



# **MARKSCHEME**

**May 2010**

**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) questions					
Q1 (c)	Q2 (c)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
0					
1–2					<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>
3–4					<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> </ul>
5–6					<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the stimulus material.</li> </ul>

<b>Section B</b>			<b>Level descriptors</b>
<b>(d) questions</b>			
<b>Q3 (d)</b>	<b>Q4 (d)</b>	<b>Q5 (d)</b>	
<b>Marks 0-9</b>			
<b>0</b>			
<b>1-2</b>			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the stimulus material.</li> </ul>
<b>3-4</b>			<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5-7</b>			<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses relevant and appropriate terminology.</li> <li>• Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding.</li> <li>• Explicit references to the information in the stimulus material are made at places in the response.</li> </ul>
<b>8-9</b>			<ul style="list-style-type: none"> <li>• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the stimulus material are made throughout the response.</li> </ul>

**SECTION A**

**1. (a) Define the following terms:**

- (i) *vision statement* *[2 marks]*

A vision statement defines where an organization wishes to see itself in the future sometimes optimistically.

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) *public relations.* *[2 marks]*

Public relations is a process of obtaining hopefully favourable (occasionally free) publicity via the media in editorials in newspapers or television for example.

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) (i) Using Steve’s forecast figures, prepare a cash-flow forecast for *NPF* from June to November 2010, clearly showing the opening and closing monthly cash-flow forecast balances. *[6 marks]*

Cash flow forecast for *NPF* June 2010 – November 2010

Item	June	July	August	September	October	November
Donations received	40	30	30	20	20	10
Opening cash balance	1	-8.25	-17	-16.25	-26.5	-26.25
<b>Total cash available – inflow</b>	41	21.75	13	3.75	-6.5	-16.25
Outflows: payments (donation transfers)	47.5	38	28.5	28.5	19	19
Internet usage fee	1			1		
Maintenance fee for servers and computers	0.25	0.25	0.25	0.25	0.25	0.25
Web designer’s fee	0.5	0.5	0.5	0.5	0.5	0.5
Concert sponsoring fee						5
<b>Total cash available – outflows</b>	49.25	38.75	29.25	30.25	19.75	24.75
Closing cash balance	-8.25	-17	-16.25	-26.5	-26.25	-41

*[1 mark]*

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

*[2 to 3 marks]*

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

*[4 to 5 marks]*

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format. Award *[5 marks]* if there is one error, *[4 marks]* if there are two errors. If the candidate produces an accurate cash-flow forecast (that is, the final closing cash balance is correct and the means by which the candidate arrived at that figure is clear and logical) but does not use a generally accepted format, award *[5 marks]*.

*[6 marks]*

The cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

*Do not penalize a response more than once for errors that are carried forward.*

**(ii) Comment on your results from part (i).** **[3 marks]**

- (1) The cash-flow forecast reveals a worrying deterioration in the cash-flow position of *NPF*. Although the organization was set up with a generous contribution we must assume that cash reserves must be running low.
- (2) There are forecast to be very marginal improvements in August and October (the negatives are slightly smaller than the previous month) but the sponsorship of the concert in November will impose a significant drain on cash resourcing at a time of dwindling donations.

Allow discretion when Own Figure Rule (OFR) applies to the comments.

Award **[1 mark]** for overall deterioration: **[1 mark]** for marginal improvements in August and October. **[1 mark]** for November outflow.

Award **[1 mark]** for each correct and appropriate comment based on the forecast, such as the breakdown above, up to a maximum of **[3 marks]**.

**(iii) Explain two possible solutions to the liquidity problems highlighted in parts (i) and (ii).** **[6 marks]**

They can either reduce the outflow or increase the inflow, or elements of both.

*NPF* could:

- Try to secure a bank overdraft to increase cash inflow. It may be difficult to obtain this with no assets to be used as collateral but *NPF* has no debt in 2010.
- Seek a fresh injection of capital from the retired businessman or find another investor which holds a similar view and vision about educational opportunities for children in developing countries. The fresh injection will clearly increase cash inflow.
- Try to co-sponsor the concert with another charity through a joint venture or strategic alliance in order to reduce the cash outflow.
- Fundraise through e-commerce or other merchandising opportunities to increase the cash inflow.
- Negotiate lower fees for web design and maintenance or find more socially responsible providers – in order to reduce outflow.
- *Any other relevant solution.*

**Mark as 3+3.**

Award **[1 mark]** for a brief and general answer (possibly just a list) with no development/explanation.

Award **[2 marks]** for an adequate explanation of the possible solution to the liquidity problems highlighted in parts (i) and (ii), though the response may be lacking in clarity or detail.

Award **[3 marks]** for a clear and detailed explanation of the possible solution to the liquidity problems highlighted in parts (i) and (ii). Reference is made to the stimulus material.

- (c) **Analyse the impact of *two* external threats on *NPF's* decision to sponsor the concert.** **[6 marks]**

It is evident that there may be some technological problems/ threats in the external environment. While the slow/failed connections may frustrate the paid viewers, one may argue that the online broadcast fits well with *NPF's* vision and the threat can somehow be reduce by the acceptance of the viewers. Moreover, the event can enhance *NPF's* goodwill and provide a good opportunity for PR.

The poor economic environment is also a threat. It is likely that perhaps not many people will donate online. Hence *NPF* will not be able to cover the sponsorship costs. Moreover, a social threat can be a public opinion that *NPF* should not really sponsor such an event given the opportunity costs – payment for educational opportunities for children. However, it is said that an online community of social networking web sites exists. Perhaps the threat is not a significant one as the members of these web sites are likely to donate money.

*Accept any other relevant analysis.*

Do not accept investors/online users, donators or volunteers as “external factors”. If pressure groups are covered it should be classified under social attitude acceptance.

For one relevant issue that is one sided, award up to **[3 marks]**.

If the response is a one-sided relevant approach with no balanced analysis, award a maximum of **[4 marks]**. If the impact of only one external threat is analysed, award a maximum of **[4 marks]**.

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

2. (a) (i) **Identify *two* characteristics of a sole trader.** [2 marks]

These include but are not limited to:

- unlimited liability – a firm’s finances are not separate from the owner’s
- owned by one person but may have a number of employees
- limited capital for expansion
- *any other relevant characteristic.*

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

(ii) **Define the term *cross-elasticity of demand*.** [2 marks]

Cross-elasticity of demand measures the responsiveness of demand for one product, when the price of another product changes. The term is used to help define substitutional and complementary relationships between products.

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

As the formula is given award [0 marks] if the candidate merely writes the expression down.

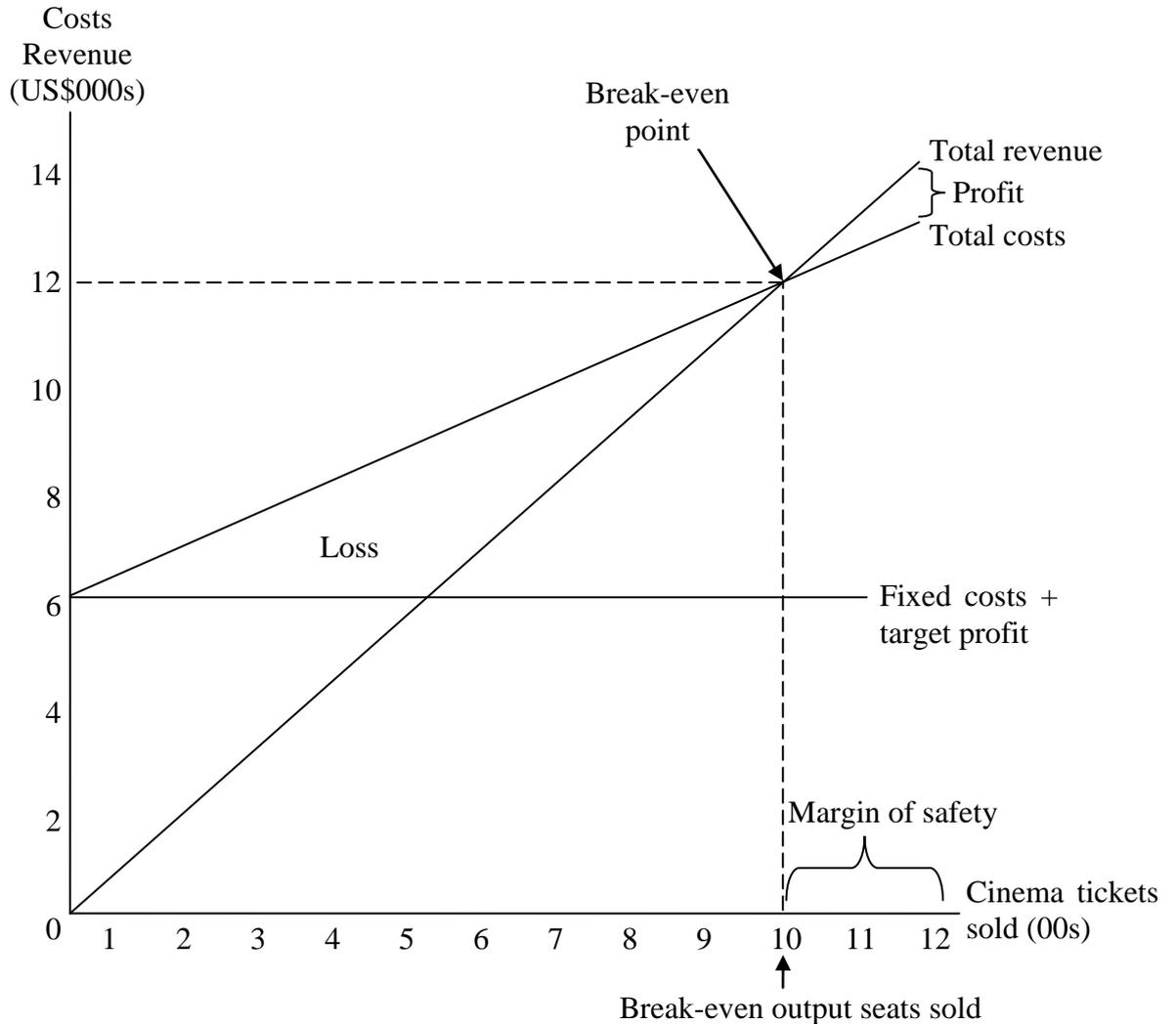
Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

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) (i) Prepare a fully labelled break-even chart for *The Berkeley* for one showing of “Film X” at the premiere. [6 marks]

**Break-even chart for *The Berkeley* for one showing of “Film X”**



**Calculations:**

Fixed costs (includes target profit) = US\$6000  $\left( \frac{12\ 000}{2} \right)$

Contribution = 12 – 6 = 6

Break-even point =  $\frac{6000}{6}$  = 1000 for one showing

Variable costs: US\$6 per unit: ticket sold

Total costs = US\$6000 + US\$6 per ticket sold

Margin of safety = 1200 – 1000 = 200 per showing

Award marks as follows:

[1 mark] for appropriately labelled axes.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve. Own Figure Rule (OFR) applies.

[1 mark] for an accurately drawn fixed costs and target profit curve.

[1 mark] for the identification of the break-even level of output (whatever the value) and [1 mark] for showing the correct value of the break-even level of output.

[6 marks] in total.

*The margin of safety is not expected to be identified (despite the diagram).*

If the break-even chart is accurately drawn but not neatly, using a ruler or straight-edge, or out of proportion, award a maximum of [3 marks].

If the candidate produces a table rather than a chart, award [0 marks].

- (ii) **Calculate the total profit of *The Berkeley* if it shows “Film X” twice and comment on your results.** [3 marks]

Total profit for *The Berkeley* if both showings sell out

$$TR = 2400 \times 12 = 28\,800$$

$$TC = FC + VC$$

$$= 12\,000 + (6 \times 2400)$$

$$= 12\,000 + 14\,400$$

$$= 26\,400$$

$$\text{Total profit} = 28\,800 - 26\,400 = \text{US\$}2400$$

[1 mark] only for correct answer.

The break-even point is 1000 tickets sold for one showing with a margin of safety of 200 tickets. After satisfying the target profit of US\$10 000, Ed will be left with a cash boost of US\$2400.

Award [1 mark] if comments only refer to the fact that Ed will be making a profit compared to the current loss making situation.

Award [2 marks] for a further development of the magnitude of the profit. Also, possibly but not necessarily comments on the break-even point or on any other information in the stimulus material.

- (iii) Using The Boston Consulting Group (BCG) matrix, explain *two* reasons for the manager of *The Max's* decision to offer to takeover *The Berkeley*. [6 marks]

The BCG matrix need not be written in full although a number of candidates will do so. The key is to be able to apply elements of the matrix to *The Berkeley* as being part of *The Max's* portfolio. There is no correct classification here. Marks will be awarded for appropriate explanations relevant to the stimulus.

**Possible applications:**

If *The Max* sees itself as a cash cow with limited potential for growth given the technological/social external environment then *The Berkeley* could be perceived as:

- A **problem child** (question mark) with *The Max* seeing the potential to develop it further as it complements the mass market audience of *The Max*.
- As a **dog** blocking out potential competition – defensive reasons for acquisition.
- One could argue that the manager of *The Max* may regard *The Berkeley* as a potential **star** that can be moved into the cash cow position with a new marketing plan and appropriate financial investment. This can be seen as a defensive move of the proposed acquisition.
- Alternatively, *The Max* might see itself as a **cash cow** with limited potential growth, looking at a takeover as an extension strategy.

There is no exact information in the stimulus material in order to identify the exact position of *The Berkeley's* product therefore accept any reasonable explanation in context.

*Accept any other relevant explanation.*

**Mark as 3+3.**

Award [1 mark] for a brief and general answer (possibly just a list) with no development/explanation.

Award [2 marks] for an adequate explanation of the reasons for the manager of *The Max's* decision to offer to takeover *The Berkeley*, though the response may be lacking in clarity or detail. For [2 marks] there should be some use of the BCG matrix.

Award [3 marks] for a clear and detailed explanation of the reasons for the manager of *The Max's* decision to offer to takeover *The Berkeley*. Reference is made to the stimulus material and accurate use is made of the BCG matrix.

- (c) **Analyse the relative importance of driving and restraining forces on *The Berkeley* if Ed decides to show “Film X”.** [6 marks]

A full force field analysis is not required but some candidates may wish to highlight the key forces in a diagram. This would constitute part of the analysis as long as the relative importance of each constituent part is analysed afterwards as a separate section. If the candidate only provides a Lewin type analysis but no examination, then the candidate should not proceed to [3 to 4 marks].

Key driving forces:

- Ed’s determination to achieve his ambition for his niche audience
- the ability to spread his passion for “world cinema” or “festival” movies
- a fear of consenting to the takeover bid by *The Max* as Ed, the sole trader, is facing difficulties
- the fragile state of the finances of *The Berkeley* with the majority of films shown not breaking even
- use of technology at home affecting the nature of demand for *The Berkeley*’s films
- Judd’s previous success and anticipated demand for the premiere of “Film X”.

Key restraining forces:

- fear of irrevocably changing the perception of *The Berkeley* away from Ed’s ambition
- fear of imitation or me-too aspect with respect to *The Max*, which might damage *The Berkeley* as they do not have the economies of scale or financial muscle to compete with *The Max*
- fear of alienating existing customers.

The key driver would seem to be finance and the change in home viewing habits situation. Most of the restraining forces will be weakened if *The Berkeley* is threatened with closure due to external factors. We do not know the extent of the financial position but clearly with only 40% of films returning a small profit, Ed must show “Film X” and generate a revenue boost to stave off extinction before he can think about satisfying his loyal customers and fulfilling his ambition.

*Accept any other relevant analysis.*

For one relevant issue that is one sided, award up to [3 marks].

If the response is a one-sided relevant approach with no analysis, award a maximum of [4 marks]. If only the driving forces **or** the restraining forces are analysed, award a maximum of [4 marks].

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

**SECTION B**

**3. (a) Define the following terms:**

- (i) *innovation* *[2 marks]*

The process of innovation is defined as the successful commercial creation of a new idea, which adds value to the market place. Innovation should try to create or fulfil existing needs that are not currently being satisfied.

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) *distribution channels.* *[2 marks]*

A distribution channel is a process or system, which a firm puts in place in order to deliver the product to the end user or customer. Channels can be long involving a number of intermediaries or short where the producer delivers the good to the end user themselves.

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 the role and importance of obtaining a patent (intellectual property rights) for the Hendriske brothers in producing the Q-Drum.** [6 marks]

**The importance:**

With new innovations, which may add significant value to the market place but also involve personal sacrifice and risk on behalf of the innovator, the need for/ the role of intellectual property right protection is crucial.

**The role:**

The main role of a patent is to give the Hendriske brothers the right to produce the product without competition for a number of years and thereby allowing the following important issues/factors:

- Reward for the risk taking – strong feature of an entrepreneurial economy.
- Recoup valuable funds from research and development spending, which could encourage the Hendriske brothers to develop future innovative ideas.
- Legal mechanisms will be automatically put in place if competitors who are too similar try to exploit the Q-Drum’s innovative approach. The USP of the organization will be protected for the duration of the patent – a marketing advantage. A brand image can be created. A market share can be captured/ market dominance can be created.
- Adds a considerable intangible value to the company assets – a financial advantage.

*Accept any other relevant explanation.*

At least two issues must be covered for full marks.

Award [1 to 2 marks] for a general or limited response and/or no reference to the stimulus material.

Award [3 to 4 marks] for some explanation with reference to the stimulus material of the importance and role of obtaining a patent (intellectual property rights) for the Hendriske brothers, though the explanation may be lacking in clarity or detail. Either the role or the importance may be overlooked.

Award [5 to 6 marks] for a thorough explanation of the importance and role of obtaining a patent (intellectual property rights) for the Hendriske brothers that includes meaningful reference to the stimulus material.

- (c) Analyse *two* reasons why “innovators and designers only research and develop products that target the needs of the planet’s richest 10 %”. [6 marks]

With R&D costs being a drain on cash reserves for any entrepreneur with no guarantee of payback for ideas, which may not have a commercial value (even if they may be perceived as innovative!), innovators and designers may feel compelled to target customers who are keen and able to purchase at the early stages of the product’s life cycle of those innovative products because:

- early adopters may purchase and generate positive word of mouth (snowballing)
- early adopters may be used as target market participants to see if the product has the potential for mass market, minimizing risk and launch costs
- early adopters may be willing to pay higher prices and thus profit margins may be set somewhat higher than in mass markets
- targeting early adopters may reduce initial promotional and distribution costs
- *any other relevant reason.*

**However**, by trying to accommodate the demands/needs of price inelastic customers / the early adopters, innovators and designers are clearly missing out on satisfying the needs of 90 % of the planet. The stimulus makes reference to US\$2 sunglasses, a US\$10 solar light and a US\$100 house that can be purchased by a billion customers. The option of global mass production can reduce the risk of failure and loss of R&D costs.

- through large scale production of these items, economies of scale could be earned allowing the potential for huge price reductions and significant market share
- innovators and designers are missing out on the possibility of becoming a global brand with significant opportunities for social marketing.

*Accept any other relevant analysis.*

The question was written to focus on early-adopter targeting but any other suitable targeting or high income segmentation should be rewarded. Model answers on early-adopters are not expected.

The issue is that there is not much information in the stimulus material for the first part of the question “why innovators and designers only research and develop products”. Hence do not penalize a candidate who does not make a direct reference to the stimulus for the first part of their answer.

To reach the top markband candidates should still make reference to the stimulus in their analysis, as indicated in the markscheme.

For one relevant issue that is one sided, award up to [3 marks].

For a one sided but relevant response, award up to [4 marks].

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

**(d) Discuss an appropriate marketing mix to increase sales of the Q-Drum. [9 marks]**

As this is a product and not a service it is expected that the 4P's will be used. The following are merely suggestions. The key for higher order marks is that the mix is discussed and is in context, indicating good analysis and evaluation.

Reference to all 4Ps is required to access the top markband.

**Price:** Clearly needs to be lower than the current US\$50, if the intended market is the developing world where access to water is limited and GDP *per capita* incomes are very low in comparison with the developed world. A lower price will be possible if the NGO will help with the market development as suggested in the stimuli. However, the brothers might be worried that lower price might be perceived as lower quality. Price discrimination can also be used provided that the re-sale of the product is not possible. However, those who might be charged higher prices might be upset and abandon the purchase.

**Product:** The Q-Drum needs to be manufactured from cheaper materials to affect the above-mentioned lower price. Larger production runs will result in economies of scale, thus lowering unit costs with positive implications for pricing. However, the quality of Q-Drum and therefore the reputation of the brothers may be negatively affected

**Promotion:** A new promotional effort is required to highlight the life-saving attributes of the Q-Drum. Perhaps using a quotation from Dr Paul Polak in the point-of-sale of material if above the line promotion is too expensive. However, is the message in the stimulus really relevant for the customers/those in need? Are they really looking for an innovative and revolutionary product? Explore the possibilities of viral marketing, which is cheaper than traditional methods. However, does the company have sufficient funds to launch a new promotional campaign? How effective would this be, given the target market?

**Place:** Perhaps an alliance with the NGO would improve the distribution channels. The NGO should have close contact with the people on the ground that need the product. Moreover, the Q-Drum can be sold directly to the NGO. Issues of time, cost and control in setting up new distribution networks. There is not enough information on what the role of the NGO could be in in this process.

Larger production runs and economies of scale will only achieve the reduction in price and cheaper manufacturing costs. Difficult to see in the short run given that only a few hundred have been sold.

It is not expected that the candidate will produce one definite conclusion nor should they cover all of the above points. Clearly, the final decision regarding the adaptation of the marketing mix will depend among others on:

- How long has the patent left to run? Will there be imitators perhaps produced by multinational companies?
- Should the Q-Drum try to find a financial partner other than the NGO?

*Accept any other relevant discussion.*

Award a maximum of *[5 marks]* if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgement/conclusion.

Candidates cannot reach the *[5–7]* markband if they give judgement/conclusions that are not based on analysis/explanation already given in their answer.

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

4. (a) Define the following terms:

(i) *business/organizational objectives* *[2 marks]*

The objectives of a business can define both the purpose and aims of the organization and in some cases can be communicated through a mission statement.

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) *revenue.* *[2 marks]*

Revenue is the income generated from a firm trading in goods and services. It is calculated by multiplying the volume of goods sold by the average price or from break-even analysis: the quantity sold  $\times$  price.

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

Award *[0 marks]* if the candidate writes the money made from being in business.

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. Key concept: how revenue is generated.

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

- (b) For *The Master Bean*, explain the meaning and value of goodwill with internal and external stakeholders. **[6 marks]**

Goodwill can be explained in a number of ways. In the case of *The Master Bean*, Tom Cain’s decision to source his coffee beans under the Fair Trade Agreement and pay higher than perhaps market prices may generate positive stakeholder satisfaction raising the value of the business above that represented by the financial accounts. (In accounting terms, goodwill is only valued when a going concern is sold.)

The value to *The Master Bean* can be expressed in a number of different ways but at the root is that the value of goodwill can act as a powerful differentiator:

- allows *The Master Bean* to position itself away from some of its other competitors
- may act as an incentive for recruitment and retention of key workers who have been with Tom since its inception
- goodwill is an intangible asset, in this case, Tom’s reputation with his suppliers.

*Accept any other relevant explanation.*

Award **[1 to 2 marks]** for a general or limited response and/or no reference to the stimulus material.

Award **[3 to 4 marks]** for some explanation with reference to the stimulus material of the meaning and/or value of goodwill with internal and external stakeholders, though the explanation may be lacking in clarity or detail.

Award **[5 to 6 marks]** for a thorough explanation of both the meaning and value of goodwill with internal and external stakeholders that includes meaningful reference to the stimulus material.

- (c) Analyse *two* reasons why a firm such as *The Master Bean* may change its objectives over time. **[6 marks]**

From the stimulus material, it appears that Tom Cain treated *The Master Bean* as a hobby/passion initially. His objectives were not profit maximization or revenue maximization. Survival or break-even were more important initially. These objectives are typical of new businesses when a lot of uncertainty is surrounding the new business. However, as the business became more established, 35 employees were employed, the objectives changed into growth and ensuring a substantial market share.

Increasing market share would have added financial security to the business and allowed bulk purchasing of beans albeit at above market prices, which began the source of his desire to introduce a strong ethical stance.

The ethical stance may have also been important in determining the positioning of *The Master Bean* away from its competitors. Tom might have used this objective as a USP/differentiator to further improve his TR/profit.

However, given the nature of the product and some of the external factors beyond Tom's control presented in the stimulus – weather, crop harvests and political factors especially in primary product markets. It must be noted that the profit has fallen in the last four years and therefore objectives may have been changed possibly away from being ethical/socially responsible. We also need to consider what is meant by an acceptable or reasonable time frame to change objectives. For Tom it has been more than four years.

*Accept any other relevant analysis.*

For one relevant issue that is one sided, award up to **[3 marks]**.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[4 marks]**. If only one reason is analysed, award a maximum of **[4 marks]**.

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

(d) Discuss the *two* strategic options available to *The Master Bean*.

[9 marks]

The dilemma highlighted in the title of the stimulus is whether Tom tries to protect his ethical stance at the risk of rising costs and losing some valued staff, or keeps *The Master Bean* as a going concern with a return to profitability but with his ethical credentials in jeopardy.

Some of the arguments are:

**Option 1:**

For	Against
No redundancies.	Goodwill and ethical stance at risk.
Return to profitability based on financial forecast.	Positioning/perception changes in the eyes of stakeholders.
No need to relocate.	Transport costs to Australia will rise.
Internal change minimal. Minimal or no resistance to change by staff.	

**Option 2:**

For	Against
Vertical integration leading to greater control of supplies potential for economies of scale and market power.	Relocation will raise short-term costs at a time where survival is threatened.
Benefits of member status as belong to part of a regional trading bloc. <i>The Master Bean</i> may use this merger as a stepping stone to collaborate with other supplier within the trading bloc or to find new markets within the bloc to which it can sell the roasted beans without tariffs.	A number of key staff will be left behind. Workers resist the change – they expressed concern. Motivation may be reduced.
Working closer with local management may yield new economies of scale.	Time and transition lags required setting up new company and management structure. Cultural and management problems may emerge.

Accept any other relevant and valid argument for or against any of the options.

Judgment may include the following issues:

- What is the strength of Tom’s ethical position?
- How poor is the financial position? Could Tom secure some local financing such as an extended overdraft to tie him over until the firm returns to profitability.
- If *The Master Bean* is important to Tom, he may have to relocate and risk losing key staff. As a member of the trading bloc he may be able to secure member grants and allowances. Like other trading blocs such as the EU, there will be other advantages to becoming a member, which the stimulus material has not articulated. We may need further information.

*Accept any other relevant discussion.*

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**. If only one strategic option is discussed, award a maximum of **[5 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgement/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgement/conclusions that are not based on analysis/explanation already given in their answer.

To achieve the top markband, the answer must contain a judgment which is consistent and supported by the discussion of the two options.

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

**5. (a) (i) Identify two characteristics of a laissez-faire leadership style. [2 marks]**

Characteristics:

- a laissez-faire leadership style is effectively a paradox because strictly speaking there is no formal leadership at all
- a laissez-faire leader sets broad goals for subordinates and clear parameters within which they work
- workers may be given the freedom to work without supervision
- informal groups may have disproportionately more power
- individual goal setting may conflict with overall organizational objectives if the management style is too informal
- *any other relevant characteristic.*

At *WJAZ Radio*, the presenters enjoy the freedom to work on their own terms. This may be typical of creative and media industries.

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

**(ii) Define the term *variance*. [2 marks]**

A variance occurs when an actual figure, such as expenses, is much higher or lower than the figure forecasted or more likely budgeted.

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 budgets are important for organizations such as *WJAZ Radio*. [6 marks]**

With *WJAZ Radio* spiralling out of control, the use of budgets would seem critical although there is evidence of them not being used effectively! Budgets can help departments set financial goals and act as important motivating and accountability mechanisms. For a company such as *WJAZ Radio*, with an informal management style, accountability for one's actions has to be monitored otherwise every worker's position is under threat if the station goes out of business.

Setting budgets is important but variances allow firms to see if these budgets are being adhered to. They act as an additional control mechanism. Having a laissez-faire leadership with empowerment is sustainable only if budgets are agreed and adhered to. If budgets are ignored, then one has to question whether the appropriate leadership style is in place.

*Accept any other relevant explanation.*

**Mark as 3+3.**

Award [**1 mark**] for a brief and general answer (possibly just a list) with no development/explanation.

Award [**2 marks**] for an adequate explanation of the reason why budgets are important for organizations such as *WJAZ Radio*, though the response may be lacking in clarity or detail.

Award [**3 marks**] for a clear and detailed explanation of the reason why budgets are important for organizations such as *WJAZ Radio*. Reference is made to the stimulus material.

**(c) Analyse two solutions to the communication failure present at WJAZ Radio. [6 marks]**

The informal laissez-faire leadership style is leading to communication problems both internally and externally. We can speculate that communication failure may have arisen due to:

- Senior management not sending any communication regarding the problem.
- Too informal an environment for effective communication. Given the laissez-faire leadership style the communication channels are not established and therefore not clear. Perhaps there is also confusion as to the direction of communication between the senders and the receivers and the need for formality *etc.*
- Few meetings and an ineffective use of electronic communication such as e-mails and phones.
- Agents in the network adding another element in the communication channel.

Given all of the above points the presenters are not fully aware or interested in *WJAZ Radio's* problems financial or external.

**Solutions**

- To call possible meetings/briefings for all presenters in order to outline the financial issues facing the station.
- Treat non-communicative workers as a contractual issue given the culture of the organization – instil formal written procedures.
- Set official procedures and methods.
- Use a variety of communication channels – electronic boards, general meeting, individual meetings, *etc.*
- Ensure that the message and the communication channels are clear.
- Establish clear lines of responsibility and official communication channels between the presenters, their agents and Elaine (perhaps a new organizational chart could be drawn).
- Perhaps reduce the electronic communication or supplement it with other methods, both verbal and written ones.
- *Accept any other relevant solution.*

However,

- The above changes do not really fit the current laissez-faire leadership style used in *WJAZ Radio*. Changes in the organization structure and culture will have to supplement the changes in communication.
- These changes will take time and resources, especially drawing up roles and responsibilities where there previously had been none, but impatient advertisers may want to see quick results that audience reach of *WJAZ Radio* is at least stabilizing.
- Moreover, some presenters may quit and move to other stations as they are used to and appreciate the laissez-faire leadership style. Resistance to change may emerge.
- Elaine will face resistance and will have to draw up a contingency plan again, taking time and resources.

*Accept any other relevant analysis.*

For one relevant issue that is one sided, award up to **[3 marks]**.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[4 marks]**. If only one solution is analysed, award a maximum of **[4 marks]**. Answers must focus on solutions and not just highlighting communication failure.

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

**(d) Evaluate the effectiveness of the laissez-faire leadership style present at WJAZ Radio.** **[9 marks]**

The current situation is unsustainable for *WJAZ Radio* and the leadership style needs to change. The freedom, which the radio station has allowed the key presenters to enjoy, is now undermining the financial viability of the station. Keeping the status quo will only exacerbate the issues outlined in the stimulus.

The dilemma facing Elaine is that she must change the culture of *WJAZ Radio* to ensure that the freedom the presenters currently enjoy is balanced by some degree of accountability, without resorting to a mass desertion of some of the station's brightest presenters to rival radio station (although it is tempting to suggest that this may be a risky way of reducing the wage bill!).

However, this will not be easy given that the prevailing laissez-faire leadership style allowing presenters to work outside of the station has generated substantial publicity and goodwill and, most importantly, advertising revenue.

It must be acknowledged that the laissez-faire leadership has allowed *WJAZ Radio* to become a market leader and has been very successful in launching successful bands. It is also said that the presenters are motivated because of this leadership style. In a rapidly changing industry such as popular music, a rigid bureaucratic or autocratic leadership style may not be appropriate.

Changing the leadership style may also raise short-term costs of transition and redesigning the organizational structure. Elaine has recently started at the station and thus changing the culture may be easier than she imagines, perhaps by allowing some autocratic measures to address the financial problems. She may be able to use the variances to introduce the changes that are clearly needed and communicate to the station as a whole that the issues facing the station are serious and should not be treated lightly.

Possible judgment:

With *WJAZ Radio* in serious financial trouble, some quick changes in leadership are needed. At this current time, a laissez-faire leadership style may be inappropriate. However, this does not rule out it being useful in the future, once stability has been reached. Perhaps, Elaine should change to more of a paternalistic/democratic leadership style rather than directly to autocratic. Open discussion and honesty with her staff about the financial situation, the reasons for the change needed, as well as participation and involvement of her staff in the change management could somewhat reduce the fear of and the resistance to change.

*Accept any other relevant evaluation.*

Award a maximum of *[5 marks]* if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgement/conclusion.

Candidates cannot reach the *[5–7]* markband if they give judgement/conclusions that are not based on analysis/explanation already given in their answer.

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

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