

# Markscheme

**May 2019**

**Business management**

**Standard level**

**Paper 2**

26 pages

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The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

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

### Assessment criteria for Section C

#### Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

#### Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). 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 reasonable evidence or other support 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: Individuals 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) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]

- An executive summary
- A business description
- A market analysis
- Financial forecasts
- Marketing strategies
- Organization strategies
- Business objectives
- Mission/vision statement
- Human resources plan
- Type of organization
- Analysis, provided the candidate gives some specifics (PESTLE, SWOT, ratio, etc)
- Forecasted: profit and loss and balance sheet

*Accept any other relevant, meaningful element (eg product portfolio).*

**N.B.** *If a candidate states mission and vision statements, award [1]. If a candidate states either vision or mission statement, award [1]. If a candidate states forecasted profit and loss account or forecasted balance sheet, award [1]. If a candidate states both forecasted profit and loss account and forecasted balance sheet, award [1].*

*Do not award a mark for information such as table of contents, name and address of business, index, etc. Also, do not accept executive personnel introduction, as in this case that would be totally irrelevant.*

*Award [1] for stating an appropriate element of a business plan (application **not** required), up to a maximum of [2].*

(b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations.

[6]

All figures in \$

	Month 1	Month 2	Month 3	Month 4
Sales	1500	1500	3500	3500
<b>Total receipts (inflows)</b>	<b>1500</b>	<b>1500</b>	<b>3500</b>	<b>3500</b>
Rent	1000	1000	1000	1000
Interest	45		45	
Salary	390	390	390	390
Ingredients and supplies	450	450	1050	1050
Electricity	15	15	35	35
<b>Total payments (outflows)</b>	<b>1900</b>	<b>1855</b>	<b>2520</b>	<b>2475</b>
Net cash flow	(400)	(355)	980	1025
Opening balance	100	(300)	(655)	325
Closing balance	(300)	(655)	325	1350

Accept slightly different headings / format.

**N.B.** Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast that is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the interest in the incorrect month then candidates should only lose [1] for that error.

If a candidate misclassifies an item, like salary, as an inflow, consider that one error. Award [1] if the candidate conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

If the candidate produces a cash flow as below:

	Month 1	Month 2	Month 3	Month 4
<b>Total receipts (inflows)</b>	<b>1500</b>	<b>1500</b>	<b>3500</b>	<b>3500</b>
<b>Total payments (outflows)</b>	<b>1900</b>	<b>1855</b>	<b>2520</b>	<b>2475</b>
Net cash flow	(400)	(355)	980	1025
Opening balance	100	(300)	(655)	325
Closing Balance	(300)	(655)	325	1350

Award a maximum of [5] if otherwise fully correct. Deduct any further marks according to the guidance above for mathematical and conceptual errors.

Award **[2–3]** if a cash flow forecast is drawn, but **either** it is not in a generally accepted format or it is untidy, **and/or** the forecast contains three or more errors, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or totals.

Award **[4–5]** if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for **[5]** or two errors for **[4]**.

Award **[6]** if the cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. If the candidate provides a heading of total inflow/outflow without using another heading above of inflow or outflow – **do not penalise as an omission**.

If the candidate omitted **both** headings of outflow/inflow = **one error** substituting the term “net profit in the cash flow forecast for “net cash flow” is inaccurate and **[1]** should be deducted. If the candidate has only one row for all cash outflows, deduct **[1]** from the total mark awarded.

Full working is not expected.



(c) Explain **one** problem that *Las Migas* may experience as a new business. **[2]**

- Banks and suppliers are sometimes reluctant to give credit to new businesses with no trading records. The local bank may not lend Carolina the money she needs to set up the bakery, especially if the market is already very competitive. Her personal savings, as for many start-up owners, are insufficient.
- Many start-up owners may lack management skills, leadership skills, etc. Carolina has no experience with financial records, account and estimates, which are vital for business survival. Carolina's lack of managerial skills can be risky and jeopardize *Las Migas'* survival.
- *Las Migas* will have to face competition from established bakeries. In a small town, will demand be enough for another bakery? As a start-up, *Las Migas* will have to find a USP to survive and build its own customer base.
- One problem that *Las Migas* could face is that the salary expected is low relative to her rent as she tries to establish her business. She might have a personal cash flow issue.

**N.B.** Accept cash flow problems/a need for finance, referring to the cash flow forecast constructed.

*Do not accept "legal issues", as it is a reasonable assumption that Carolina is operating within the law.*

*Award [1] for a relevant generic problem identified or described and [1] for any additional explanation in context.*

**[2]** cannot be awarded for the problem if the response lacks either explanation **and / or** application.

*For example: for identification or a description of the problem **with or without** application [1].*

*For explanation of the problem with **no** application [1].*

*For explanation of the problem **and** application [2].*

2. (a) Define the term *trade credit*. [2]

Trade credit is an important source of short-term finance available to businesses. It allows a business to buy goods and/or services on account without making immediate cash or cheque payments.

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

*Award [1] for a basic definition conveying the idea that it allows a business to buy goods/services without making immediate cash or cheque payments Award an additional [1] for stating that it is a short-term source of finance [2].*

- (b) Using the financial data for *DuffJD* for 2018, calculate:

- (i) the contribution per unit per item laundered (*no working required*); [1]

$$\begin{array}{r r r r r} \text{sales price per unit} & - & \text{variable costs per unit} & = & \text{contribution} \\ \$2.00 & - & \$0.50 & = & \$1.50 \end{array}$$

$$\text{contribution} = \$1.50$$

*Award [1] for the correct response. No working required.*

- (ii) the margin of safety (*no working required*). [1]

$$\text{number of units sold} - \text{break-even number of units} = \text{margin of safety}$$

$$200\,000 - \left( \frac{\$75\,000}{\$1.50} \right) 50\,000 = 150\,000$$

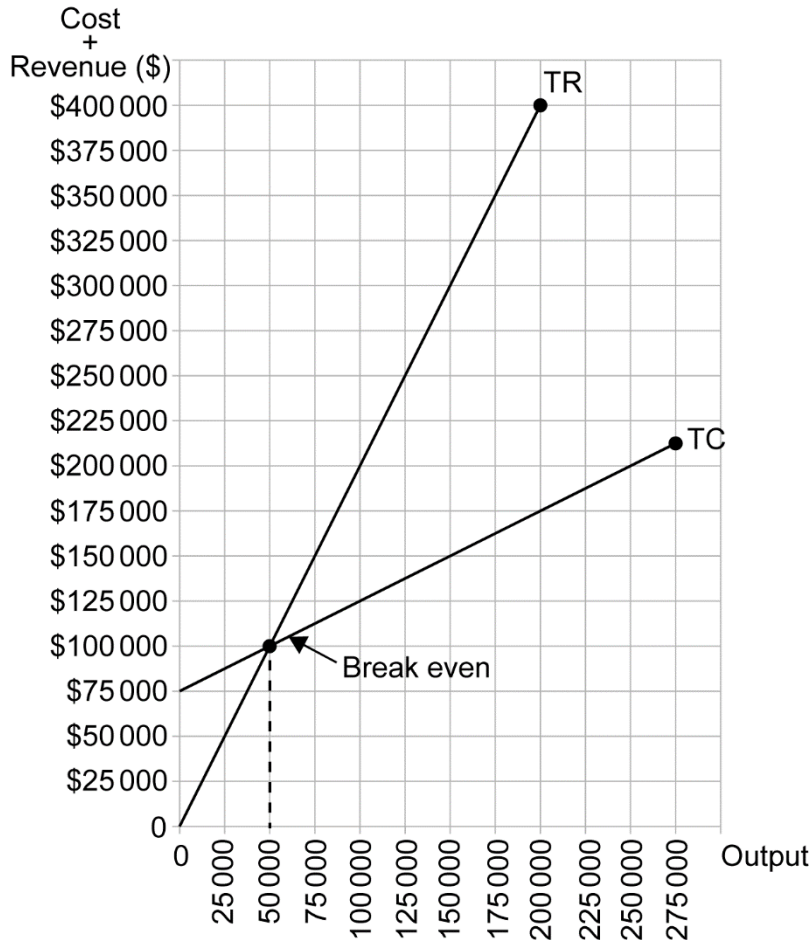
$$\text{margin of safety} = 150\,000 \text{ units}$$

*Award [1] for the correct response. No working required.*

(c) Draw a fully labelled break-even chart for *DuffJD* for 2018 using the data provided. **[4]**

Candidates do not need to create the table below – these are the figures for the break-even chart.

Sales	TFC	TVC	TC	TR	Profit
0	75 000	0	75 000	0	-75 000
25 000	75 000	12 500	87 500	50 000	-37 500
50 000	75 000	25 000	100 000	100 000	0
75 000	75 000	37 500	112 500	150 000	37 500
100 000	75 000	50 000	125 000	200 000	75 000
125 000	75 000	62 500	137 500	250 000	112 500
150 000	75 000	75 000	150 000	300 000	150 000
200 000	75 000	100 000	175 000	400 000	225 000



Award marks as follows:

**[1]** for a correctly labelled and accurately drawn total revenue (TR) line – can be TR or revenue (but not “Sales” on its own).

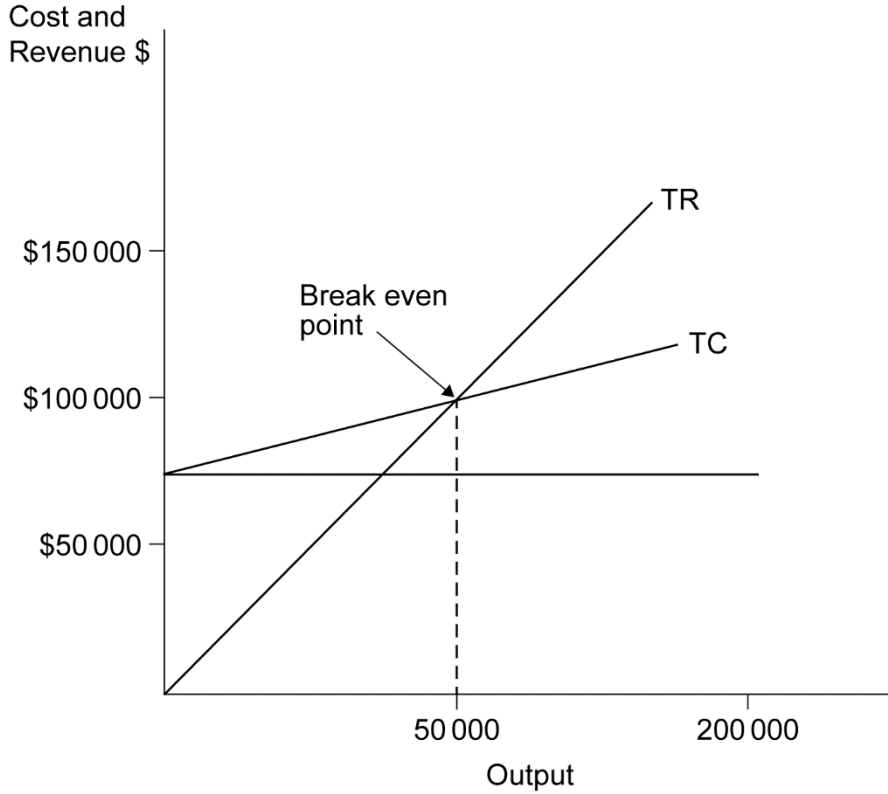
**[1]** for a correctly labelled and accurately drawn total cost (TC) line.

**[1]** for identifying the break-even point. Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an accurately labelled break-even point a vertical line from the x-axis to the break-even point, provided that the line is labelled “break-even point”.

**[1]** for correctly labelling BOTH axes – x-axis must have both costs and revenue; y-axis must have some indication of quantity, eg, units/quantity/items laundered.

A break-even chart that is not drawn to scale can be awarded a maximum of **[2]**.

The break-even chart below should be awarded **[2]**. The candidate has correct TR, TC, both axes, and BEP. However, the chart is not to scale. Therefore, the award is capped at **[2]** because the x-axis is not to scale.



Be mindful of positive marking. If a candidate mislabeled one axis and the TC line (called it VC), the response would still receive **[2]** because the candidate had gotten correct the TR line and the BEP.

Also, be mindful that the own figure rule (OFR) applies. If a candidate incorrectly calculates the break-even quantity when determining the margin of safety (question (b)(ii) above) and then uses that incorrect break-even quantity when drawing their break-even chart, accept the break-even quantity in the chart. The candidate will have already lost marks for the incorrect calculation in (b)(ii). Do not double penalize.

- (d) Explain how an increase in competition may affect *DuffJD*'s margin of safety. **[2]**

An increase in competition may have two effects on *DuffJD* – they may lose a contract with one or more of its current three clients and thus will sell less laundry services. A loss of sales will reduce *DuffJD*'s margin of safety. The increase in competition may also force down prices. A decrease in price will increase the break-even level of output and thus reduce the margin of safety.

*Award [1] for a candidate displaying a sound understanding of the term margin of safety.*

*Award a further [1] if the candidate identifies that the margin of safety is likely to fall for either of the two reasons indicated above.*

### Section B

3. (a) Outline **two** features of batch production. [2]

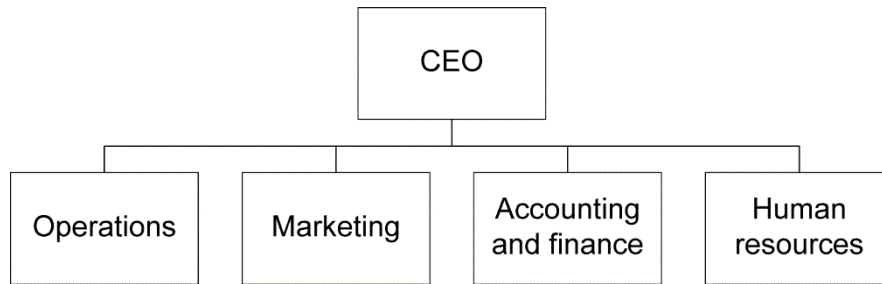
Features of batch production include:

- Limited quantity produced according to specific specifications.
- Non-continuous: batches are produced at intervals.
- Batches move from stage to stage of production together (in other words, stage 1, one process occurs. Then, the batch moves to the next stage, where another process is done, etc).

Accept any other relevant feature.

Award [1] for each feature identified up to [2].

- (b) Draw a possible organizational chart for a manufacturing firm like A/ if it is organized by function. [2]



The organizational chart does not have to appear exactly as above. Award [1] if the candidate demonstrates some understanding of an organizational chart. Award [2] if the candidate draws an organizational chart that is organized by function and has at least three functional areas labelled (operations, marketing, accounting and finance, HR, etc).

- (c) Calculate:

- (i) the total size of the plastic container market in 2019 (show all your working); [2]

$$\$421\,000\,000 = 0.06 \times (\text{total market size})$$

$$\frac{421000000}{0.06} = \$701666666.67$$

Accept \$701666667

Award [2] for correct answer and workings. Award [1] for correct process but with a mathematical error.

- (ii) the difference in *AI*'s net profit before interest and tax between 2018 and 2019 (*show all your working*). **[2]**

$$0.08 \times 376\,000\,000 = 30\,080\,000$$

$$0.07 \times 421\,000\,000 = \frac{29\,470\,000}{610\,000}$$

The difference between *AI*'s profit in 2018 and 2019 was –\$610 000.

*Award [2] for correct answer and working. Award [1] for correct process but with a mathematical error.*

- (d) Explain how delegation might help *AI* improve its delivery times. **[2]**

Delegation occurs when authority and responsibility are passed down the chain of command and subordinates are empowered to make decisions. When properly done, delegation leads to more effective decision making by subordinates, as they now feel the weight and bear the responsibility for their decisions. In the case of *AI*, if employees who deal with the customers' orders and manage the operations line had greater authority, they could better align customized sales, which requires some reconfiguration of tooling for each batch, with capacity and availability.

*Award [1] for some understanding of delegation and award an additional [1] for an explanation of how delegation could improve delivery time.*

- (e) With reference to *AI*, discuss Lloyd's view that being a small organization has merits. **[10]**

Advantages of being a small business include:

- can implement change quickly (flexibility)
- can maintain relationships with customers and employees
- can maintain consistency of brand identity
- management can focus, including having tight control over operations
- there are fewer risks associated with overtrading.

Disadvantages of being a small business include:

- less recognition/awareness in the market place
- fewer opportunities for economies of scale
- less ability to compete on price
- lesser access external sources of finance.

*AI* is transitioning into a large organization, but its growth affects the business. *AI*, for example, is not delivering orders on time, customers are complaining about product quality, and the company is not making the same margins it previously was. Unless *AI* can specifically pinpoint benefits from higher market share, which presumably explains the rapidly rising sales, the company may want to consider whether its sales growth is worth the problems.

Maximum mark award	Small organization	Large organization	Judgements/conclusion
3	One argument related to a small organization or one argument related to a large organization		N/A
4	Two arguments related to a small organization, or two arguments related to a large organization, or one argument about the merits of either a large or small organization and one argument about the demerits of the same sized organization.		N/A
5	Two arguments related to either a small or large organization and one argument related to the other sized organization.		N/A
6	Two arguments related to a large organization and two arguments related to a small organization.		No judgements/conclusions
7-8	Balanced		Judgements/conclusions based upon analysis and explanation in the body of the response  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.



<p><b>9–10</b></p>	<p>One argument related to the ethics or the financial implications</p>	<p>Judgements/conclusions based upon analysis and explanation in the body of the response.</p> <p>Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response.</p> <p>Effective use of the stimulus material in a way that significantly strengthens the response.</p>
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*Award marks according to the markbands on page 5.*

4. (a) Define the term *revenue streams*. [2]

Revenue streams refer to the different sources of sales revenue that a firm may have. Often, as firms grow, they attempt to diversify revenue streams as a way to find sales growth in saturated markets or as a way to offset risk (if sales revenue from one revenue stream declines, perhaps it can be offset by sales growth in another revenue stream).

*Award [1] for a partial answer that conveys some understanding and [2] for a complete response that shows full understanding. Candidates do not have to word exactly as above. Simple exemplification is insufficient for a second mark. There must be some definition or description.*

- (b) Explain **one** advantage **and one** disadvantage of *WE* changing its legal status to a public limited company. [4]

Advantages of changing legal status to a public limited company include:

- Access to greater sources of finance, either debt or equity, which *WE* may well want given its plan to grow externally through acquisition.
- Greater prestige and name recognition, which may help *WE* as it approaches and acquires additional business.

Disadvantages of changing legal status to a public limited company include:

- The initial and ongoing cost of being a public company, which requires extensive paperwork and filings with the government, as well as regular communication with shareholders. As *WE* is struggling to maintain margins, having additional expenses may further contribute to lower profitability.
- Public disclosure to shareholders and media prevent *WE* from being more private in how it operates. Greater privacy with respect to strategy and direction could help *WE* more easily implement its strategies.

*Accept any other relevant advantage or disadvantage.*

**Mark as 2 + 2.**

*For [2], candidates must identify an advantage or disadvantage, explain it, and apply it to the stimulus.*

- (c) With reference to *WE*, distinguish between internal and external growth. [4]

Internal growth occurs when a business increases sales revenue through expansion of current operations, typically by building more capacity, hiring more sales people, or having more channels of distribution. *WE*'s growth, up until it decided on a programme of external growth, was always internal and in the carpet industry.

External growth occurs when business grows through some activity related to another business external to the original one. When *WE* decided to purchase additional companies, it was acquiring revenue streams and operations from other firms, which allowed for rapid growth.

*Accept any other relevant advantage or disadvantage.*

**Mark as 2 + 2.**

*For [2], candidates must identify an advantage or disadvantage, explain it, and apply it to the stimulus.*

- (d) Discuss whether *WE* should retain its programme of corporate social responsibility (CSR).

[10]

Much debate exists around the question of CSR. Some companies advocate it, arguing that CSR is a way to balance corporate power with corporate responsibility despite the fact that having a programme of CSR increases costs in the short term and that there is no certainty that it will enhance business performance in the long run (though a slight positive correlation appears to exist).

Others argue that a company’s only responsibility, other than obeying the law, is increasing profits for shareholders. CSR makes a company less efficient. If all businesses in an economy are operating at less than optimal efficiency, the economy as a whole will suffer (just as each individual business will).

In the case of *WE*, the question of CSR is complicated. On the one hand, the brand identity of *WE* was built first on ecological sustainability and, later, on a full programme of CSR (thus economic and social sustainability as well). To suddenly change focus and adopt a totally profit-oriented mentality, as Milton Friedman argues, could hurt *WE*’s brand identity in the marketplace.

On the other hand, *WE* has experienced a steady erosion in margins (and, thus, profitability). Were the company to continue to allow this to occur, in the long run, *WE* would put itself at risk. Some disagreement internally exists, with the CEO believing the issue is the costs of expansion while the CFO has suggested that it is the costs of CSR.

*WE* should undertake a full marketing audit to determine the impact of CSR on its brand identity, as well as a thorough financial and managerial costing analysis to determine the true source of declining profitability. Without that investigation, *WE* will have difficulty knowing whether it should continue with CSR.

For a balanced argument, a candidate must have two arguments for and two arguments against CSR. At least one of the arguments for and against can be purely theoretical, while at least one argument for and one argument against must be based upon application to the stimulus. If the candidate does not make judgments on conclusions, maximum award: [6].

Maximum mark award	Retain CSR program	End CSR program	Judgements/conclusion
3	One argument related to the retaining or ending the program of CSR.		N/A
4	Two arguments related to retaining or two arguments related to ending the program of CSR. OR One argument related to retaining the program and one		N/A

	argument related to ending the program of CSR	
<b>5</b>	Two arguments for one side (retaining or ending the Program of CSR) and one argument for the other side.	N/A
<b>6</b>	Two arguments for both sides	No judgements/conclusions
<b>7–8</b>	Balanced	Judgements/conclusions based upon analysis and explanation in the body of the response  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.
<b>9–10</b>	One argument related to the ethics or the financial implications	Judgements/conclusions based upon analysis and explanation in the body of the response.  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.

*Award marks according to the markbands on page 5.*

5. (a) Define the term *retained profit*. [2]

Retained profit is profit that is not given to shareholders in the form of dividends but is held back as part of shareholder equity to provide a source of funds for possible future activities.

*Accept any other relevant definition.*

**N.B.** *no application required. Do not credit examples.*

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

*Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. A candidate must demonstrate an understanding that retained profit is part of shareholder equity and that it can be used as a source of funds for possible future business activities.*

- (b) Explain **one** advantage **and one** disadvantage for *CH* of having a mission statement. [4]

Advantages for *CH* of having a mission statement include:

- Provides an example of where a business currently sits in the eyes of its stakeholders, such as customers, employees and managers. *CH* produces vital anti-venom vaccines, but its mission statement demands that *CH* carry out its operations in a socially responsible manner. Mission statements can have an influential role in setting organizational objectives.
- *CH*'s mission statement may act as a motivating force for employees and could lead to low staff turnover and/or benefits for the recruitment of new employees.

Disadvantages include:

- Some mission statements may be written as vague statements of intent. It can be difficult to ascertain exactly what the business stands for in terms of setting sustainable business objectives. This may discourage some investors. *CH* is stating that profitability is secondary after CSR. Yet this profitability is being used to finance future growth and research. Investors may not commit funds given this perceived confusion from the mission statement.

*Accept any other relevant advantage/disadvantage.*

**Mark as 2 + 2.**

- For an identification or a description of one advantage/disadvantage with or without application [1].
- For explanation of one advantage/disadvantage with no application [1].
- For explanation of one advantage/disadvantage and application [2].

*Application must refer to the issues around *CH* having a mission statement.*

- (c) Explain **two** possible external sources of finance *CH* could use to continue production of anti-venom vaccines. [4]

The question is sufficiently broad to allow candidates to explain a range of possible sources of finance, but any candidate who looks at internal organic sources, such as increasing sales/profits, must be not given credit.

Possible external sources include:

- As *CH* is a private limited company, the decision could be taken to raise funds through an initial public offering. *CH* could be “floated or listed” on the appropriate local share market to raise funds.
- Angel investors who have strong ethical/CSR intent could provide funds.
- The NGO has demanded action. Given the number of deaths and injuries from snakebites, the NGO could be approached to provide new finance or governments in those countries predominantly affected. There could be the possibility of a private public partnership.

*Accept any other relevant possible source.*

**Mark as 2 + 2.**

- For an identification or a description of one possible source of external finance with or without application **[1]**.
- For explanation of one source with no application **[1]**.
- For explanation of one source and application **[2]**.

*Application must refer to the possible sources of finance for production of anti-venom vaccines of anti-venom vaccines.*

- (d) Discuss *CH*'s decision to stop producing anti-venom vaccines. [10]

Answers at the top level will look at the ethical arguments of retaining the production of anti-venom vaccines versus the final implications for doing so.

*CH*'s mission statement alludes to “putting customers first and profits second”. The decision to stop producing the anti-venom vaccines will be viewed as hypocritical by stakeholders and will lead to a loss of its market leader status. There could be a consumer backlash/boycott, and this will hamper marketing attempts for any new life-saving vaccines. The drop in revenue could be considerable and as a result there may be no profits to finance research and development. The comments from the NGO are unhelpful and will bring increased scrutiny and further unwelcome publicity. Stopping production may damage the economic sustainability of *CH* to the point where they may cease to exist.

However, the increased competition and wave of price reductions cannot be ignored. We must assume that this new competition has a product that competes with *CH* on price because, as the market leader, we would assume *CH* has a certain degree of brand loyalty. Clearly, consumers see the competition from Brazil, Mexico and India as a substitute, and unit sales of *CH*'s vaccine have fallen significantly. If *CH* does not stop production and cut its losses now, it may not have time or finance to develop new life-saving vaccines, through which it may be able to recreate its market leader status.

The profit motive is the reward for entrepreneurial initiative and risk. *CH* is quite within its rights to stop production of a loss-making vaccine and switch to a market that may be underdeveloped, albeit one with considerably more risk. Ironically, if the decision to stop production is made quickly, *CH* may be the beneficiary of some panic buying, boosting short-term revenues before the anti-venom vaccine is withdrawn from the shelves.

Given the ethical and moral issues in this case, *CH* may be wise to wait and carry out some further market research on the competition. It is indicated that for two years, the new competition will be unable to fill the gap left by *CH* if it decides to leave this market. *CH* is still the market leader. Possibly *CH* could emphasize its product quality over the competition and see if this acts as a spur.

*A conclusion with judgment is expected.*

*A balanced response is one that covers at least two arguments for and at least two arguments against.*

*Marks should be allocated according to the mark bands on page 5 with further guidance below.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*Award a maximum of [6] 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 judgment/conclusion.*

*Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

*Candidates cannot reach the top marks if there is no relevant reference/ application to the stimulus.*

Maximum mark award	Ethical Arguments	Financial implications	Judgements/conclusion
3	One argument related to the ethics or the financial implications		N/A
4	Two arguments related to the ethics or two arguments related to the financial implications OR One argument related to ethics AND one related to the financial implications		N/A
5	Two arguments for one side (ethical arguments or financial implications) and one argument for the other side.		N/A
6	Two arguments for both issues.		No judgements/conclusions

<p><b>7–8</b></p>	<p>Balanced</p>	<p>Judgements/conclusions based upon analysis and explanation in the body of the response</p> <p>Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used.</p> <p>Good reference to the stimulus material.</p>
<p><b>9–10</b></p>	<p>Balanced</p>	<p>Judgements/conclusions based upon analysis and explanation in the body of the response.</p> <p>Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response.</p> <p>Effective use of the stimulus material in a way that significantly strengthens the response.</p>



## Section C

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 6–7.

- |    |   |      |
|----|---|------|
| 6. | With reference to an organization of your choice, discuss the ways in which <b>ethics</b> can influence <b>innovation</b> in an organization. | [20] |
| 7. | With reference to an organization of your choice, examine the impact of <b>culture</b> on organizational <b>strategy</b> .                    | [20] |
| 8. | With reference to an organization of your choice, discuss the ways in which <b>globalization</b> can influence organizational <b>change</b> . | [20] |

**N.B.** Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

### **Additional guidance in relation to the assessment criteria**

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

- Criteria A, B, C and E: award up to a maximum **[3]**.
- Criterion D: full marks can be awarded.

Where the question asks for impacts of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

### **Criterion B**

For **[2]**: "...connection is not developed" should be treated the same as superficial.

### **Criterion C**

**1 + 1 arguments are expected per concepts.**

- Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2 + 2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there are some balanced arguments – some of which are justified.

### **Criterion D**

- Introductions need to be concise and related to the question.

- *The candidate’s response does not to have explicit headings for each structural element.*
- *A body is the area in which the substance of arguments occurs. It is usually located between the introduction and the conclusion.*
- *Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.*

**Criterion E**

- *One example of an “individual” could be an individual consumer or an individual manager. However, this cannot be considered with a “group” of consumers or a management team.*
- *For [4], a balanced response: look at the perspectives of **both** individual **and** group(s).*
- *The chosen individual, group needs to be **applicable** and **relevant** to the question with specific explanation.*
- *Candidates need to go beyond stating the stakeholder.*
- *Please do not use the adjective ‘**inappropriate**’ in the descriptor for 2 marks. If inappropriate award 1 mark*
- *Candidates need not explicitly say “stakeholder”.*

*In section C, the question rubric explicitly states that “organizations featured in sections A and B and in the paper 1 case study may not be used as a basis” to candidate’s answers to questions 6, 7 and 8. When this happens please award marks as follows:*

*Criterion A: award a maximum of [1]. The business management content cannot be relevant if the organization is fictitious.*

*Criterion B: 0 marks – there is no connection to a “real-world organization”*

*Criterion C: award a maximum of [1]. The arguments cannot be relevant if the organization is fictitious.*

*Criterion D: mark as normal.*

*Criterion E: award up to a maximum of [1]. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.*

**Additional guidance for questions 6,7 and 8**

**Q6**

*Accept examples of CSR /environmental issues as being ethical. The question expects application of one concept on another. Candidates are expected to discuss ethics and its impact on innovation and not to discuss these two concepts separately. In other words, each example of ethical behaviour should be applied to a real innovation the company created /adopted and thereafter the impact on various stakeholders. (the impact is really of innovation)*

**Q7**

*Accept organizational culture or national culture.*

*Accept any relevant organizational strategy.*

**Q8**

*Please note that the question is about organizational change / some major strategic change rather than a change in product/product adaptation strategy in marketing for example, McDonalds in India. To achieve the highest marks for Criterion E and Criterion B candidates are expected to examine the impact of organisational change due to globalisation on different stakeholders. Candidates may explain how globalization impacted on a particular individual (CEO) or a group in a position to create/initiate an organisational change. The question is not about the impact of globalisation directly on stakeholders.*