



MARKSCHEME

November 2009

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
(c) and (d) questions		(c) questions			
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
0					
1-2					<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical.
3-4					<ul style="list-style-type: none"> • 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 stimulus material, not just to the name of the organization.
5-6					<ul style="list-style-type: none"> • 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 stimulus material.

Section B			Level descriptors
(d) questions			
Q3 (d)	Q4 (d)	Q5 (d)	
Marks 0–9			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1-2			<ul style="list-style-type: none"> • 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 stimulus material.
3-4			<ul style="list-style-type: none"> • 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 stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5-7			<ul style="list-style-type: none"> • 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 stimulus material are made at places in the response.
8-9			<ul style="list-style-type: none"> • 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 stimulus material are made throughout the response.

SECTION A

1. (a) **Identify *two* advantages and *two* disadvantages for *Solid Construction* resulting from being a partnership.** **[4 marks]**

Some of the advantages for *Solid Construction* of being a partnership may include the following:

- given the different experiences and professions, each partner can specialize. One will run the project and the other will manage the finance. A synergy may be created
- the partners can share the workload
- there are no or few legal formalities to complete when setting up the business. The potential partners would like to operate in a partnership ASAP given the need to complete the hotel within three years
- the partners are in a stronger position to raise the necessary extra funds compared to a sole trader
- *accept any other relevant advantage identified.*

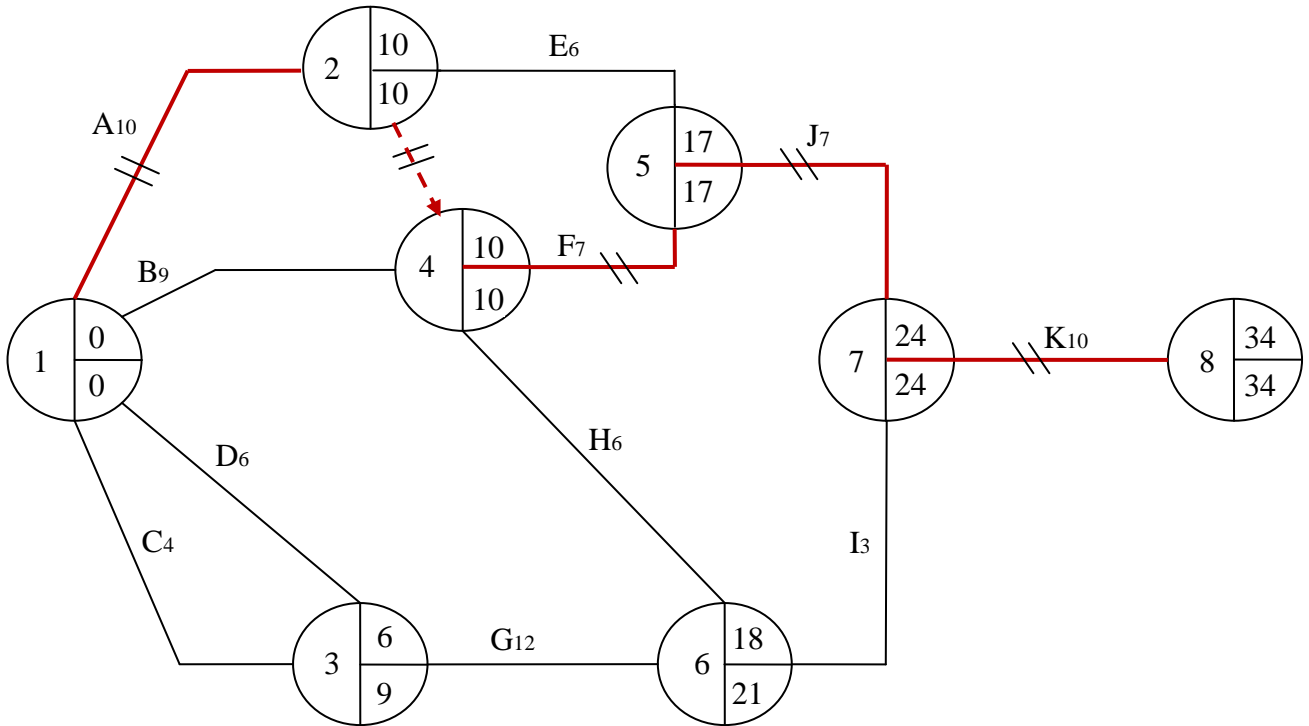
Some of the disadvantages for *Solid Construction* of being a partnership may include the following:

- disagreement may occur between the partners, which will reduce the efficiency of running the company
- the partners might not be able to raise the required funds like a limited company might be able to
- each individual partner may have unlimited liability and each of the partners would then be equally liable for the debt. They may lose their personal assets if, indeed, the fact that they overlooked some problems becomes detrimental
- *accept any other relevant disadvantage identified.*

Mark as 2+2.

Award **[1 mark]** for each relevant and appropriate advantage/disadvantage identified up to a maximum of **[2 marks]**.

(b) (i) On the lined paper provided for your answer, construct a fully labelled network to represent the activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity and the critical path. [9 marks]



// = Critical path
 EST = Earliest starting time
 LFT = Latest finishing time
 - - -> = A dummy

Number	EST
	LFT

 = Activity node

The critical path is: Activity A, a dummy, F, J, K.

[1 to 3 marks]
 There is some evidence of understanding of the model and some attempt at construction and ESTs and LFTs are shown.

[4 to 6 marks]
 The network is constructed, drawn but may not be well and entirely accurately presented. The ESTs and LFTs are largely correct but some errors (up to three) may be included. The critical path may not be identified and a key may not be provided at the lower end of the markband.

[7 to 9 marks]
 The network is accurately constructed, drawn and well presented. The critical path is identified. A key is provided. The ESTs and LFTs are accurate. Allow for up to two minor mistakes for [7 marks]. If a dummy is not used, award up to [7 marks].

Do not double penalize candidates.

(ii) Calculate the total float *and* the free float for each activity. Comment on the likely effect on the other activities and the total duration of the project if:

- Activity C is delayed by four months
- Activity H is delayed by four months.

[6 marks]

Activity	Total float LFT – EST – Duration	Free float EST end – EST start – Duration
A		
B	1	1
C	5	2
D	3	0
E	1	1
F	–	–
G	3	0
H	5	2
I	3	3
J	–	–
K	–	–

If activity C is delayed by four months:

- the duration of the project will not be delayed.
- will delay subsequent activities G, I by four months and K by one month.

If activity H is delayed by four months:

- Since the total float is five no delay to the total duration of the project will occur but will delay I by two months.

[1 to 2 marks]

The answer is very brief and essentially limited but may show some understanding of the concepts.

[3 to 4 marks]

A table is constructed but the calculations of the free float and/or the total float may not be entirely correct or completed. It is possible that either the total float or the free float is calculated. The effects of a delay of each activity on the other activities and the duration of the project are explained but the explanation may lack depth and clarity. If no explanation is provided, award up to [3 marks]. If the explanation of the effect is correct and the floats are not calculated award up to [3 marks].

[5 to 6 marks]

A table is clearly constructed and the calculations of the total float and the free float are correct. The effects of the delay of each activity on the other activities and the duration of the project are clearly and accurately explained. Allow for two minor mistakes for [5 marks].

- (c) Analyse *two* advantages and *two* disadvantages for *Solid Construction* of using the critical path analysis model. [6 marks]

The possible **advantages** for *Solid Construction* of using critical path analysis (CPA) are as follows:

It can be a very useful model to be used for an organization in the construction industry when the operation can be rather complex. The partners can anticipate and picture the tasks, their durations and the sequences. The activities on the critical path can also be identified as well as some potential problems. They can better allocate the scarce resources. Time and resources are crucial factors for the partners in order to finish the hotel on time for the major sporting event.

The use of the model can improve efficiency and reduce costs due to prioritising activities and allocating resources. The cash flow can be better controlled. Again, funds are a point of concern for the partners. *Accept any other applicable advantage.*

The possible **disadvantages** for *Solid Construction* of using CPA are:

The network diagram for a hotel building can be very complex and unmanageable for the partners alone. The model depends on the quality and reliability of the data. It is mentioned in the stimulus that some potential problems have already been overlooked. The model is likely to be inaccurate and, therefore, ineffective as a planning tool. Only quantitative data are incorporated. Some important issues like the motivation of the staff, and reliability of the suppliers can affect the duration and the completion of the project but these issues, to name but a few, were overlooked. *Accept any other applicable disadvantage.*

If two advantages and one disadvantage are analysed or vice versa, the analysis is unbalanced, award a maximum of [4 marks]. Analysis of two advantages **and** two disadvantages are needed for the top marks. If the response is a one-sided relevant approach with no analysis award a maximum of [4 marks]. Where only **two** advantages **or** **two** disadvantages are analysed the analysis is partial, award a maximum of [4 marks].

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

2. (a) Define the following terms:

(i) *fixed asset*

[2 marks]

Fixed assets are assets that are likely to be held by an organization for at least one year and cannot be easily converted into cash. Examples of fixed assets include land, buildings, machinery and vehicles.

Do not credit for just an example, a definition must be given.
Do not penalize if examples are not given.

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

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(ii) *share capital.*

[2 marks]

Share capital refers to funds raised by issuing shares and is based on the value of the shares when they were first sold.

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

Award [2 marks] for a full, clear definition that is similar to the model answer above.

- (b) Explain how the predicted changes in economic growth rates and interest rates may affect *Neat Organization*. [6 marks]

Growth is negative in 2009 and then positive and rising but still the rate in 2010 is relatively low. The increase in economic growth rate can be seen as an opportunity for *Neat Organization*. It is likely that more people will opt for budget holidays when the economy is just coming out of recession rather than increasing demand for luxurious holidays, especially given the fact that the growth rate is not excessive. The demand for tourism is generally income elastic. The positive increase in demand is likely to be more noticeable from 2011 onwards where the GDP is positive and growing.

The rise in interest rates could potentially add to *Neat Organization's* costs if it has many debts to pay. Given the information on loans/debt in the stimulus, \$4 000 000 out of \$31 200 000 of total capital employed, it does not look as if the increase in interest rate will put *Neat Organization* in a particularly difficult position. It can be argued that the changes in interest rates will have a minimal impact on their \$4 000 000 loan capital. The gearing ratio is relatively low, so this should not be a major factor in pushing up their costs.

A high interest rate can affect the demand for interest elastic products/services which holiday/tourism is generally classified as. It could affect demand as households cut back on non-essential items. Alternatively households may prefer a low-budget holiday when their budgets are strained or only gradually increasing due to a small rise in economic growth.

Please note: it is not expected that the candidates will provide an analysis of incorporating a positive and a negative effect of changes in one of the variables. The explanation of one effect of each of the variables is sufficient.

[1 to 2 marks]

The answer is basic with simple non-substantiated statements made.

[3 to 4 marks]

There is some explanation of how both predicted changes in economic growth rates and interest rates may affect *Neat Organization* though this may be lacking in balance and consider one area in more depth than the other. Award a maximum of [3 marks] if only economic growth rates **or** interest rates are explained in detail. If no reference is made to the information in the stimulus and/or to the type of service *Neat Organization* provides award no more than [3 marks].

[5 to 6 marks]

A clear and detailed explanation of how both predicted changes in economic growth rates and interest rates may affect *Neat Organization*. The explanation explicitly refers to the stimulus material.

(c) Calculate the following (*Show all your working*):

- (i) the gross profit margin and gearing ratio for *Neat Organization* for 2008. *[2 marks]*

Gross profit margin

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

$$\text{Gross profit margin} = \frac{12\text{m}}{20\text{m}} \times 100$$

$$\text{Gross profit margin} = 60\%$$

Gearing ratio

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

$$\text{Gearing ratio} = \frac{4\,000\,000}{31\,200\,000} \times 100$$

$$\text{Gearing ratio} = 0.128 \times 100$$

Gearing ratio = 12.82 % or 13 % is also acceptable.

Award *[1 mark]* for each correct calculation with working.

If both figures are correct but no workings are shown award *[1 mark]*.

(ii) the payback period for the proposed investment in coaches. *[2 marks]*

Year	Projected net cash inflow (\$000s)
1	100
2	150
3	250
4	300
5	250
6	200
7	200

$$\text{Payback period} = 4 \text{ years} + \frac{200}{250} \times 12 \text{ months.}$$

Payback period = 4 years and 9.6 months.

Award *[1 mark]* for the correct calculation and *[1 mark]* for the correct use of the formula and working shown.

(iii) the net present value (NPV) using a discount rate of 8%. *[2 marks]*

Present value of income stream

	Original	Discounted figures
Year 1	\$100 000 × 0.9259 =	\$92 590
Year 2	\$150 000 × 0.8573 =	\$128 595
Year 3	\$250 000 × 0.7938 =	\$198 450
Year 4	\$300 000 × 0.7350 =	\$220 500
Year 5	\$250 000 × 0.6806 =	\$170 150
Year 6	\$200 000 × 0.6302 =	\$126 040
Year 7	\$200 000 × 0.5835 =	\$116 700
Total Present Value (TPV)		\$1 053 025

$$\begin{aligned} \text{NPV} &= \text{TPV} - \text{Initial Capital Cost} \\ &= \$1\,053\,025 - \$1\,000\,000 \\ &= \underline{\underline{\$53\,025}} \end{aligned}$$

Apply Own Figure Rule (OFR).

[1 mark]

There is some logical attempt to calculate NPV but there is an error.

[2 marks]

NPV is correct with full working shown.

- (iv) the depreciation at 20 % using the reducing balance method for the first 7 years of the coaches. *[3 marks]*

All figures in \$.

Initial cost: 1 000 000.

Depreciation is 20 %.

Year end	Workings	Depreciation	Value of coaches
0		–	1 000 000
1	20 % × 1 000 000	200 000	800 000
2	20 % × 800 000	160 000	640 000
3	20 % × 640 000	128 000	512 000
4	20 % × 512 000	102 400	409 600
5	20 % × 409 600	81 920	327 680
6	20 % × 327 680	65 536	262 144
7	20 % × 262 144	52 428.80	209 715.20

Total depreciation is: \$790 284.80

[1 to 2 marks] if the correct procedure has been followed but there is an error(s) in the calculation(s). Deduct *[1 mark]* per error, but do not penalize for errors that have been carried forward. So if two errors have been made and some workings are shown the mark awarded will be *[2 marks]*.

[3 marks] for the correct final value (\$209 715.20) and no errors. Some of the workings are shown and some of the calculations are well presented.

- (d) **Using financial and non-financial information, examine the decision of *Neat Organization* to go ahead with the investment in coaches.** [6 marks]

Relevant factors include:

- intensifying competition
- any relevant marketing issues
- rising interest rates
- low economic growth
- payback period
- NPV
- residual value after depreciation
- GPM
- gearing ratio.

On the basis of financial factors alone, the investment in coaches is therefore profitable but marginal. The financial information in the stimuli does not indicate any cash flow issues and therefore it can be assumed that the payback period is acceptable. However, one might argue that a period of longer than 4 years in relation to 7 years of expected life perhaps is not very appropriate. Given the fact that shares are sold, it can also be argued that *Neat Organization* should be able to raise the required funds. It is also very profitable and liquid, therefore other sources of funds can be secured such as bank loans. The residual value also seems sufficient as an initial fund for replacing the coaches.

If all factors remain unchanged the investment in coaches will provide sufficient revenue to be cost effective.

However, *Neat Organization* will need to consider if there are other related benefits from the acquisition of the coaches. Will there perhaps be marketing benefits from using their own branded coaches and offering a more integrated service? Can the coaches also be used to offer other value-added services to the holidays? Can they sub-contract the use of the coaches to other organizations and therefore yield a higher net cash inflow? Will it provide a USP over the competitors in an intensely competitive market? This is quite likely to be the case given the intense competition.

Relevant non-financial issues bearing on the success of the investment than relying solely on the payback, NPV and depreciation values should be incorporated. Also, attention should be made to the fact that the figures are only estimated and if the economy does not grow and/or the interest rate increases more than predicted, the decision based on a quantitative model may be inappropriate.

Please note: It is not expected that the candidates will cover all of the issues mentioned above. An examination of two financial and two non-financial issues is sufficient.

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

SECTION B

- 3. (a) (i) Define the term *redundancy*. [2 marks]**

The laying off (dismissal) of an employee because of a lack of available work, as the employer is unable to afford to employ them anymore or the business no longer has a need for an employee to carry out work of a particular kind.

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

Award [2 marks] for a full, clear definition that is similar to the model answer above.

- (ii) Identify *two* financial incentives that an organization can use to motivate employees. [2 marks]**

The financial incentives could include:

- wages (time and piece rates)
- salary
- commission
- profit-related pay
- performance-related pay (PRP)
- employee share-ownership schemes.

Award [1 mark] for each correct incentive identified up to a maximum of [2 marks].

- (b) Distinguish between *three* sampling methods that *Statistics Finland* could have used to gather the data for the report. [6 marks]

The survey could have used:

- quota
- random
- stratified random
- cluster
- *accept any other relevant sampling method.*

A quota sample means that the selection of the sample is made in advance, following given quotas to fill from specific sub-groups of the population. In this case *Statistics Finland* might have segmented the population of employees by different gender, age, positions held in the organization (managerial, blue collar, *etc.*).

A random sample means that the probability that any individual member from the population being selected as part of the sample is exactly the same as any other individual member of the population. *Statistics Finland* could have randomly selected people based on a computer selected list possibly of employees in large organizations.

A stratified random sample ensures that the proportions in the sample reflect the proportions in the population as a whole. The sample may be based on income groups that may be applicable to the research that *Statistics Finland* carried out.

A cluster sample uses a representative group from cluster usually geographical areas as the basis to make inferences about the whole population. *Statistics Finland* may be interested in the opinion/behaviour of employees from different geographical areas for their research.

Mark as 2 + 2 + 2.

Award [1 mark] for each relevant sampling method identified and [1 mark] for each relevant and appropriate explanation of the sampling method that directly refers to *Statistics Finland*, up to a maximum of [2 marks].

- (c) **Examine the forces that impact on the trend towards offering flexible work patterns and practices.** [6 marks]

Reasons for the trend should include the issues identified in the stimulus.

Employees desire for a better life work balance and well-being put pressure on employers to respond. The report published by *Statistics Finland* highlighted the priority of female employees specifically and more generally, the need for keeping the employees motivated. Those organizations that offer flexible work patterns find it easier to recruit and retain employees. Hence, given the competitive environment, many employers have to follow the trend. However, not all employees desire the shift towards flexible work patterns and practices but the research highlighted the magnitude of the trend desired by many employees.

Employers' awareness that flexible work patterns and practices ultimately mean cost cutting in the long run and organizational flexibility. Many employers realised that while accommodating the needs of their employees their organization can become more efficient. However, some employers are somewhat reluctant given the possible short-term costs of adaptation to the new practices in terms of installation of technology, training to employees, loss of control and more difficult coordination. It is possible that employees may also be reluctant to accept and adapt to the new changes.

All of the above can be seen and examined within a rapidly changing and improving technology that enables the implementation of some of the practices.

Credit may be given to a relevant issue identified provided the main answer focuses on the information in the stimulus. (For example: certain countries have legislation that lead organizations to offer flexible work patterns and practices under certain circumstances *e.g.* for parents or carers).

If the response is a one-sided relevant approach with no examination the top markband on page 3 cannot be reached. If only one force is examined award a maximum of [4 marks].

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

- (d) With reference to *one content* motivation theory and *one process* motivation theory, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation.**

[9 marks]

Candidates may refer to the following motivation theories: for content: the works of Taylor, Maslow, McGregor, Herzberg, Mayo, McClelland, for process: Vroom and Adams.

Candidates are expected to use two theories in order to discuss the link (if any) between (a) the trend towards offering flexible work patterns and practices on the one hand, and (b) an increase in employee motivation. It is expected that candidates will demonstrate how the trend will positively result in improving employee motivation and continue their discussion while presenting opposing views of theories or parts of a particular theory. Candidates should be able to demonstrate that the link is not obvious. (The theorists mentioned above wrote at a time when flexible work patterns and practices were not so common, and consequently did not explicitly refer to them.) Candidates are tested on their ability to apply theories with constant use of and reference to the information from the stimulus.

Herzberg's motivation factors, for example, can be widened so as to include job satisfaction through flexibility. Maslow's higher level of needs can be reached due to empowerment and trust. Vroom's expectancy theory could suggest that employees are motivated by the knowledge that a better job performance will lead to organizational rewards such as even more flexibility (and not just an increase in salary or benefits). Adam emphasized the need for fairness to be perceived by employees in order for them to increase effort and be more motivated. Flexible working practices can be perceived as either motivating (or de-motivating due to uncertainty, short-term contracts (see below)).

However, candidates should demonstrate understanding that some of the new practices also give the employers the option of providing the employees with short-term contracts only, which are subject to the market demand. This can cause insecurity and feeling of injustice: the equity theory or the expectancy theory. Consequently the employees might be unmotivated and hence reduce their efforts. Some employees might not be interested in flexible working practices and will appreciate more money: Taylor. It is expected that the candidates refer to "employees who are on long-term contracts are more committed to their work". "Employees are more likely to leave their jobs if their employers have taken measures that create a fear of redundancy". Employees might also feel isolated professionally and socially and some may fear change: Maslow/Herzberg.

The above are just brief examples of two-sided analysis of the two types of theories. The analysis should lead to some conclusions. For example, the effects on motivation are not predictable and can vary considerably. The effects may depend on the culture of the organization, the type of the employees in terms of skills, experience, position or any other relevant factors. Accept any relevant theory that is applied to the information given in the stimulus material. Theorists and theories should be applied not just mentioned.

Conclusions and substantiated discussion are vital to reach the top markband. Accept any substantiated conclusions/judgment.

If the response is a one-sided relevant but descriptive approach with no analysis and discussion award a maximum of **[4 marks]**. If only one type of theory either content **or** process motivation theory is discussed award a maximum of **[5 marks]**.

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

4. (a) Define the following terms:

(i) *stakeholder*

[2 marks]

A stakeholder is an individual or a group with a direct interest in an organization's performance.

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

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(ii) *social responsibility.*

[2 marks]

Social responsibility refers to the fact that a firm takes account of its actions on and the interests of its various stakeholders – employees, customers, society and the environment – and adopt an ethical moral position to the community it serves.

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

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

- (b) Explain *three* possible sources of conflict that may arise between *Perfect Printing's* stakeholder groups. *[6 marks]*

Some of the possible sources of conflict that may arise are:

- Management and employees – employees are unsatisfied with the health and safety issues as well as low wages. Any improvement in the unsatisfactory conditions will cost *Perfect Printing* some money. The management might object to changes in the working conditions as the profit might be reduced. Their financial performance might, therefore, be judged unsatisfactory.
- Shareholders and environmentalists/neighbours – the environmentalists clearly want a reduction in the noise and pollution level. Better technology will have to be bought. The subsequent possible fall in profit of the organization will result in a lower dividend for the shareholders.
- Management and the environmentalists – see above. The management might be worried about the extra costs. The conflict, if unresolved, can lead to legal actions and subsequent cost increases for *Perfect Printing*.
- Management and publishers of the local newspaper – the publishers want *Perfect Printing* to become more environmentally friendly by using recycled paper. The management might be worried more about the costs of using recycled paper.
- *Accept any other relevant explanation of sources of conflict between the various stakeholder groups.*

Mark as 2+2+2.

Award *[1 mark]* for each relevant and appropriate possible source of conflict identified, and *[1 mark]* for each relevant and appropriate explanation of the possible source of conflict, up to a maximum of *[2 marks]*.

- (c) **Analyse the value of an environmental audit from the perspective of the managers of *Perfect Printing*.** **[6 marks]**

The possible benefits to *Perfect Printing* arising from the implementation of an **environmental audit** are:

- An independent, qualitative and quantitative assessment will be given to *Perfect Printing* management on activities that affect society like pollution, waste, depletion and so on. The organization will be accountable to its various stakeholders.
- The management can use the report to set up green objectives and to measure the degree of success of its attempts to minimize the negative effects on the environment as well as to set targets for the coming years.
- The report will also provide the management with more substantiated information that can be used for negotiation/discussion with various stakeholders, especially the current local weekly newspaper, the dissatisfied shareholders, the local pressure groups and dissatisfied resident government, possibly suppliers and environmentalists. The management may be in a better position to assess if the various claims/complaints of the different stakeholders are justified.
- The management can use the environmental audit as a USP/competitive advantage in order to maintain its current contractor (publisher of the local newspaper) and to possibly get more contracts from other newspapers.

However:

- The value of such an audit can be reduced by the difficulties of attaching some quantifiable figures to the more qualitative issues. The value to the management will be somewhat reduced.
- It might be difficult for the management to prioritize the indicators to be used and measured. Which information will satisfy which pressure group?
- The **auditing process** is a complicated and expensive one – it might reduce *Perfect Printing's* profit.
- Environmental auditing might lead to a different analysis of an organization's performance and might make the comparison between similar organizations more difficult.
- *Accept any other relevant issues analysed.*

Please note: It is not expected that the candidates incorporate all of the above points/issues. A response that examines two relevant and applicable arguments for the use of an environmental audit and two relevant and applicable arguments against the use of an environmental audit is sufficient to be considered balanced. A reference to the management should be made.

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

(d) Evaluate the proposal for *Perfect Printing* to become a socially responsible firm.

[9 marks]

The possible arguments against *Perfect Printing* becoming a socially responsible organization may include the following:

- Some of the actions suggested in the stimulus will result in an increase in costs in the form of rent, new capital investment, costs of social audit. Therefore, profit will fall in the short run.
- Lower profit to be distributed to shareholders in the form of dividends might create some resentment among the non-ethical investors. Shareholders might even sell their shares and the price of the shares is likely to fall.
- Extra management time might be necessary to implement the suggested practices.
- Given the fact that other publishers are in pursuit of similar strategies and practices, a USP may not be created or might not be sustainable.
- *Accept any other relevant argument against the proposal.*

The possible arguments in favour of *Perfect Printing* becoming a socially responsible organization may include the following:

- The noise and pollution level will be reduced in the long run if the management will pursue their suggested actions – this will satisfy different stakeholder groups.
- Therefore, *Perfect Printing* can save a significant amount of costs on legal actions, recruitment and training of new staff. Government legislation against the company may be pre-empted.
- Moreover, the workers will not carry out their threat to leave and may become more motivated and committed to *Perfect Printing's* mission and vision. Productivity and, therefore, profit level is likely to increase.
- The management, which is the majority holder of 60% of the shares, actually want to become more socially responsible. Ownership will not be lost even if the remainder of the unsatisfied shareholders sell their shares. Moreover, *Perfect Printing* can attract ethical investors instead.
- Publishers are willing to pay a higher price for newspapers made from recycled material. Therefore, *Perfect Printing* can increase the price of printing the newspapers to make up for the increased costs of being a socially responsible firm.
- Given the current complaints from the local residents and since the papers are printed for local consumption, it is safe to assume that they will be willing to put up with a possible increase in price.
- *Perfect Printing's* corporate image may be enhanced. The new image may attract more publishers, economies of scale may be achieved and consequently profit is likely to increase in the medium to longer term.
- Also, the costs of raw materials will fall in the long run by 25%. Therefore, profit may increase.
- *Perfect Printing* may be granted some financial incentives from the local government to cover the costs of the investment.
- *Accept any other relevant argument for the proposal.*

Despite the possible limitations/shortcomings particularly an increase in costs, especially in the short run, it looks as if *Perfect Printing* should implement all of the suggested actions to become a more socially responsible organization. The benefits are likely to outweigh the costs in the medium to longer term. Credit any substantiated judgment.

It is not expected that the candidates will cover all of the points above. However, candidates should incorporate and apply specific issues from the stimulus material rather than providing a correct but theoretical response of the costs and benefits of being a socially responsible organization. Application should go much further beyond just mentioning the name *Perfect Printing*. At least two applicable arguments for and two applicable arguments against are expected to be incorporated for the response to be balanced.

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

5. (a) Define the following terms:

(i) *globalization*

[2 marks]

Globalization is the term used to describe the growing integration of and interdependence among the world economies resulting from the removal of many international regulations.

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

Award [2 marks] for a full, clear definition similar to the model answer above.

(ii) *outsourcing.*

[2 marks]

Outsourcing is letting an outside person or an organization carry out a function/functions previously done by the organization. (It is normally done in order to cut costs and/or improve quality.)

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

Award [2 marks] for a full, clear definition similar to the model answer above.

- (b) Use all of the PEST categories to explain *four* relevant external forces that may impact on an outward-looking Indian ICT company. [6 marks]

Political and legal factors/influences

Opportunities:

- Globalization – the convergence of the world economies in terms of trade, taste, demand.
- Liberalization in China makes the cooperation with, or the movement to, China easier.

Threats:

- The US government made the application for temporary working visas to transfer Indian workers to the US more complicated.

Economic factors

Opportunities:

- The global demand for ICT services is rising. Liberalization of economic policies in China is increasing. The Chinese labour force is plentiful, educated and cheaper.
- ICT companies can take the opportunity to spread their activities abroad as well as employing skilled but cheaper non-Indian labour to reduce costs while maintaining quality.

Threats:

- A wage inflation of about 15 % a year and the sharp appreciation of the rupee against the US dollar can erode Indian ICT companies' competitive advantage.

Social factors

Opportunities:

- Employing educated and qualified ICT workers in China and Mexico will result in lower production costs while quality is maintained.

Threats:

- Indian universities do not generate enough ICT graduates to fill the demand gap. Indian companies are less responsive and must look elsewhere for employees.
- Some local businesses may be angered by the activities of Indian companies abroad as they stifle competition. Resentment can generate some hostile activities.
- The importance of a local knowledge of the customers' needs and culture has become more prominent especially in the US. There is also a drive to recruit locals.

Technological factors

Opportunities:

- Technology is widespread, changing rapidly and there is an increase in global demand for ICT services. Indian ICT companies have the opportunity to increase market share/profit.

Threats:

- Given the nature of technological advances, ICT companies need to constantly update their technology. It may be very costly.

It is not expected that all of the points above are incorporated. It is sufficient to provide one relevant example for a threat for each PEST force, provided that the factors are well explained. It is not expected that a PEST analysis will be carried out. Although the markscheme is divided according to opportunities/threats do not penalize if opportunities and/or threats are not identified.

[1 to 3 marks]

The relevant external forces that may impact on an outward-looking Indian ICT company are identified but not explained or there is not full coverage (*i.e.* political and social only) of the PEST categories but they are adequately explained.

[4 to 6 marks]

The relevant external forces that may impact on an outward-looking Indian ICT company are identified and explained. There is a full coverage (with no more than one omission) of the PEST categories. If no reference is made to the actual factors in the stimulus material, award up to ***[4 marks]***.

- (c) **Analyse the impact on a host country such as China of Indian ICT companies setting up operations there.** [6 marks]

The positive impact of an Indian ICT company on China may include the following:

- a multinational Indian ICT company can provide increased job opportunities especially for the more educated and qualified ICT experts in China. Brain drain can be avoided
- the employment and therefore wages will create higher standards of living for the employees in China
- given the multiplier effect, other related businesses in China may also benefit from an increase in demand
- the extra purchasing power of the employees can benefit other retailers. In short, China's GDP will increase as well as the standards of living of its citizens
- the Chinese government may benefit from higher revenues in the form of taxes on profit which can be further injected into the economy
- a much needed technology, know-how, operation process and management skills can be transferred to the host country – China. The host country firms may be able to develop a new competitive advantage away from producing simple manufactured products
- if the products are exported, the host country balance of payment can improve. Inflow of money will enter the Chinese economy stimulating further growth
- *accept any other relevant positive point.*

The negative impact of an Indian ICT on China may include the following:

- the gap between the ICT specialists and the unqualified people is likely to increase the gap between the rich and the poor, which may increase social/political tension
- the existence of foreign companies may anger some local people and may create some social tension as suggested in the stimulus
- some small local ICT businesses may lose clients, market share, profit and employment. Indigenous industry might not be developed if the Chinese graduates develop a heavy reliance on Indian ICT companies
- Indian companies may be socially irresponsible – local workers or resources may be exploited, perhaps pollution may increase *etc.*
- *accept any other relevant negative point.*

Please note: It is not expected that the candidates incorporate all of the above points/issues. A response that includes two relevant and applicable positive impacts and two relevant and applicable negative impacts is sufficient to be considered as a balanced analysis.

Do not credit answers that analyse the benefits for the MNC's.

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

- (d) Discuss the significance of the specified external forces and the responses of the Indian ICT companies to such forces. [9 marks]**

The significant changes in the external environment provided the Indian ICT companies with many opportunities and threats.

The Indian ICT companies interpreted the significance of the threats correctly. Similarly, opportunities – mainly economic and political ones – were taken advantage of by the Indian ICT companies. Both the opportunities and the threats acted as equally significant and major driving forces for the Indian ICT companies to start the process of outsourcing to China and Mexico. By doing so, the shortage and the wage inflation of local labour as well as the negative effects of the appreciation of the rupee that eroded the current comparative advantage of Indian companies were avoided/overcome. The significant political, economic and social changes in China and Mexico enable the relocation of the Indian ICT companies and the outsourcing process.

At the same time outsourcing to the USA was created because of significant extra legal threats created by the US government's tougher employment regulations as well as some need for better customer understanding and a quicker service.

The Indian ICT companies strategically minimised the severe national and international threats and started to employ US specialists in their companies in the USA in order to be closer to the customer and to be able to attend to their local needs more professionally.

The management of these Indian ICT companies has understood that they cannot affect or change India's national threats so it was best to avoid them by looking outwards. It looks as if the threats gave the companies the initial push to look for different strategies and the opportunities – more of pull factors – also significantly contributed to the chosen strategies of outsourcing and relocation.

Perhaps the opportunities and the threats can be seen as complementary and equally important/significant external forces that forced as well as enabled the Indian ICT companies to change strategies, all within a rapidly changing yet improving technological environment. In the stimulus there is no information to support evidence of success or failure. It is possible that given the dynamic and often unpredictable nature of some of these factors/influences, the success might be very short lived.

Accept any discussion that appraises the significance of the factors differently. Accept any other point of discussion provided it is relevant, well justified/ substantiated. At least three factors should be incorporated.

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