

Business management
Higher / Standard level Paper 1 (MARKSCHEME)

Mock Paper 1

1 hour 30 minutes

SECTION A

Answer **all** questions from this section.

1. Define the term democratic leadership (line 42). [2]
(tip: write two meaty/clear sentences to give clear understanding of the term)

Democratic leadership refers to the type of leadership whereby employees are consulted and asked to participate in the decision-making process. Democratic leaders often use this approach because they value the ideas of others and it can bring about better morale and job satisfaction as employees are able to express their views and have some input in the decision making.

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

Award 1 mark for a basic/partial definition

Award 2 marks for a full, clear, accurate and detailed definition

2. Define the term multinational company (MNC) (line 58). [2]
(tip: write two meaty/clear sentences to give clear understanding of the term)

A multinational company (MNC) is a company that operates in two or more countries, with its head office usually based in the home country. Businesses try to expand internationally to gain customer base in order to generate more revenue and profit by achieving economies of scale by increasing production.

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

Award 1 mark for a basic/partial definition

Award 2 marks for a full, clear, accurate and detailed definition

3. Describe two elements of MT's marketing mix. [4]

(tip: write two separate PEEL paragraphs - point, explanation (of theory), evidence from text/case, link to question)

(blue highlight is the point, red is the evidence, green is the explanation, yellow is the link back to the point)

It is a crucial factor for MT to decide competitive yet profitable pricing as it has direct impact on sales revenue. Setting too high price can deter customers and setting too low price could lead to lack of stock and hence dissatisfied customers. The price set for MT Snap, \$6000; multispectral camera, \$5000; cloud-based software, \$3500 per year. Thus, MT need to have clear understanding between price and demand of their device camera and software.

Another element of MT's marketing mix is Product. Before purchasing any product, customers evaluate the utility derived from the product and value for money. Marketing plays a huge role in adding value to the product through differentiation through quality, packaging and branding. MT offers device, camera and licensing agreement with software gives right to farmers to use the data for its own purpose which makes a consumer durable goods. Therefore, designing value for many products helps MT to become successful.

Accept Place (online and through sales representatives) and Promotion (website and promotion at conference) as another two elements of MTs marketing mix. The case study addresses in only a limited way, the issue of people and does not at all touch on processes and physical evidence. Therefore, do not accept processes or physical evidence.

Marked as 2 + 2

1 mark for each element identified and explained and 1 mark for evidence from the case for each element

4. Explain one advantage and one disadvantage for MT of being a small business (line 20). [4]

(tip: write two separate PEEL paragraphs - point, explanation (of theory), evidence from text/case, link to question)

One advantage for MT of being small is that it can offer more personalized services than the very large firms with which it competes. Smaller firms are more likely to have time to devote to individual customers, employees and other stakeholders. Because of its personalized service, MT was able to grow very rapidly in USA and evolved from a software company to both a software and hardware company with MT Snap, a device that attaches to multispectral cameras mounted on drones. This provided opportunity to MT to establish themselves in USA.

One disadvantage for MT of being small is that it has fewer resources compared to large companies. Small organisations are likely to face shortage of resources like employees and finance to carry out marketing, upgradation of software, recruitment & training. This disadvantage is particularly relevant when it comes to research and development (R&D), as MT now finds itself with very little cash. During 2020 and 2021, despite strong revenue growth, MT was running out of cash because of the cost of the software upgrade. Thus, MT faces shortage of resources if decides to remain a small firm.

Accept any other relevant advantage / disadvantage.

Mark as 2+2.

Award [1] for a relevant advantage / disadvantage identified and an additional [1] for a relevant explanation of that advantage / disadvantage in the context of MT

5. Explain why KC could only purchase MT if it had permission from Jackie (line 67) [2]
(tip: 1 PEEL paragraph - the question will likely ask you about 1 thing (one advantage/strength))

MT is a private limited company owned 100 % by Jackie. In the case of private limited companies, shareholders must agree to the sale of shares to anyone not currently an owner. In MT's case, since Jackie owns it 100 % she has complete authority to determine whether someone else or some other company may buy all or a portion of MT without the prior agreement of Jackie.

Accept any other appropriate reasons

Award [1] for explaining that with private limited companies all shareholders must agree to the sale of shares to outsiders. Award an additional [1] for application to the case study.

6. Explain one way in which Jackie is potentially meeting MT's ethical objectives (lines 16–18) and one way in which she is not. [6]

(tip: 6 mark "explain" or "describe" question = 3 PEEL paragraphs - the question will probably not explicitly ask you for a number of things, but you should aim for 3 points)

For this specific question, give introduction and 2 PEEL paragraphs

Ethical objectives are organizational goals-based on moral guidelines determined by business, which directs and designs decision making. The company has four ethical objectives: encouraging environmentally friendly practices, treating employees fairly, practicing corporate social responsibility (CSR), and being open in sharing information with stakeholders.

Some ways in which Jackie is potentially meeting MT's ethical objectives are:

- Her commitment to fostering sustainable agriculture through precision agriculture. A university graduate with a degree in computer science, Jackie could find many lucrative paths in life, but she has chosen a very specific one because she believed she had a responsibility “to advance the field of precision agriculture.”
- MT's commitment to increasing food production is a form of corporate social responsibility (CSR). MT does not see its purpose being only to enrich shareholders, nor does it use its corporate power to do so. Rather, MT is trying to use its corporate power to help farmers produce enough food to feed the world's growing population.
- Her commitment to her people. If the candidate addresses “gets to know her employees” as a matter of management style or Jackie's personality, do not accept. However, if the candidate elaborates and broadens this understanding (a reasonable inference) to be fair and inclusive, accept as a way that Jackie is potentially meeting MT's ethical objectives.

Potential ways in which Jackie is not meeting MT's ethical objectives:

- Her serious consideration of selling MT to a major fertilizer company that produces chemical fertilizers. Jackie is fully aware that KiltChem's (KC's) products damage the environment and KC's main aim is to sell more fertilizer. KC's offer to purchase MT suggests that KC sees MT as a vehicle to sell more chemical fertilizer. The sale to KC would contradict one element of MT's vision of a more sustainable world.
- Her removal of Kumar from the job. The case study seems to suggest that Jackie accepted the consultant's conclusions and immediately removed Kumar from the job without talking to him or the project team first to determine what had gone wrong. Possibly the issue was that Jackie had set an unrealistic deadline. Given the scale of the

project, perhaps Jackie or some other executive should have been monitoring progress more closely. Perhaps Kumar should have been removed from the job, but Jackie has an ethical obligation to do some fair investigation first.

- Her encouragement of KC making an offer by revealing data about past revenue growth but withholding information about the current problems with the software upgrade and the depleted cash position. Jackie was not doing anything illegal, nor would a final offer come through without seeing the final accounts; however, by withholding the negative information from KC and by showing the rapidly rising sales but not the problems, she is creating a misleading picture of MT. Her action is somewhat deceptive. Had KC learned of the problems at the beginning of the discussion of the sale of the company, KC might have ended those discussions immediately.

Accept any other relevant answer.

Mark as 2 + 2 + 2

Award 2 for defining terminology and giving the background

Award [1] for stating a potential ethical action and, depending on the depth and clarity of the explanation, an additional 1 in developing the answer in context of case study.

Award [1] for stating a potential unethical action and, depending on the depth and clarity of the explanation, an additional 1 in developing the answer in context of case study.

SECTION B

Answer **one** question from this section.

7. Discuss two appropriate sources of finance that MT could use to pay for the fixing of the software upgrade. [10]
(tip: 10 mark "evaluate" or "discuss" question = full essay - intro with definitions and a brief outline of the problem, 2-4 PEEL paragraphs depending on the amount of time, conclusion where you present a clear position on the issue)

Write a short essay

- *Intro - 2-3 sentences, making sure to define terminology*
- *PEEL paragraph on advantages of 1st source identified*
- *PEEL paragraph on disadvantages of 1st source identified*
- *PEEL paragraph on advantages of 2nd source identified*

- *PEEL paragraph on disadvantages of 2nd source identified*
- *Conclusion - take a firm position - which type of organization should they choose and why?*

In 2020 and 2021, MT upgraded MT Map. However, the upgrade was expensive for MT to produce and for end-users to buy, and MT hired additional software developers and a full-time licensed project manager, Kumar, to oversee the software upgrade. During 2020 and 2021, despite strong revenue growth, MT was running out of cash because of the cost of the software upgrade

MT has four appropriate sources of finance for fixing the software upgrade:

- Sale of shares.

This sale could be to family and friends or a business angel. Going public would not be desirable at this time, given that the company is having problems and thus would not be able to fetch the most advantageous price. In addition, going public would not be feasible because of how long it takes and how much money it costs to do all of the paperwork and to pay the lawyers and investment bankers.

Selling to family and friends would be easier, but it may not raise as much capital as MT needs. With the right angel investor, MT could probably raise considerable capital, but depending on how much capital MT needs, the angel investor may require Jackie to lose a greater percentage of ownership than she would like. If she is desperate for capital, she might even have to lose majority control. Further, some angel investors may not align with MT's socially responsible sense of vision.

- Obtain a bank loan or mortgage secured by the industrial building MT owns.

The case does not indicate how valuable the building is, so some question exists as to whether the bank would, with the building as collateral, lend as much money as MT requires. Bank loans can usually be obtained fairly quickly, although a bank loan comes with increased expenses—namely, interest—and a schedule of principal and interest payments.

- Sell the building with an agreement to lease it back.

With a sale-leaseback, MT would obtain funds as if it were selling the building, but this would come without the expense and business interruption of relocation. However, finding a buyer is not always easy unless MT were to sell the building at a price lower

than the building's true value. In addition, MT would now have lease payments, an extra expense.

- A combination of equity and debt. Jackie could sell some shares to family and friends. For any other funds MT requires, it could get a bank loan secured by the industrial building.

In conclusion, Bank loan with mortgage of industrial building can be obtained quickly with some high expense of interest. Selling the building can lose the ownership of property and increase cost of leasing. Sale of shares to friends and family seem to be most viable option with lower risk involved. It gives quick access to finance from the known people, however loss of control is a lesser risk than interest and leasing cost as MT is already running out of cash.

N.B. Do not accept any form of short-term finance, as short-term finance is not appropriate in this instance. MT requires more working capital, which can only be obtained by increasing long-term debt or raising equity capital.

8. Discuss whether Jackie should accept or reject KC's offer to buy MT. [10]
(tip: 10 mark "evaluate" or "discuss" question = full essay - intro with definitions and a brief outline of the problem, 2-4 PEEL paragraphs depending on the amount of time, conclusion where you present a clear position on the issue)

Write a short essay

- *Intro - 2-3 sentences, making sure to define terminology*
- *PEEL paragraph on advantages of accepting the offer*
- *PEEL paragraph on disadvantages of accepting the offer*
- *PEEL paragraph on advantages of rejecting the offer*
- *PEEL paragraph on disadvantages of rejecting the offer*
- *Conclusion - take a firm position - which type of organization should they choose and why?*

Nearly out of cash, MT would now have further expenses from another year's work on the software upgrade. Jackie also knew the entire incident had damaged MT's brand. At this time, KiltChem (KC), a multinational company (MNC) specializing in chemical fertilizers, approached Jackie with a proposition: it wanted to buy MT.

Reasons why Jackie should consider selling the business include:

- A company like KiltChem (KC) would have the resources to provide finance for MT to complete the software upgrade.

- Being owned by a multinational corporation, MT would have easier access to foreign markets, where regulations on the use of drones are less strict than in the USA. Farmers in those markets would represent a great opportunity for MT.
- Domestically, the predicted synergy between KC and MT would probably lift MT's sales and market share. • Because the market is highly competitive, with many large companies competing in it, being part of a major corporation would give MT some protection. MT would probably benefit from at least some of the economies of scale that KC has.
- KC has said that a condition of the sale is that Jackie stay on as CEO for three years, which means that, at a minimum, she can continue working for the company that she founded and loves for at least three years. • Jackie would become independently wealthy by selling her company

Reasons why Jackie may not want to sell MT include:

- She would lose control of the business. Even though she would still be CEO of MT, she would not be the owner. KC would be unlikely to allow autonomous corporate governance for MT. Thus, regardless of the downstream corporate governance structure, an executive at KC would effectively be her boss.
- A clear misalignment exists between Jackie and MT's vision and purpose and KC's vision and purpose. Jackie is interested in helping the world create sustainable solutions to agriculture, whereas KC wants to sell more fertilizer. If she sells, Jackie may forever feel as though she compromised her values.
- One of the hidden assets of MT is the data it has obtained from its clients. As noted in the case study, the licensing agreement allows MT the right to use the data. Jackie's original purpose for this data was to use it to improve hardware and software and conduct agricultural research. KC, however, might use that data for more commercial purposes, which somewhat contradicts the socially responsible ethos of MT.
- After three years, KC may no longer want to employ Jackie. Although she would now be independently wealthy, MT is her life's work and she may not want to be separated.

In conclusion, selling MT would sort out cash crunch and synergy to MT. Also, she can continue working as a CEO. However, she should not be willing to sell MT as she would lose control of MT and KC and MT has different vision for the company which might cause harm to the company. Therefore, Jackie should look for other sources of finance to solve the financial difficulties instead of selling it to KC, an MNC.