

## Paper 3 Exam Practice Question - Lisa Accessories- Markscheme

*For question (a) and question (b) an analytic markscheme will be used. For question 3 the following assessment criteria will be used.*

**(a) Using an appropriate business management theory, describe a human need that Lisa Accessories (LA) meets by providing health care insurance to its employees and paying school fees on behalf of their employees with young children. [2 marks]**

- Maslow's hierarchy of needs, such as the security/safety needs of LA's employees being fulfilled. By providing these perks, the social enterprise is ensuring that its employees have access to essential healthcare services and that their children receive education. This contributes to a sense of security and well-being for the employees and their families.
- According to Herzberg's two-factor theory, the health care insurance and payment of school fees represent hygiene factors or maintenance factors. These factors contribute to the prevention of dissatisfaction rather than directly motivating employees. Hygiene factors are essential for creating a baseline level of satisfaction, related to employees' basic needs and external working conditions, and preventing potential sources of dissatisfaction at LA such as concerns about health and education expenses. While these factors may not directly motivate LA's employees, their absence or inadequacy could lead to dissatisfaction
- *Accept any other appropriate business management theory that is accurately described in the context of the case study.*

***Mark as [1 + 1]***

Award [1] for using an appropriate business management theory and [1] for describing the human need in the context of the case study.

**(b) Explain two possible challenges facing Lisa Accessories (LA). [6 marks]**

- Inventory management issues – The malfunctioning of *LA*'s inventory management system creates a significant challenge. Manual counting of inventory is time consuming and may lead to human errors. The delay in resolving this issue negatively impacts *LA*'s labour productivity, potentially affecting production efficiency and the timely fulfillment of orders. It can also have a negative impact on the motivation of employees (**Resource 2**).
- Increased water consumption – The notable 50% increase in water consumption is a financial and environmental concern for *LA*. Addressing this challenge involves not only managing costs but also implementing sustainable practices. The lack of induction or on-the-job training for new staff may contribute to inefficient water usage in the production workshop, requiring immediate attention to mitigate further increases (**Resource 2**).
- Short-term financial strain – The need to secure additional short-term sources of finance indicates that *LA* faces financial challenges. The urgency to find new investors or immediate sources of finance to cover February's expenses suggests potential cash flow issues. Addressing this challenge requires strategic financial planning, exploring investment opportunities, and possibly negotiating with existing stakeholders (Resources 2 and 3). Lisa's salary seems very high in comparison to the salaries paid to employees (despite the website stating the firm pays fair and living wages to its employees (**Resource 1**)).
- Market expansion risks – While the deal with 10 retail outlets in the Middle East presents growth opportunities for *LA*, it also creates new challenges. The need for a new marketing mix tailored to the preferences and expectations of customers in the Middle East, coupled with additional export and marketing costs, requires careful planning. Furthermore, Managing these costs and potential cultural differences, while ensuring profitability, poses a challenge for *LA*'s market expansion strategy.
- Possible conflict in the workplace – There is potential conflict between the Human Resources manager and the employees if *LA*'s financial situation is not resolved, especially if the salaries will not be paid by the end of February (Resource 2 and Resource 3). This situation is also likely to lead the employees to feel demotivated. In particular, employees may feel that it is unfair for the CEO to receive a high annual salary and a significant amount of the profits is paid as dividends to the shareholders, while they do not receive a fair wage (**Resources 1, 2, and 3**).

- Possible conflict between the CEO and the Management team – The significant difference in pay of the CEO and the rest of the Management team (the Finance manager, Operations manager, Human Resources manager, and Marketing manager) can cause another challenge (Resource 3). The pay differential can create some friction or conflict as this creates a cognitive dissonance based on J.S. Adams’ equity theory.
- *Accept any other appropriate challenge that is explained in the context of the case study.*

**Mark as [3 + 3]**

For each challenge, award [1] for identification of an appropriate challenge, [1] for the explanation, and [1] for application to *Lisa Accessories*.

**(c) Using all the resources provided and your knowledge of business management, recommend a possible plan of action to ensure the sustainability of LA for the next five years. [17 marks]**

- **Financial plan of action:**
  - Seeking appropriate sources of finance is an immediate priority, such as taking out an overdraft or a short-term loan (the advantages and drawbacks of these two sources of finance should be discussed). Internal sources of finance cannot be considered at this point in time since LA’s retained profit is negative (**Resource 3**).
  - LA could seek alternative funding sources, such as actively seeking new investors to address the social enterprise’s short-term financial strains.
  - LA could seek to implement cost-cutting measures where possible without compromising product quality or employee well-being.
  - Seeking finance for the long-term is a priority for LA, such as looking for new investors (business angels and / or new shareholders) to raise more share capital and/or equity (**Resources 3 and 4**).
  - The new initiative to enter the Middle East region with 10 retail outlets also requires a detailed financial plan (**Resources 2 and 4**), such as a thorough investment appraisal.
- **Operations Management plan of action:**
  - The faulty inventory management system needs to be repaired or replaced imminently, depending on whether the Operations manager can find the right supplier (**Resource 2**), although this needs top priority. The Operations manager needs to explore modern,

efficient, and reliable inventory management software solutions to reduce or eliminate manual errors.

- LA can introduce quality management measure prior to entering new markets in the Middle East. This could include conducting regular audits and system checks to ensure the smooth functioning of the inventory management system.
  - Discussions about LA's plastic management system need to take place. For example, LA could consider implementing a "resource recovery model" (a type of circular business model) which also aligns with its mission statement (**Resources 1 and 2**).
  - Sustainable practices address the increased water consumption concern and promote sustainability LA could also explore eco-friendly packaging options to align with environmental values and reduce its overall ecological impact. LA could also examine ways to improve the upcycling process for efficiency and sustainability.
- **Human resources plan of action:**
    - LA needs to implement a comprehensive training programme for existing and new employees to address the manual inventory counting issue and improve its water consumption efficiency.
    - This would entail LA investing in employee skills development to enhance the quality and efficiency of the upcycling process.
    - LA could establish mentorship programmes to transfer knowledge and skills from experienced staff to new recruits. This will ensure that all new staff are properly inducted and upskilled (**Resource 2**).
    - Besides training and development, LA needs to improve its policy of ensuring fair wages that align with the firm's mission and in order to retain its workforce (**Resources 1 and 2**).
- **Marketing plan of action:**
    - Developing a marketing plan is required to launch the LA's products in the 10 retail outlets in the Middle East. The Marketing manager needs to develop a distinctive or unique selling point, appropriate segmentation strategies, and look into sales forecasting for the region (**Resources 2 and 3**).
    - Market development in the Middle East requires LA to continue the collaboration with retail outlets in the Middle East region and to conduct a thorough market analysis to tailor products to local preferences

- LA needs to develop a targeted marketing mix for the Middle Eastern market, considering cultural nuances and different customer expectations and inclinations. To this effect, effective market research is also needed as a pre-requisite.
- LA could implement cost-effective international marketing strategies, leveraging digital platforms and influencer marketing to maximize its reach. These need to be cost-effective, given LA's limited sources of finance.
- Other considerations for the plan of action could include application of relevant components of the Business Management Toolkit (BMT). This could include elements of SWOT analysis, Ansoff's growth matrix, and force field analysis, for example.

By addressing these aspects in the marketing, human resource, finance, and operations functions, LA can build a solid foundation for sustained growth and success over the next five years. Regular monitoring and adjustments to the plan of action will be essential to adapt to changing market conditions and ensure its long-term survival.

Marks for this question should be allocated according to the assessment criteria on pages 48 – 50 in the Business Management Guide (May 2022).

### External assessment criteria—HL

#### Paper 3

For question 1 and question 2 an analytic markscheme will be used. For question 3 the following assessment criteria will be used.

#### Criterion A: Use of resource materials

To what extent does the student use the resource materials provided to effectively support the recommended plan of action?

Marks	Level descriptor
0	The response does not reach a standard described by the descriptors below.
1	The response makes limited reference to the resource materials provided or the resources identified have been used ineffectively to support the recommended plan of action.

<b>2</b>	The response makes some reference to the resource materials provided or the resources identified have been used in a superficial way to support the recommended plan of action.
<b>3</b>	The response makes reference to most of the resource materials provided to support the recommended plan of action.
<b>4</b>	The response makes reference to all resource materials provided to effectively support the recommended plan of action.

### **Criterion B: Business management tools and theories**

To what extent does the student's plan of action effectively apply appropriate business management tools and theories?

<b>Marks</b>	<b>Level descriptor</b>
<b>0</b>	The response does not reach a standard described by the descriptors below.
<b>1</b>	The response demonstrates limited application of appropriate business management tools and theories.
<b>2</b>	The response superficially applies appropriate business management tools and theories.
<b>3</b>	The response satisfactorily applies appropriate business management tools and theories.
<b>4</b>	The response effectively applies appropriate business management tools and theories.

### **Criterion C: Evaluation**

To what extent does the student effectively evaluate the expected impact of their plan of action on the relevant areas of the business?

<b>Marks</b>	<b>Level descriptor</b>
<b>0</b>	The response does not reach a standard described by the descriptors below.

<b>1-2</b>	The response is largely descriptive with limited analysis or evaluation of the expected impact of their plan of action. There is limited reference to the relevant areas of the business.
<b>3-4</b>	The response analyses the expected impact of their plan of action with some reference to the relevant areas of the business. There is some evidence of evaluation but it is not sustained.
<b>5-6</b>	The student effectively evaluates the expected impact of their plan of action on the relevant areas of the business and considers the trade-offs between those areas.

### **Criterion D: Sequencing of ideas and plan of action**

To what extent are the student's ideas and plan of action sequenced in a clear and coherent manner?

<b>Marks</b>	<b>Level descriptor</b>
<b>0</b>	The response does not reach a standard described by the descriptors below.
<b>1</b>	The response is limited in its sequencing of ideas and plan of action.
<b>2</b>	The response consists of ideas and a plan of action but these are not always sequenced in a clear manner.
<b>3</b>	The response effectively sequences appropriate ideas and a plan of action in a clear and coherent manner