

Markscheme

November 2018

Business management

Higher level

Paper 1

16 pages

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

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theory are explained or applied and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Section C, question 5**Criterion A: Knowledge and understanding of tools, techniques and theories**

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques and theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques and theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting evidence for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individual and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

1. (a) Describe **two** elements of a marketing plan (line 21) for AFA. [4]

The main elements of a marketing plan are:

- details of the marketing objectives of the business including target market
- sales forecasts
- marketing budget including financial projections
- marketing strategies (which may include 4Ps at SL, 7Ps at HL)
- detailed action plan.

Context:

- Sam has poor understanding of finance, so the budget may not have been done well.
- He may have had problems with forecasts as this is a new business.
- One objective was to only sell coffee.
- Sam had CSR as one of the objectives, which, presumably applied to marketing.

The two elements can both come from the 4Ps provided they are clearly distinguished.

Do not allow elements from a business plan, eg vision statement, unless they are clearly linked to marketing.

Mark as 2 + 2.

Award [1] for each correct element identified and [1] for a description of how that feature relates to AFA. Award a maximum of [2] per element.

- (b) With reference to AFA, explain why applying appropriate principles and ethics of accounting practice is important. [6]

Accounting principles and ethics include:

- integrity – being straightforward, honest and truthful
- objectivity – avoiding bias, conflict of interest
- professionalism – accounts produced to relevant professional standards
- confidentiality
- accounts need to comply with legal obligations and be compliant with standards set by professional bodies.

Context: in the context of AFA the business is run on ethical and fair trade concepts. Failing in any of the accounting principles and ethics could damage the reputation of the business and AFA could lose sales and customers. Investors will also need reassurance in relation to the ethics of the business. Other stakeholders, such as pressure groups concerned with fair trade, may need to be satisfied.

Discussion of ethics in a wider sense is allowed but [6] can only be achieved if there is some reference to accounting principles.

If ethics are general, and no mention of accounting principles/ethics then maximum award is [3].

If accounting principles only with no reference to ethics/accounting ethics then maximum award is [3].

Be aware that context is difficult, so the same context can be used for the various different principles/ethics.

Accept any other relevant explanation.

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

*Award a maximum of **[3]** for a theoretical answer.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.*

2. (a) Describe **two** external stakeholders of *AFA*, **other than** customers. **[4]**

External stakeholders include:

- customers (not allowable for this question)
- suppliers – originally nervous about supplying Sam’s new business. Need to conform to fair trade principles. Could include mystery shopper if it is clear that this is not an employee
- government – for taxes, data *etc.* Includes a Companies House role for proper accounts. Could include trading standards for ethics. Could include licensing issues. No evidence as to whether government wants to encourage fair trade or not
- banks and other creditors – at times *AFA* needs finance for expansion
- special interest groups/pressure groups, *eg* charities, NGOs, pressure groups – there is a fair trade movement (no need to use terms like special interest groups)
- the community – little evidence in case so not a good one to choose to get context mark
- competitors – supermarkets also stock fair trade products
- possible external sources of finance.

N.B.: Shareholders are NOT external.

Mark as 2 + 2.

Award [1] for each correct element identified and [1] for a description of how that feature relates to AFA. Award a maximum of [2] per element.

- (b) With reference to *AFA*, explain the importance of branding. **[6]**

The importance of branding to *AFA* can be classified in a number of areas:

- competition: branding can be used to differentiate *eg* from supermarkets
- USP: *AFA* seeks to be the only dedicated fair trade store. Branding can enhance this USP
- pricing: A well-developed brand can help *AFA* set premium prices, helping profits which need improving.

The importance can be developed through:

- the need to attract customers (*eg*, to the new stores)
- the need to encourage repeat purchases, *eg* through brand loyalty.

Accept any other relevant explanation.

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

Award a maximum of [3] for a theoretical answer, often a pre-prepared textbook answer.

Award a maximum of [5] if the explanation is mainly descriptive, but in context.

3. (a) With reference to *AFA*, outline **one** benefit **and one** cost to Sam of opening a new e-commerce website (lines 51–52). [4]

Main context: Sam's vision to operate at a global level. Management issues. Need to reduce costs.

Benefits include:

- targeting new customers locally, nationally and even globally, which is Sam's vision
- sales volumes will increase, revenue will grow and – assuming costs are kept under control – *AFA*'s profits will increase
- economies of scale, eg with suppliers.
- possible reduced operating costs eg fewer sales assistants, lower rents without retail outlets.

Costs include:

- designing the website
- managing the website, maintenance costs
- managing orders – paying packers *etc*
- dealing with increased sales (eg, recruiting people, paying additional wages, more warehousing *etc*)
- other setup costs, eg for online payment systems
- diseconomies of scale (Sam and Finn are not managing well).
- opportunity cost – if developed.

N.B. Costs do not include general disadvantages

Mark as 2 (benefits) + 2 (costs)

Award [1] for each correct cost or benefit identified and [1] for a description of how that cost or benefit relates to AFA. Award a maximum of [2] per cost or benefit. There can be no more than one of each (cost or benefit).

- (b) Distinguish between the leadership styles of Sam and Finn. [6]

N.B.: Culture is not on the SL guide.

Sam:

- Sam clearly wishes to remain in charge of *AFA* as a paternalistic or (soft) autocratic leader.
- Allow *laissez faire* and other leadership styles if explained effectively.
- There is evidence from the stimulus that Sam prefers to be a “big picture” thinker.
- He is mostly involved in the setting of the mission and vision of *AFA*.
- He does not enjoy the day-to-day running of the business and has left this to Finn.
- However, there is also evidence that Sam, given his positive thoughts towards Daniel Pink's theory, is a “soft” autocrat, given that he is willing to delegate and empower some of the managers to run their own individual retail stores.
- Some candidates might mention that, using Handy's classification from the *Gods of Management*, Sam is clearly a Zeus figure. – there is no need to mention these.

Finn:

- Finn clearly aligns his leadership to a more structured or bureaucratic style.
- He seemingly enjoys monitoring the details, which Sam finds boring.
- Finn enjoys centralization and control, which is tied to the way in which he communicates.
- Finn clearly believes in formal organization and his leadership style typifies this.
- His decision to employ a mystery shopper to effectively spy on his managers indicates that he is slightly paranoid and wishes to know about everything occurring in the business.
- Some candidates might mention that, using Handy's classification from the Gods of Management, Finn is typically showing the leadership style inherent in an Apollo figure. There is no need to mention these.

Candidate can be rewarded if they argue that the styles are both the same (usually autocratic) provided, they support their argument.

Accept any other relevant explanation.

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

*Award a maximum of **[3]** for a theoretical answer.*

*Award a maximum of **[3]** if only Sam or Finn.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.
Eg if both are explained but not distinguished.*

Section B

4. (a) State **two** elements of an organizational culture. [2]

References could be made to:

- style of management/leadership
- vision/mission statements/goals
- nature of the workforce – simple reference to employees is not enough
- nature of the business
- norms/values/beliefs/morals including tradition
- organizational structure.

Where these are shown above as either/or this can only be rewarded as one element eg if both leadership and management are stated this is only one element.

References could be made to power culture, role culture, task culture and person culture.

Elements should relate to internal factors and **not** external factors such as the culture of the country.

Award [1] for each element to a maximum of [2]. This answer does not need to be in context.

- (b) (i) Calculate the inventory/stock turnover for woolen hats. [2]

Stocks = 500, annual sales = 1250 so turnover = $\frac{1250}{500} = 2.5$ times a year.

Allow $\frac{500}{1250} \times 365 = 146$ days.

Award [2] for a correct answer which must include “2.5 times” or “2.5 times per year” or 146 days.

Award [1] for an attempt (eg calculating days sales in stocks as 146 days, or, making a mistake or no units).

If the [2] mark answer does not appear in (i) but does appear in (ii) then (i) can be rewarded retrospectively – you will have to go back to mark entry for (i).

Do not reward $500 + 1250$ or $\frac{500}{1250}$.

- (ii) Comment on your result in (b)(i). [2]

Seems very low – is the product seasonal? Is there poor management of stock control?

Use OFR.

Award [1] for a simple statement and [2] if the statement is in context. Do not reward simply putting the answer into words.

- (c) Explain the usefulness of a Gantt chart to *AFA* in planning the implementation of a new process.

[4]

Usefulness includes:

- clarity in planning
- determining the likely project time of 20 weeks (context)
- identifying tasks that can be done concurrently, eg researching other businesses and appointing consultants (context)
- exploring the consequences of delays eg delays in training managers (context)
- help scheduling, eg training (context)
- help monitoring progress.

Context could also be lean production.

Usefulness could also be considered using shortcomings of Gantt.

An explanation will usually include at least two uses/features of a Gantt chart.

Award [4] for a good explanation using context effectively.

Award [3] for either:

- *an explanation but weak context; or*
- *a weak explanation but effective context.*

Award [2] for an explanation, but no context.

Award [1] for some understanding.

- (d) Discuss the value to *AFA* of lean production methods.

[10]

Contextual issues:

- poor stock control
- poor order management
- poor quality control

Aspects of lean production:

- lean production examines processes to find and eliminate all forms of waste.
- production processes adjusted to eliminate waste such as JIT, increased efficiency, eg with suppliers, managing employees more effectively, increasing capacity utilisation.

Might include: Kaizen, total quality management (TQM), cell production, flexible specialisms, simultaneous engineering, JIT and process innovation, such as greater use of IT.

Most likely are JIT, total quality management (TQM), process innovation, Kaizen.

However:

- some techniques are not appropriate for *AFA*
- there are costs involved, eg IT, costs of changing. Can *AFA* afford these?
- are low levels of stocks suitable for retailers such as *AFA*?

Marks should be allocated according to the mark bands on page 4.

*Theoretical answer or context limited to naming the business max **[4]**.*

*One-sided discussion limited to **[5]**.*

*Both sides considered, good use of evidence, particularly from section B, but no effective conclusion award a maximum of **[8]**.*

*For **[10]** the answer needs to be clearly relevant to AFA with good use of context and a clear sense of the value to AFA argued convincingly.*

Section C

5. Using the case study, additional information on pages 4 to 7 and appropriate business tools, recommend whether *AFA* should take over *ABC*.

[20]

Arguments for:

- Might solve supply problems, such as lateness of deliveries and wrong orders.
- Better control of quality is possible particularly as lean production is an option.
- Easier to manage the supply chain.
- Could be a good time to buy – *ABC*'s share price is low (down 25 %), shareholders are dissatisfied and at the current share price the business seems cheap.
- Sam is impatient to grow the business – vertical integration would help.
- Market growth is very strong (forecast 10 % in 2019).
- More marketing by *ABC* may solve *ABC*'s problems.
- *ABC* has potential to exploit this growth by maintaining its market share (market share forecast to fall in 2019).
- An increase in *ABC*'s marketing budget may produce good results
- Sam is ambitious

Arguments against:

- Potential for bad publicity about *ABC* to damage *AFA*. Not using organic materials would destroy Sam's business model.
- Productivity is falling, strikes are threatened. Can Sam solve these problems?
- Maybe solve other problems first, eg disagreements, poor management, unresponsiveness, lack of training, quality issues.
- Falling sales at *ABC* may be due to poor products (sales forecast down from \$6.5m to \$5.9m).
- Doing nothing is always a useful option.
- *ABC* has liquidity problems. The current ratio decreases from 1.0 to 0.6.
- Business is highly geared – should Sam take this on? Is it a risk? Gearing up from 400 % to 500 %, high and rising. High and rising gearing is a worry.
- Falling sales and profits at *ABC* are a real worry.
- Falling return on equity for *ABC* (equity constant, huge drop in profits (from \$1m to \$0.25m))
- Growing number of competitors. (competitors forecast up from 5 to 20 in 2019)
- Increasing worries of growing current liabilities (up from \$2m to \$5m in 2019).
- Falling share price. Why?
- Managerial conflict at *AFA* – could they take on more problems?

The decision is likely to hang on the extent to which Sam/*AFA* can solve *ABC*'s problems.

Accept any other relevant discussion.

Marks should be awarded according to the mark bands on page 5.

Criterion A: possible theories, management tools and techniques include: Accounting techniques and ratios, interpreting data, mergers/takeovers, Fishbone, Boston Matrix, Ansoff, marketing issues, HRM/management issues, SWOT/Force Field/Decision trees (if used with a sense of purpose), the importance of assumptions.

For **[4]**: Tools, techniques and theory understood and developed well with some relevance to the additional stimulus material.

For **[2]**: some understanding of at least two tools, techniques or theories, but not developed.

Criterion B: the tools, techniques, theories and stimulus applied to the decision. Application will be judged by the use of the stimulus material.

For **[4]**: relevant tools, techniques and theories are applied well to the case study context and additional stimulus material, the application is convincing and relevant.

Remember, understanding has been rewarded in Criterion A.

For **[2]**: some limited context/application but not developed. Use of tools limits candidate's ability to make reasoned arguments.

Criterion C: Takeover discussed in balanced way, conclusions drawn and recommendation made/supported.

For **[4]**: There needs to be a clear recommendation supported by the data.

For **[2]**: Some limited arguments but not justified. Or limited analysis (e.g. one-sided argument) but candidate arrives/draws a reasoned conclusion.

Criterion D: Structure: This criterion assesses the extent to which the student organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a concluding paragraph. Please note this can be different from the concept of a conclusion/recommendation in Criterion C. D can be rewarded without a recommendation.
- fit-for-purpose paragraphs. This means: not too long, each focused on distinct issues,
- structure. This means how the reader is guided through the discussion, how the paragraphs are sequenced.

For **[4]**: all four elements present, clearly organized.

For **[2]**: No logical structure but other elements present or logical structure with other elements missing.

Criterion E: Stakeholders:

- individuals: Sam (most likely), Finn, Kim, individual consumers.
- groups: Managers, employees, (both at either business) customers, communities, governments.

For **[4]** Individual(s) **and** group(s) are considered in a balanced way. ie needs 1 or more of both individuals and groups

For **[2]**: one individual or group considered appropriately, or several individuals **or** groups considered superficially.