

Business management
Higher level
Paper 2

Monday 6 May 2019 (morning)

1 ~~45~~
2 hours ~~16~~ minutes**Instructions to candidates**

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is [70 marks].
~~50~~

7 pages

2219–5012

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Section A

Answer **one** question from this section.

1. Las Migas

Carolina plans to set up a bakery, *Las Migas*, in a small town. Competition from established bakeries is strong. Carolina has asked for a bank loan because her personal savings are insufficient. The bank manager requested the following information:

- a business plan
- a cash flow forecast for the first four months of operations.

Carolina has no experience with financial forecasts but she estimated the figures for *Las Migas* for the first four months of operations. These figures are shown in **Table 1**.

Table 1: Estimated figures for *Las Migas* for the first four months of operations

| | |
|---------------------------|--|
| Estimated sales per month | For the first two months of operations: \$1500 From the third month of operations onwards: \$3500 |
| Monthly rent | \$1000 |
| Interest | \$45 to be paid every two months starting the first month of operation |
| Opening balance | \$100 |
| Ingredients and supplies | 30% of sales |
| Electricity per month | 1% of sales |
| Carolina's monthly salary | \$390 |

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]
- (b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]
- (c) Explain **one** problem that *Las Migas* may experience as a new business. [2]

2. Enjuice

Enjuice produces canned juices. The market for canned juices is very competitive. Each can is sold at \$8. *Enjuice*'s profit margins are falling. The marketing manager has conducted primary market research and suggested increasing advertising to increase sales. In 2018 *Enjuice* sold 360 000 cans.

Table 1: Selected financial information for 2018 (all figures in \$000s)

| | | |
|-------------------------|------|------|
| Administration expenses | 226 | PL |
| Cost of goods sold | 2440 | PL |
| Current assets | 500 | |
| Current liabilities | 400 | |
| Debtors | 300 | |
| Dividends | 120 | PL |
| Interest | 40 | PL |
| Marketing expenses . | 14 | PL E |
| Sales revenue | X | PL |
| Tax 10 % | Y | PL |

[Source: © International Baccalaureate Organization 2019]

- (a) State two methods of primary market research. [2]
- (b) Using the information provided above and in Table 1:
 - (i) calculating X and Y, construct a profit and loss account for *Enjuice*; [5]
 - (ii) calculate the gross profit margin (*no working required*). [1]
- (c) Explain one strategy that *Enjuice* could use to increase its gross profit margin. [2]

Section B

Answer two questions from this section.

3. JP

JP produces electric guitars. It is a cooperative owned by a committed workforce who share in the management and success (or failure) of the company and its profits. Workers enjoy having control over the workplace and are productive. However, JP's continued success is threatened by insufficient finance, which prevents them from spending more on traditional promotional methods.

JP's guitars are expensive relative to the competition but are known for their quality. Its customers are very brand loyal. The use of social media marketing by many famous musicians influences JP's brand loyalty and awareness. Unfortunately for JP, one especially famous musician using a JP guitar on social media recently received negative publicity about his private life.

JP follows strict quality procedures that include quality circles. JP's management believe that teams of workers employed on the production line know the production process best and are in the best position to make any necessary improvements. Staff turnover at JP is very low.

XYZ, a large company known for its kitchen appliances, is considering moving into the musical instrument market as part of a growth strategy – they want the high gross profit margins on guitars (compared to the low profit margins on kitchen appliances). XYZ wants to take over JP. XYZ has a strong balance sheet and large cash reserves and is an expert at marketing.

The cooperative has refused to consider the takeover bid from XYZ. The cooperative has argued that the culture of XYZ is too different to JP's. XYZ's management are viewed as too controlling. However, increased price competition has led to falling sales, forcing JP to make redundancies. Some cooperative members argue that unless JP accepts XYZ's bid, additional jobs will be lost.

[Source: © International Baccalaureate Organization 2019]

- | | |
|---|---|
| <i>Wide reach</i> <i>Bad publicity</i> | <ul style="list-style-type: none"> (a) Define the term cooperative. [2] (b) Explain one positive and one negative impact of social media marketing on JP's promotional strategy. [4] (c) Explain two benefits to JP of using quality circles. [4] (d) Discuss whether JP should accept XYZ's takeover bid. [10] |
|---|---|

TAKOVER

- ↓
 advantages
- stronger financial position
↳ fierce market.
 - marketing skills

- ↓
 disadvantages
- cultural clashes staff.
↳ increase turnover
 - changing organisational objectives.
↳ lose brand loyalty

4. The Warriors

The Warriors are a soccer* club who perform well but have not won any trophies. Recently, Player turnover has also been higher than that of other clubs.

Dave Atkinson, owner and former player, is an autocratic leader who denies blame for the high manager and player turnover. He publicly criticizes players. However, fans adore Dave. He was a successful player, supports the fans and is committed to corporate social responsibility (CSR). He has:

- reduced ticket prices to the lowest in the league
- provided free, healthy snacks for junior supporters
- donated 20% of The Warriors' profits to local schools to encourage young people to play sport.

After a recent poor performance, Dave demanded that all players donate 50% of their pay for that match to good causes. Two new players used social media to complain. In response, Dave threatened to cancel their contracts. The other players refused to turn up for training to show solidarity. Dave then locked the players out of the stadium.

This controversy comes at a critical time for The Warriors. With a dynamic new manager, they have their first chance to win an important final and with it significant financial gain, which is needed to support corporate social responsibility (CSR) and upgrade spectator facilities. On social media, the fans have asked Dave not to enforce the lock-out.

Dave wants to resolve the conflict and privately regrets the lock-out. He is angry with the team but wants to increase The Warriors' corporate social responsibility (CSR). Without wishing to appear as a weak leader, he asked another popular former player for advice.

[Source: © International Baccalaureate Organization 2019]

Adv. New Manager
~~Particulars~~ ...
~~cancel contract~~
~~new~~

* soccer: football

- (a) Outline two features of autocratic leadership. [2]
- (b) Explain one cost and one benefit of a high labour turnover of managers for The Warriors. [4]
- (c) Explain one cost and one benefit to The Warriors of committing to corporate social responsibility (CSR). [4]
- (d) Discuss two methods to resolve conflict for The Warriors other than a lock-out. [10]

Change Leadership style
to democratic / paternal
Laissez faire
adv. → give autonomy and mastery
opportunity: motivation
disadv. → ~~lose control over~~
~~different~~ longon decision
meetings inc.

↓
decentralise organisational structure.
- give the managers and players more control over decision making (less disagreements)
- cause increase Turn over conflict if bad decisions.

5. Copper Health (CH)

Copper Health (CH) was the market leader in the production of anti-venom* vaccines to treat poisonous snake bites. CH's mission – influenced heavily by corporate social responsibility (CSR) – is to put customers first and profits second in the treatment of snake bites.

Despite 100 000 deaths worldwide each year from snake bites and 400 000 serious injuries, CH recently announced that it will no longer produce anti-venom vaccines. Several large Mexican, Brazilian and Indian pharmaceutical companies have entered the market selling anti-venom vaccines at a much lower price than CH.

A spokesperson for CH said: "We will remain a private limited company where corporate social responsibility (CSR) remains an important driving force for our mission. Our medical research is only financed from retained profit. When the lower-priced competition arrived, our sales and profits of anti-venom vaccines decreased significantly. Treating snakebites no longer makes financial sense. Instead, the technology used to produce anti-venom vaccines will be used to research and develop (R&D) other life-saving vaccines".

A non-governmental organization (NGO) has demanded action. "CH is the largest manufacturer of anti-venom vaccines in the world. Although CH's competitors are increasing their production of anti-venom vaccines they will not be able to produce enough to satisfy demand for the next two years. There will be a major shortage. This will result in many life-threatening injuries and deaths."

The non-governmental organization (NGO) has urged CH to seek new sources of finance to continue the production of the anti-venom vaccine.

[Source: © International Baccalaureate Organization 2019]

* anti-venom: a medication made from antibodies that is used to treat venomous bites and stings

- (a) Define the term *retained profit*. [2]
- (b) Explain **one advantage and one disadvantage** for CH of having a mission statement. [4]
- (c) Explain **two possible external sources of finance** CH could use to continue production of anti-venom vaccines. [4]
- (d) Discuss CH's decision to stop producing anti-venom vaccines. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

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

ANSWER BOOKLET
LIVRET DE RÉPONSES
CUADERNILLO DE RESPUESTAS

①

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30
W/O section d



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4 PAGES / PÁGINAS

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At the start of each answer to a question, write the question number in the box using your normal hand writing / Avant de répondre à une question, inscrivez son numéro à la main dans la case appropriée / Al comienzo de cada respuesta, escriba a mano el número de pregunta en la casilla.

Example
Ejemplo

27

27

Example
Ejemplo

3

3

2

- (a) • direct observation
- surveys

②

$$(b)(i) \quad X = \text{Sales Revenue} = \$8 \times 360000 = \$2880000$$

$$Y = \text{Tax @ } 10\% = \$16000$$

statement

Profit and loss statement for account for Enjuice
for the year ending 31 Dec 2018

| | \$ 000s | PROFIT AND LOSS ACCOUNT |
|------------------|---------|----------------------------|
| Sales revenue | 2880 | |
| COGS | 2440 | |
| Gross profit | 440 | |
| Less: Expenses | 240 | |
| NPBT | 200 | |
| Less: Interest | 40 | |
| NPBT | 160 | |
| Less: Tax (10%) | 16 | |
| Net Profit | 144 | |
| Dividends | 120 | ⑤ |
| Retained profits | 24 | |

$$(ii) \quad GPM = 440/2880 = 0.1528$$

$$= 15.3\%$$

⑦



(c) Increase sales revenue through increasing marketing. This way, more

Increase sales revenue through raising the price of a canned juice unit. This would ensure more gross profit remains after removing costs from the sales revenue, hence improving the GPM ratio.

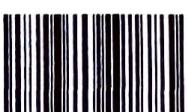
→ stimulus says market is competitive, hence an increase in price would not help.

(a) A cooperative is a type of organisational structure which is controlled and run by the stakeholders of the organisation. Usually, the workers of a cooperative will also have control over the cooperative's future. It is for profit, but exists to benefit members.

(2)

(b) Advantage: SMM (social media marketing) will involve using the internet to reach a wide variety of people. Having this element in the promotional mix, therefore, lets JP reach a large number of people who otherwise would not see other types of advertisements. Importantly, for JP, they can target specific music-oriented potential customers to enhance a successful marketing mix.

21



04AX02

Disadvantage: social media marketing is known to be a double edged sword in the sense that it is very difficult to maintain a purely positive brand image when information can spread so quickly. For JP, this is even greater of a problem as the famous musician's private lives can become a major liability for JP. (4)

(c) Motivating: quality circles involve using groups of workers to come up with ideas to improve quality within the production line. This gives employees within the quality circles an opportunity to be heard, which according to a range of motivational theories such as Pink's, can improve motivation drastically. It is ~~the~~ a likely contributing factor to the low staff turnover and is especially important considering the cooperative organisational structure.

Enhance TQM: quality ~~is~~ circles are a sure way of achieving TQM through a total quality culture. Using worker's ideas, JP's management can continually improve (kaizen) their production line and remove muda. This is becoming increasingly important due to As was mentioned, using ideas from those actually working on the production line is best, as they can provide useful insights. (3)



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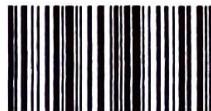
USP?
increase
quality

7/

(d) JP, the cooperative, has been refusing a takeover offer from XYZ. However, in response to rising financial pressures, as well as job redundancy threats, some cooperative members are arguing for the takeover to take place.

| Driving | Restraining |
|---------------------------------------|--|
| (4) financial position - is strong | XYZ takeover |
| (1) marketing skills - | - cultural clash (3) - changing organisational aims and objectives (3) |
| | 5 6 |

With regard to a takeover, companies organisation with a strong financial position can help drastically with injecting cash into the business in order to ensure short term survival, as well as longevity. XYZ's quoted 'strong balance sheet' is evidence of this, and likely means that they have sufficient working capital to ensure the potential redundancies at JP do not occur, as well as injecting cash into other areas such as marketing spending and innovation. This finance would be much needed in the case of JP due to their insufficient finance, which is why it holds a 4 on the force field analysis (FFA).





4 PAGES / PÁGINAS

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Example
Ejemplo

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Example
Ejemplo

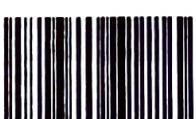
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|---|

3

Furthermore, takeovers also usually ensure new ideas are introduced into the organisation, such as marketing skills. Marketing is an extremely important part of most businesses, as it is a critical element of the marketing mix, ensuring that potential customers are reached, brand awareness is spread, and brand value is added. For JP, this plays a large major role as they rely on their brand to succeed in and amongst cheaper competition. While XYZ could further enhance this aspect of the organisation, it should be noted that their current BTL SMM strategy seems to suffice, hence the marketing strategy of the larger company may not actually improve JPs strategy very significantly.

Takeovers will always result in particular cultural clashes which detract from productivity and decreases motivation. The two companies considering this takeover are of very different structures: one is a cooperative and the other a large company. Stakeholders in both will have differing working practices, and especially with

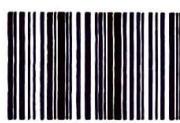


04AX01

regard to JP's cooperative aspect, employees may not want to become part of a company's organizational culture. Differences between the two cultures include working practices, work ethics and objectives. Furthermore, JP's employees would likely no longer be as committed as they would be working under XYZ's organizational structure which would decrease productivity and increase turnover.

Finally, the two separate organizations have vastly different organizational objectives. Cooperative aim to operate for the benefit of all stakeholders however large companies prioritise shareholders, thus dividends. This way, XYZ would lose track of, for example, the total quality culture which is strictly adhered to within JP. This issue has been highlighted by members of the cooperative, and could potentially result in less regard for employees and customers, and more regard for more profitability. After all, XYZ's motivation for taking over JP is for its high profit margin.

From the FFA and the reasons stated above, it is recommended that JP not engage in the takeover. While the cash and strong balance sheet of XYZ is important, the organisations have been identified as having wildly different structures and objectives, detracting from the takeover's potential benefits.



4

- (a) • decision making is centralized within the autocratic ~~the~~ levels. (2)
• usually will have ~~a~~ a flat organisational structure with a short chain of command.

(b) Benefit: high labour turnover of managers means that new ideas will be continually introduced to the organization. In the case of The Warriors, they are winning ~~less~~ no trophies, meaning that the high labour turnover gives opportunity for future wins, as has been explained in the stimulus.

Cost: high labour turnover can be demotivating, both for the ~~new~~ new manager and the players. It highlights a cultural problem within the organization, and is a likely reason as to why The Warriors are not winning any trophies. With lower labour turnover, the players could focus more on their ~~as~~ jobs, and not concern themselves with continual cultural changes which accompany new managers. (4)

(c) Benefit: having a CSR ~~other~~ oriented approach means that the fanbase becomes more loyal. This is particularly important in the case of a football club such as The Warriors, as much of their revenue streams will come from fan turnout at large events. (3)

Limitation: CSR adds additional expenses to an



organization's profit and loss account. Having already reduced ticket prices to the lowest in the league, it is likely that the club could face survival issues, especially especially if PwC is planning on increasing the CSR commitment. -opportunity cost ③

(d) The Warriors are facing a major issue as Dave has publicly locked his own players out of their stadium due to rising tension between the owner and the manager / players. The following two options may help decrease tensions and disagreements, ensuring that the current conflict is subsided, and future one's avoided.

Democratic leadership style

| | Driving | Laissez faire | Restraining |
|--------------------------|---------|---------------|------------------------------------|
| (5) Improve motivation - | | 5 2 | - longer decision making time. (2) |

| | Driving | Decentralization | Restraining |
|------------------------------------|---------|------------------|-------------------------------|
| (2) short term solution - | | Public apology | - look like a weak leader (2) |
| (2) show solidarity - with players | 2 2 | | |





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Example
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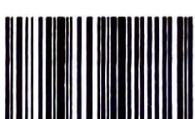
Example
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Adopting a laissez faire leadership style gives employees (players) more control over their own work, hence enhancing motivation. According to Daniel Pink, in fact, this sort of action is inherently justified, especially within organisations with a relatively small number of employees like the Warriors. Hence, through enhanced motivation, employee(s) the manager(s) and players are more likely to adhere to requests like a 50% donation, which would have prevented the lockout from happening.

However, the introduction of a new leadership strategy like laissez faire would introduce an assortment of issues such as increased levels of management due to decentralisation, hence ~~more~~ increasing the chain of command. Dave would therefore not have as close oversight over the players and be less connected to the fans. However, as Dave was previously adhering to the role of a manager rather than a leader, this

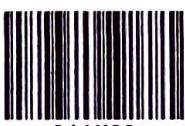


04AX01

restraining force should not pertain to a leader in the first place, and rather the managers should maintain the ~~responsibility~~ responsibility of player oversight. Hence, this restraining force is a 2 on the FFA.

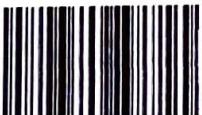
The second option, a public apology would work well to show solidarity with the players who are negatively ~~affected~~ affected by the lockout. Players would likely feel more motivated and at ease with the lead leadership of Dave. However the extent to which this driving force pertaining is limited in that it does not work to solve the organizational issues that caused the lockout. Players and fans alike may see past this action and refuse to be loyal ~~the~~ to the football club. The already high level of ~~dislike~~ ~~hatred~~ Despite this, the driving force would ensure the problem be at least solved in the short term, enabling the club to win the important final and receive the accompanying financial gain.

However, this action would make ~~at~~ Dave look like a weak leader as this act would be very public and would spread quickly throughout the media and the fanbase. Hence, he would receive a much larger public backlash ~~than~~ than the club already has and the fanbase could potentially potentially become less loyal if they



realize that Dave is doing little to solve the organizational issue it's self.

Therefore, it is recommended that Dave addresses the core issue of the lockout by altering his leadership style to laissez faire. The motivation driving force significantly outweighs the restraining force accompanied with the ~~the~~ identified identified danger chain of command. Furthermore, the driving force of the second option has identified to not be strong enough, as a 2 on the FFA.



04AX03