



# **MARKSCHEME**

**May 2008**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 2**

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1. (a) Define the term *niche market*.

[2 marks]

A niche market is a narrowly defined group usually identified by dividing a segment into sub segment or by defining a group with a distinctive set of traits who may seek a special combination of benefits.

[2 marks]

A niche market is accurately defined.

[1 mark]

There is an attempt to define a niche market that identifies some appropriate elements of a definition, but it may not be complete.

(b) Explain the advantages to major corporations, like *Dell* and *IBM*, of market segmentation and consumer targeting.

[8 marks]

Market segmentation is the initial grouping of customers according to shared characteristics such as gender, age, occupation, family status and life-cycle, location *etc.* If the buying behaviour of these groups is distinctive, then it will have significance in marketing terms. Particular groups could then be targeted in the promotional activities of the business. The task for those involved in marketing products and services is to segment the population in ways appropriate to their marketing.

The basic foundation of marketing success is “knowing your customer” and is an integral part of segmentation. Market segmentation reveals market opportunities. If a segment is judged sufficient/effective and relevant for an organization, the processes of targeting will commence (the second stage of the process). Consumer targeting will result in the business developing a separate mix for each segment appropriate to the needs of that segment. This might include identifying through market research as to what these customers watch and read, how much they earn, where and how they shop and what products and services they use and why. This knowledge is likely to result in more cost-effective and successful marketing.

Large MNCs, like *Dell* and *IBM*, have the resources to identify segments within their markets and to produce differentiated goods and services, which address the needs of each segment. This may result in an increase in sales. *Dell*, for instance, will produce different computers for the business segment as opposed to the domestic user. They will be able to address the needs of more technologically aware consumers as those found using *Second Life*. Being more customer focused will allow them to minimize their marketing spend whilst increasing market share and revenues.

**[6 to 8 marks]**

The explanation clearly exhibits understanding of and a clear distinction between market segmentation and consumer targeting and the resulting advantages. Examples are given which provide a range of relevant advantages to large corporations such as *Dell* and *IBM* of this marketing approach using appropriate business terminology.

**[3 to 5 marks]**

The explanation exhibits some understanding of market segmentation and consumer targeting but does not make a clear distinction between them. Some resulting advantages are explained. Relevant examples may be given at the top end of the band and there is some use of business terminology. For **[3 marks]**, the answer may be descriptive and lack some detail.

**[1 to 2 marks]**

The answer lacks detail, any depth and structure, but has some limited understanding.

- (c) Discuss how firms may adapt their marketing strategies and marketing mixes to changes in technology such as the growth of *Second Life*.**

**[10 marks]**

This question allows candidates to provide a range of potential answers. Suggestions below are not comprehensive, but candidates do need to address key elements of the question and focus on new technologies. Clearly, the depth and breadth will be far less than illustrated below.

Marketing strategy is a carefully evaluated plan for future marketing activity that balances company objectives, available resources and market opportunities. New market opportunities are created as technologies evolve. At the core of strategy must be market research to identify and understand consumer behaviour. It will also indicate future trends and sales patterns. New technologies will allow firms to gather information more quickly and effectively, e.g. on-line questionnaires, data capture *etc.* Having acquired market information, firms will then have to adapt their marketing operations through their marketing mixes to address future market needs.

Candidates may use a range of approaches to identify and discuss strategies. Ansoff's matrix, for instance, may be used to identify suitable strategies. For instance, *Dell* and *IBM* are using forms of product and market development in *Second Life*, falling short of a complete diversification. *Any other relevant marketing strategies should be awarded (e.g. niche marketing).*

**Marketing Mix:**

**Place:** With globalization and new information and communication technologies, firms will be distributing products in new and innovative ways. *Dell* already only sell online – direct selling becomes more feasible with technological advances and allows prices to be more competitive with lower administration costs. This concept has been extended to sell “virtually” as well within *Second Life* and may involve more specialist access to social forums such as *MySpace*. However, the market can become very crowded. Security issues might also undermine the success.

**Product:** Products are moving more quickly through their life-cycles. New Product Development is likely to become an increasingly important element of marketing strategy. However, new products are likely to be adaptations of existing products, such as the iPhone, which was a response by *Apple* to the “converged” handsets of competitors such as *Sony Ericsson’s* Walkman phone. Large companies like IBM and Dell may gain increasing market strength as they have the resources to invest into research and development. Joint ventures may also become more prevalent. Costs of R&D are likely to increase but companies like Dell and IBM are highly likely to be able to have the required funds. Issues regarding copyrights might prevail.

**Price:** Pricing strategies will have to be more carefully tailored to specific market segments. New technologies may allow for price skimming provided the firm has first mover advantage. However, increasing access to market information and price comparisons and transparency mean that firms may have to ensure they are price competitive and somewhat restrict price skimming possibilities.

**Promotion:** With increasing “clutter”, promotion strategies will have to explore the new opportunities. In *Second Life* the concept of selling virtual products and services offers firms the opportunity to test market new concepts, possibility without the expense of a full launch. The *BBC* has taken the opportunity to launch new rock bands in this manner. New technology should allow firms to target specific markets more cost-effectively. Television advertising may become more available to small firms on niche satellite channels, and increasing use of “pop-ups” “spam” or junk mail will occur as the nature of information exchange diversifies. The integration of technologies such as the telephone and television will allow for more innovative promotional approaches. However, information overload and consequent customers reaction – the use anti spam or anti pop ups software might somewhat reduce the effectiveness of the above. Moreover, the net has enhanced viral and guerrilla marketing both with costs.

**[8 to 10 marks]**

There is detailed and balanced discussion of the how firms may adapt marketing strategies and marketing mixes to changes in technology, which exhibits a thorough understanding of strategy and marketing mixes. The answer is applied to companies such as *Second Life* or through references to a range of other examples of firms adapting to changes in technologies. Some substantiated judgments may be made and/or conclusions drawn in the response.

An extensive use is made of the subject terminology/concepts.

**[5 to 7 marks]**

At the top end of the band there is a largely balanced discussion/analysis of the how firms such as *Second Life* may adapt marketing strategies and marketing mixes to changes in technology. The answer is applied to companies such as *Second Life* or new technologies although this may lack some detail.

A good use is made of the subject terminology/concepts.

At the top end of the band, there may also be an attempt to present some form of judgments or conclusions but they may not be fully supported/substantiated.

At the bottom of the band there may be little distinction between marketing strategies and mixes, the answer becomes increasingly descriptive and any analysis lacks depth and/or balance.

**N.B.** One-sided or completely unbalanced responses can only reach the bottom of this markband.

**[3 to 4 marks]**

The answer is descriptive about how firms adapt marketing approaches to changes in technology. There may be no distinction between marketing strategies and marketing mixes. Limited or some use is made of the subject terminology/concepts.

**[1 to 2 marks]**

The answer is limited and generalized.

2. (a) Using straight-line depreciation, calculate the annual provision for depreciation that George had omitted. *(Show all your working)* *[2 marks]*

$$\text{SLD} = \frac{\text{Historic cost} - \text{scrap value}}{\text{Estimated life of asset}} = \frac{\$200\,000 - \$40\,000}{4 \text{ years}} = \$40\,000 \text{ p.a.}$$

*[2 marks]*

The calculation is accurate and the working shown, although the formula may not be stated.

*[1 mark]*

The calculation is accurate but no working shown or inaccurate with appropriate working.

- (b) Using the financial information provided for 2008 and 2009, prepare profit and loss accounts for the two years, adjusting the figures in the table above to include the provision for depreciation and re-calculating the tax payment to equal 25 % of net profit before tax. *[8 marks]*

	2008	2009
	(\$000)	(\$000)
Turnover	485	870
Cost of sales	<u>245</u>	<u>450</u>
<b>Gross profit</b>	240	420
Expenses and administrative costs	<u>131</u>	<u>178</u>
<b>Total operating profit</b>	109	242
Non-operating income	<u>11</u>	<u>13</u>
<b>Net profit before interest and tax</b>	120	255
Interest paid	<u>20</u>	<u>55</u>
<b>Net profit before tax</b>	100	200
Tax	<u>25</u>	<u>50</u>
<b>Net profit after tax</b>	75	150
Dividends	<u>60</u>	<u>75</u>
<b>Retained profit</b>	15	75

*N.B.* The expenses figure is adjusted to include the provision for depreciation calculated in 2(a). Do not penalize. Accept own figures in 2(b).

***[6 to 8 marks]***

At the top end of the band accurate and well structured profit and loss accounts are prepared for the two years, adjusting the provided figures to take account of the additional provisions for depreciation and adjusting the tax payment to equal 25 % of net profit before tax. At the top end of the band it is expected that all the sub headings as presented in the markscheme are included – GP, operating profit before tax *etc.* The depreciation is classified/put under expenses. Some minor errors may be presented at the lower end of the band. One main subheading may be missing at the lowest end of the band.

***[3 to 5 marks]***

Profit and loss accounts are prepared, which have up to two errors at the top of the band. Less accurate answers that may not cover two years, are not entirely well laid out and/or may have calculation errors are awarded ***[3 marks]*** or ***[4 marks]*** depending on the number and magnitude of the error. If the final figures are accurate but the format is inaccurate/inappropriate award up to ***[4 marks]***. If all calculations are correct, the structure is appropriate but there is no allowance for depreciation, a maximum of ***[4 marks]*** can be awarded.

***[1 to 2 marks]***

The accounts lack accuracy with many major errors and omissions, may not cover two years and are poorly formatted.

***N.B.*** Ensure that candidates are not double penalized for errors carried through.



(c) Evaluate potential sources of finance for a small business like *Gemel Ltd* to fund the purchase of the following:

(i) stocks of finished goods for resale

(ii) delivery vans

(iii) land and buildings.

[10 marks]

(i) The purchase of stocks of finished goods for resale is revenue expenditure and requires short-term finance. Likely sources include:

- Trade credit. The advantage of this is that the firm has both the goods and the money to pay for these. In addition the firm may be offered a discount to pay the invoice earlier.
- Working capital or by using retained profits to pay for the goods outright. The disadvantage of this would be that firm is not taking advantage of an extended credit period. *Gemel Ltd* has retained profit to facilitate this option does and this option not involve extra costs.
- A bank overdraft if credit is not available. This will need to be repaid in the short term with interest. Also, the bank can stop the facility without much advanced notice.
- Other possibilities such as a credit or store card. These may provide interest free credit if the balance is paid on time, but may incur high interest charges if it is not. Probably not a likely option to be used but it does not specify in the stimulus what the company sells.

The essential factor is that the source identified is short term.

(ii) The purchase of delivery vans is a medium term, capital investment.

Sources of finance include:

- Hire purchase involves paying for the vans by instalments. The finance company retains ownership until the business exercises its option to purchase at the end of the term. A deposit is required. The firm will end up paying more than they would if they purchased the van outright and it could be repossessed if it falls behind on instalments. Might be a suitable option given the increase in costs in 2009. Also, the opportunity costs of expenditure on van might be less dividends to the shareholders. This option might not be popular.
- Leasing is a common way to finance new fixed assets. No deposit is required. A contract commits the firm to pay a monthly sum for a number of years. The vans will never become the property of the firm, but the leasing company will retain the responsibility to maintain them. The business has the use of the van without the capital expenditure and can get new vans when the contract is complete. Payments are greater in the long run and the lease may put limitations on use such as mileage. The user does not gain from the residual value of the van.
- Bank loans are flexible in term. The bank will require well thought out supporting documentation and are also likely to ask for security, which may be lost if the business falls behind with payments. Interest is charged, increasing the overall cost of the vehicles. Ownership does pass and the firm is entitled to sell the vans at anytime. The interest paid has already increased quite considerably in 2009.

Again the suggestions should include sources appropriate to the term required and to the need. It is recognised that as a small firm, the size of any loan may be restricted by the availability of security.

(iii) The purchase of land and buildings is a long-term capital investment.

Sources of long-term finance include:

- A mortgage. The same as a bank loan supported with collateral. Being a young and small organization, *Gemel Ltd* might not have sufficient assets that can be used as collateral.
- Sale of assets. This may offer the opportunity for a business to remove assets it no longer requires and to use the proceeds to expand into new areas. The assets, however, may be sold at below cost or at a reduced value if market conditions are not good. See above.
- Venture Capitalists or business angels may offer finance for higher risk ventures where more conventional means fail. However, the investor may require some part ownership, although it will often be a minority shareholding. George might not want to part from his 80 % holding. However, he might still be a majority shareholder even if he gives some shares to the venture capitalist.
- Grants may be available from the government or some regional grouping such as the EU or NAFTA. Other independent agencies may offer finance for specialist groups such as young entrepreneurs or new businesses. Obviously these are restrictive in nature and may not be available.
- Sale of equity and change of business status – the sale of equity can raise considerable funds, but at the risk of diluting ownership or the risk of takeover. However, the owners can still retain control. Perhaps this option is not yet appropriate given the fact that the organization was established in 2008.
- Debentures or corporate bonds: similar to a mortgage, these are long-term loans secured against a specific asset. As a small organization, *Gemel Ltd* might again not be in the position to attract investors through this option.

The suggestions should include sources appropriate to the long-term requirements. It is recognised that as a small firm, the size and availability of finance may be restricted. However, some grants may only be available to small firms. It is expected that some judgment is made regarding the appropriate sources of finance. Accept any substantiated judgment.

**[8 to 10 marks]**

There is detailed evaluation of a range of potential sources of finance for *Gemel Ltd* to fund stocks, vans and land and buildings. The choice of finance recognizes the specific needs (short, medium, long term) and position of *Gemel Ltd* (new, small, one person hold the majority of shares and so on). There are supported judgments made either throughout the answer and/or at the end and all purchases are considered.

An extensive and appropriate use is made of the subject terminology/concepts.

The above but only two purchases are considered award up to **[7 marks]**.

**[5 to 7 marks]**

There is a relevant analysis of some potential sources of finance for an organization such as *Gemel Ltd* to fund stocks, vans and land and buildings but the analysis lacks depth. There is an attempt at evaluation at the top end of the band. The choice of finance recognizes the specific needs and position of *Gemel Ltd* and the term and all purchases are considered.

Good use is made of the subject terminology/concepts.

At the top end of the band, there may also be an attempt to present some form of judgments or conclusions but they may not be fully supported/substantiated.

At the bottom end of the band, the analysis lacks depth and balance and one purchase might have been overlooked or there is no appropriate reference to *Gemel Ltd*.

When only one source of fund option for each category is analysed and evaluated award up to **[6 marks]**.

**N.B.** One-sided or completely unbalanced responses can only reach the bottom of this markband.

**[3 to 4 marks]**

The answer about sources of finance is descriptive and may be inappropriate as they are not matched to the term and/or to the fact that *Gemel Ltd* is a small limited company. A relevant list is provided for **[3 marks]**. Limited use is made of the subject terminology/concepts. One purchase option may be evaluated.

**[1 to 2 marks]**

The answer is limited and many of the sources identified are inappropriate and/or coverage does not include all purchases.

3. (a) Define the term *capital expenditure*.

[2 marks]

Capital expenditure is spending by firms on fixed assets and capital equipment. This includes spending on machinery, equipment and buildings. Capital expenditure is also termed investment.

[2 marks]

Capital expenditure is accurately defined.

[1 mark]

There is an attempt to define capital expenditure that identifies some appropriate elements of a definition, but it may not be complete.

(b) Explain the driving forces that influence companies, such as *Vodafone*, to become more global in their operations.

[8 marks]

Driving forces:

The mobile phone market is reaching saturation in developed markets. Globalization increases the size and scope of markets and offers opportunities for expansion of sales and the customer base, especially into the new emerging economies, such as India and China. For instance, *Vodafone's* revenues in emerging markets are forecast to rise to \$310bn by 2010, 79 % above 2006, equivalent to an annual growth rate of more than 12 %. This compares to 4 % growth in the *Vodafone's* mature markets. This growth will lead to higher profits and greater shareholder satisfaction.

Expanding into global markets allows for mass production and the advantages of economies of scale. Location overseas can provide advantages related to cheaper raw materials and costs. There are risk-bearing, managerial and purchasing economies. Joint ventures reduce costs and allow easier access. Agents or joint ventures may be used to ease the problems of setting up in new location. The opening of global markets enabled *Vodafone* ownership of a 10 % stake in *Bharti Telecom* and 3.27 % in *China Mobile* and has built relationships with local regulators.

Improved ICT applications allow fast and accurate communications worldwide, which are relatively cheap. The pool of skilled labour is increasing globally, and wage costs are often lower when operations are outsourced. Decentralization may make businesses more flexible to local conditions.

**Another** possible context which candidates may use to articulate driving forces (but not necessary) is to use stakeholder motivation to explain how driving forces may influence companies such as *Vodafone* to become more global in their operations.

Shareholders looking to boost profitability and protect shareholder value may act as a significant driving force especially if domestic and international markets are saturated.

With *Vodafone* being a major leader in the telecommunications industry and thus may enjoy a near monopoly in the domestic market may look towards global markets, if government policy or the domestic regulatory environment favours the introduction of new entrants and forced competition. This has occurred in the UK where competition was deliberately introduced to compete with incumbent firms. The overseas regulatory framework may be less restrictive opening up new market segments and thus increased sales.

A key driving force could be the fact that competitor firms are also looking to move into global markets. *Vodafone* may have to respond especially if they wish to boost or at worst maintain market share.

Finally, the urge to move into global markets may be cost based especially if local suppliers can be sourced to provide quality support. In India and China the local suppliers may provide significant cost savings.

**Note to the examiners:** *there is a degree of overlap with some of the points mentioned with the use of PEST factors in the scheme especially through cost but perhaps clarifying the stakeholder model may allow markers to differentiation between a range of driving forces (Band 3) and some driving forces (band 2).*

**[6 to 8 marks]**

The detailed explanation covers a range of driving forces that influence companies, such as *Vodafone*, to become more global in their operations. Examples are given which cover issues such as sale and manufacture and it refers to examples from the data provided. Extensive use is made of the subject terminology/concepts and links to a range of stakeholders or through a PEST framework. However, explicit use of these frameworks is not required given the fact that the question did not ask for such use. Accept any other relevant driving forces.

**[3 to 5 marks]**

The explanation covers some driving forces that influence companies, such as *Vodafone*, to become more global in their operations but it may lack some details. At the bottom of the band the answer is essentially brief, list like or repetitious. If no reference is made to the information in the stimulus, award up to **[4 marks]**. Some use is made of the subject terminology/concepts but it may be limited toward the lower end of the band.

**[1 to 2 marks]**

The answer lacks detail and structure, but has some limited understanding.

- (c) **Evaluate potential difficulties *Vodafone* may face expanding further in the developing markets of India and China.**

**[10 marks]**

Candidates may answer this question in variety of ways and incorporate some theory such as the BCG or Ansoff matrix.

Tastes and cultures vary worldwide and what is successful for *Vodafone* in developed markets may not be the same in China and India. There is increasing competition in new markets, not least from domestic suppliers. *Vodafone* lacks some local knowledge and experience, which may prove commercially damaging. Many MNCs have come unstuck assuming that reputation in one country will provide competitive advantage in another. There are many examples of failed expansion or diversification into new markets and it can be a high-risk strategy. There is inevitably a large investment required for the putting in place the necessary marketing and for the development of new distribution networks.

There may be opposition from local firms and communities. However, these difficulties may be overcome by suitable alliance with local firms and agents and by suitable market research and the use of local employees will help. The article also suggests that *Vodafone* has a first mover advantage in developing economies, which means it should have already earned some customer loyalty and goodwill.

Outsourcing or moving manufacturing abroad may lead to lower controls on quality. There are also risks associated with exchange rate fluctuations, economic instability, high inflation rate, political instabilities, political opposition from domestic governments may lead to restrictions on operations and may affect attitudes to expansion plans or other operational activities. Administrative procedures may slow the process of expansion and increase the costs (bureaucracy is rife in India and China and there may be limitations on freedoms and some dangers associated with bribery). Government controls and favourable attitudes to domestic suppliers may operate, although membership of regional blocks should encourage greater liberalisation of markets in the future. There may be little knowledge of local suppliers and associated higher costs of administration may offset the lower costs of production. Social attitudes and cultural approaches might be against the overseas org and may affect co-ordination and the implementation of corporate objective. Skills shortages may occur in these developing markets. Although ICT applications have improved, reliability and compatibility can still be an issue and communication may be problematic. Decentralisation may damage the reputation of the entire business if it is unsuccessful.

The potential dangers of expansion into new markets, particularly those of the emerging nations of India and China should not be underestimated. However, the possible rewards for such expansion are clear to see. It appears that *Vodafone* is actually trying to overcome some of the possible difficulties by building relationship with local government regulators. Moreover, by buying shares in local companies, *Vodafone* is likely to further reduce potential cultural and legal difficulties. *Vodafone* might also enjoy the advantage of being an early mover into developing countries. Perhaps, it can be judged that given the positive statistics presented in the stimulus that the potential gain might outweigh the potential difficulties but the difficulties are not to be ignored but should not significantly hinder *Vodafone* success in India and China. Accept any substantiated judgment.

**N.B.** Country specific knowledge is not expected as long as a general understanding is evident of possible difficulties within a given framework.

**[8 to 10 marks]**

There is detailed evaluation of a range of potential difficulties *Vodafone* may face expanding further in the developing markets of India and China. The answer is applied to *Vodafone* and includes references to the stimulus materials. There are supported judgments made either throughout the answer or/and at the end.

Extensive use is made of the subject terminology/concepts.

**[5 to 7 marks]**

There is analysis of some potential difficulties *Vodafone* may face expanding further in the developing markets of India and China.

A good use is made of the subject terminology/concepts.

At the top end of the band, there may also be an attempt to present some form of judgments or conclusions but they may not be fully supported/substantiated.

At the bottom end of the band, the analysis lacks depth and/or balance and there is no application to *Vodafone*.

**N.B.** One-sided or completely unbalanced responses can only reach the bottom of this markband.

**[3 to 4 marks]**

The answer is descriptive and lacks depth and some substance. Some/limited use is made of the subject terminology/concepts.

At the bottom end of the band it will appear list-like.

**[1 to 2 marks]**

The answer is limited and generalized.



4. (a) Define the term *batch production*.

[2 marks]

Batch production is the production of a group (batch) of identical items at the same time. The batch stays together and moves from one stage of the production to the next until all processes are completed.

[2 marks]

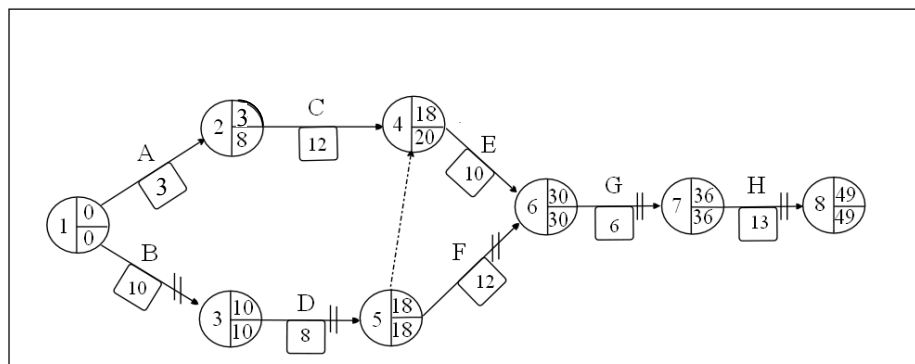
Batch production is accurately defined.

[1 mark]

There is an attempt to define batch production that identifies some appropriate elements of a definition, but it may not be complete.

(b) (i) *In your answer booklet, construct a completed network diagram for the building project using the information provided in the figure above. Show the earliest start time (EST) and latest finish time (LFT) for each activity and identify the critical path.*

[6 marks]



CPA = B,D,F,G,H  
Duration = 49 weeks

[6 marks]

The network is completely accurate.

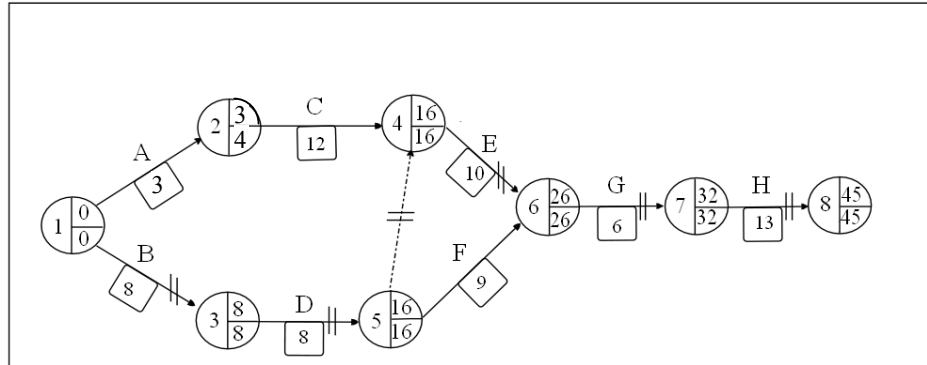
[1 to 5 marks]

The network has errors in EST, LFT and/or the critical path. Deduct [1 mark] for each error, but do not penalize a candidate more than once for an error which is carried through.

If the CPA is not shown/identified deduct [2 marks].

- (ii) Calculate any changes to the duration of the project *and* to the critical path if Susie Chen reduces the time taken to complete activities B and F as she planned.

[2 marks]



CPA = B,D,dummy, E,G,H  
 Duration = 45 weeks

The candidate does not need to produce another CPA, but just identify changes to CPA and duration.

A critical path identified but based on inappropriate calculations should be rewarded (as long as the EST and LFT are identical on the chosen path).

Award [1 mark] for identifying the new critical path and [1 mark] for the correct duration. If the dummy is not included in the critical path – the answer is not complete.

- (c) **Discuss how Susie Chen should introduce *and* manage her proposed changes to ensure their successful implementation.**

**[10 marks]**

Susie is determined to update the organization structure of *PMG* and to introduce new patterns of production, such as moving from batch to flow production. She is focusing on:

- the development of flexible project teams
- introducing a total quality management culture, including TQM, benchmarking and continuous improvement
- using new production and administrative technologies.

All of these changes will have implications for existing staff, who may feel threatened. It will involve training and adopting new work practices. There may be considerable opposition from staff who feel undermined, overly challenged, incompetent to deal with the new practices or see no need for change.

For Susie, the key elements of the management of change are:

- careful planning and communication with employees
- a clear explanation to the workforce on the need for, and purpose of, change
- showing the benefits of change – create a shared vision
- reducing fear if this is possible by emphasising the positive outcome of the changes, providing reassurance when appropriate re training, employment
- involving the workforce and managers in the decision-making process as far as possible
- training staff in order to enable their effective participation in the new practices suggested (TQM, flexible project team) and to accept and even embrace change – this will increase commitment and enable smoother and possibly a more successful implementation of the change.
- negotiating carefully with those affected by change, trying to make sure that changes appear to be fairly applied. Involving employee associations, especially if the law requires it
- strong leadership in both planning and implementing the change
- *accept any other relevant suggestions.*

It is essential that the staff members are not surprised by change. The reasons for change must be clear and well communicated. It is inevitable that change may affect some staff adversely and that there may be resistance leading to conflict. Redundancy is inevitable and promising that it will not happen could be counterproductive. If redundancies are inevitable, perhaps some redundancy payments should be promised as well as assistance with finding new jobs. This should somewhat reduce resistance to change. Perhaps, voluntary redundancies should be looked at first. The involvement of a trade union representative might also reduce some resistance and may diffuse tension during the implementation process. However, if change is planned and the benefits explained then resistance may be minimised. These suggestions clearly increase the costs of the changes and possibly the duration but perhaps it might be worthwhile in the medium to long term.

If the culture of the organization is one that embraces change then it will be easier to implement. Also, the organization is being taken over by a MNC with resources and power to solve conflicts. Susie may decide to impose the change if all fails therefore; it is likely that the planning and the management of the change will be carried out in a cooperative manner.

*N.B.* Please reward candidates who are off focus but give some specific or practical suggestion as to how to implement the proposed changes like TQM, benchmarking *etc* if the suggestions are set within an appropriate context.

***[8 to 10 marks]***

There is detailed and balanced discussion of how Susie Chen should introduce and manage her proposed changes to PMG to reduce possible conflict with existing staff in terms of acceptance of the changes and her ability to ensure successful implementation. The discussion exhibits a thorough understanding of the change process and makes a clear distinction between the introduction of these changes and their management. Some substantiated judgments may be made and/or conclusions drawn in the response.

Extensive use is made of the subject/theories/terminology/concepts.

***[5 to 7 marks]***

There is a largely balanced discussion/analysis of how Susie Chen should introduce and manage her proposed changes to reduce possible conflict with existing staff and to ensure successful implementation of her ideas, which exhibits some understanding of the change process.

A good use is made of the subject terminology/concepts.

At the top end of the band, there may also be an attempt to present some form of judgments or conclusions but they may not be fully supported/substantiated.

At the bottom end of the band, the analysis lacks depth and/or balance.

*N.B.* One-sided or completely unbalanced responses can only reach the bottom of this markband.

***[3 to 4 marks]***

There is description of how Susie Chen should introduce and manage her proposed changes. There is some reference to conflict but little detail on the change process. Limited if any use is made of the subject theories/terminology/concepts.

***[1 to 2 marks]***

The answer is limited and generalized.

5. (a) Define the term *intangible assets*.

[2 marks]

Intangible assets include goodwill, licences, trademarks, patents, brand names and development costs. By definition they do not have a physical form, but they add value to the business.

[2 marks]

Intangible assets is accurately defined.

[1 mark]

There is an attempt to define intangible assets that identifies some appropriate elements of a definition, but it may not be complete.

(b) Comment on how management may adapt work patterns and practices in response to the demographic and social change identified in the article.

[8 marks]

The article refers to the shortages of experienced workers and the demographic changes resulting in a reduction in working age groups. For instance, 15 to 64 year-olds are projected to fall by 7 % in Germany and 14 % in Japan. Changing traditional work patterns and practices may be the only solution.

These changes might include:

- part-time working
- flexible working
- homeworking
- job sharing
- keeping staff beyond normal retirement age
- training and promoting existing staff
- outsourcing.

Firms could sponsor school leavers or current school students to work on a part-time basis and thus financing them through tertiary courses to obtain increased skill levels.

Recruiting more immigrant and temporary workers to fill short term gaps (although the underlying problem is considerably longer term).

Outsourcing to different countries with a slightly different population pyramid while retaining overall control in the company's headquarters. Skilled women with children, university students might accept the first four options.

New technologies allow more flexibility in staffing and homeworking has been growing steadily although the growth is slowing. Communication and control is seen as an issue. Outsourcing is one solution to skills shortages, but if all firms are seeking the same skills, these may become increasingly scarce, even in emerging economies.

**[6 to 8 marks]**

The commentary clearly exhibits understanding of demographic and social change and considers a range of possible relevant changes to work practices and patterns. Information is used from the article.

**[3 to 5 marks]**

The commentary exhibits some understanding of demographic and social change and considers some possible relevant changes to work practices and patterns although coverage may be narrow and/or may lack detail. Examples may be given at the top end of the band. For **[3 marks]**, the answer may be descriptive and lack detail. At the top end of the band, there is some use of business terminology.

**[1 to 2 marks]**

The answer lacks detail, balance and structure, but has some limited understanding.

- (c) Evaluate financial rewards *and* methods of payment that will enable firms to recruit and retain skilled employees.**

**[10 marks]**

Reward is a wider concept than just pay. It includes basic salary and additions and other employee benefits, such as pensions, insurance cover and fringe benefits. The article refers to the fact that firms are increasingly finding it difficult to recruit and retain especially skilled staff given the demographic and social changes outline in the article. Managers will have to decide on methods to reward and motivate people who can easily move elsewhere, especially with declines in loyalty. Firms will need to be able to compete in the job market and motivate staff, but in a cost-effective manner.

Possible reward systems include:

- higher salaries
- piecework
- performance-related pay
- bonuses *e.g.* loyalty
- profit sharing
- share ownership
- fringe benefits.

It is expected that each reward system suggested will be evaluated with respect to the recruitment and retention of new skilled labour.

A shortage would suggest that wages and other payment mechanisms will need to be boosted considerably if demand is greater than supply. Firms may wish to supplement these schemes with share ownership or contract completion bonuses to retain key staff and develop loyalty. However, If workers work in groups, it might be difficult to award individual bonuses. Payment based on piecework might compromise quality. It might be difficult to measure individual productivity if the work is done in groups. The productivity of an employee in the service sector might also be difficult/impossible to measure.

Consequently performance related pay/bonuses *etc.* might be impossible to use.

Other performance related pay schemes may also be necessary although how these are instigated and operated will be a key issue. Will the benefits be spread across all workers in the hierarchy? What is the qualification of a key worker? In order for transparency to exist the firm will have to operate a more democratic leadership style with senior managers giving up some of their authority to encourage participation and to work out a system that is acceptable to all. However, these proposals will add to costs and the time taken in consultation may also lead to delays in seeing results. Until the technology develops to reduce the need for all key workers, firms will have to adapt or face the inevitable consequences. Already as the article suggests skilled workers in highly populated countries such as China and India are enjoying stronger bargaining positions. If shareholders wish to see continued growth in sales and output they may have to accept a reduction in potential profitability.

Hertzberg's motivation theory suggests that payment mechanisms alone prevent dissatisfaction but will not motivate employee. Maslow says that once the lower level of needs are satisfied by financial rewards and different methods of payments, they will no longer motivate the employees who will seek to fulfil higher level of needs. McClelland identified different dominating needs. If the main needs are affiliation for example, money will not motivate the skilled employees to stay in the organization. A firm must be careful not too rely purely on a scientific approach to management especially for key workers who may be high achievers given their skill set. (Charles Handy refers to these workers as Dionysian (anti establishment figures) who view the organization as a tool for their own talents and not the other way round). Any firm wishing to retain these workers must provided higher valued intrinsic forms of motivation and this may conflict with the culture of the organization especially if it regards itself as traditional theory X.

The more that the remuneration system can reflect and reward performance, the better it will be for both the employer and employee. The selected system needs to be perceived as fair. The success of the employee and company will then be related. Combinations of the above need to be developed which are affordable. It is expected that the advantages and the disadvantages of the suggested rewards are incorporated. The effectiveness will depend on the types of the employees and the nature of the jobs. As for judgment – it is unlikely that financial reward systems on their own will guarantee the loyalty of skilled workers. Some intrinsic/non financial rewards might be necessary.

***[8 to 10 marks]***

There is a balanced and thorough evaluation of methods of payments and financial rewards that will help firms recruit and retain valuable skilled employees. The answer refers to the lack of skilled workers from the article and includes references to a range of reward systems. Motivation theories may be applied to enable evaluation re the effectiveness of the rewards and enable access to the top end of the band. The judgment is well substantiated/ supported either throughout the answer and/or at the end.

Extensive use is made of subject terminology/concepts.

***Note: Candidates can reach the top band without using motivation theories provided their answers fit the descriptor.***

***[5 to 7 marks]***

There is balanced analysis of methods of payments and financial rewards that will help firms recruit and retain valuable skilled employees. A good use of subject terminology/concepts.

At the top end of the band, there may be an attempt to present some form of judgments or conclusions but they may not be fully supported/ substantiated.

At the bottom end of the band, the analysis may lack depth and/or balance.

***N.B.*** One-sided or completely unbalanced responses can only reach the bottom of this markband.

***[3 to 4 marks]***

There is description of payments and financial rewards, but there may be few links to recruitment and retention of skilled workers and the answer may be little more than a list for ***[3 marks]***. The relevant theories and concepts may not be used.

***[1 to 2 marks]***

The answer is limited and generalized.



6. (a) Define the term *globalization*.

[2 marks]

Globalization implies an integration and inter-dependence of world economies. It includes a rapid increase in the movement of goods, services and capital across national borders resulting from the removal of many international regulations affecting financial flows. Globalization is related to the increase in the significance of individual businesses that operate in a range of countries.

[2 marks]

Globalization is accurately defined.

[1 mark]

There is an attempt to define globalization that identifies some appropriate elements of a definition.

(b) Explain the reasons why firms such as *AT&T* merge with, or takeover, other firms.

[8 marks]

Mergers and acquisitions are the fastest form of growth. Cost savings are the usual reasons for corporate integration. These savings result from economies of scale, which arise if reorganization takes place, such as bulk buying. Other reasons are that it provides the quickest and simplest means of growth/expansion/diversification.

The reasons for mergers and acquisitions vary according to the type of integration. Some of the reasons for integration are as follows:

Horizontal integration:

- reduce competition and gain market dominance
- rationalization of processes
- purchasing economies
- acquire the intangible assets of other firms such as patents and goodwill.

Vertical integration:

- secures supplies and ensures quality of inputs
- protects outlets
- rationalises distribution networks
- gains economies of scale
- eliminates middlemen.

Lateral integration:

- diversification and spreading of risks
- increase financial strength
- increased utilisation of capacity.

There could be many more examples than those provided above.

**[6 to 8 marks]**

The explanation clearly exhibits understanding of the reasons why firms merge with, or acquire, other firms and provides a range of relevant motivations including economies of scale and/or diversification. Relevant examples are provided. The subject concepts/terminology are appropriately and extensively used.

**[3 to 5 marks]**

The explanation exhibits some understanding of the reasons why firms merge with, or acquire other firms, and provides some relevant motivations including economies of scale. The subject concepts/terminology are used.

At the bottom end of the band the coverage may lack some detail and/or use of the subject concepts/ terminology. A relevant list may be provided.

**[1 to 2 marks]**

The answer lacks detail, balance and structure, but has some limited understanding.

- (c) **Discuss how important the external environment is in influencing the number and size of mergers and takeovers.**

**[10 marks]**

This could be answered in the form of a PEST framework, although this is not a requirement. Alternative answers may look at the reaction of various stakeholders, such as competitors, suppliers, the local community and the government.

**Political/Legal**

There may be opposition to takeovers from central or regional governments. The fear may be that such integration may lead to a monopoly position. Indeed many countries have anti-competition legislation and any proposed integration could be referred to a relevant authority.

Local bureaucracies and intrusive regulation may adversely affect integration. The economies of scale required to make the merger successful may not result if laws make it difficult to downsize and remove staff. Compensation may be payable. Opposition from politicians could make gaining goodwill difficult.

However, many countries see the advantages of mergers and acquisitions in making economies more dynamic and increasing profits in the long run. Therefore, governments may actively encourage takeovers if local firms are not performing well and may close causing resulting issues of unemployment. It may also be seen as a way of encouraging FDI with its anticipated benefits.

**Economic**

The economic environment will provide both opportunities and threats for a newly integrated firm. For instance, recession will be particularly damaging if the integrated business supplies luxury goods and services.

The advantages of integration are that economies of scale will lead to lower costs. This may make the firm more competitive in the marketplace and this should boost demand. It may mean that the firm is more able to deal with cyclical downturns than its competitors.

A takeover may be funded by borrowing; the costs of which will increase or decrease if there are changes in interest rates. When interest is low, merger activity may be stimulated.

Changes in the macro environment may be positive or negative and will influence the success or otherwise of merged firms. Growth within national or international economies will encourage firms to integrate and provide opportunities for the conglomerates. Indeed the size of markets really encourages such unions.

**Social/Cultural**

Customers may react positively or negatively to integration especially if a domestic firm is being taken over by a foreign company. However, increasing globalization and interdependence has perhaps removed the knee-jerk response to MNCs. It may be possible, however, that local pressure groups such as trade unions may attempt to disrupt a merger or acquisition, and particularly if it appears that there will be significant job losses.

The attitude to a newly integrated firm may also be influenced by the perception of its ethical behaviour and its social responsibility towards the local community. A firm, which has a reputation for ruthlessness or for polluting environments, may be faced with opposition from local communities.

**Technological**

Rapid change in technology leads to ongoing and rising research and development costs. The reason for, and the success of large conglomerates is that they can maintain new product development and first mover advantage.

Quickly changing markets, however, may require flexible and fast moving firms. Diseconomies of scale may set in and mean that large corporations resulting from mergers and acquisitions are not lean enough to compete and adapt. There is much evidence, say in the car market that the large corporations such as *Ford* and *General Motors* are finding it hard to remain competitive in an overcrowded and fast moving marketplace.

Clearly no firm, however large, can act independently of its environment. The external environment provided opportunities and threats. The effect of the external environment will vary across markets and countries and the speed of change will be important. As the economic environment becomes more favourable, or the risks of failure more extreme, the number of integrations will increase. This may be influenced by the behaviour of competitors, who may also be seeking to merge with, or takeover, other firms. This will provide competitive advantage and force other firm to take similar action. It is not uncommon for one mega-merger in an industry to be followed closely by another. It may also be the case that the requirements for economies of scale grow as research and development becomes more expensive. Perhaps, it can be judged the external environment – be it the PEST factors or the power and interest of various stakeholders – have a significant role in influencing the number and the size of mergers/takeovers.

***N.B.*** It is not necessary to exclusively use a PEST framework and candidates may refer to elements of it and other related business concepts or models.

***[8 to 10 marks]***

There is detailed discussion of how important the external environment is in influencing the number, importance or size of mergers and takeovers. The answer is broad and covers at least three PEST elements and/or refers to the reaction of various stakeholder groups. Some substantiated judgments may be made and/or conclusions drawn in the response.

Extensive use is made of the subject theories/terminology/concepts.

***[5 to 7 marks]***

There is discussion/analysis of how important the external environment is in influencing the number, importance or size of mergers and takeovers. The answer should cover at least two of the PEST elements and/or refer to the reaction of some stakeholder groups.

Good use is made of the subject theories/terminology/concepts.

At the top end of the band, there may also be an attempt to present some form of judgments or conclusions but they may not be fully supported/substantiated.

At the bottom end of the band, the analysis may lack depth and/or balance.

***N.B.*** One-sided or completely unbalanced responses can only reach the bottom of this markband.

***[3 to 4 marks]***

The response linked to the external environment and its effects is descriptive. Limited use is made of the subject theories/ terminology/concepts.

At the bottom end of the band, the answer may tend to be a list and the coverage may be narrow.

***[1 to 2 marks]***

The answer is limited and generalized.

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