times* 14 November 2002]

(a) (i) Explain the term *corporate culture* with reference to *IBM*. *[3 marks]*

(ii) Examine why Louis Gerstner felt it necessary to change *IBM's* culture. *[3 marks]*

(b) Evaluate the conditions that could be created and incentives that could be introduced, to reduce employees' resistance to change. *[8 marks]*

(c) Analyse the factors that influence the degree of centralization and decentralization in multinational companies like *IBM*. *[6 marks]*

nust only listen to its shareholders and be judged only on its
er adequate. The market wants more competitively priced, high
judge products by the reputation of the provider and the ethical
been produced.

st petroleum and petrochemical groups with a turnover in 2001
is fundamentally different from the *BP* of just a few years ago.
BP's commitment to environmental improvement. Its mission
bring economic benefits and greater opportunities for all those
has promised to go "beyond petroleum" by bringing economic
ies in which it operates, and to develop sustainable forms of
nillion in a solar power business that has yet to make a profit. It
state publicly that climate change was a problem caused by oil
its own pollution below 1990 levels. *The Washington Times*,
's tough pollution target was merely an attempt to secure

petroleum"? Certainly, oil companies have little choice. Their
ause oil will run out. In Alaska, for instance, *BP* is working flat
the growth phase is over and decline is imminent. *BP* plans to
in the Indonesian province of West Papua, a remote and
d. *BP* says that it wants this project to be a model of social
development.

orporate Social Responsibility – The Times 16 December 2002
id Society, Will Hutton – *The Observer* 8 July 2001]

between a firm's logo and its mission statement
BP. *[3 marks]*

cies that *BP* could implement in their new plant
out their mission statement into practice. *[3 marks]*

g ethically and with social responsibility can
rcial and competitive advantage. *[8 marks]*

ind it difficult to satisfy all its stakeholders. *[6 marks]*

Turn over

(Question 5 continued)

(a) (i) Showing full working, calculate the total weekly profit/loss being made by *Wholeheart Bakery* at the present levels of output. *[3 marks]*

(ii) Calculate the change in profit/loss if *Wholeheart Bakery* accepts the offer to manufacture exclusively for *Max-Mart*. *[1 mark]*

(iii) What price per box would *Wholeheart Bakery* need to charge *Max-Mart* to achieve the required 30 % increase in profits over present levels? Show your working. *[3 marks]*

(b) To what extent should the decision to accept or reject *Max-Mart's* order be based on the financial data provided by the production manager? *[6 marks]*

(c) Analyse the reasons for the growth of own brands (supermarket/private brands) and suggest how manufacturers can maintain market share. *[7 marks]*

6. Primature Inc

Following a 13 % increase in orders over the last six months, *Primature Inc* is considering the expansion of its production facilities. It is presently producing at 98 % of its production capacity. The production manager is examining two expansion options:

Option 1 – The construction of an extra production line in the present factory building at a cost of $1.5m. This will increase capacity by 16 %.

Option 2 – The construction of an additional factory unit at a cost of $3.5m. The new building could be designed to allow for cell production and just in time (JIT) management. This would cut costs and provide additional future production flexibility and human resource advantages. Capacity could be increased by a maximum of 40 %.

The recent increase in orders is as a result of improved economic conditions. However, the finance director is not convinced it is wise to invest in either option before it is clear that the increase in economic growth will be maintained. He believes unit price and revenues can be increased at current output, provided economic growth remains constant or improves. Economists differ on their forecasts for the next five years. 40 % of those asked believe that the economy will strengthen over the next five years. 30 % believe that average growth over that period will remain constant, whilst 30 % believe there will be a decline in economic growth. The production manager estimates the following profit/loss outcomes for each of these predictions:

	Option 1 (new line) $m	**Option 2 (new factory) $m**	**Option 3 (no expansion, increase unit price) $m**
Economy strengthens	6	9	4
Constant economic growth	3	4	3
Declining economic growth	1	2	–1

(a) (i) Construct a fully labelled decision tree showing *Primature Inc's* options with the financial costs and outcomes for each option. *[3 marks]*

(ii) Using your decision tree, decide which option *Primature Inc* should select on purely financial grounds. Show full working to support your choice. *[4 marks]*

(b) Describe **three** benefits of using decision trees. *[3 marks]*

(c) Evaluate the extent to which additional non-financial and financial factors may support, or not support, the choice of option selected for *Primature Inc* in your answer to question (a)(ii). *[10 marks]*