



MARKSCHEME

May 2005

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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1. (a) Explain *three* advantages and *three* disadvantages of operating *Gadgets2u.com* as a private limited company. **[8 marks]**

Advantages include

- limited liability
- capacity to raise capital through sale of shares
- legal entity ensures continuity
- tight control for Tom if he keeps the majority of the shares.

Disadvantages include

- complex set up procedures
- it takes time and money to set up a company
- can't sell shares to the public (restriction on amount of capital raised)
- loss of privacy – information about the firm becomes publicly available
- if one shareholder wants to sell shares it might be difficult to find a buyer.

Other relevant advantages and disadvantages should be given credit.

[7 to 8 marks]

A detailed answer with three advantages and three disadvantages clearly explained and related to *Gadgets2u.com*.

[5 to 6 marks]

An explanation of some of the advantages and disadvantages of operating as a private limited company. There is some relevance.

[3 to 4 marks]

Advantages and disadvantages are explained but the number and explanation may be limited. There may be a tendency to list but there is some relevance.

[1 to 2 marks]

A limited and general response.

- (b) Analyse the advantages *and* disadvantages of organizing the firm as a matrix structure.

[6 marks]

The *Gadgets2u.com* matrix structure means people working together on project teams to achieve their objectives. Each person may work on a number of different teams, which should help improve communication between the different departments of the firm. Candidates may represent this diagrammatically.

Advantages

- more flexible organization of staff
- improved staff motivation (allows for job rotation and job enrichment)
- greater efficiency and/productivity (caused by two previous points)
- it promotes team work
- it is a very good way to maximize the capacity of all workers, even those down in the hierarchy – or those recently employed
- *any other relevant point.*

Disadvantages

- it is expensive
- it slows down the decision making process (everybody has an opinion, teams have to reach agreements)
- it can cause communication problems, especially as the firm grows in size and complexity
- job rotation might conspire against specialization
- *any other relevant point.*

[5 to 6 marks]

There is a balanced analysis of advantages and disadvantages with clear reference to information from the case study.

[3 to 4 marks]

Some advantages or disadvantages are analysed but the answer may be less balanced. There should be some reference to the case study. At the lower end of the band there may be a tendency to explain with little analysis.

[1 to 2 marks]

A limited and general response.

2. (a) (i) **Describe Tom’s leadership approach.** **[4 marks]**

Tom is probably a charismatic leader with both autocratic and democratic traits.

Autocratic characteristics

- selection of employees (he chooses friends to fill the vacancies)
- wants to get involved in all the appraisals
- team leader of purchases: he does all the buying, he has a very centralized approach
- he has chosen a friend to lead the HRM team, so everybody will now be recruited, trained and appraised by Tom’s friend and/or himself.

Democratic characteristics

- the organization itself, in project teams
- rotation of project leaders to keep everybody involved and motivated
- the “special days” in which all the employees can communicate and feel part of the decision making process.

[3 to 4 marks]

Tom’s leadership approach is described, including reference to both autocratic and democratic characteristics. For **[4 marks]** autocratic and democratic approaches must be explicit.

[1 to 2 marks]

Some characteristics are described, but the answer is limited. Leadership approach may not be identified.

(ii) **Suggest changes that could improve his effectiveness as a manager.** **[5 marks]**

An effective manager will know how to plan, organize, budget, coordinate, direct and communicate. Mostly, effective managers will know how to delegate on sufficiently competent subordinates who they trust.

To be more effective as a manager Tom should ease up on the recruitment process and really delegate it on the team leader and ensure it is an open and transparent process.

Tom should delegate functions on subordinates (purchasing, recruitment, appraisals) and concentrate on the strategic functions.

The whole organization is one that fosters democracy, but the time has to be made for team leaders to meet more often to discuss the important company issues, that are otherwise all decided by Tom.

[3 to 5 marks]

Changes are suggested as to how Tom can improve his effectiveness as a manager. The answer shows knowledge of managerial functions and relates to the case study. At the bottom end there may only be **one** relevant suggestion but it is related to management functions and to the case study.

[1 to 2 marks]

A limited and general response.

- (b) **Applying appropriate theory, discuss the effectiveness of the motivational strategy implemented by *Gadgets2u.com*.** **[10 marks]**

McGregor Theory Y: the owners trust their employees, making them part of the decision making process, assuming that motivation will come from within the workers – without the need for external motivating factors.

Maslow: employees have been given responsibility and that allows them to satisfy higher order needs (social needs, esteem needs and self actualization).

Herzberg: non-hygiene factors: special days organized every two months; responsibility and the matrix structure. Working from home.

Ouchi: by giving them shares employees are made to feel part of the firm (they belong to the “family” – they are not just employees).

The application of any other appropriate theories should be credited.

Workers in a matrix have to be independent and self-demanding, otherwise the job doesn't get done. Employees are given responsibility and trust. They are all made to feel part of the firm and part of the decision making process, in line with what theorists have suggested as the general motivational factors of workers. Tom seems to be aware of this and is therefore acting accordingly. There is no “Taylorism” in the firm at all. According to theory, the firm has an effective strategy that should keep workers motivated. However, the fast growth of the firm is conspiring against achieving these objectives and Tom still likes to keep control of some key aspects of the firm (like purchasing and appraisals).

[7 to 10 marks]

There is a detailed discussion of the effectiveness of the motivational strategies in *Gadgets2u.com* and these are clearly related to appropriate and adequate theory.

[3 to 6 marks]

There is some discussion of the effectiveness of the motivational strategies in the firm and there is some reference to theory. At the bottom end of the band the discussion may be limited and there may be limited reference to theory.

[1 to 2 marks]

A limited and general response.

3. (a) Prepare a cash flow statement for January and February 2005, following the format used in *Appendix 5*. Assume the following changes for each of January and February (all other figures remain at the same value as December 2004)

- sales are reduced to 10 % of the December 2004 value
- distribution costs are reduced to 10 % of the December 2004 value
- purchases are increased by 20 % from the December 2004 value. *[5 marks]*

	January 2005	February 2005
Receipts	€	€
Sales	57 500	57 500
Total receipts	57 500	57 500
Payments		
Interest	5 292	5 292
Purchases	82 800	82 800
Salaries	32 000	32 000
Rent	2 250	2 250
Office expenses	3 450	3 450
Distribution costs	965	965
Other overheads	2 758	2 758
Total payments	129 515	129 515
Net cash flow	(72 015)	(72 015)
Opening balance	11 500	(60 515)
Closing balance	(60 515)	(132 530)

[5 marks]

The layout is clear and the calculations are completely accurate.

[3 to 4 marks]

The calculations may contain one or two errors.

[1 to 2 marks]

A number of errors, but there is some evidence of understanding of a cash flow statement.

- (b) Evaluate alternative sources of finance available to *Gadgets2u.com* to fund the warehouse.

[8 marks]

Other sources of finance include

External

- share capital
- loan capital
- mortgage
- might want to consider a merger
- venture capital firm Four H or another venture capital firm.

Internal

- sale and lease back of assets
- retained profit.

The answer needs to relate the source to the needs and the nature of the organization, which is at the moment a private limited company. Floating the business could be considered, although at the moment it doesn't have the adequate size for this – yet control would be lost, as with venture capitalists.

More shares could be sold to employees, increasing their participation in the firm.

Long term loans or mortgages may not appropriate for the firm since they have very few fixed assets against which a loan can be secured. Sale and lease back may be difficult for similar reasons.

Mergers and joint ventures are a possibility. They could find an existing firm with a warehouse that could benefit from their e-commerce at the same time as they benefit from the warehouse. Internal sources of finance like sale of assets and retained profit are less realistic for the firm of their low levels.

Short term sources of finance (overdraft and trade credit) should not be considered suitable for the purchase of the warehouse.

[6 to 8 marks]

There is sound evaluation that considers sources with reference, and relevance, to *Gadgets2u.com*. For [8 marks] a judgment is made and there is some evidence of critical, reflective thinking.

[3 to 5 marks]

Some sources of finance are examined, but the answer may lack detail and the sources considered may be limited. At the lower end of the band the answer is likely to be essentially descriptive, perhaps with little reference to *Gadgets2u.com*.

[1 to 2 marks]

A limited and general response.

4. (a) Prepare a SWOT analysis for *Gadgets2u.com*.

[8 marks]

Strengths

- products are latest technology
- breadth of product range
- products in the early stage of life strategy (allowing price skimming)
- core group of loyal buyers
- word of mouth is working
- the organization structure (matrix).

Weaknesses

- seasonal products, cash flow issues
- limited target market (young males)
- income sensitive products
- adverse sales variance (high stock levels)
- lost products and slow delivery
- some issues of communication.

Opportunities

- global markets
- development of e-commerce
- new technology and product development
- consumerism leading to increased demand for income-elastic products
- growing population of male, high income earners.

Threats

- key supplier attracting media attention for dumping
- adverse income effect in EU
- exchange rate fluctuations
- higher inflation rates.

This list is not exhaustive. Candidates should be credited for other appropriate elements.

[7 to 8 marks]

The SWOT analysis is detailed, balanced and appropriate to *Gadgets2u.com*. Strengths and weaknesses are internal and opportunities and threats relate to the external environment only.

[3 to 6 marks]

The SWOT analysis is appropriate to *Gadgets2u.com*, but less detailed and balanced towards the lower end of the band, and there may be some misclassification.

[1 to 2 marks]

A limited and general response.

(b) Using your SWOT analysis assess Sam’s expansion proposal. [6 marks]

Sam proposes diversification of products and going into retail operations. Tom wants to keep on offering new products to existing core customers.

The arguments in favour are

- spreading the risk over more products, therefore dealing with the issue of seasonal products
- they have a good brand name and diversification will increase consumer awareness
- the retail shop(s) will allow them to target completely different markets (the non computer literate, people who must see before they buy)
- more products will allow them to have different pricing strategies, not always using price skimming.

The arguments against are

- possibility of losing core customers
- risk of spreading too thin
- loss of identity.

N.B. Candidates should be credited where they have assessed points raised in the SWOT in the part (a) even if these were misclassified or inappropriate to that part.

[5 to 6 marks]

The assessment is detailed and relevant and uses issues raised in the SWOT.

[3 to 4 marks]

The assessment is generally relevant though at the lower end of the band it may be less balanced and there may be limited reference to the SWOT.

[1 to 2 marks]

A limited and general response.
