M13/3/BUSMT/HP1/ENG/TZ0/XX/M

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MARKSCHEME

May 2013

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

25 pages

The markbands on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	**Q2 (c)**	**Q3 (c)**	
Marks 0–7			
0			• No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			• Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B Q4 (d) Marks 0–8	Level descriptors
0	• No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	• Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	• A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	• A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Section C Q5 (c) Marks 0–9	Level descriptors
0	• No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	• Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study and/or the extension material within Section C.
4–6	• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study and/or the extension material within Section C, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
7–9	• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study and/or the extension material within Section C.

Section C Q5 (d) Marks 0–12	Level descriptors
0	• No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	• Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C.
4–6	• A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical.
7–9	• A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response.
10–12	• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made throughout the response.

SECTION A

1. (a) Define the following terms:

(i) ***regional trading bloc (line 30)*** ***[2 marks]***

A regional trading bloc is "an organization of countries which have formed economic alliances for mutual benefit" (Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 391, Glasgow, U.K., Oxford University Press) *eg* CARICOM (in the Caribbean Community), EU (European Union). Regional trading blocks typically have some type of written agreement (between states, regions, or countries) whereby rules regarding trade are specified (such as reducing barriers between participating states, regions, or countries).

Candidates are **not** expected to word their definition exactly as above.

Award ***[1 mark]*** for a basic definition that conveys partial knowledge and understanding.

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

For **only** a relevant example **or** application to the stimulus award ***[1 mark]***.

(ii) ***corporate social responsibility (lines 88–89).*** ***[2 marks]***

Corporate social responsibility is a voluntary approach by businesses that recognises they have an obligation to assess and take responsibility for the organizations effects on the environment and on social welfare. A socially responsible business incorporates the interests of various stakeholders in a way which is beneficial and correct ("right") according to societal values, *eg* a socially responsible ball bearing business will manufacture its products in a way that limits pollution in the vicinity of its factories (which is not the case of *RDB*). Socially responsible businesses often go beyond what is required by law.

Candidates are **not** expected to word their definition exactly as above.

Award ***[1 mark]*** for a basic definition that conveys partial knowledge and understanding.

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

For **only** a relevant example **or** application to the stimulus award ***[1 mark]***.

(b) Explain *two* reasons why innovation is important for *RDB*. ***[4 marks]***

Innovation is important for *RDB* for several reasons:

- As mentioned at the start of the case study, the market size of the ball bearing industry keeps increasing. It is a very dynamic industry (as exemplified by the fact that there are ball bearings in fighter jets and space shuttles); with the development of new materials (lighter and stronger) and of new technologies (especially "green" technologies), there is a need to keep innovating.
- To remain competitive: if *RDB* fails to innovate, it will lose its market share and maybe its reputation. *RDB* has successfully overcome several competitive challenges (*eg* against *UAB* and *FIB* in the 1930s, or against Japanese companies after the second world war) but sustaining a competitive advantage is key to any business strategy (this is in fact how Michael Porter defines strategy).
- To attract potential customers: if *RDB* is to widen its pools of customers (not just from the manufacturing community but also from the design community), it may need to offer slightly different types of ball bearings; R&D are essential in terms of innovation, which is why Anna wants to invest in that part of *RDB's* activities.
- Innovation is required to save energy, which was *RDB's* main aim and was a key element of the company's credentials as a "green" business.

Accept any other relevant reason and explanation.

Mark as 2 + 2.

Award ***[1 mark]*** for each relevant and correct reason identified and ***[1 mark]*** for an explanation of that reason up to a maximum of ***[2 marks]***.

(c) Anna Holstein believes that "the marketing department should start carrying out market research" *(lines 114–115)*. Analyse the roles that primary and secondary research could play for *RDB*. ***[7 marks]***

Market research could play several roles:

- Primary market research could help *RDB's* marketing department find out more precisely from their existing customers what they need and want (the case study implicitly suggests that *RDB* has followed a product-orientation marketing strategy as opposed to a market orientation one). One of the tasks of the "engineers-turned-salesmen" could be to carry out primary research (*eg* through interviews) to feedback to the R&D department about ways in which *RDB* can produce competitive ball bearings.
- Secondary market research could help *RDB's* marketing department understand the current demand for ball bearings and trends in the market; it would offer a background picture, including an analysis of existing products offered by *RDB's* competitors. This could provide useful indications to the R&D department about the directions in which they should develop new products (for example, greener ball bearings, or ball bearings adapted to the needs of the design community).

Accept any other relevant analysis.

Candidates are **not** expected to refer to all the above points for full marks, but their analysis must be balanced in order to reach the top markband. This balance could be about primary *vs* secondary research, or it could be articulated in terms of supply *vs* demand, or product orientation *vs* market orientation.

Marks should be allocated according to the markbands on page 3.

2. (a) Using a SWOT analysis framework, identify *two* weaknesses and *two* threats to *RDB*. ***[4 marks]***

RDB weaknesses could include the following:

- senior management does not always pay attention to some warning signals (*eg* the need for maintenance and technological upgrades)
- there are high pollution levels near *RDB* factories (which has attracted some environmental campaigners), so they may need to review their operations, especially if they want to enhance their corporate social responsibility and their "green" credentials
- the conflict between father and daughter, the two top figures in the family-owned business, could lead to problems for the company overall
- marketing activities are limited, which is a weakness in any competitive business environment
- no cultural understanding of customers.

RDB threats could include the following:

- Demand for ball bearings is slowing down in Europe, whereas growing substantially in countries such as Brazil, China and India. At present, *RDB* is not present in these countries.
- Demographic changes in Europe may eventually undermine Valdemar's vision of a "happy European family".
- Global economic interconnectedness: any economic crisis, such as the global banking crisis of 2008 or economic recession in almost any part of the world may affect *RDB*.
- Competition past (*eg* Japanese companies in the 1970s) and present.

Accept any other relevant weakness/threat.

N.B. The threats must be **explicitly** about external factors (*ie* factors that could be identified through a PEST/STEEPLE analysis); the weaknesses must be internal (*ie* about finance, marketing, leadership *etc*).

Mark as 2 + 2.

Award ***[1 mark]*** for each relevant and correct weakness identified, up to a maximum of ***[2 marks]***.

Award ***[1 mark]*** for each relevant and correct threat identified, up to a maximum of ***[2 marks]***.

(b) Using data from the additional information on page 3, calculate *RDB's*:

(i) return on capital employed (ROCE) in 1965 *and* 1975. ***[2 marks]***

$$\text{ROCE} = \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}} \times 100$$

	1965	**1975**
ROCE	$\frac{22}{121} \times 100 = \mathbf{18.18\,\%}$	$\frac{34}{203} \times 100 = \mathbf{16.75\,\%}$

N.B. Do not penalize the absence of % sign. Candidates can give their responses to 1 or 2 decimal places.

Award ***[1 mark]*** for each correct answer (no working required), up to a maximum of ***[2 marks]***.

Candidates should **not** be awarded any marks merely for writing down a formula (as the formula is provided).

(ii) stock turnover in 1965 *and* 1975. ***[2 marks]***

Stock turnover is calculated in one of two ways:

Method 1: $\frac{\text{Cost of goods sold}}{\text{Average stock}}$
= number of times stock turned over in a year

or

Method 2: $\frac{\text{Average stock}}{\text{Cost of goods sold}} \times 365$
= stock turnover in days

COGS = Sales revenue – gross profit

For 1965 COGS $= 113 - 35 = 78$
For 1975 COGS $= 194 - 56 = 138$

In the absence of an average stock figure being provided, or in the absence of two consecutive years' figures, candidates should use the stock figure for the year requested. Thus, stock turnover for *RDB* would be:

	1965	**1975**
Method 1: Stock turnover (times per year)	$\frac{78}{29} =$ **2.69 times per year**	$\frac{138}{54} =$ **2.56 times per year**
Method 2: Stock turnover (in days)	$\frac{29}{78} \times 365 =$ **136 days**	$\frac{54}{138} \times 365 =$ **143 days**

N.B. Do not penalize the absence of units: times per year or days. Candidates can give their responses to 1 or 2 decimal places when using Method 1.

Award ***[1 mark]*** for each correct answer (no working required), up to a maximum of ***[2 marks]***. If the candidate incorrectly calculates cost of goods sold but otherwise performs the calculations correctly, award ***[1 mark]*** because of own figure rule (OFR).

Candidates should **not** be awarded any marks merely for writing down a formula (as the formulae are provided).

(c) Interpret your results from part (b). ***[7 marks]***

Apply Own Figure Rule (OFR) from calculations made in part (b).

The comparison of the two sets of ratios suggests a company that has experienced a slight deterioration in efficiency between 1965 and 1975. The decrease in ROCE from 18.18 % to 16.75 % is not a dramatic decline, but it is not a positive indicator. Were ROCE to continue to decline by this amount for another two or three decades (as the case study implies), these minor negative concerns would grow into major concerns about efficiency. The increase in stock turnover is similar. Though the increase in stock turnover from 136 to 143 days is not a huge increase, it is not a positive sign. This ratio means that, on average, raw materials purchased by *RDB* and converted into stock is on the company's books for 136–143 days, between four and five months. Without industry comparisons, it is not possible to fully understand the implications of this length of time.

Nevertheless, this stock situation seems like a long time to hold stock and that implies the company relies on a just-in-case stock control method. As with the ROCE, the increase is relatively minor but nevertheless a worrisome sign. In combination, the two sets of ratios suggest a slippage of the company in terms of efficiency, coming at a time when *RDB* is facing increased competition from foreign competitors (Japanese). One of the major issues facing *RDB* is just as these ratios indicate: a slow deterioration of its situation, one that Valdemar did not fully appreciate and which, by the twenty-first century, had become a much greater problem. Still a profitable company, a smouldering problem was occurring at *RDB* over many decades, and the changes suggested by the changes in these ratios are an indication of it.

If a candidate uses only one of the sets of ratios (for example only ROCE), award a maximum of ***[4 marks]***. For ***[6–7 marks]***, answers must be balanced, which is to say some recognition that the company is still healthy and profitable even though there are some worrying signs. Also the balance required for higher marks means that both efficiency ratios need to be interpreted.

Marks should be allocated according to the markbands on page 3.

3. (a) Define the following terms:

(i) ***retrenchment (line 133)*** ***[2 marks]***

Retrenchment occurs when a business cuts its workforce (by laying-off/redundancy), closing factories / branches and is sometimes called downsizing.

Candidates are **not** expected to word their definition exactly as above.

N.B. Strictly speaking, retrenchment is not necessarily only about HR (as it could imply streamlining production or downsizing a product portfolio, however candidates are only expected to refer to the HR dimension).

Award ***[1 mark]*** for a basic definition that conveys partial knowledge and understanding.

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

For **only** a relevant example **or** application to the stimulus award ***[1 mark]***.

(ii) ***commission (line 153).*** ***[2 marks]***

A commission is a form of payment to an agent (*eg* salesperson) often calculated on a percentage basis of sales made.

Candidates are **not** expected to word their definition exactly as above.

Award ***[1 mark]*** for a basic definition that conveys partial knowledge and understanding.

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

For **only** a relevant example **or** application to the stimulus award ***[1 mark]***.

(b) With reference to *RDB*, distinguish between flow production and job production *(lines 63–66)*. ***[4 marks]***

Flow production (also called mass production and line production) means producing a standardized product using a continuous flow of production, typically through an assembly line. As mentioned in the case study, *RDB* manufactures its standard-sized ball bearings using a flow production process – this corresponds to the archetypal imagery of the conveyor belt on the shop floor of Fordist megafactories. It is about high volumes *ie* quantity.

Job production, on the other hand, is not about quantity and standardization, but about designing and producing a special product that precisely fits the customer's requirements; a typical example would be a wedding cake of a particular size and shape, or in the case of *RDB*: "one-off special orders, such as large ball bearing systems for power stations or mines". The mark-up and the prices are then high, but it is much more expensive and complex to produce, as opposed to flow production.

[1–2 marks]
Award ***[1 mark]*** for an answer that shows some knowledge of flow production and job production. Award ***[2 marks]*** for an answer that refers to the difference between flow production and job production at a generic, theoretical level.

[3–4 marks]
Award ***[3 marks]*** for an answer that combines "theory" (*ie* definitions) and "practice" (*ie* reference to the case study). Award ***[4 marks]*** for an answer that fully and clearly distinguishes between flow production and job production with reference to *RDB*.

(c) Analyse the advantages and disadvantages for *RDB* of forming "strategic alliances with ball bearing companies in Brazil, China and India" *(line 155)*. ***[7 marks]***

A strategic alliance is a collaborative agreement between two or more firms to pursue a set of agreed goals, but where the firms remain completely independent organizations. The alliance ends when the goals are achieved.

Advantages:
Demand for ball bearings is growing in Brazil, China and India. The proposed strategic alliances with companies based in these countries will provide cheaper options for *RDB* to sell directly to them by providing access to the markets and local knowledge of their specific cultures and characteristics. This would satisfy Anna's objective to be closer to customers. *RDB* would be able to share fixed costs, technical knowledge and resources with its strategic partners and would gain access to new distribution channels.

For Valdemar, it means that *RDB* would not need to close or downsize its European megafactories.

Disadvantages:
RDB may lose control over important issues as product quality, operating costs and employees. The *RDB* brand may be damaged by partners who do not meet their high operational standards. In addition finding suitable partners may be time consuming and therefore costly, especially because potential partners are in three different countries in which *RDB* have not operated. There may be language and cultural barriers between *RDB* and its strategic partners and the possibility of conflicting objectives, strategies, corporate values, and ethical standards.

Strategic alliances must be mutually beneficial, typically reducing overall costs (for the companies involved) and better satisfying customers. The strategic partners could probably benefit from *RDB's* experience and long tradition of manufacturing high quality ball bearings, however *RDB* would have to convince them. With strategic alliances, the businesses remain independent and still compete on some markets, which might not be sustainable for *RDB* in the long term.

Accept any other relevant analysis.

Candidates are **not** expected to cover all the above-mentioned points.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) With reference to *RDB*, outline *one* advantage and *one* disadvantage of offshoring. ***[4 marks]***

For *RDB*, advantages of offshoring include the following:

- the local workforce (in Brazil, China and India) would be paid a lot less than their European counterparts, so for *RDB* this would represent substantial savings in terms of salaries (labour costs) – this is one of the most common reasons why many companies opt for offshoring as a method of cost reduction
- for *RDB*, business relationships with customers (*ie* businesses based in Brazil, China and India) may be easier (especially as the current workforce (in the European factories) does not seem to culturally understand their customers in those new markets.

For *RDB*, disadvantages of offshoring include the following:

- this would require building/opening new factories, as well as hiring local workers and local managers; all this would be very complex for *RDB*: "(Anna) calculated that the transition costs for such a large-scale restructuring would be enormous" (which is why *RDB* would need not only to sell two of the three megafactories, but would also need to go public in order to raise enough capital)
- *RDB* would have to make many European employees redundant; as "Northern European countries have generous redundancy payments (…) these costs would be significant in the short term" for *RDB*, not to mention the tensions in the local communities (whereas up to now *RDB* has been held in high esteem).

Accept any other relevant advantage/disadvantage outlined.

Mark as 2+2.

Award ***[1 mark]*** for each relevant and correct advantage/disadvantage identified and an additional ***[1 mark]*** for the development of each advantage/disadvantage up to a maximum of ***[2 marks]***.

(b) Explain why shortening the working capital cycle would be "an important benefit for *RDB*" *(line 83)*. ***[4 marks]***

Working capital is that portion of (long-term) capital invested in current assets. The working capital cycle can be defined as "money tied up in the business and used to finance its day-to-day needs, such as buying raw materials" (Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 149, Glasgow, U.K., Oxford University Press). In the case of *RDB*, the working capital cycle includes money spent to buy raw materials (*eg* steel) which then becomes (unsold) stock (*eg* ball bearings); when the stock is sold, consumers (debtors) pay for it (sometimes after a slight delay expressed in debtors days) and cash is returned into the business (to pay for new raw materials from suppliers as well as workers' salaries *etc*). Having factories in Brazil, China and India would mean that the customers based there would receive the goods more quickly (without delays due to distribution and delivery). This could ensure prompter payment which, in turn, could result in a faster purchase of new raw materials to produce more ball bearings (a sort of virtuous circle). Utilizing working capital more effectively is actually an internal source of finance that also enables the company (*RDB* in this case) to manage its stock better. Just as the Japanese companies adopting just-in-time (JIT) production in the 1970s (as mentioned in the case study), *RDB* could also consider that approach in order to further shorten the working capital cycle in its new, flexible factories.

A full definition of working capital is not necessary to explain the importance of the working capital cycle, though some candidates may offer a definition. What is important is that candidates convey an understanding that, with factories around the world, both inventory turnover and debtor turnover may contract. When that occurs, *RDB* will be able to divert some of its long-term capital away from short-term needs and, possibly, use it more productively (use funds generated by the contraction of working capital as an internal source of finance).

Accept any other relevant explanation. Candidates are not expected to incorporate all of the above points in their response.

Award ***[1 mark]*** for a basic answer showing some limited knowledge of the working capital cycle (for example, a definition of "working capital", but no reference to the cycle that includes raw materials, stock and payment).

Award ***[2 marks]*** for an answer which shows some knowledge and understanding of the working capital cycle (yet without application to *RDB*).

Award ***[3 marks]*** for an answer which correctly applies the working capital cycle to *RDB*.

Award ***[4 marks]*** for an answer which correctly applies the working capital cycle to *RDB* and explains why shortening it would be an important benefit for the company.

(c) Valdemar Holstein has adopted management techniques "such as total quality management (TQM), benchmarking and Kaizen" *(lines 36–37)*. With reference to *RDB*, explain what is meant by TQM and Kaizen. ***[4 marks]***

TQM is an approach to quality enhancement that should involve the whole organization in improving not only products (goods and services) but also processes and productivity. TQM is often presented as a philosophy that should be embraced by all staff in order to be totally quality-driven. In the case of *RDB*, TQM means that all departments need to be involved and not just those manufacturing ball bearings.

Kaizen is the Japanese word for "continuous improvement"; its aim is to ensure ongoing incremental improvement as opposed to just occasional radical changes. As with TQM, a key aspect is the involvement of all staff in the process. At *RDB*, a possible technique would be the use of suggestion boxes giving everyone the opportunity to make recommendations as to how to improve *RDB's* operations.

Mark as 2 + 2.

Award ***[1 mark]*** for a basic definition/explanation of each technique and ***[1 mark]*** for an explanation of the technique in the context of *RDB* up to a maximum of ***[2 marks]***.

(d) Using Lewin's force field analysis model, discuss the differences between Anna Holstein's driving forces for change presented in her strategic plan "*RDB* 2020" and Valdemar Holstein's resistance to these changes. ***[8 marks]***

Lewin's framework is a useful tool to help contrast Anna's strategic plan (with her driving forces for change) and Valdemar's resistance (as the restraining forces).

The driving forces for change (presented by Anna) include the following:

- the market demand for ball bearings is shifting from Europe to countries such as Brazil, China and India; the sites of production (the factories) should be located closer to the sites of consumption (where customers are)
- the current workforce (in the European factories) does not culturally understand their customers in those new markets; they could lose them to competitors that are local or are more culturally-aware
- *RDB* must adopt new values especially about "green" technology: it should take first-mover advantage in that field
- *RDB* must embrace globalization instead of remaining stuck in its traditional, Eurocentric, post-fordist operational model.

The restraining forces (presented by Valdemar) include the following:

- "*RDB* 2020" is extremely expensive; it would require colossal changes that would eventually dilute the Holstein family's ownership of *RDB*
- *RDB* has had almost a century of strong links with the local communities where it has been based, contributing to the development of "company towns", working in partnerships with national governments and other stakeholders who have held it in high respect; that respect would be annihilated
- *RDB* has a sort of "social contract", "a moral obligation to provide jobs in Denmark" and a corporate social responsibility: it would not be ethical to make some of the changes suggested by Anna, especially those about closing two of the three megafactories in Europe.

The differences between Anna and Valdemar are fundamental and difficult to reconcile. Anna's proposed changes will require that the business culture changes completely. Anna's proposals which are driven by changes in the external market are highly risky in the short-term in terms of costs, and will require a total overhaul of the corporate identity of *RDB*. Valdemar wishes to retain the core business and the focus on Denmark. He has proposed some compromises, but Anna is clear that these are only short-term fixes and will only be an unnecessary delay. Anna is prepared to push her changes through despite Valdemar's objections, which may not be the most appropriate way of implementing her proposed vision and the required changes.

Accept any other relevant discussion.

Candidates are **not** expected to draw a diagram, but they are expected to make use of the model (for example by using the terminology of "driving forces" and "restraining forces" or at least referring to arguments "for" and "against" Anna's strategic plan).

Marks should be allocated according to the markbands on page 4.

SECTION C

5. (a) Referring to Item 1, identify for *RDB one* opportunity and *one* threat as a result of demographic changes forecasted in the twenty-first century. ***[2 marks]***

Opportunities stemming from the demographic changes forecasted in the twenty-first century include:

- Northern Europe will face many retirements in the next decade. Thus, if *RDB* can plan its contraction in northern Europe carefully, it may be able largely to reduce its workforce through retirements rather than redundancies.
- As the number of young people (age 0–14) as well as those age 15–64 contracts, *RDB* will face less pressure from governments to provide employment.

Threats stemming from the demographic changes forecasted in the twenty-first century include:

- As the pool of available workers contracts, the competition for highly trained and highly effective workers and young professionals will intensify. Recruitment efforts will have to be improved.
- *RDB*, and all northern European countries, could face higher taxes as society has to support an ageing population.

Accept any other relevant opportunity and threat, and other reasonable, relevant assertions.

Award ***[1 mark]*** for a relevant and correct opportunity identified and ***[1 mark]*** for a relevant and correct threat identified up to a maximum of ***[2 marks]***.

(b) Explain Valdemar's statement that "choosing between Jens and Per is the same as choosing between a manager and a leader: it is a key strategic decision for *RDB*". ***[7 marks]***

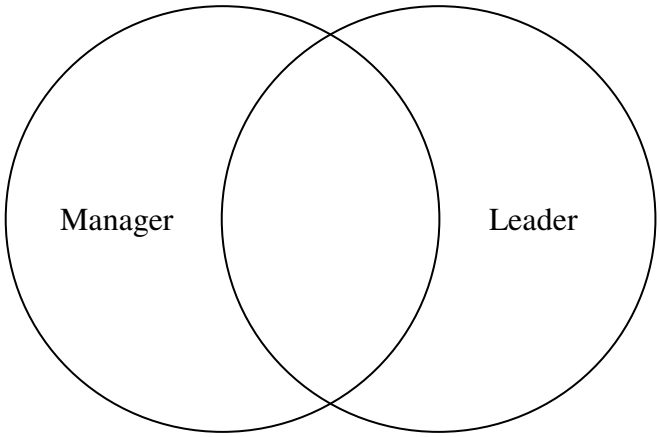
Many business writers have noted a distinction between management and leadership. One source (http://www.futurevisions.org/ldr_mgr.htm) defines the difference as follows:

Managers supervise complexity, plan and budget, determine staffing levels and select personnel, control the organization and solve problems.

Leaders cope with and promote change, determine an organization's direction, organize and align people, motivate and inspire people.

Another source (Hall, Jones *et al.*, *Business Studies*, pages 519–525 (2001)) makes similar distinctions. To Hall, Jones *et al.*, managers plan, organize, command, coordinate, control, and set objectives. Leaders, according to Hall and Jones *et al.*, are best characterized by characteristics, such as have a positive self-image, can get to the essence of a problem, are intelligent and well read, are creative and innovative, and have good skills with people.

These distinctions can be over-emphasized, as to some degree (many authors argue) the tasks of a manager and the characteristics of a leader overlap: a good leader has some capacity to manage and a good manager has some capacity to lead.



Candidates should demonstrate an understanding of these distinctions and apply them to the stimulus material. In their application, the candidate should probably point out that as *RDB* goes through with the many changes of "*RDB* 2020", it will require someone who is detail oriented – a manager – as the transition to "*RDB* 2020" has the potential for many operational problems until the "new" *RDB* is up and running. At the same time, the company will also need a genuine leader to help refashion the corporate identity and culture. Formerly, *RDB* was very grounded in its identity as a northern European company with German/Scandinavian traditions. The new *RDB* will have plants operating all over the world with a far more diverse workforce. It will take a leader to bring all the people from all over the world together.

N.B. if the candidate does not use the concept of strategic decision making in their response they cannot access the top markband.

[1–2 marks]
A limited response, but with some understanding of what is a manager and what is a leader.

[3–5 marks]
The explanation is relevant with some understanding of the differences between a leader and a manager. At the top of the markband there is more detail and development of the explanation.

[6–7 marks]
A clear, relevant and developed explanation of why choosing between a manager and a leader is a key strategic decision for *RDB*. The concepts are well explained and clearly linked to *RDB*.

(c) Using information in Item 2, calculate the expected values for each option using *only* the five-year net profit after interest and tax totals. Interpret the results and information from the decision tree *(Item 2)* and the critical path analysis *(Item 3)* to help the board decide on whether to approve "*RDB* 2020". ***[9 marks]***

Option A "*RDB* 2020"	Success	0.4×269	107.6
	Satisfactory		46.8
	Failure	0.4×135	54.0
TOTAL			**€208.4 million**
Option B No major change	Success	0.1×205	20.5
	Satisfactory	0.8×200	160.0
	Failure	0.1×195	19.5
TOTAL			**€200 million**

N.B. for the calculations above, **do not** penalize candidates if they use the net profit after interest and tax for "Year 5" instead of the "total" for the 5 years.

Based upon Items 2 and 3, the decision facing the board can be summed as follows: from a strictly profit standpoint, "*RDB* 2020" offers greater potential profits and great potential risks. If *RDB* proceeds with "*RDB* 2020" and it is fully successful, over five years, the business stands to make €64 million more than if it makes no change and has the highly predictable outcome of a satisfactory performance.

In addition, a reasonable inference is that, after five years, *RDB* would be significantly more profitable than *RDB* operating without any major change. On the other hand, were "*RDB* 2020" not to be successful (that is, "failure"), *RDB* would see a significant fall in profits. Moreover, there is far greater sensitivity regarding potential outcomes with "*RDB* 2020". If *RDB* makes no major change, there is an 80 % likelihood it will make €200 million – a very safe and satisfactory profit.

What is the key to success? It requires two sets of events to fall into place. New (smaller) factories have to be setup as two old megafactories are closed and sold, and the other downsized. Both have to proceed without problems. The business needs to sell the megafactories and use the proceeds from the sale to finance the construction of the new factories. As a practical matter, *RDB* will probably borrow money while the megafactories are put up for sale. However, if buyers are not found, *RDB* will have significant interest costs on the loans to construct the new smaller factories. Over time, that marginal interest will eat into profits. In addition, whenever older industrial sites are sold, questions arise about the degree to which there has been environmental degradation. If one of the megafactories has left more environmental contamination than *RDB* anticipates, the cost (and time) of the clean up could eat into future profits.

Overall, the construction of the new factories should not be too much of a problem. The company projects that it will take about six months for each factory. *RDB* will proceed one, two, or three factories at a time and the construction of four factories should correspond to the sale/closure of one megafactory.

The company anticipates that it will take approximately 15 months for the sale/closure of each megafactory; thus, on the construction of the new factories, *RDB* will have some float to work with. Further, the hosting countries will probably be eager for the new factories, which should facilitate the process. However, with any construction, there can be unanticipated problems (permits, materials, labour, *etc*), any of which could slow down construction.

Accept any other relevant interpretation.

In responding to the prompt, candidates should offer interpretations of both Item 2 and Item 3.

When interpreting Item 3, candidates should make use of the CPA by referring to *RDB's* ability to raise finance by selling off the megafactories in Sweden and northern Germany. Reference to CPA need not be more than observing that the megafactory sales are critical and if there is a risk of delay it could have an impact on the decision.

If the response is a one-sided relevant approach with no analysis, award a maximum of ***[5 marks]***.

Balanced analysis for more than ***[7 marks]*** (making good use of decision tree and critical path analysis). Partial analysis (making some use of decision tree and critical path analysis) award a maximum of ***[6 marks]***.

Marks should be allocated according to the markbands on page 5.

(d) Using information contained in the case study and Items 1 to 5, discuss how *RDB* could plan strategically for any future crises. ***[12 marks]***

It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts than identified below. There is no "correct" answer.

Examiners **must** be prepared to award full marks to answers which synthesize and evaluate even if they do not examine all the stimulus materials.

It is to be expected that the answer will include relevant information from the case study, extension material and Items 1–5 and employ a range of business concepts, tools and terminology.

The scholarly literature on crisis management is extensive and candidates could approach this question in several different ways. Be open to a range of answers. However, there are several key issues that candidates should address:

Even if *RDB* were not to adopt "*RDB* 2020", the organization will face changes: from globalization, from technological innovation, from changing demographics (Item 1). According to Erika Hayes James at the University of Virginia's Darden Graduate School of Business, businesses face two kinds of crises: those that are sudden and those that are "smoldering" (http://en.wikipedia.org/wiki/Crisis_management#Crisis_Leadership). The latter are more likely to occur when a business is in a stable situation, such as *RDB* currently is in its European megafactories. Businesses need to plan for problems that can grow out of complacency.

If *RDB* adopts "*RDB* 2020", it will, in the short term face, many new kinds of "sudden risks". Any of a number of breakdowns could occur as the company transitions running three megafactories in safe, secure northern Europe to a decentralized operation with factories around the world. *RDB* needs to be prepared for possible problems in the transition process. A careful examination of Items 2 and 3 reveal that the critical path of the transition can break down in any number of ways, mostly the failure of the sale of the megafactories or problems in the construction of new factories. In case of the former, *RDB* would not have access to funds to pay for the debts from the construction loans; in case of the latter, *RDB* could, if the sale of a megafactory proceeded in a timely fashion but construction did not, be in a position where it cannot fulfill orders.

RDB is aware of these risks. The decision tree shows that if the transitions proceed under the best possible scenario, *RDB* will see significant improvements in its profits. However, there is (projected) an equal risk that it will not go well, and *RDB's* profits could fall considerably. *RDB* has to plan for contingencies:

- flexibility with financial institutions
- contingency plans for operations (in case a factory does not open on time).

In the long run, having a dozen or so factories around the world decreases certain types of risk. If one of the factories were to have a problem (fire, environmental, terrorism, *etc*), the other factories could continue production more easily than under the current, much more centralized structure. It will also have certain new risks: risks associated with operating in less stable countries (aka country risk), which in some cases have less reliable infrastructure (power, roads, *etc*). In addition, *RDB* also has to have management succession plans for many more factories than at present. This will mean more training. *RDB* can take advantage of the fact that it will build its new factories over a period of time. Lessons learned with the early factories can be utilized with subsequent factories, adapted to local circumstances.

RDB can plan strategically by putting some person or some committee in charge of risk management and the development of contingency planning. That person or committee should be sufficiently empowered to evaluate risks, both in terms of probability (of particular crises occurring) and in terms of potential cost to *RDB*. Once these risks are evaluated, the person or committee could then begin the process of the development of contingency plans for the greater risks (greater in terms either of probability or in terms of costs). Further, the committee could then establish its own time frame for periodic review of risk assessments and contingency plans.

RDB will also have to make a strategic decision about the tone that it wants to set and the degree to which it wants to commit resources to crisis management and contingency planning. On the one hand, businesses in the twenty-first century will face many more risks (Item 4). On the other hand, too great a concern over potential risks can foster a climate that discourages creativity and innovation, which could be a smoldering problem for a business in the twenty-first century (Item 5).

Candidates would be expected to offer a substantiated judgment as to whether *RDB* can improve. They might consider the fact that despite the proposed changes this still leaves *RDB* without any consistent direction for future progress.

Accept any other relevant discussion.

Award a maximum of ***[7–9 marks]*** where both the case study **and** Items 1–5 have not been used, *ie* only one set of data.

Marks should be allocated according to the marksbands on page 6.