

Markscheme

November 2024

Business management

Higher level

Paper 2

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The markbands on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptor.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately. • Little or no reference to the stimulus material. • No arguments are made.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance. • Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization. • Any arguments made are mostly unsubstantiated.
5–6	<ul style="list-style-type: none"> • The response indicates an understanding of the demands of the question, but these demands are only partially addressed. • Some relevant and accurate use of business management tools and theories. • Some relevant use of information from the stimulus material that goes beyond the name of the person(s) or name of the organization but does not effectively support the argument. • Arguments are substantiated but are mostly one-sided.
7–8	<ul style="list-style-type: none"> • Mostly addresses the demands of the question. • Mostly relevant and accurate use of business management tools and theories. • Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. • Arguments are substantiated and have some balance.
9–10	<ul style="list-style-type: none"> • Clear focus on addressing the demands of the question. • Relevant and accurate use of business management tools and theories. • Relevant information from the stimulus material is integrated effectively to support the argument. • Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.

Section A

1. (a) State **two** features of a privately held company. **[2]**

Features included:

- **profits are shared** between **shareholders**;
- they can **raise money by selling shares** in the company **privately** to people they know such as friends, family, and associates (**not via stock exchange**);
- shareholders are protected by **limited liability**;
- the **business must be registered** with Registrar of Companies.
- **easier to raise finance than a sole trader/partnership.**

Accept any other relevant feature.

N.B. *no description required.*

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

- (b) (i) Using the data in **Table 1**, calculate the debtor days ratio (number of days) for *JJF* (*no working required*). **[1]**

Debtor days ratio (number of days) = (debtors / total sales revenue) x 365

Debtor days ratio (number of days) = (\$800 000 / \$2 500 000) x 365 = 0.32 x 365 =

Debtor days ratio (number of days) = 116.8 days (allow rounding 117 days)

or

Debtor days ratio (number of days) = (debtors / total sales revenue) x 365

Debtor days ratio (number of days) = \$800 000 / \$2 500 000 x 366 = 117.12 days (leap year in 2024) **(allow rounding 117 days)**

Allow rounding provided that the candidate does so in a mathematically correct fashion.

Award [1] for the correct answer (no working required).

- (ii) *JJF's* capital employed at year end was \$2 million. Using the data in **Table 1**, calculate the gearing ratio for *JJF* (*no working required*). **[1]**

Gearing ratio is (non-current liabilities / capital employed) x 100

Gearing ratio = \$1 000 000 / \$2 000 000 x 100 = 50%

Award [1] for the correct answer (no working required).

- (iii) At the end of the financial year, *JJF's* creditors are 50% of debtors. Using the data in **Table 1**, calculate the creditor days ratio (number of days) for *JJF* (*show all your working*). **[2]**

Creditor = 50% of \$800 000 = \$400 000 (*allow BOD if working for creditors is not shown in the candidate's answer*)

Creditor days ratio (number of days) = (creditors / cost of sales) x 365

Creditor days ratio (number of days) = (\$400 000 / \$2 000 000) x 365 = 0.2 x 365 = 73 days

Award [1] for correct answer and [1] for working.

or

Creditor days ratio (number of days) = (\$400 000) / \$2 000 000) x 366 = 73.2 days
(leap year in 2024) **(allow rounding 73 days)**

Award [1] for correct answer and [1] for working.

- (iv) *JJF's opening stock (as of 1 October 2023) was \$750 000. Using the data in Table 1, calculate the stock turnover (number of days) ratio for JJF (show all your working);* **[2]**

Stock turnover (number of days) ratio = (average stock / cost of sales) x 365

Average stock = (\$750 000 + \$850 000) / 2 = \$1 600 000 / 2 = \$800 000 **[1]**

Stock turnover (number of days) ratio = (\$800 000 / \$2 000 000) x 365 = 146 days [1]

or

Stock turnover (number of days) ratio = (\$800 000 / \$2 000 000) x 366 = 146.4 days
(leap year 2024) **(allow rounding 146 days) [1]**

Award a maximum of [1] if the answer is the stock turnover (number of times) ratio instead, as follows: \$2 000 000 / \$800 000 = 2.5 times.

N.B. *in both methods working for Average Stock must be shown for [1].*

- (c) Explain the impact that **one** of James’s planned changes for 2025 could have on an efficiency ratio. **[2]**

The impact could be that efficiency **ratios could be improved** at *JJF* in many ways:

- **stock turnover** ratio by **reducing** the overall level of **stock (at 20% lower than 2024)**. This would lower the ratio reducing the number of days;
- **debtor days** by **encouraging** rental **customers to pay** their accounts **sooner (offering them a discount for early payment)**. This would reduce the debtor day ratios bringing it closer to their aim of 90 days;
- **creditor days** by **delaying payments** to suppliers. This would increase the ratio allowing *JJF* to hold their cash for longer. *JJF* aim to pay their own debts within 60 days.

Accept any other relevant impact.

Award [1] for stating an appropriate impact and [1] for an explanation with application to JJF.

2. (a) State **two** features of a sole trader. **[2]**

As a sole trader, an individual

- has **full control/decision making** leading to faster decision making;
- sole **ownership** of the **business**;
- it is **not a separate legal entity** and/or has unlimited liability (and /or unincorporated) (assumes full legal responsibility for all business debts);
- has **minimal admin** and filing **requirements**;
- enjoys a greater level of privacy.

Accept any other relevant feature.

N.B. *no description required. Award [1] for each relevant feature stated, up to a maximum of [2].*

Do not reward features that are essentially the same eg. unlimited liability is the same as no separate legal identity or unincorporated.

- (b) Using the information in **Table 2** and **Table 3**, complete the following cash-flow forecast, all figures in \$, for Daniel's new garden design business for the first four months of operation in 2025. **[4]**

Cash-flow forecast for Daniel Moon new garden design business for the first four months of 2025

	January	February	March	April
Opening balance	5000	400	1775	2375
Cash inflows:				
Cash sales revenue	2000	2100	2000	2500
Total cash inflows	2000	2100	2000	2500
Cash outflows:				
Tools and equipment	4000			
Loan	200	200	200	200
Daniel's salary			800	800
Van purchase	2000			
Expenses	400	400	400	400
Advertising		125		125
Total cash outflows	6600	725	1400	1525
Net cash flow	(4600)	1375	600	975
Closing balance	400	1775	2375	3350

Award [1] if the candidate shows some understanding of a cashflow and has some of the cashflow completed correctly.

Award [2] if the candidate completes the cashflow but has two errors.

Award [3] if the candidate completes the cashflow but has one error.

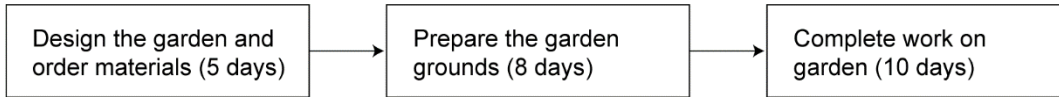
Award [4] if the candidate completes the cashflow correctly.

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error and then carries it through, that is only one error. Opening balance is 5000 do not accept if included in January cash inflow.

One or more labels missing for inflows/outflows is one error.

(c) Using **Figure 1**:

- (i) determine the critical path and write the activities of the critical path in the boxes below; **[1]**



*Award **[1]** for determining the critical path by writing the activities in the boxes correctly.*

- (ii) calculate the minimum amount of time required for Daniel to finish a garden design project (*no working required*). **[1]**

Minimum amount of time = 5 days + 8 days + 10 days = **23 days**

*Award **[1]** for the correct answer no working required. Do not penalize if “days” missing.*

N.B. do not apply OFR if incorrect days used in (c)(i) since number of days is NOT actually required in (c)(i).

- (d) Explain **one** advantage for Daniel of using critical path analysis for a garden design project. **[2]**

*Award **[1]** for any of the following:*

- CPA will **allow** Daniel to **budget time, allocate resources, and prioritize** for the **3 tasks** that are **part of the project** **[1]**.
- clear **identification of critical tasks** (prepare the garden grounds) **[1]**
- accurate **determination of project length** (5 days + 8 days + 10 days = **23 days**) **[1]**
- **precise scheduling** (5 days designing the garden; 8 days preparing the garden grounds; 10 days working on the garden) **[1]**
- only by **finding ways to shorten jobs** along the critical path (for **example, 8 days of the ground preparations**) can the overall project **time be reduced** **[1]**.

Accept any other relevant advantage and explanation.

*Award **[1]** for each advantage stated and an additional **[1]** for application to the stimulus and explanation.*

N.B. do not allow the use of “garden design project” as an example of application as this simply repeats the wording in the question.

3. (a) State **two** features of a cooperative. [2]

Features included:

- cooperatives are **owned by its members**
- they have a **democratic structure – one member, one vote**
- they have an overriding desire to **help a specific community or social objectives**
- any **surplus** (profit) is **distributed amongst the members**
- is a for **profit social enterprise**
- has **limited liability**.

Accept any other relevant feature.

N.B. no description required. Do not penalize if reference is made to a specific type of Cooperative eg, agricultural, retail or financial so long as the feature is relevant.

Award [1] for each relevant feature stated, up to a maximum of [2].

(b) Using the data in **Table 4**:

N.B. for the following four questions answers do not require units i.e \$000s as they refer to items in a table where the units are already stated.

(i) calculate, for AC, the production costs variance, **W**, and state if it is adverse or favourable (*no working required*); [1]

Production cost variance = budgeted production costs – actual production cost

Production cost variance = \$1 200 000 – \$1 400 000 = **\$200 000** indicates that the variance is adverse or [A]

Award [1] for the correct answer. Which include correct number AND variance.

(ii) calculate, for AC, the actual marketing costs, **X** (*no working required*); [1]

Actual marketing costs = budgeted marketing costs – variance.

Actual marketing costs = \$100 000 – \$20 000 = **\$80 000**

Award [1] for the correct answer.

(iii) calculate, for AC, the budgeted management costs, **Y** (*no working required*); [1]

Budgeted management costs = actual management costs – variance

Budgeted management costs = \$100 000 – \$30 000 = **\$70 000**

Award [1] for the correct answer.

(iv) calculate, for AC, the profit for period variance, **Z**, and state if it is adverse or favourable (*no working required*). [1]

Profit for period variance = budgeted profit for period – actual profit for period

Profit for period variance = \$2 000 000 – \$1 650 000 = **\$350 000** indicates that the variance is adverse or [A].

Award [1] for the correct answer.

- (c) The coffee market in Cambodia has a total value of \$32 million per year. Calculate the total market share for AC's coffee in Cambodia based on actual sales revenue in **Table 4** (*show all your working*). [2]

Total market size is \$32 000 000. AC sales are \$3 750 000.

Market share is $(\$3.75\text{m} / \$32\text{m}) \times 100$ [1].

Market share is 11.72% (allow rounding 12% or 11.7%) [1]

Award [2] for the correct answer of 11.72% with working. A correct answer must include the percentage sign %.

- (d) Explain why AC's board of directors should be concerned by the information in **Table 4**. [2]

Four of the five variances in **Table 4** show an **adverse** variance. The key indicators of **profit, sales revenues and production costs** are **worse than** the **predicted** values. **Marketing costs** were lower than anticipated and provided the **only favourable** variance.

The coffee growers, cooperative members and the Board of AC are concerned by the latest financial data and this **budget will do nothing to make them feel better**. The key **concern** is that whilst **production costs rose** (higher than expected) both **profit and sales revenues** were **below** the **predicted** (budgeted) **values**. The selling of Fairtrade coffee at a **premium price may be an issue** for the coffee growers.

*Award [1] for an appropriate explanation with an additional [1] for application to AC. Some reference to **Table 4** must be included.*

Section B

4. (a) Describe **one** disadvantage of an autocratic leadership style. [2]

Autocratic leadership is characterised by **individuals having control over all decisions** with **little or no** delegation of responsibility and limited one-way communication.

Disadvantages include:

- it **discourages group input helping to isolate group members with subsequent lack of motivation**;
- it **creates a workforce dependency** on decision making by the leader;
- it **ignores creative** solutions to problems and expertise from members of the group.

N.B. Application not required.

*Award [1] for a partial description (e.g. **someone who takes all the decisions**) with an additional [1] to include a full description highlighting aspects of the actual disadvantage of autocratic leadership, similar but confined to the disadvantages above.*

- (b) Using **Figure 2** and **Table 5**, comment on the survey carried out by Eunju. [2]

The survey involved a relatively simple ‘scoring’ system with marks out of ten.

Comments may focus on:

- the differences in the **number of responses** between the **different countries**; E.g. Thailand has 63 organizations participating in the survey compared to South Korea that has only 11;
- the **mix of results** in different countries (considering average marks included in **Table 5**);
- the **variations** in the trainer **enthusiasm score** (Thailand 9.5 out of 10 and South Korea 6.8 out of 10);
- the **usefulness** of the **survey to Eunju**;
 - it gives a **general impression** of what is going well and what isn’t;
 - it may be **based on flawed collection methods**;
 - it could be used to **compare scores** in different countries.

Accept any other relevant comment.

Award [1] for a comment in context. An additional [1] if there is some mention of the actual data in terms of a figure from the data.

- (c) Explain **two** methods/techniques of primary market research, **other than** surveys, that Eunju could use to gather information to help her assess the training provided by CLX. **[4]**

Eunju could have carried out:

- interviews; allows for more open-ended questions about training experience for participants
- focus groups; similar to above
- observations; would allow Eunju to observe directly and avoid potential cultural bias in surveys.

***N.B.** Use of “training” as application is acceptable for any method/technique.*

Mark as 2 + 2

*Award up to **[1]** for some explanation of each method and further **[1]** for showing context related to how Eunju could have used the method. Award a maximum of **[2]**.*

E.g. Focus groups could be used to gather information from a selection of previous customers. Such as the quality of the trainer’s enthusiasm. A round table discussion (could be virtual) might allow Eunju to ask direct questions (qualitative questions) and get a range of responses that go beyond a simple score out of ten. The information might be more useful to Eunju.

*Award a maximum of **[4]** in total.*

- (d) Explain **one** advantage of sales forecasting for CLX. **[2]**

Sales forecasting is the process of **estimating future revenue** by predicting the **amount of units** that the business might sell in the coming time periods. The technique makes use of previous sales data plus other information to make the predictions.

Advantages include:

- helps to **set targets** (allows the sales team at CLX to assess how many courses they need to put on to meet the target);
- **aids planning of resources** (number of trainers required etc.);
- **aids strategic planning** (CLX can make future strategic decisions e.g. the decision to pull out of a particular country/region eg. South Korea is the smallest market with relatively low marks in the **Table 5** survey
- allows CLX to **learn from past mistakes**.

*Award **[1]** for stating an advantage of sales forecasting or for giving a broad definition.*

*Award **[2]** if the candidate provides an accurate advantage and makes contextual references to CLX related to training courses, etc.*

- (e) Using the information provided in the stimulus and in **Figure 2** and **Table 5**, recommend whether *CLX* should engage in contingency planning. [10]

Contingency planning is where an organization **tries to be ready to respond effectively** in the event of an **emergency or unexpected event**.

In the case of *CLX* the following is contextual relevance as follows:

- What can be taken from **Figure 2** and **Table 5**?
- **Eunju** is an **autocratic manager**. She will want **everything fully planned** where she can;
- there are **issues** with their market/customers in **South Korea**. Eunju may want to **plan** for possible **problems** before they fully arise;
- the success of contingency planning depends on communicating and delegating key tasks which could be a problem for Eunju's autocratic style;
- conversely her autocratic style could be advantageous where quick decisions need to be taken in an emergency;
- **contingency planning** is often **costly** and **time consuming** for problems that may never arise. Does *CLX* have the available resources to spend time doing this?;
- *CLX* sell their **services** in a range of **different countries** (throughout South East Asia). It is possible that **cultural differences** may lead to **sales reducing**. **Different expectations** and **rules/laws** (gaining visas etc.) could make the continued operation in other countries difficult;
- **political instability** in the region may result in a **sudden loss** of sales;
- changes in **technology** and a switch to **online learning** may have a **significant impact** on *CLX*.

As a **possible solution** to the problem, *CLX* might **accept** Eunju's contingency planning argument **if they are keen to plan for any possible outcome of risky situations**. The **issues** that exist in South Korea **could involve damage** to the **reputation** of *CLX*; **loss of staff**; loss of future **sales/profits**; **damage** to the **objective** of developing their services etc.

A counter view might be to **simply deal with situations as they arise**, in the knowledge that the **associated risk is not that great**.

Allow any reasonable developed solution.

Marks should be allocated according to the markbands on page 3 with further guidance below:

*If the candidate makes no reference to **Figure 2** or **Table 5** then the maximum mark to be awarded is [6] even if there is some balance.*

N.B. *Candidates cannot reach the top marks if there is no relevant reference/application to the stimulus. They must also show some awareness/explain the limitations of the stimulus material.*

Candidates are expected to present an advisable course of action with appropriate supporting evidence/reasons. This recommendation may be presented as a conclusion.

5. (a) State **one** advantage **and one** disadvantage to a franchiser of retailing through franchises. [2]

Advantages of franchising include:

- requires less **capital** than owning retail outlet;
- **reduces costs**: each franchisee finances their own franchise outlet;
- **increases brand awareness**;
- most **supervisory** responsibility falls to **franchisee**;
- **reduces risk**;
- relatively **simple** and easy way to **grow quickly**.

Disadvantages of franchising include:

- **complexities** of following **regulations** and laws across **multiple jurisdictions**;
- each time someone applies to be a franchisee, the **franchiser spends some money with no guarantee** that the applicant will be approved;
- increased **chances** for **legal disputes**;
- **loss** of complete **brand control** (potential quality issues).

Accept any other relevant advantage/disadvantage.

N.B. no description required.

Award [1] for an advantage stated and [1] for a disadvantage stated. Award a maximum of [2].

N.B. the candidate must answer this question from the perspective of the franchiser.

- (b) Explain how *DSP*'s collection of big data could impact **two** of *DSP*'s stakeholder groups **other than** employees, management, and shareholders. [4]

Affected relevant stakeholders include:

Competitors: With information on the paints sold (colour, size, location, customer, even time of day sold), *DSP* can more effectively **anticipate** its **customers' wants and needs**. Almost immediately, *DSP*'s management felt that the company was **more competitive**.

Suppliers: Gathering of big data is done in **real time**, which allows suppliers' management to **know** in an **instantaneous fashion what pigment and other supplies** are needed by *DSP*. Thus, suppliers will need to arrange for smaller but possibly more frequent deliveries of supplies to *DSP*.

Franchisees: As *DSP* gets better at **identifying** and **anticipating consumer trends**, it will be able to **encourage franchisees to stock colours** and paints that are **in fashion**, boosting franchisees' sales and, in turn, *DSP*'s sales.

Customers: As *DSP* gets **more efficient** and more **effective** at marketing, *DSP*'s customers (franchisees) and franchisees' customers **will get more desirable products and better service**. *DSP* noticed quite quickly that **retail sales of its paint increased after** it began collecting **big data**.

Table 6 shows that there are famous companies who are using big data to boost revenue.

Mark as 2 + 2.

Award [1] for stating one of the four stakeholder groups above and an additional [1] for an explanation and application to the stimulus up to two stakeholder groups.

Award a maximum of [4] in total.

N.B. Candidates may state other stakeholders which have some relevance but no opportunity for application to the stimulus. For example, environment pressure or watch dog groups would probably be pleased that DSP has improved its efficiency, which would reduce waste and disposal of old paint.

If a candidate states a relevant stakeholder **other than** employees, management, shareholders, competitors, suppliers, franchisees, and customers, award **[1]** provided the candidate explains the relevance.

- (c) With reference to DSP, distinguish between a cost centre and a profit centre. **[4]**

A **cost centre** is a **section** of a business where **costs** are **incurred** and **recorded**.

A **profit centre** is a **section** of a business where both **costs and revenues** are **identified** and **recorded**.

When DSP first hired the **data mining** expert, the **intention** was that they work in **support** of operations and marketing. While the data mining would presumably help DSP become more profitable, by itself the data mining office **generated no revenue**. **Only costs were associated** with them and their staff.

However, when the data mining expert **suggested** that DSP start selling the **data** that that their office collected and analysed, the **data mining office would now generate revenue**. Thus, the **data mining office could now become a profit centre** and would start **exploring** other types of **information** to gather as well as **identify** potential **customers** other than those just in the construction and decorating industries.

Mark as 2 + 2

Award **[1]** for correct explanation of what a cost centre is and an additional **[1]** for application to the stimulus.

Award **[1]** for correct explanation of what a profit centre is and an additional **[1]** for application to the stimulus.

Award a maximum of **[4]** in total.

- (d) Using information in the stimulus and **Table 6**, discuss the impact on *DSP* of its use of data mining to inform decision making **and** its use of data to monitor and manage employees. **[10]**

The use of data mining appears to have had a **positive impact** on *DSP*'s operations. Almost immediately after collecting and mining data, *DSP* saw **its operations become more efficient and marketing more effective**. Table 6 shows that there are famous companies who are using big data to boost revenue. The CFO is keen to follow suit. **Sales** to retail customers by the franchisees and sales to franchisees by *DSP* **increased**. The **shift from JIC to JIT would have reduced stock levels and working capital requirements**. **By identifying trends in real time** through sales data, *DSP*'s **brand identity probably improved**. Because all these **improvements probably led to improved profits, management and shareholders were surely pleased**. **And, because the company had a profit-related pay scheme, increased profits would mean greater pay for employees**.

However, the decision to make the data mining office a profit centre presents potential **risks**. One, whenever a “**collector**” of data **sells the information** on the open market, they run the **risk** of being **accused of unethical practices**, as many people view the sale of data, especially on customers, as a **violation of their right to privacy**, and thus exposes *DSP* to **potential legal risks**. Further, once the data has been sold, even if the buyer has agreed not to resell it, ***DSP* has lost control of the information**. *DSP*'s big data customers might resell the data anyway, thinking that *DSP* will never find out. Finally, **if *DSP*'s competitors ever got the information**, they could use it to **erode *DSP*'s competitive advantages**.

The decision to use **data to manage and monitor employees** has both potential benefits and risks. On the one hand, perhaps *DSP* has some **employees who do not work as hard** as they should and the Digital Taylorism methods **could help the company identify them**. Workers, just knowing that they are watched, might nudge them to work harder and faster. The data mining expert promised major **improvements to operations** because of this approach. Time will tell whether those improvements materialize.

However, *DSP* is also **bearing costs** for this approach. There was some **expenditure for the chips** to go into employee identification badges and for the **hardware and software** needed to monitor the employees. Some **people** had to be **hired to evaluate** the data produced. Further, because **many employees disapproved of the Digital Taylorism, labour turnover increased**, which would lead to the **increased recruitment and training costs**.

The impact on *DSP* of its use of data-mining to inform decision-making and its use of data to manage and monitor employees together appear to be having an **impact on the organizational culture**. The founder and one-time 100% **owner had a paternalistic leadership style** that came to permeate *DSP*'s culture and endure long-after the company grew and went public. The founder was **committed to CSR, which employees typically find inviting and motivating**. **Before Digital Taylorism arrived, labour turnover at *DSP* was low**. This paternalistic culture might aid acceptance by the majority of workers. *DSP* might be willing to accept an increase in labour turnover in the short term as a way to re-align the workforce around a new common goal. Furthermore, those of the younger generation are more accepting of the reality that individual data is regularly shared outside the workplace so why not within.

All decision making appeared to have **reoriented** the company toward a **pure profit motive**. The company started **selling big data**, which is **ethically** and, in some cases, **legally questionable**. **Digital Taylorism fosters a completely different corporate ethic** than was the paternalistic leadership style of the founder and subsequent management. Labour turnover increased, suggesting that the “social contract” between *DSP*'s employees and *DSP* began to crack.

Marks should be allocated according to the markbands on page 3 with further guidance below:

*If there is no balance, then for a one-sided response where only one impact is considered then award a maximum of **[3]**.*

*If the candidate makes no reference to **Table 6** then this only partially addresses the demands of the question, then the maximum mark to be awarded is **[6]** even if there is some balance.*

*If the candidate discusses one impact only (with balanced and substantiated arguments) then award a maximum of **[5]**.*

A balanced response is one that provides at least one argument for and one argument against each impact.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each impact.

N.B. *candidates cannot reach the top marks if there is no relevant reference/application to the stimulus. They must also show awareness/explain the limitations of the stimulus material.*
