

Business management
Higher level
Paper 2

Friday 10 November 2017 (morning)

2 hours 15 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]**.

10/10/22

4 PAGES / PÁGINAS

Candidate session number: / Numéro de session du candidat: / Número de convocatoria del alumno:

17 N 120 P 2 - B M N L

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Q1,3,5

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

1

(a) As Pelican Pie's' prices are higher due to their product's quality, they need to justify, in part, these higher prices through increasing brand value which attracts loyal customers. Hence, brand loyalty is undoubtedly important for PP. 2

2

(b) Profit and loss account for PP for the year ending 30 April 2017.

	\$	Calculations
Sales revenue	32 000	8000×4
COGS	14 000	8000×1.75
Gross Profit	18 000 ✓	

3

Expenses	7 400 ✓	$200 \times 12 + 1000 \times 4 + 1000$
NPBT	10 600	
Interest (8%)	3 200	40000×0.08
NPBT	7 400	
Tax (25%)	1 850 ✓	
Net Profit	5 550 ✓	

4

Distributed:

(c), Profit and loss account for the year ending 30
forecasted April 2018

	\$	calculations
Sales Revenue	26880 ✓	9600×2.8
COGS	16800 ✓	9600×1.75
Gross profit	10080 ✓	$200 \times 12 + 1000 \times 4$ + $200 \times 12 + 1000 \times 4$ + 3000
Expenses	9400	
NPBIT	680 ✓	
Interest	4000	
NPBT	(3320)	
Tax	0 ✓	
Net Profit	(3320)	

4

BB

$$\text{Number sold} = 1.2 \times 8000 = 9600$$

$$\text{Price price} = 0.7 \times 4.00 = \$2.80$$

$$\text{COGS} = \$1.75$$

$$\text{Elect. (month)} = \$200$$

$$\text{Rent. (quarter)} = \$1000$$

$$\text{promotion} = \cancel{2000} \text{ per month } 3 \times 1000 = 3000$$

$$\text{Interest} = 50000 \times 0.08 = 4000$$



04AX02

10

3 (a) Productivity rate refers to the level of output, whether it be that of an individual or that of a business with respect to time.

\Rightarrow What is it used for? how well productive output

Predicting
resources
are used
in the
organisation.

$$\text{Productivity rate} = \frac{\text{productive output}}{\text{time period}}$$

(b) • Economic / technological : with working in better economic conditions, with subsequently better access to technology farmers in developed countries cities pose an external threat to farmers in less developed countries, as they have increased efficiency due to better access to resources, technology and economies of scale. Pedro and his peers live ~~at~~ mainly under the poverty line, meaning they do not have the skills, nor the resources to improve their product and offer something that can compete better with the companies in the developed countries. This has a knock-on impact on income, as when customers → Environmental : particularly decrease, so do sales revenue, economies of scale and ~~income~~.

\Rightarrow productivity rate.

• Environmental : farmers like Pedro are prone to natural disasters like droughts which are outside of their control (hence: external). These environmental factors may decrease productivity rates, limiting the output, hence also sales revenue and ~~income~~ 3

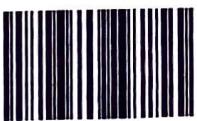


(c) Benefit: research and development gives businesses a variety of opportunity surrounding product extension / diversification on the Ansoff matrix. In Pedro's case, the diversification into bottled orange drinks would enable him to sell to a new market, increasing his revenue channels and diversifying them. Furthermore

Cost: extensive research and development is both costly in monetary value and time-related resources. The lack of available funds within Pedro's sole trader company is indicative of this, and while funds may be shared by operating as a cooperative, such R&D would still inflict major harm on cash flow and liquidity, which is already likely to be negative due to the rising competition in developing communities and the drought.



(d) To invest in new capital-intensive farming methods and better withstand both external threats, Pedro has proposed the formation of a cooperative in his local farming area. There are various driving and restraining forces which are ~~not~~ described on the following page.



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Example
Ejemplo

27

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Example
Ejemplo

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3

3

DRIVING

(4) pooling of funds -

Form a

(4) reduce exposure -
to risk.

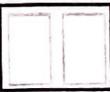
Cooperative

Restraining

- cultural clash (3)

- reduced competition (2)
- less control (2)

8 | 5



Firstly, becoming a cooperative would allow the farmers to collectively pool their resources and funds, a 4 on the FFA. The synergies accrued by this offer a major advantage over merely remaining a sole trader, as farmers, with the shared funds can invest in R&D that can help the collective. This is opposed to each sole trader completing the capital intensive research themselves, wanting cash on capital investment that only needed to be completed once. This is emphasised by the limited resources available in Pedro's poverty stricken country.

Furthermore, a cooperative would further reduce Pedro, and the other farmers, exposure to risk in multiple senses. The diversity from expanding into bottled energy juice would reduce all



04AX01

the farmer's dependence on a single revenue stream which is already being threatened. Also, R&D into new production methods (as mentioned in the stimulus) would ~~seem~~ help negate, or at least reduce the harmful impacts of future natural disasters such as the drought currently being experienced, further reducing exposure to risk. Finally, sharing information and working cooperatively reduces risk by reducing competition, meaning that Pedro and the other farmers can focus more on competing with farmers in developing countries, rather than with each other.

However, cooperatives can only work effectively if there is mutual understanding and respect for all participating members and their cultures. Failure to implement this would result in harmful culture clash, and likely increase decision-making time whilst decreasing productivity. The stimulus states that there are many linguistic and cultural differences between farmers, which is a likely indicator and prerequisite of the mentioned issue.

The final restraining force on the FFA is one concerning the loss of control over one's own operations. The shared information and links would likely require some sort of governing body to ensure all FFA members are operating fairly. This would increase internal costs through bureaucracy, and time wastage. This restraining force was regarded as a



relatively minor 2 on the FFA as the situation in which the farmers are, in their poor working conditions with the aforementioned threats, are likely going to want to cooperate efficiently as they are currently in a state of crisis.

In conclusion, it is recommended that Pedro and his peers ~~not~~ form a cooperative as, given their current ~~total~~ poverty situation and high exposure to risk (aforementioned), they must ~~quickly~~ act to share their resources to attain the mentioned R&D-related synergy. The FFA confirms this with a score of 8 for the driving force, and 5 for the restraining.



04AX03

5

(a) ethical objectives refer to the long term goals of an organisation in acting ~~morally~~ morally towards stakeholders, both internal and external. It is often associated with businesses who have a great focus on CSR in their operations. 2

(b) Advantage: low labour turnover is an indicator of good motivation and employee loyalty within the organization, meaning recruitment costs are low. As GC's employees have been mostly working for two decades, it is unlikely that GC's HR & managers have been needing to use funds to hire new employees, thus enabling GC to use those funds elsewhere.

Disadvantage: a low labour turnover likely means that a lack of new skills and ideas are entering the organisations workforce. For GC, it is a likely reason why they may have been slow to react to the competitive manager market, as the long-term loyal employees are likely to be resistant to change, while new employees would be less resistant.

4





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Ejemplo

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Ejemplo

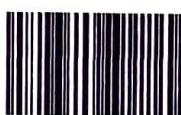
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3

5

(c) Job analysis - ✓ the process of ~~the~~ scrutinising the requirements of a job post within the organisation, and in the process creating the job description and person specification documents. GC, when looking for their new ~~employees~~, will need to decide on the types of ~~for~~ people they want to employ → for example experience, professionalism, and approach to business ethics might be the main attributes on the person specification document (as indicated by the stimulus).✓

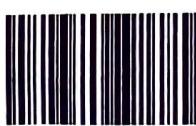
Shortlisting - HR management will need to select a few of the applicants who best match the ideal candidate in the job person specification document. ✓ For GC, it is unlikely that the original list of applications will be very long due to the difficulty of finding such ~~graduates~~, however shortlisting is still important to ensure employees are hired who fit ~~#~~ GC's requirements and ethical objectives. For this stage of recruitment, however, HR needs to remember that a candidate will never perfectly match the person specification document. 3



(d) GIC's human resources (HR) managers are "always looking for ways to improve morale" through motivating employees, as they feel the potential impact of demotivated employees are a potential threat. Looking at the organization through two varying motivational theories, Adams' equity theory, and Pink's motivational theory can give critical insight into the organization, and how effectively it motivates employees.

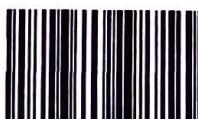
Firstly, from the perspective of Adams' equity theory, employees tend to naturally compare their inputs and outputs to those around them. In the case of GIC, this sort of motivation is extrinsic, meaning there is an extent to which employees are motivated by financial rewards, rather than non-financial rewards. GIC's ethical objectives include paying employees fair wages, meaning for the time being, according to Adams' theory, employees are likely to be at least motivated extrinsically. The offering of Pk share ownership is further cause to believe that management utilises Adams' theory in their operations, and is likely to further motivate employees extrinsically whilst giving them their own stake in the organization, despite the stakeholder conflict caused ~~be~~ with the shareholders.

GIC fails to incorporate Adam's equity theory to the extent that the long term, loyal



employees feel hard-done-by by the idea of hiring new gardeners who would be paid 20% more. This, according to Ade Adam's theory results in an inequitable comparison of inputs and outputs, as these gardeners are believed to have a similar skillset for the organization. In the case of GC, this proposes a key limitation of the theory as employee input is inherently subjective - the way in which the gardener's inputs are perceived by management will be drastically different to how the cleaners perceive it. They are unlikely to consider the strategic objectives of GC: the importance of finding the new revenue streams for long term survivability, as well as the shortage of highly skilled gardeners, hence naturally pushing up the costs of labour. By placing emphasis on perceived equity, GC may indeed be demotivating workers who do not have the oversight to receive the aforementioned long term objectives.

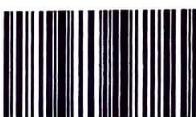
Secondly, Daniel Pink's theory places greater emphasis on intrinsic motivation of employees, as he believes that this is most applicable in the modern world. In particular, and in the case of GC, the "purpose" element of Pink's theory is crucial to consider. GC's USP of offering professional cleaning services, as well as their focus on ethical objectives, likely mean that their employees feel that they have a purpose beyond simply profit maximisation and cleaning happy, and is a likely intrinsic factor that contributes to the highly motivated



workforce with less turnover. This is because employees, according to Pink, we're type I employees, according to Pink, will be more motivated by their organization's moral and ethical objectives, which is a very applicable factor to GC and its operations.

However, Pink's motivational theory is also important to consider from the perspective of mastery and autonomy. In terms of mastery, it is unlikely that the cleaning service gives much opportunity for career progression ~~at all~~ apart from the creation of "professional" cleaners as they progress throughout their years. This is indicated by the low labour turnover, and is likely to become more of an issue in the coming 10 years as employees switch during the same job, with the same pay → there is little evidence of opportunity for career progression. From the perspective of autonomy, it is unlikely that employees one another control over "time" and "technique" due to the nature of the job, and the slow reaction time to competition is a ~~sure~~ pointer to a lack of innovation, hence "technique". All in all, Pink's theory may not be entirely applicable to GC at the moment, however may be a possible opportunity for future motivation strategy.

In conclusion, from the fact that employees mostly adhere to input-output compensation within GC, it is clear that Adam's theory is most





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Example
Ejemplo

27

2	7
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Example
Ejemplo

3

1	3
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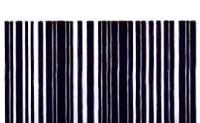
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applicable, and has certainly contributed to the high staff motivation. Elements of Pink's Theory, mainly purpose, also contribute to this however Pink has also been identified as an opportunity for further motivation strategy, where Adams' Theory of equity falls short in terms of the new generation.

↓
not a future tense question

⇒ focus on CURRENT issues and why they might be occurring.

⇒ While the question states to use two theories, the use of other theories' in contrasting arguments can be used.



04AX01

