



MARKSCHEME

November 2008

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

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1. (a) (i) **Define the term *economies of scale*.** **[2 marks]**

Economies of scale are the factors that cause the average costs of production to fall in a large scale production.

[2 marks]

An accurate definition is given that refers to the scale of production and to the fall in costs per unit.

[1 mark]

A less accurate or more limited definition but some of the term is evident. For example, a fall in cost is mentioned but not a fall in unit cost.

- (ii) **Explain *two* types of internal economies of scale that *Metro* may benefit from after buying *Wal-Mart*'s stores.** **[4 marks]**

The possible economies of scale that *Metro* may benefit from include:
Managerial economies – the employment of different skilled managers for different departments/functions within a supermarket or in the head office.

Purchasing economies – the benefit of a retailer's bulk buying from suppliers at lower costs.

Marketing economies – the spread of the costs of marketing over larger output. Therefore, unit marketing costs are reduced.

Financial economies – the raising of cheaper finance by *Metro*, if needed, due to its size/market power.

Accept any other relevant examples of economies of scale.

[3 to 4 marks]

A clear explanation and specific application to *Metro* of two types of economies of scale.

[1 to 2 marks]

A clear explanation is provided and specific application to *Metro* of one type of economy of scale. The answer may be general and not directly related to *Metro*. Some relevant examples are given but no identification of specific types of economies of scale is given. If a list is provided award **[1 mark]**.

- (b) **Explain why several stakeholder groups are concerned about the proposed sale of *Wal-Mart's* stores to *Metro*.**

[4 marks]

Stakeholder groups include employees, suppliers, customers, competitors, and the government. *Metro's* growth may have negative consequences for these groups:

Employees: cost-cutting and rationalization may lead to job losses and increased pressures on remaining staff. The bargaining position of *Metro* may lead to lower wage increases in the future in pursuit of higher profit.

Suppliers: the power of an enlarged *Metro* may lead to lower margins as *Metro* seeks higher discounts from suppliers in return for volume sales. Failure to reduce prices may lead to orders going to other firms. There may be fewer competitors to sell to and so the loss of orders and/or lower prices may be disastrous.

Customers: although customers may gain from lower prices, there is a reduction in choice and if there are fewer competitors, it may be tempting for a large retailer, such as *Metro*, to look for additional profit-making opportunities. In addition, it might be argue that the discount chains offer a lower level of customer service. *Metro* already has some market power. It has 640 stores across the country.

Competitors: *Metro* may be able to offer far lower prices than rivals given its large-scale operations and its ability for cost savings. This may lead to closure of rival firms. *Metro* may put pressure on suppliers to offer them lower prices than those charged to competitors.

Government: it is in the interest of an economy to have competition and choice. Larger firms may lead to regional unemployment and the closure of local firms. This can cause problems, such as the decline of traditional shopping areas. Tax yields may be reduced as larger firms are able to offset tax liabilities. Larger firms may lead to the closure of smaller firms who are unable to compete and consequently to local unemployment. Moreover, due to its cost cutting and rationalisation plans, *Metro* is likely to reduce its workforce, hence unemployment will increase.

Accept any other relevant explanation applicable to a relevant stakeholder.

[3 to 4 marks]

A clear and relevant explanation showing an understanding of **two or more** stakeholder interests and why they may be concerned about the proposed sale of *Wal-Mart* stores to *Metro*. For **[4 marks]** there is specific reference to *Metro* and information from the case.

[1 to 2 marks]

A brief explanation or just description of potential reasons for opposition to the proposed takeover, although there may be no clear explanation of stakeholders and/or there may be no reference to *Metro* and the article. There is a clear and relevant explanation showing understanding of one stakeholder.

(c) Evaluate *Wal-Mart*'s decision to withdraw from the German market.

[10 marks]

It is clear from the case that *Wal-Mart* struggled for a long time to establish a presence in Germany. There was an unfavourable external environment and the result was eight loss-making years. The following threats are particularly important:

- competition is stiff and the organization did not make profit for eight years – Economics
- the consumers are loyal to the national brands and resist *Wal-Mart* culture – Social/cultural
- strong and hostile trade union leadership increases the costs of production – Political.

Given such significant threats, perhaps *Wal-Mart*'s management decision to retreat from one country and pursue the same market development strategy (Ansoff) in different parts of the world like China and Latin America can be seen as an appropriate strategic move. The case indicates that *Wal-Mart* avoided the threats in one country and took advantage of some opportunities in another. The entry to these regions was profitable.

However, as specified in the case, some analysts do not agree with such a strategic move. *Wal-Mart* is, or may be seen as, an organization that lacks confidence or will to fight unfavourable/restraining forces. Their image/reputation can be negatively affected in the region. *Wal-Mart* made a significant loss at the sale of its stores. Since most of its failings were cultural, a joint-venture might have been more successful, coupled with new marketing strategies, identifying and developing its USP e.g. service. Still, given the weaknesses and threats mentioned above and *Wal-Mart*'s position as the world's biggest retailer, it is possibly safe to say that the organization's strategic move was appropriate and less risky.

N.B. Given the fact that the decision has been made by the organization, it is expected that the candidates weigh up the arguments presented in the case for and against such a decision. Perhaps some reference to short-term loss versus long-term benefits and some judgment about the significance of each argument for or against. **Any** substantiated evaluation should be accepted for the candidates to reach the top band.

<p>Opinion (discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (more than one) argument in favour and more than one against) analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments are well supported/substantiated.</i></p> <p><i>There is a good knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p>
	<p>4 to 7 marks</p>	<p><i>The response exhibits a reasonable analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments have limited support.</i></p> <p><i>There is some, or inconsistent, use of Business terms.</i></p> <p><i>There is some knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response may be implicitly or inconsistently linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band the analysis/examination within the response is generally balanced and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the lower end of the band the response may lack depth, be unbalanced or tend to be descriptive. There may be also implicit links to the information in the stimulus.</i></p>
	<p>1 to 3 marks</p>	<p><i>A purely descriptive response with very little knowledge and understanding of Business concepts and/or very little use of Business terms.</i></p> <p><i>Any opinions, conclusions and/or judgments are not supported.</i></p> <p><i>Little or no reference is made to the information in the stimulus material.</i></p> <p><i>The response may be no more than a list.</i></p>
	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

2. (a) Define the term *primary market research*.

[2 marks]

Primary or “field” market research is the process of gathering new/first hand information/data that does not exist before the research began. This can be done through customer questionnaires, surveys, focus groups or observation.

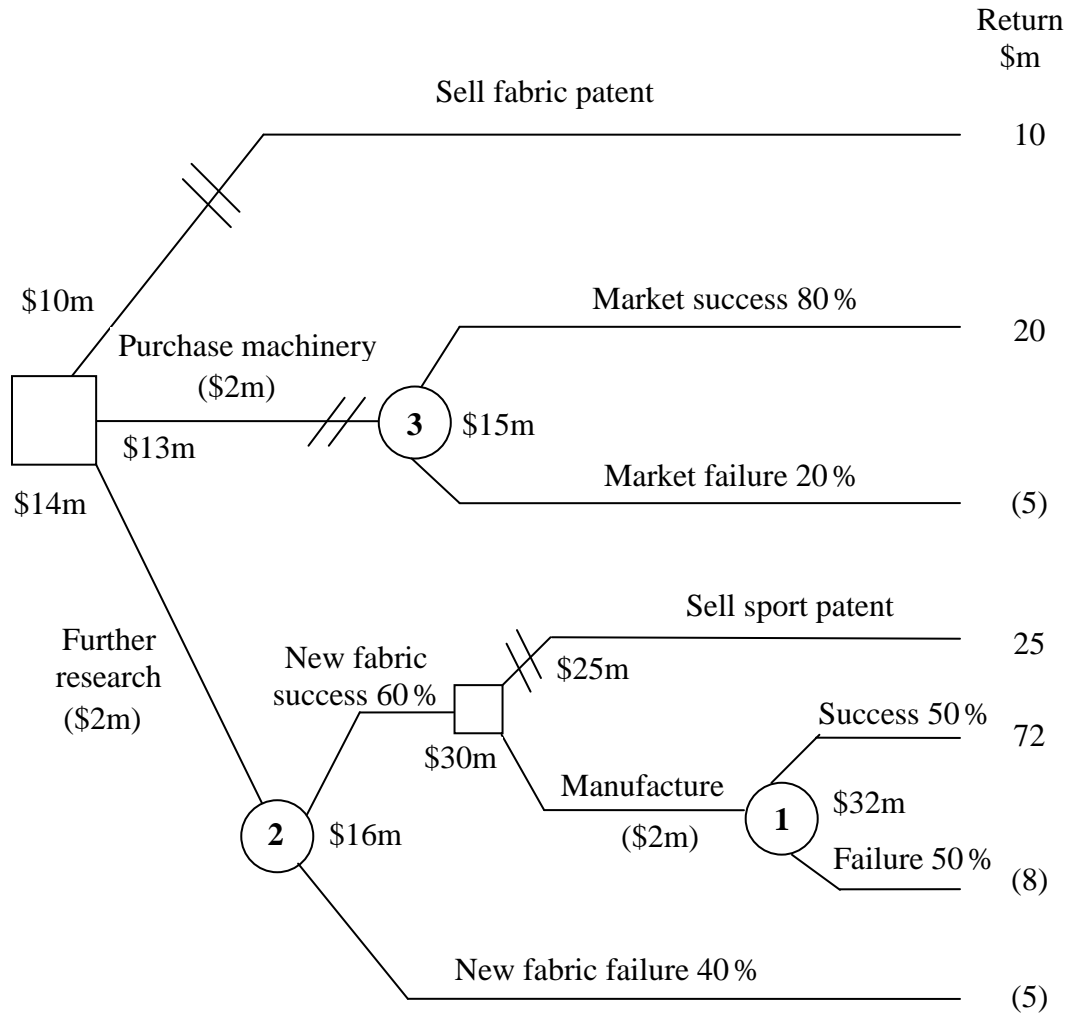
[2 marks]

An accurate definition is given of the term primary research.

[1 mark]

There is a less than accurate or a more limited definition of the term but some understanding is evident.

(b) Prepare a decision tree to show the three the options available to *Protect Ltd*, the expected values of each, and identify the most profitable option. [8 marks]



KEY:
 ○ Probability node // Rejected option
 □ Decision node

EV Working: Node 1:

$$\begin{aligned}
 50\% \times \$72\text{m} &= \$36 \\
 50\% \times \$(-8) &= \underline{-\$4} \\
 \$32 \text{ less cost } \$2\text{m} &= \$30\text{m}
 \end{aligned}$$

EV Working: Node 2:

$$\begin{aligned}
 60\% \times \$30\text{m} &= \$18 \\
 40\% \times \$(-5) &= \underline{-\$2} \\
 \$16 \text{ less cost } \$2\text{m} &= \$14\text{m}
 \end{aligned}$$

EV Working: Node 3:

$$\begin{aligned}
 80\% \times \$20\text{m} &= \$16 \\
 20\% \times \$(-5) &= \underline{-\$1} \\
 \$15 \text{ less cost } \$2\text{m} &= \$13\text{m}
 \end{aligned}$$

The final results are:

Sell fabric patent: \$10m
Manufacture outdoor clothes: \$13m
Research/make sports clothes: \$14m

On financial grounds the best option is to research the new fabric for sports garments and then manufacture them.

[7 to 8 marks]

The decision tree is entirely accurate and clearly labelled. All the relevant working is correct and clearly presented. The expected value is stated, the rejected options are marked/ shown and the best option identified. A key is provided. For one minor inaccuracy or omission award ***[7 marks]***.

[3 to 6 marks]

The decision tree is fundamentally accurate in terms of calculations and presentation at the top end of the band. For ***[6 marks]*** there may be no more than two errors in calculations and/or presentation. Towards the bottom end of the band, the calculations are increasingly difficult to follow, more inaccurate or are not shown. There may be more errors in the construction of the model and its presentation.

If there is no recognition that there are **two decisions** to be made, no more than ***[4 marks]*** should be awarded (based on the achievement of the above).

[1 to 2 marks]

The decision tree is largely and fundamentally inaccurate in logic, construction and calculation. However, there must be some very basic knowledge and understanding of the model and its requirement or use.

- (c) **With reference to the external environment and the decision tree prepared in (b), recommend an appropriate course of action for *Protect Ltd*.**

[10 marks]

The external environment will have a significant effect on the decision making of *Protect Ltd*. They are contemplating entering a very competitive market with a lack of experience of production, distribution and sales. *Protect Ltd* presently sells into a niche market, which suggests that they are a relatively small business, as supported by the revenue figures. On a purely financial basis the decision tree suggests they develop their product further as a sports fabric and then manufacture it themselves, but the returns from this option are only \$1 million higher than manufacturing the new textile only in the outdoor market where they do have experience, and only \$3 million higher than simply selling the fabric patent. Decision trees are also only as good as the data used to produce them, which may be flawed.

As an importer/exporter they are subject to economic and market volatility. It is suggested that inflation and interest rates in Europe are predicted to increase. This will affect their costs and the profit made after deducting the cost of borrowing for the new project. This is highly risky especially as the business may not be able to predict with any certainty the level of expenses and therefore borrowing.

In addition there is the prospect of exchange rate volatility in Europe caused by increases in interest rates and the potential for higher costs of materials from Asia, where there is pressure to allow exchange rates to increase.

At present *Protect Ltd* lack the technology to produce the new fabric, so they may need training in this area, and will also need to be confident of payback periods and cash flow. They may only have a short period before the competition produces similar fabrics and removes their competitive advantage. Competitors may have greater economies of scale.

Social:

Tastes and fashions may also affect levels of demand for the new fabric, as may lack of consumer loyalty and goodwill. Market research is at an initial stage and they will need to spend more to check the accuracy of their findings and to ensure the information used in the decision tree is accurate too.

There are high levels of uncertainty and this may mean that *Protect Ltd* chooses the safer path of selling patents rather than opting for the most profitable decision using the decision tree.

N.B. An explicit PEST analysis is not required provided that the PEST factors mentioned in the stimulus are used implicitly (or explicitly).

A final recommendation is required. Accept any substantial recommendation.

<p>Opinion (discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (more than two argument in favour and more than two against) analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments are well supported/substantiated. The three options are referred to. There is a good knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p>
	<p>4 to 7 marks</p>	<p><i>The response exhibits a reasonable analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments have limited support.</i></p> <p><i>There is some, or inconsistent, use of Business terms.</i></p> <p><i>There is some knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response may be implicitly or inconsistently linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band the analysis/examination within the response is generally balanced and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the lower end of the band the response may lack depth, be unbalanced or tend to be descriptive. There may be also implicit links to the information in the stimulus.</i></p>
	<p>1 to 3 marks</p>	<p><i>A purely descriptive response with very little knowledge and understanding of Business concepts and/or very little use of Business terms.</i></p> <p><i>Any opinions, conclusions and/or judgments are not supported.</i></p> <p><i>Little or no reference is made to the information in the stimulus material.</i></p> <p><i>The response may be no more than a list.</i></p>
	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

3. (a) Describe *one* limitation in the use of the sales forecasting model for *Fun-Games*.

[2 marks]

The limitation in the use of the sales forecasting model for *Fun-Games* may include:

- while the past seven years showed a stable growth in sales, *Fun-Games* can no longer assume that trading conditions will remain stable given the predicted recession. Therefore, forecasting from the trend in the short run is likely to be ineffective
- the sales forecasting model does not explain data. It only describes what happens
- qualitative factors cannot be incorporated even though they might be very significant
- *accept any other relevant issue.*

[2 marks]

One relevant limitation is clearly described. A reference is made to *Fun-Games*.

[1 mark]

A list is provided. One relevant limitation may be identified, but not described with reference to *Fun-Games*.

- (b) Using three years moving average:

- (i) Calculate the sales trend, the yearly variation and the cyclical variation. (*Show all your working*)

[5 marks]

Years	Sales (units)	Trend – 3 years moving average	Variation in each from the trend
2001	5000		
2002	5500	5000	+500
2003	4500	6200	-1700
2004	8600	7400	+1200
2005	9100	9000	+100
2006	9300	9800	-500
2007	11000		

Variation: Actual sales less trend.

$$\text{Cyclical variation: } \frac{500 - 1700 + 1200 + 100 - 500}{5} = \frac{-400}{5} = -80$$

-80 units to be subtracted from the forecasted figures for 2009

Specific calculations:

$$15000 \div 3 = 5000 \text{ units}$$

$$18600 \div 3 = 6200 \text{ units}$$

$$22200 \div 3 = 7400 \text{ units}$$

$$27000 \div 3 = 9000 \text{ units}$$

$$29400 \div 3 = 9800 \text{ units}$$

[4 to 5 marks]

The sales trend, the yearly and cyclical variations are correctly calculated and the working is shown. Allow for **up to two** very minor inaccuracies for **[4 marks]**.

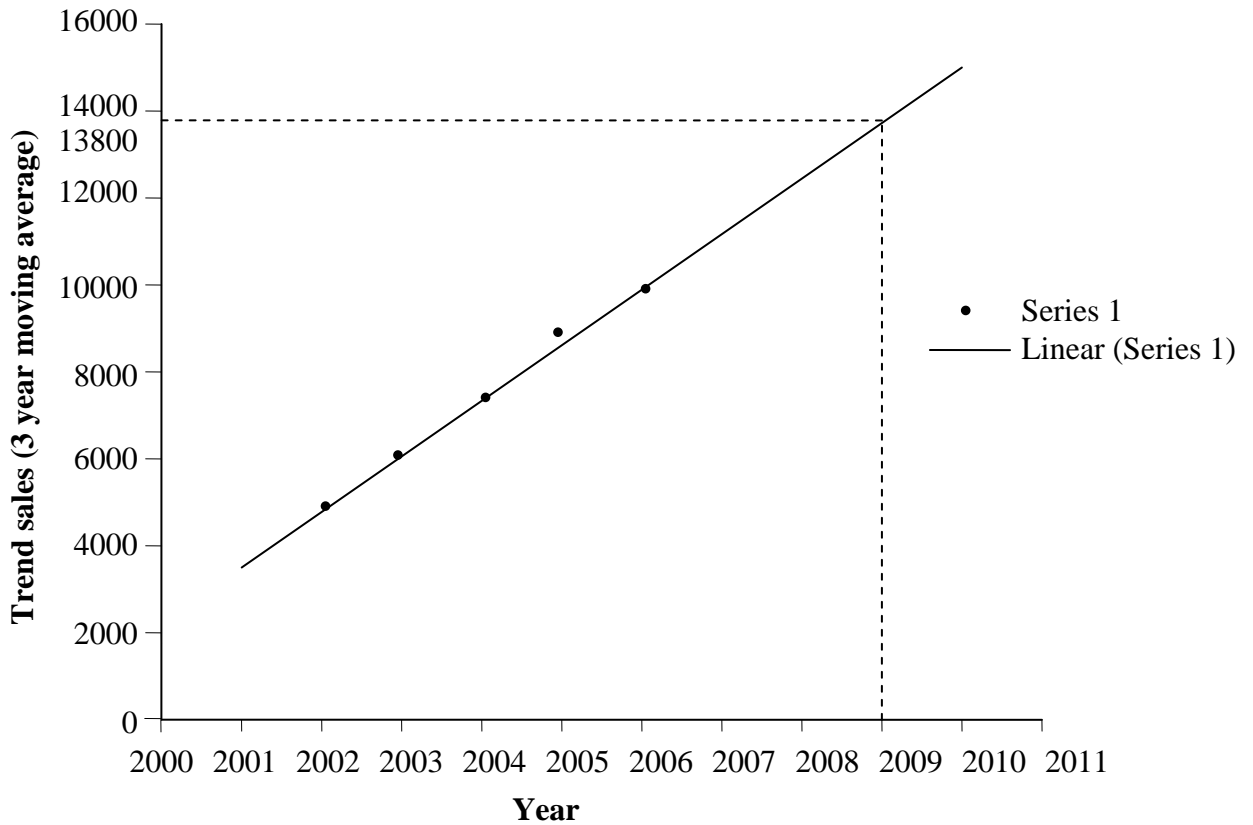
[1 to 3 marks]

The sales trend and the yearly and cyclical variation are calculated but there are some noticeable mistakes, misunderstandings and omissions. If the candidate only calculates the sales trend (with some workings) award no more than **[2 marks]**.

N.B. Do not double penalise the candidates whose sale trend is inaccurate.

- (ii) Construct a graph using the sales trend figures from (i) and use it to forecast the sales trend figure for 2009. (*Show all your working*) [3 marks]

A graph to show the relationship between sales and years



[3 marks]

The trend is clearly and correctly plotted, the axes are labelled and the sales for 2009 are correctly forecasted by drawing the best fit line and by subtracting the cyclical variation. Accept any approximate figure.

[1-2 marks]

The trend is plotted but the presentation may not be clear or entirely accurate. The sales for 2009 are not forecasted accurately. The cyclical variation is not deducted from the initial forecasted figure. If the forecast is given but no drawing is attached, award [1 mark] only.

- (c) **Advise the managers of *Fun-Games* which method of entry into overseas markets should be used.**

[10 marks]

The possible methods of entry into overseas markets available for *Fun-Games* include:

- exporting
- franchising/licensing/joint ventures
- direct-investment (FDI).

Exporting – given that *Fun-Games* lacks experience abroad and has not got sufficient cash to finance some of the more ambitious options like FDI, exporting seems like a very appropriate and less risky option. Being a member of a Free Trade Area will enable the organization to trade without any trade restrictions like tariffs or quotas. The international price will not be higher due to the possible imposition of trade restriction and therefore, competitiveness may be maintained. If unsuccessful, *Fun-Games* will be able to retreat with minimal costs. This option, offering little risk option can be used to test the market. However, the effectiveness of this option may be reduced due to the exchange rate fluctuation/instability that can alter the relative price of the *Fun-Games* product abroad. When the currency appreciates relative to the other countries' currencies, the export price of *Fun Games* will increase. *Fun Games* may lose its competitive advantage.

Franchising/licensing/joint venture can offer *Fun-Games* a chance to enter the market without physically moving abroad. Therefore, they are considerably less risky and less costly than FDI. *Fun-Games* can make use of local people in order to overcome the possible social, linguistic and cultural difficulties. This is a relatively safe option as an agreement can be stopped if any of the party to the agreement is not satisfied. This option is a relatively cheap and quick way to expand and overcome the immanent short-term effect of domestic recession. However, franchising and licensing may result in lower quality if the workforce is not as dedicated as the domestic one. This can affect the brand image of an innovative company and may increase training/supervision costs.

In the case of a **joint venture** with a firm in the Free Trade Area, resources, management skills and ideas can be shared and a synergy can be created. Again, some of the linguistic, cultural and operational difficulties can be avoided/overcome. At the same time, if these forms of entry may not be proven to be successful due to management and cultural incompatibilities, *Fun-Games'* reputation for innovative products can be eroded. Conflicts can occur under joint ventures that are likely to reduce the effectiveness of this form of entry.

FDI is a much more risky option. Given the lack of funds, this option will require *Fun-Games* to raise more external funds to build productive capacity either by issuing more private shares, going public or taking a loan – each option has got its limitations and risks. Students can talk about the possible loss of control, the costs of the process of issuing more shares, interest rate and loan payments to the bank and so on. If unsuccessful, for reasons like regional recession spreading, incompatibility with the local taste, language and culture as well as rules and regulations and so on, *Fun-Games* is likely to lose a considerable amount of money while retreating from abroad. *Fun-Games* is currently not big or financially strong enough to pursue such an ambitious and extremely risky strategy. However, by producing abroad, *Fun-Games* will be able to be closer to their customers and more easily adjust to their needs and tastes. Some of the possible linguistic and cultural problems might be reduced. Exchange rate fluctuation and the resulting uncertainty and a possible loss of competitive advantage can be overcome.

Accept any other relevant issue discussed for any of the above options.

In the light of the above, it looks as if exporting, at least in the short run, is the best option for the organization given the minimum risk involved and the speed of expansion – given the coming recession. If successful, this can be a stepping stone for more ambitious methods in the longer term.

Accept any other substantiated evaluation/advice.

N.B. It is expected that the candidates incorporate at **least two possible** methods of entry. Those candidates will be able to reach the top band provided their response fits the descriptor.

<p>Opinion (advise, discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (at least one argument in favour and at least one against) analysis/examination and uses appropriate subject terminology. Any advice, opinions, conclusions and/or judgments are well supported/substantiated.</i></p> <p><i>There is a good knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p>
	<p>4 to 7 marks</p>	<p><i>The response exhibits a reasonable analysis/examination and uses appropriate subject terminology. Any advice, opinions, conclusions and/or judgments have limited support.</i></p> <p><i>There is some, or inconsistent, use of Business terms.</i></p> <p><i>There is some knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response may be implicitly or inconsistently linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band the analysis/examination within the response is generally balanced and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the lower end of the band the response may lack depth, be unbalanced or tend to be descriptive. There may be also implicit links to the information in the stimulus.</i></p>
	<p>1 to 3 marks</p>	<p><i>A purely descriptive response with very little knowledge and understanding of Business concepts and/or very little use of Business terms.</i></p> <p><i>Any advice, opinions, conclusions and/or judgments are not supported.</i></p> <p><i>Little or no reference is made to the information in the stimulus material.</i></p> <p><i>The response may be no more than a list.</i></p>
	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

4. (a) Define the term *decentralization*.

[2 marks]

Decentralization is the policy of delegating decision-making authority throughout an organization away from a central authority. Some features of a decentralized organization are fewer tiers to an organizational structure, wider spans of control, and a bottom-to-top flow of decision-affecting ideas.

[2 marks]

Decentralization is accurately and clearly defined.

[1 mark]

There is a less accurate or more limited definition.

(b) Explain how technological change has affected the way that global businesses operate.

[8 marks]

Technological change has affected the traditional structures and operations of business. The concept of employees commuting daily to an office has been replaced by what is referred to as the “mobile” employee in the stimulus. These employees may work from home, business centres or hotels and/or whilst travelling, using a range of technologies such as laptops and mobile phones to communicate with their head office and access relevant information. The use of spreadsheets, data and word processing has facilitated the mobile office and the production of professional documentation without central support.

The workforce is now more flexible. Project teams may consist of part-time and peripheral staff from various parts of the world and hours may be more convenient to employers and employees. Firms may also cut costs as they no longer maintain large corporate headquarters and virtual meetings can be held.

Firms have been able to flatten structures and hierarchies as information is available more readily. This has led to retrenchment of staff, as activities not considered core are outsourced to organizations around the world. New technologies have also allowed firms to create global alliances and supply chains with other companies. Responsibilities of senior staff may increase with larger spans of control.

New technologies have also allowed more automated functions, such as production utilising CAD/CAM and other automation such as robotics.

Technological change may be referenced to: staff (*e.g.* downsizing of the workforce), machinery (*e.g.* automation), marketing (*e.g.* e-commerce), money (*e.g.* a change in the cost structure) and methods (*e.g.* delayering).

N.B. The question is very theoretical and does not ask for specific reference and application to *IBM* and *Motorola*. It is expected that the candidates use some examples from the case and apply to a global firm.

Candidates can reach the top band if **three** issues are covered and their response fits the top descriptor.

Explanation	7 to 8 marks	<p><i>The response exhibits a clear, detailed explanation of at least three relevant issue(s) and demonstrates a thorough understanding of the topic.</i></p> <p><i>There is an appropriate use of the relevant business terminology throughout the response.</i></p> <p><i>Relevant examples from the stimulus material are given to support explanations within the response.</i></p>
	4 to 6 marks	<p><i>The response exhibits a clear, detailed explanation of less than three relevant issue(s) and demonstrates a thorough understanding of the topic.</i></p> <p><i>The response exhibits a reasonable explanation that demonstrates some understanding of the topic.</i></p> <p><i>There is some use of business terminology throughout the response.</i></p> <p><i>Some relevant examples from the stimulus material are given to support explanations.</i></p> <p style="text-align: center;"><i>At the bottom of the band, the answer may be descriptive and lack some detail.</i></p>
	1 to 3 marks	<p><i>The response is purely descriptive and demonstrates a limited understanding of the topic.</i></p> <p><i>There is little or no use of business terminology.</i></p> <p><i>There are few, if any, relevant examples from the stimulus material to support any explanations.</i></p> <p><i>If no reference is made to the stimulus material award up to [2 marks].</i></p>
	0	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

- (c) **Evaluate the suitability of traditional organizational structures for advanced technology firms such as *IBM* and *Motorola*.**

[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 technology firms such as *IBM* and *Motorola*.

Traditional line organizations have an authority relationship where one person (a manager) has direct responsibility for the activities of another person (the subordinate). Traditionally, firms are normally divided by function into departments. Each department has a clear chain of command from top to bottom. Hierarchies are often tall; narrow spans of control support a more autocratic style of management and leadership. Departments may become relatively insular and departmental rivalries may develop, which do not enhance the pursuit of company objectives. Staff have a clear idea of their role, of accountabilities and of the chain of command.

Line organizations may be bureaucratic as they are highly regulated and decision making, as a result, may be slow. There may also be some duplication of activities, which will reduce efficiency. This structure, culture and management style is likely to prevent creativity, innovation and responsiveness to ever changing external factors.

Modern technology firms such as *IBM* and *Motorola* operate in a dynamic, highly competitive global environment where being first to market is extremely important. These markets may be cost driven, and this type of organization will be seeking cost savings wherever possible. The autocratic management is not well suited to this type of environment, where there is a culture of highly motivated staff driven by targets on sales and high rewards for success. Organizations like *IBM* and *Motorola* need empowered, highly skilled, creative, motivated and innovative employees who will not flourish under an old fashioned structure and culture.

Providing staff with independence may be crucial, and local conditions may underpin demand patterns, which may differ markedly world-wide. Providing decentralized operations, often with a matrix organization, appears to suit these markets. However, as the stimulus suggests, there are issues of control when firms flatten hierarchies and widen spans of control; *Motorola* was forced to return to a more centralized approach, as the firm lost focus. Matrix structures may cause confusion and interfere with the unity of command. The overall philosophy and corporate aims and objectives may not be well communicated within a decentralized structure.

The answer is not a straight forward one. While the traditional organizational structure is highly likely to be unsuitable for *IBM* and *Motorola*, the most suitable structure will depend on many variables including the management and corporate history, traditions and current culture. It is unlikely that many technology companies will retain a very formal, hierarchical line structure.

<p>Opinion (discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (at least two argument in favour and at least two against) analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments are well supported/substantiated.</i></p> <p><i>There is a good knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p>
	<p>4 to 7 marks</p>	<p><i>The response exhibits a detailed and balanced (at least one argument in favour and at least one against) analysis/examination and uses appropriate subject terminology. The response exhibits a reasonable analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments have limited support.</i></p> <p><i>There is some, or inconsistent, use of Business terms.</i></p> <p><i>There is some knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response may be implicitly or inconsistently linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band the analysis/examination within the response is generally balanced and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the lower end of the band the response may lack depth, be unbalanced or tend to be descriptive. There may be also implicit links to the information in the stimulus.</i></p>
	<p>1 to 3 marks</p>	<p><i>A purely descriptive response with very little knowledge and understanding of Business concepts and/or very little use of Business terms.</i></p> <p><i>Any opinions, conclusions and/or judgments are not supported.</i></p> <p><i>Little or no reference is made to the information in the stimulus material.</i></p> <p><i>The response may be no more than a list.</i></p>
	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

5. (a) **Define the term *intangible asset*.** **[2 marks]**

An intangible asset is an asset that has no physical properties but it adds value to the company. Intangible assets may include customer goodwill and loyalty, patent rights, permits, copyrights and licenses.

[2 marks]

The term intangible asset is accurately defined, possibly with a relevant example. There is recognition that these assets add value to the organization.

[1 mark]

There is a less accurate and limited definition with some basic understanding of the term.

- (b) **Explain how “introducing programmes of Total Quality Management” can help develop “product quality, consistency and brand image” in companies like *Sears* and *Mercedes-Benz*.** **[8 marks]**

Total Quality Management (TQM) is a management strategy introduced by the American Edward Deming. It aimed at embedding awareness of quality in all organizational processes. Total Quality Management provides an umbrella under which everyone in the organization can strive and create customer satisfaction and continuously increase customer satisfaction at lower real costs. TQM is a philosophy underpinning all the firm’s activities and is part of lean management.

The system must be carefully managed to benefit all the firm’s stakeholders and must not be a top-down process. The *Sears* research established a clear correlation between employee attitudes, customer attitudes and financial results, including sales improvements. As it mentioned in the stimulus the process should include genuine participation, job enrichment and empowerment, collective decision-making and self-managed teams. This could include the introduction of quality circles and Kaizen (continuous improvement) approaches to team work and benchmarking performance against similar retailers. It is hoped that the improvements in the workplace and increased empowerment and job enrichment will improve motivation, and that a suitable performance and/or profit related pay system would reward better customer service.

Customer service is positively correlated to brand image and customer retention. In a competitive market place TQM should be the starting point to improvements in all aspects of *Sears*’ operations as it focuses on customer needs.

Firms like *Sears* and *Mercedes-Benz* distinguish their products from competitors by emphasizing their quality and consistency. Customers believe that they can rely on these firms to supply high brand image products.

Explanation	7 to 8 marks	<p><i>The response exhibits a clear, detailed explanation of the relevant issue(s) and demonstrates a thorough understanding of the topic.</i></p> <p><i>There is an appropriate use of the relevant business terminology throughout the response.</i></p> <p><i>Some relevant examples from the stimulus material are given to support explanations within the response.</i></p>
	4 to 6 marks	<p><i>The response exhibits a reasonable explanation that demonstrates some understanding of the topic.</i></p> <p><i>There is some use of business terminology throughout the response.</i></p> <p><i>Some relevant examples from the stimulus material are given to support explanations.</i></p> <p style="text-align: center;"><i>At the bottom of the band, the answer may be descriptive and lack some detail.</i></p>
	1 to 3 marks	<p><i>The response is purely descriptive and demonstrates a limited understanding of the topic.</i></p> <p><i>There is little or no use of business terminology.</i></p> <p><i>There are few, if any, relevant examples from the stimulus material to support any explanations.</i></p> <p><i>If no reference is made to the stimulus material award up to [2 marks].</i></p>
	0	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

- (c) **Discuss how *Sears* can improve efficiency, productivity and customer service. Use relevant motivation and leadership theories and the questions asked in the *Sears* survey to support your answer.**

[10 marks]

The questions asked in the *Sears*' survey link into lower and higher order motivation levels as developed by Maslow and Herzberg. Questions one to three relate to the higher order needs of job satisfaction and self actualization, whereas questions four to six relate to lower order or hygiene needs. It is important that *Sears* are able to satisfy lower order needs before they can improve efficiency, productivity and customer service. This will mean ensuring the workforce has a decent salary, fair rules and policies and a pleasant working environment.

However, according to Herzberg, these lower order needs do not motivate, so *Sears* will need to develop a programme that offers the opportunity to access motivators, which should be reflected in higher productivity and the desire to improve customer satisfaction. This can be done by building a variety of tasks, skills and responsibilities into each job. It was suggested in the article that *Sears* as part of a TQM programme put in place activities which empower the workforce through participation in decision making. This suggests that Theory Y management and situational leadership approaches are crucial and that the organization structure needs to mirror this approach, such as flatter hierarchies and self-managing teams. Employees must want to take responsibility. Multi-skilling will provide *Sears* with a flexible workforce. Continuous improvement (Kaizen) should be built into training programmes and employees must recognize the link between their efficiency and customer satisfaction and sales.

It is also important that *Sears* puts in place reward systems which reflect performance, not just of the individual, but of the team as well. Rewards such as performance related pay (PRP), profit sharing and share ownership can help provide a sense of belonging and that their actions matter.

However, all of these initiatives need to be linked to prevailing corporate culture, traditions and leadership style. It may be necessary to undertake a period of training to ensure that individuals have the skills necessary to implement new approaches. All these initiatives have costs and may not match the needs of the workforce. It may be that employees are not receptive to significant change and there may be resistance, at least initially. Mayo recognized at Hawthorne that social factors and group norms play an important role in driving or restraining change. Each employee is also an individual and this must be reflected in any motivation approach.

Add any other relevant point discussed.

<p>Opinion (discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (at least one argument in favour and at least one against) analysis/examination and uses appropriate subject terminology. The issues of productivity, efficiency and customer service are covered at the top end.</i></p> <p>Any opinions, conclusions and/or judgments are well supported/substantiated.</p> <p><i>There is a good knowledge and understanding of Business issues, concepts and theory/theories.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p> <p><i>If the question “to what extent” is not assumed” is not assumed” the response generally fits the top band descriptor, [8 marks] are to be awarded.</i></p>
	<p>4 to 7 marks</p>	<p><i>The response exhibits a reasonable analysis/examination and uses appropriate subject terminology.</i></p> <p>Any opinions, conclusions and/or judgments have limited support.</p> <p><i>There is some, or inconsistent, use of Business terms and theory/theories.</i></p> <p><i>There is some knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response may be implicitly or inconsistently linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band the analysis/examination within the response is generally balanced and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the lower end of the band the response may lack depth, be unbalanced or tend to be descriptive. There may be also implicit links to the information in the stimulus.</i></p>
	<p>1 to 3 marks</p>	<p><i>A purely descriptive response with very little knowledge and understanding of Business concepts and/or very little use of Business terms and theory/theories.</i></p> <p>Any opinions, conclusions and/or judgments are not supported.</p> <p><i>Little or no reference is made to the information in the stimulus material.</i></p> <p><i>The response may be no more than a list.</i></p>
	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>

6. (a) **Define the term *socially responsible organization*.** [2 marks]

A socially responsible organization is an organization that is willing to be responsible for, or justify its action to, both internal and external stakeholders such as customers, suppliers, the wider society, the environment, employees *etc.* A socially responsible organization aims to maximise its positive long-term impact and to minimize its negative impact on society.

[2 marks]

An accurate definition, which refers to stakeholders, or examples of stakeholders.

[1 mark]

A less accurate or more limited definition that may tend to repeat the terms.

- (b) (i) ***Tesco* has “increased sales by 13.2% and pre-tax profit by 16.7%”. Comment on how it is possible for profits to increase at a faster rate than sales.** [4 marks]

Tesco's sales growth of 13.2% was due to an increase in total revenue due to either an increase in quantity sold and or an increase in price per unit or both. Given the information in the case about the intense competition and the little opportunity to raise prices, the reason is probably due to an increase in quantity sold.

Tesco's pre-tax profit growth of 16.7% was definitely the result of an increase in total revenue and perhaps a reduction in direct costs/costs of sales that increased the gross profit and/or the reduction in indirect costs/expenses to secure an increase in pre tax profit. The reduction in direct and/or indirect cost was larger/more significant than the increase in total revenue.

[3 to 4 marks]

The difference between *Tesco*'s sales growth and profit is well commented upon with an understanding of the role of costs. Reference is made to the case. Subject terminology is used and the terms direct/indirect/fixed/variable etc are used.

[1 to 2 marks]

The difference between *Tesco*'s sales growth and profit is explained briefly with a lack of precision and the use of the relevant subject terminology. There may be a repetition of elements of the question and it may not be clear what cost or profit actually is.

- (ii) Explain *one* advantage and *one* disadvantage of *Tesco* using internal as opposed to external methods of growth.

[4 marks]

Internal/organic methods of growth – the firms grow by selling more of their products/services to a wider market and/or by launching new products/services.

External growth is the growth by acquisition or takeover.

Possible advantages of internal growth:

Tesco can avoid all the possible problems of external growth – cultural, managerial and operational differences between two or more companies can erode *Tesco's* identity/brand image and reduce productivity. Internal growth will provide *Tesco* with a sound base for development. The brand identity and the culture of the company can be maintained.

It is less risky if financed by reinvesting profit. It looks as if *Tesco* made a profit for reinvestment and, therefore, the need for debt finance is much reduced.

Possible disadvantages:

It takes a longer time to grow. External growth can be achieved more quickly by the acquisition of, or a merger with, another company. Despite an increase in profit, *Tesco* might not have sufficient funds to invest into its internal growth. A lack of funds may restrict *Tesco's* growth. Given the increase in competition, perhaps *Tesco* needs to grow faster.

Accept any other relevant advantage/disadvantage.

Award [1 mark] for identifying a relevant advantage and [1 mark] for identifying a relevant disadvantage.

Award an additional [1 mark] for developing the explanation of the advantage and an additional [1 mark] for developing the explanation of the disadvantage.

- (c) **To what extent will *Tesco*'s decision to “invest in environmental projects” enable the organization to position itself as socially responsible and to create a competitive advantage?**

[10 marks]

By investing in green technology and practices and becoming a more socially responsible organization *Tesco* may benefit in a number of ways:

- improved corporate image and possible creation of a USP or competitive advantage as a result. This is important given the criticism of *Tesco*'s practices by the pressure group described in the case. *Tesco* can find a unique position of a socially responsible firm who provided good quality/value for money products
- improved image may attract green customers. Revenue can increase as well as profit
- a possible increase in the price of its products despite the intense competition
- a larger market share that might enhance economies of scale and, therefore, lower average costs of production. *Tesco* needs to cut costs of production given the significant 60% rise in energy costs
- satisfying the demand of pressure groups. This will alleviate the pressure to change its practices and so less money/resources will be spent on public relations (PR) or on legal costs
- alternatively, PR can be used to enhance corporate image
- they may be able to pre-empt government legislation against the company
- they may receive financial incentives from local or national governments
- increased employee motivation. A high level of motivation will result in enhanced productivity and quality of services
- reduced costs of production – probably in the longer run. The need to reduce costs due to the 60% rise in the cost of energy is stated in the case
- more investment from ethical investors
- *any other relevant benefit.*

However,

- given the fact that many organizations are pursuing the same strategies and practices, a USP may not be created or might not be sustainable. A unique/differentiated market positioning as a socially responsible org offering good value for money products may not be sustained in the longer term or even in the short term
- the implementation of the practices will require a considerable investment. Profit might fall in the short run
- given the fact that *Tesco* sources out food overseas this may adversely affect domestic supplies, which might mitigate its attempt to become more socially responsible by being more “green”
- lower profit to be distributed to shareholders in the form of dividends might create some resentment among the non-ethical investors especially given that the profit margin is predicted to level off. Shareholders might sell their shares
- extra management time might be necessary to implement the suggested practices
- some training might be required, which might also increase the costs in the short run
- *any other relevant point.*

Despite the possible limitations/shortcomings, especially in the short run, it looks as if to reap the benefits in the longer term *Tesco* has to implement its “green” policies and become a more socially responsible firm. It can therefore be said that to a large extent *Tesco* will be able to achieve the benefit resulting from positioning itself as a socially responsible firm. However, *Tesco* must look at the other issues mentioned in the case if it is to become a truly socially responsible organization not just truly “green” one and sustain its position in the longer run.

Credit any substantiated judgment.

N.B. The candidate should refer to the “extent” in order to answer the question fully.

<p>Opinion (discuss, evaluate, justify, recommend and to what extent)</p>	<p>8 to 10 marks</p>	<p><i>The response exhibits a detailed and balanced (at least two argument in favour and at least two against) analysis/examination and uses appropriate subject terminology. Any opinions, conclusions and/or judgments are well supported/substantiated.</i></p> <p><i>There is a good knowledge and/or understanding of Business issues and concepts.</i></p> <p><i>The response is consistently and explicitly linked to the information in the stimulus material.</i></p> <p style="padding-left: 40px;"><i>At the top end of the band critical, reflective thinking is evident.</i></p> <p style="padding-left: 40px;"><i>At the bottom end of the band opinions, conclusions and/or judgments may be more tentative.</i></p>
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	<p>0</p>	<p><i>The standard of work does not reach the standard required for [1 mark].</i></p>