

OXFORD IB PREPARED



# BUSINESS MANAGEMENT



IB DIPLOMA PROGRAMME

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## Introduction iv

### Unit 1: Business organization and environment

1.1	Introduction to business management	1
1.2	Types of organizations	5
1.3	Business objectives	9
1.4	Stakeholders	13
1.5	The external environment	16
1.6	Growth and evolution	19
1.7	Organizational planning tools (HL only)	23

### Unit 2: Human resource management

2.1	Functions and evolution of human resource management	27
2.2	Organizational structure	31
2.3	Leadership and management	34
2.4	Motivation	39
2.5	Organizational (corporate) culture (HL only)	44
2.6	Employer and employee relations (HL only)	45

### Unit 3: Finance and accounts

3.1	Sources of finance	48
3.2	Costs and revenues	52
3.3	Break-even analysis	55
3.4	Final accounts (some HL only)	59
3.5	Profitability and liquidity ratio analysis	64
3.6	Efficiency ratio analysis (HL only)	67
3.7	Cash flow	70
3.8	Investment appraisal (some HL only)	74
3.9	Budgets (HL only)	78

### Unit 4: Marketing

4.1	The role of marketing	80
4.2	Marketing planning (including introduction to the four Ps)	83
4.3	Sales forecasting (HL only)	88
4.4	Market research	90
4.5	The four Ps (product, price, promotion, place)	94
4.6	The extended marketing mix of seven Ps (HL only)	101
4.7	International marketing (HL only)	103
4.8	E-commerce	104

### Unit 5: Operations management

5.1	The role of operations management	107
5.2	Production methods	109
5.3	Lean production and quality management (HL only)	111
5.4	Location	114
5.5	Production planning (HL only)	116
5.6	Research and development (HL only)	118
5.7	Crisis management and contingency planning (HL only)	120

### Questions worth 10 marks 122

### Extended responses (Section C) 130

### Internal assessment 138

### Practice exam paper 2 159

### Index 163



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# 1

# BUSINESS ORGANIZATION AND ENVIRONMENT

## You should know:

- ✓ Introduction to business management
- ✓ Types of organizations
- ✓ Organizational objectives
- ✓ Stakeholders
- ✓ External environment
- ✓ Growth and evolution
- ✓ Organizational planning tools (HL only)

## 1.1 INTRODUCTION TO BUSINESS MANAGEMENT

### You should be able to:

- ✓ explain the role of businesses in combining resources to create goods and services
- ✓ explain the four key business functions: human resources, finance and accounts, marketing and operations
- ✓ distinguish between the four economic sectors of activity, and explain the nature of business activity in each
- ✓ examine the main issues around entrepreneurship:
  - ✓ what does it mean to be an entrepreneur (and an “intrapreneur”)?
  - ✓ why is entrepreneurship (and intrapreneurship) so important in business activity?
  - ✓ why an entrepreneur may decide to set up a new business.
  - ✓ what are the common steps to set up a new business?
  - ✓ what are the common problems when setting up a new business?
  - ✓ what is this document called “business plan” that entrepreneurs usually prepare?

This sub-unit gives you an initial framework to understand what businesses do, how they operate and how they are organized. It emphasizes the importance of “entrepreneurs” who set up new commercial ventures and are essential to business activity.

### Topic summary

All businesses, from small start-ups to huge multinational conglomerates, are based on the same principles:

- They combine **resources** (human, physical and financial) with **enterprise** (entrepreneurial skills to turn a business idea into a commercial reality): those are the *inputs*.
- They produce (tangible) **goods** and/or (intangible) **services** for their customers: those are the *outputs*.

- They are organized in **four key business functions** (human resources, finance and accounts, marketing, operations) that are interdependent.
- They operate in at least one of the **four economic sectors**: primary, secondary, tertiary, quaternary; some organizations operate in several sectors. Sectoral change is possible through vertical integration; together with horizontal integration, it enables businesses to grow.

An essential element of business management is **enterprise**; this term can refer to one organization (an enterprise = a business venture) or to a skillset (also called **entrepreneurship**). **Entrepreneurs** are people who demonstrate enterprise and initiative to set up a new business. This may be for a range of reasons, such as finding a gap in the market, independence (being self-employed, as opposed to working for someone else) or personal interest and passion. The term **intrapreneur** refers to individuals who are entrepreneurial within their workplace where they may develop new products.

The process of setting up a new business differs country to country, especially in terms of legislation, but certain features are usually present:

- There must be a basic business idea (which can be market-driven or service-driven).
- Planning is important; it may involve carrying out initial market research to ensure that the idea is commercially viable, i.e. that there is sufficient market demand.
- Establishing legal requirements: in most countries, all new business must be registered with the local authorities.
- In many cases, the entrepreneur may need to raise funds to set up the business (**start-up costs**) and to write a comprehensive document (called a **business plan**) to attract funds and to support the launch of the new organization.
- New enterprises may fail for a range of reasons, such as unreliable suppliers or underperforming workforce, inappropriate target market, cash flow management problems, inappropriate location.

### Assessment tip

The four interdependent business functions (human resources, finance and accounts, marketing and operations) are present in all types of organization. For the paper 1 case study, identify them in advance; even if you do not have a question specifically about this, it can help you better understand the case study.

### Test yourself

Can you represent visually each economic sector in the form of a drawing or with symbols? This is not an exam question, but this creative challenge can help you check that you understand and remember the differences between them.

### QUESTION PRACTICE

This question is based on the May 2017 case study of *Utopia*, a holiday resort located on the island of Ratu, in the Pacific Islands.



With reference to *Utopia*, explain the differences between secondary sector activities and tertiary sector activities. [4]

## SAMPLE STUDENT ANSWER

Secondary sector activities:

Secondary sector activities are determined as the production phase. This means that in the case of Utopia, the phase when the villas were being built. First by John and then by the local craftsmen. This had to be redone when the natural disaster in 2016 happened.

Tertiary sector activities:

Tertiary sector activities include the sale of the product to the customer. This means that, in this case the many different services, such as the boat drive and the villas are sold to the customer.

▼ The candidate shows that they know the meaning of “secondary sector” and “tertiary sector” however they did not answer the question asked: they answered “define secondary sector activities and tertiary sector activities” – they did not “explain the differences”, as required by the command term of the question.

This response could have achieved 2/4 marks.

### » Assessment tip

Command terms are very important – in business management, as in all other subjects. It is not enough to master the subject contents. You must follow the instructions of the command terms in order to achieve the highest marks, otherwise your answer will remain partial, even if you know the right answer. In the exam, before you start writing, make sure you closely read the question, unpacking its demands. Here, the candidate should have written about the differences between the two sectors, rather than defining one, then the other.

## QUESTION PRACTICE

HS is a private limited company providing management consultancy services for public sector organizations like hospitals. HS's consultants are all shareholders, and receive high salaries and profit-related pay. HS also gives its consultants freedom and encouragement to be intrapreneurs.



Explain **two** characteristics of an intrapreneur at HS.

[4]

## SAMPLE STUDENT ANSWER

## Response 1

An intrapreneur is an individual who is innovative, productive and constantly seeks to improve his or her activities and processes within the workplace and with his or her current job. One characteristic of an intrapreneur at HS is that he or she should be highly innovative, in the sense that they look for alternate methods or at how to make changes for more effective

▲ The candidate can define the term intrapreneur very well, especially the “within the business” element which is the key differentiator between entrepreneur and intrapreneur.

▼ The overall answer remains too theoretical: there is no reference to the company *HS* and what it means to be an intrapreneur in that specific organization. For full marks, the answer should have been contextualized (i.e. written in the context of the organization).

processes, products or ideas, yet within the business and focusing on their position and how they may contribute to the business. This then encourages self growth and development in the workplace environment.

• Another characteristic of an intrapreneur at *HS* is that he or she should be able to use the available company resources and aim to achieve the company's goals and objectives without the use of external resources. They should not achieve creating new businesses, yet strive to achieve the goals in their organization through being resourceful. They should know how to improve through tampering with current business conditions, resources, and people.

This response could have achieved 2/4 marks.

#### Response 2

▲ Both characteristics are explained in the context of *HS* and the hospitals, i.e. with reference to the scenario presented. The answer is not only theoretical (showing the candidate's knowledge of what intrapreneurship means) but is also applied to the situation given.

• Intrapreneurs are entrepreneurs within the organization that employs them; they are creative and innovative but not just for their own benefit. In the case of *HS*, their intrapreneurship is all about coming up with ideas and implementing them in the hospitals where they work, for the benefit of the hospitals and of the patients.

The *HS* intrapreneurs are consultants: it means that they do not risk their own capital (and this is different from an entrepreneur who starts up their business with all their savings). It means that *HS* intrapreneurs are safe as they do not take business risks themselves.

This response could have achieved 4/4 marks.

#### Assessment tip

Business management is an applied subject. You must always apply your answers to the scenario given (the long case study for paper 1, the short stimulus materials for paper 2). The only exception is definition questions such as "define the term".

#### Revision tip

The four business functions (human resources, finance and accounts, marketing and operations) are at the core of business management:

- They must be addressed in the business plan written by the entrepreneur.
- They help identify the areas of internal strengths and weaknesses of a SWOT analysis (see sub-unit 1.3).
- They correspond to the way the curriculum is structured (Unit 2: Human resource management, Unit 3: Finance and accounts, Unit 4: Marketing and Unit 5: Operations management).

Make sure you understand "the big picture" of how the course is structured, as it will help you structure your revision.

**Content link****Link to your IA**

As you work on your IA, find out how and when the organization was set up, by whom and why. Who was/were the entrepreneurs? What were their primary reasons and motivations? Did they write a business plan? Did they encounter particular difficulties? What were the first legal requirements? Even if you do not write about all this in your IA, these questions can help your IA research, and your IA gives you the chance to learn more about the contents of this sub-unit in context.

**Concept link**

The concepts of **culture** and **innovation** are closely linked to this sub-unit:

- Entrepreneurship is more encouraged in some **cultures** than others; in some countries, setting up a business and failing and trying again is not regarded negatively, whereas others are more risk-averse.
- Entrepreneurship and intrapreneurship are closely linked to **innovation**: entrepreneurs and intrapreneurs want to try and do something new, or something different, from inventing and commercializing new products to redesigning ways of thinking and operating within an organization.

**Content link****Link to other sub-units**

- This sub-unit introduces unit 1 in general, so all other sub-units 1.2 to 1.7 are closely linked to it.
- Sub-unit 3.1 is closely linked as business plans must mention the intended sources of finance of the new business (for example loan capital, the most common one).

## 1.2 TYPES OF ORGANIZATIONS

**You should be able to:**

- ✓ distinguish between private and public sector
- ✓ discuss the main features of the following three types of for-profit (commercial) organizations:
  - ✓ sole traders
  - ✓ partnerships
  - ✓ companies/corporations
- ✓ discuss the main features of the following three types of for-profit social enterprises:
  - ✓ cooperatives
  - ✓ microfinance providers
  - ✓ public-private partnerships (PPP)
- ✓ discuss the main features of the following two types of non-profit social enterprises:
  - ✓ non-governmental organizations (NGOs)
  - ✓ charities.

This sub-unit classifies all organizations in a small number of categories, depending on whether they are established as “for-profit” or “non-profit”. It also emphasizes that some organizations have a social mission: they are called “social enterprises”.

## Topic summary

The **public sector** refers to government-owned and government-operated organizations (for example public hospitals, the army or the police) whereas the **private sector** refers to organizations that are privately owned; they can be profit-making (for example a company) or non-profit making (for example a charitable organization).

The three main types of for-profit (commercial) enterprises (**sole traders, partnerships and companies/corporations**) have different legal status and are suitable for different types of businesses, according to factors such as size, ownership, liability and finance.

A **social enterprise** is a business which has a social purpose; it can be profit-making (for example a housing **cooperative** or a **microfinance provider**) or non-profit (for example a **charity** or an **NGO** which uses its **surplus** to advance the social cause it is defending).

Types of organizations, their legal status and even their names vary a lot from country to country, but there are standard features that you must know about, as well as their respective advantages and disadvantages (for example, a sole trader has total control over all important decisions, but with unlimited liability in case of faults, debts or mistakes).

### »» Revision tip

A common misunderstanding noted by examiners is that many candidates wrongly believe that sole traders always work on their own. The word “sole” does not mean that they work alone: a sole trader may have employees.

### »» Revision tip

Although the word “liability” is not mentioned in the curriculum (so you will not have an exam question specifically about it), it is important that you understand what it means, as it constitutes a key difference between a sole trader and a limited company. A sole trader is responsible (i.e. liable) for all the debts of the business: this is called “unlimited liability”. A limited company is called “limited” because it has “limited liability”: in case of a problem (e.g. bankruptcy) the investors (shareholders) can only lose up to the value of their shares, and nothing more. They are not responsible for the other debts the company may have. (In a balance sheet, the term “liabilities” refers to what the company owes to other firms, for example debts or payment to suppliers).

### »» Revision tip

There are eight types of organization in total: sole traders, partnerships, companies/corporations, cooperatives, microfinance providers, public-private partnerships (PPP), non-governmental organizations (NGOs) and charities. You must be able to define each one, to explain its main features, also to compare and contrast it to other types, especially the three types of commercial organization. You also must be able to recommend the most appropriate one to a given situation; to do so, you must understand their respective advantages and disadvantages.

## QUESTION PRACTICE

Define **two** characteristics of a charity.

[2]



## SAMPLE STUDENT ANSWER

A charity's goal is for the betterment of the world rather than profit-oriented. Charities often operate more ethically than a typical business. Also, charities depend largely on donations rather than selling a good or service for cash inflow.

▲ This answer scored well as the two characteristics are correct: 1) the reference to a social cause (as opposed to being profit-making), 2) the reference to donations as a source of income.

This response could have achieved 2/2 marks.

### » Assessment tip

You may have an exam question asking you to **justify** a particular type of organization or a change in its legal status, for example a sole trader who has decided to enter in a partnership with others, or to form a private limited company. The command term “justify” means to “give valid reasons or evidence to support an answer or conclusion”. In this case, you would need to identify the reasons, explain them and evaluate them, with reference to their advantages and disadvantages in the context given. This is a demanding task.

Likewise, you may be asked to **recommend** a legal type to a given organization. The command term “recommend” means “present an advisable course of action with appropriate supporting evidence/reason in relation to a given situation, problem or issue” so you would need to identify the reason for your recommendation (for example, a partnership), explain these reasons and evaluate them, with reference to their advantages and disadvantages in the specific case. Your answer to such a question should therefore be quite long, as there is a lot to cover.

## QUESTION PRACTICE

This question refers to an entrepreneur called Su who is setting up a social enterprise called *Afghan Sun (AS)*, which is going to operate as a private limited company.



Explain the advantages for Su of forming AS as a private limited company.

[6]

## SAMPLE STUDENT ANSWER

## Response 1

A private limited is a company in which the shares are not offered for the public only for family members and friends. The shareholders of private limited companies enjoy limited liability.

▼ In this short answer, the candidate demonstrates some knowledge (about shares and limited liability) but this is not sufficiently developed: they should have explained what shares are (possibly with reference to dividends), what “limited liability” means, and why it is an advantage.

This response could have achieved 2/6 marks.



## Response 2

▼ The topic of selling shares (to friends and family) is only briefly mentioned; the candidate does not explain why it is an advantage. The reference to “wider control over the shareholders” is not sufficiently clear, although the candidate seems to understand what a private limited company is.

▲ Limited liability is explained as an advantage.

▼ The causal link between easier set up and shares not on the stocks is not entirely clear.

▲ The reference to decision-making is interesting; it is linked to the topic of control mentioned before.

Although AS is a social enterprise but Su has decided to operate as a private limited company. This could bring many advantages to her as an entrepreneur to her starting organization AS. One of the advantages is that:

- because it is a private limited company, therefore the shares can only be sold to friends or family, this way she can have a wider control over the shareholders and that she has limited liability meaning in case of bankruptcy she will only lose the amount that she had invested.
- Another advantage is that in comparison with the public-limited companies, a private-limited company is easier to start up because the shares shouldn't be on the stocks and therefore again decision makings are faster and easier too.

**Note:** Overall the candidate understands key advantages that private limited companies have (for example in terms of selling shares and limited liability). However the answer is not sufficiently contextualized, i.e. applied to the case study.

**This response could have achieved 4/6 marks.**

### » Revision tip

A common misunderstanding is that many candidates wrongly believe that “business owner” is the same as “business manager”. Owners and managers are the same in some cases, for example for sole traders and some partners, but usually managers are employed by the company, by the shareholders (who are the real owners); the business does not belong to the managers, they work for it and receive a salary, like the other employees.



### Content link

#### Link to your IA

As you work on your IA, find out about the legal status of your organization: is it a sole trader, a private limited company, or maybe a public company? If it is a limited company, you could enquire about the number of shareholders and the dividends they receive. If it is a partnership, you could find out if the partners share the profits equally or not. Your IA gives you the chance to learn more about the contents of this sub-unit in context.



### Content link

#### Link to other sub-units

- Sub-units 1.2 and 1.3 are linked because there is often a relationship between the broad aim of the organization and its legal status (for example a small, non-profit making organization that exists for the public good will be a social enterprise, such as a charity).
- Sub-units 1.2 and 2.2 are linked because there is often a relationship between the legal type of the organization and its structure (for example a small partnership will not be structured like a large public limited company).

**Concept link**

The concepts of **culture** and **change** are linked to the topic of types of organization:

- **Change**, because small organizations, as they grow and expand, often change status (for example a sole trader who decides to become a private limited company, with two key benefits: the ability to raise more capital through shares and the protection offered by the limited liability).
- **Culture**, because the culture that develops within an organization often reflects the type of organization (for example a small local charity relying on donations may not have the same values as a large multinational company or MNC).

## 1.3 BUSINESS OBJECTIVES

### You should be able to:

- ✓ distinguish between vision statement and mission statement, aims, objectives, strategies and tactics
- ✓ discuss the relationships between aims, objectives, strategies and tactics
- ✓ discuss the need for organizations to change objectives and innovate in response to changes in internal and external environments
- ✓ discuss reasons why organizations set ethical objectives and the impact of implementing them
- ✓ discuss the evolving role and nature of corporate social responsibility (CSR)
- ✓ prepare the SWOT analysis of an organization, and use it to evaluate the organization
- ✓ apply the Ansoff matrix to an organization and use it to recommend appropriate strategies.

This sub-unit emphasizes the importance of long-term business objectives, including ethical objectives. It introduces two important models: SWOT analysis and Ansoff matrix.

### Topic summary

Most organizations have a written **mission statement**, which describes what they do, or a **vision statement**, which is more forward-looking and aspirational, or both.

All businesses develop through setting and reaching **objectives**; these objectives can be **strategic** (long-term), **tactical** (short-term) or **operational** (day-to-day). Objectives are usually part of a wider organizational **aim**, which is linked to the organization's vision.

Why might businesses need to change objectives and strategies?

- Because of changes in the **internal** environment, for example a new chief executive officer (CEO) who has her own ideas for the direction of the organization, or because the organization itself is changing, either radically (for example through a merger with another company) or gradually (and previous strategies written many years ago are not suitable anymore).

- Because of changes in the **external** environment, for example new legislation regarding health and safety may mean that previous practices are not legal any longer, or customers may expect the organization to follow more ethical and sustainable principles.

Two main tools (models) are used to set business objectives:

- The **SWOT analysis** framework, where the four business functions (human resources, finance and accounts, marketing, and operations) help to identify the *internal* strengths and weaknesses of an organization (whereas a STEEPLE analysis helps to identify the opportunities and threats coming from the *external* environment):

	Positive	Negative
<b>Internal</b> (from business functions)	Strengths	Weaknesses
<b>External</b> (from STEEPLE)	Opportunities	Threats

▲ **Figure 1.3.1** SWOT analysis

- The **Ansoff matrix**, which considers both product and market, each time in terms of “existing” and “new”:

		Product	
		Existing	New
Market	Existing	Market penetration	Product development
	New	Market development	Diversification

▲ **Figure 1.3.2** The Ansoff matrix

SWOT analysis and the Ansoff matrix are very important models that all candidates should know and understand; however examiners always note the same common errors:

- In the Ansoff matrix, some candidates often get confused between “product development” and “market development”. When they draw the matrix, some candidates forget to label the rows and columns (“Existing product”, “New product” etc.) so the model is not complete.
- In the SWOT analysis, many candidates forget that the Opportunities and Threats must be external (so for example they write that “workforce going on strike” is a threat or that “using social media for marketing” is an opportunity; this is not correct).

### » Revision tip

A common misunderstanding noted by examiners is that many candidates get confused between “mission statement” and “vision statement”:

- The mission statement is a description in the present tense, for example the charity *Reach Out* (the subject of the Paper 1 case study in 2011) has been set up to support the families of children with autism. It has the following vision statement: “*no child with autism will be left behind*” and the following mission statement:

*Reach Out provides online support for families of children with autism and offers them communication resources at a greatly reduced price.*





The vision statement is clearly about the future and is aspirational, whereas the mission statement describes what the organization does.

- The vision statement is a description of where the organization wants a *community*, or *the world*, to be as a result of their actions and services, for example the charity *Alzheimer's Association* (<https://www.alz.org/about/strategic-plan>) has the following vision statement:

*A world without Alzheimer's disease.*

Make sure you understand how mission and vision statements differ, and also what is important about the messages they give to their stakeholders.

#### QUESTION PRACTICE

MSS is a school for girls located in Tanzania. It has a mission statement and a vision statement.



Explain, with reference to MSS, the purpose of the mission and vision statements.

[6]

#### SAMPLE STUDENT ANSWER

Mission statement declares the underlying purpose of the business and states what the business is and what it does. Vision statement is basically the long-term goals and aspirations of the company.

It basically states what the business intends to achieve in the future. The main long-term goal of MSS is to achieve economies of scale by expanding their school to various cities and countries. This vision allows the staff and employees to realize what they are working towards. It also affects the turnover rate as employees who are not satisfied with the vision of the organization may leave the company. The mission statement allows the customer to understand the main purpose of the business. The mission statement affects the size of the customer base as the main purpose of the mission statement is to attract more students. The main purpose of MMS is to provide high quality education for girls from low income families.

▲ The answer starts well: the candidate shows that they understand the difference between vision statement and mission statement – and they apply the two to the case study.

▼ The wording is sometimes unclear, for example when the candidate writes “the main purpose of the mission statement is to attract more students”. Yes, the school wants to attract more students, but this is not the purpose of their mission statement itself: the purpose of the mission statement is to communicate what needs to be done in order to achieve the vision.

▼ Towards the end of the answer, the candidate only copies extracts from the case study, for example about the purpose of the school (“to provide high quality education...”); this is not relevant, this is not the question.

**Note:** The beginning of the answer was better than the end, where the answer loses some clarity and focus.

**This response could have achieved 4/6 marks.**

#### QUESTION PRACTICE

John has two businesses on the island of Ratu in the Pacific Islands: a holiday resort called *Utopia*, composed of 24 villas, and a café called *JAC* where he sells fair trade coffee.



Explain the role of ethics in John's businesses.

[6]

## SAMPLE STUDENT ANSWER

▲ Right from the start, the answer combines “theory” and “practice” i.e. the candidate shows their theoretical knowledge (of ethics in business) both in general and in the applied context of John and Utopia.

▲ The answer includes subject terminology all along (e.g. brand, brand image) which shows that the candidate masters all aspects of the subject well (with references to marketing, in this case).

▲ After explaining positive aspects of the role of ethics (especially about marketing), the candidate now writes about negative aspects (notably about finance).

Ethics play a role in both of John's businesses, but more so in Utopia. Ethics are actions taken based on morals and ideals. There are many ethical implications involved with Utopia. John's focus on the local community of the Pacific Islands provides employment opportunities and support for this population. His emphasis on buying ethically produced, fair trade materials (i.e. Aora Coffee) in favour of cheaper, but probably more unethical products is part of Utopia's brand. He has created a brand image of Utopia based on ethical practices and the local culture. In this way, the role of ethics for Utopia is not just part of John's personal beliefs, but is part of his marketing and Utopia's unique selling proposition. However, it can also be argued that Utopia has unethical elements, such as the fact that its presence is most likely negatively affecting the natural environment of its “beautiful location”. Ethical practices are also more expensive (such as Aora coffee) and could be a contributor to Utopia's recent financial losses. JAC has less of an ethics-focused approach than Utopia, but is still based on fair trade Aora coffee rather than its cheaper and more unethical alternatives. Due to its educational activities and displays, customers can also be educated about the coffee's origins and fair trade background, which both spreads John's vision, and contributes to positive public opinion surrounding the JAC brand image.

**Note:** The answer is thorough and balanced. It could be even better, for example the candidate could have written more explicitly about corporate social responsibility (CSR), however this fulfils the criteria for a top mark.

**This response could have achieved 6/6 marks.**

### Content link

#### Link to other sub-units

- Sub-units 1.3 and 1.5 are linked because the STEEPLE framework will help you to identify the external Opportunities and Threats of your SWOT analysis.
- Sub-units 1.3 and 1.6 are linked because objectives must change as the organizations grow in size.

### Content link

#### Link to your IA

As you work on your IA, find out about the strategic objectives of your chosen organization. Does it have a mission statement and a vision statement? Have they changed over time? Who is responsible for setting the strategic, tactical and operational objectives? Is business ethics an issue for your chosen organization? You have probably prepared a SWOT analysis of your organization – but how about the Ansoff matrix: can you apply it to your organization? Your IA gives you the chance to learn more about the contents of this sub-unit in context.

### Concept link



The concepts of **ethics**, **change** and **strategy** are linked to the topic of organizational/business objectives:

- **Ethical objectives** are becoming more important for all businesses, in all organizational aspects (human resources, finance and accounts, marketing, and operations). An increasing number of businesses are becoming aware of their corporate social responsibility (CSR), and they set business objectives for several reasons, such as building up customer loyalty, creating a positive image and increasing profit.
- Organizational objectives must be regularly reviewed to respond to **changes** in the internal and external environments; some changes can be anticipated (for example customer trends or patterns in demographics affecting the workforce), others cannot (for example a financial crisis in the national economy or the arrival of a strong competitor in the market).
- Businesses often work with documents called “**strategic plans**” where they set their objectives for the next five years; these plans are usually reviewed halfway through, or even more often in fast-paced dynamic sectors and markets such as electronics, cyber security and fast fashion.

## 1.4 STAKEHOLDERS

### You should be able to:

- ✓ identify the internal and external stakeholders of an organization
- ✓ explain the interests of internal and external stakeholders
- ✓ discuss possible areas of mutual benefit and conflict between stakeholders’ interests.

This short sub-unit introduces a key term in business management: stakeholders. Stakeholders can be internal or external – but they are always affected by the actions of the organization.

### Topic summary

The stakeholders are all the people who have an interest in the success of an organization because they are directly affected by its actions. One distinguishes between:

- **internal stakeholders**, such as employees, managers, shareholders
- **external stakeholders**, such as customers, suppliers, pressure groups or people in the local community.

A stakeholder may be an individual (for example the CEO of an organization) or a group (for example the government or local authorities).

Stakeholders have different **interests**; they may occasionally have very different opinions and come into **conflict** with one another. For example, the CEO of a factory may want to increase production to meet customer demand; this could lead to an increase in employment, but local environmentalists and the local authorities could be concerned by the subsequent pollution.

### » Assessment tip

It can sometimes be ambiguous to decide if a stakeholder is internal or external, for example business consultants are usually external but when they are employed by a company, typically on a contractual basis, they become internal, so if you have an exam question specifically about internal or external stakeholders, it is better and safer to choose straightforward examples.

#### QUESTION PRACTICE

*Utopia* is a holiday resort located on the island of Ratu in the Pacific Ocean.



With reference to *Utopia*, describe the importance of **two** external stakeholders.

[4]

#### SAMPLE STUDENT ANSWER

##### Response 1

The article states that "John deliberately resists pressure from external stakeholders to expand Utopia's capacity". External stakeholders means individuals or organizations that are not part of the business but have interests towards business activities. Government and pressure groups can be external stakeholders as they saw the potential growth of Utopia. They think expanding its capacity can attract more tourists.

This response could have achieved 2/4 marks.

### » Assessment tip

For questions about stakeholders, you will always be asked to refer to a specific organization from the case study (paper 1) or the stimulus material (paper 2). Make sure that you consider this: do not write about trade unions in the case of a sole trader who works on their own and does not have any employees.

#### SAMPLE STUDENT ANSWER

##### Response 2

External stakeholders refer to individuals or organizations who are not part of the business but have a direct interest in its operations. In this case, the two external stakeholders can be customers and suppliers. Customers are important not only because they buy the goods and services of the business but also because they promote the business; for example, Utopia relies heavily on word of mouth for promotion which is done by the

▼ This short definition is correct, however the question is not "define the term external stakeholder". This initial definition is not credited: this is not what the question asked.

▲ The candidate correctly identified two external stakeholders: government and pressure groups, however they did not describe their importance. This is a partial answer.

▲ The two stakeholders are identified: customers and suppliers – so at this point, the candidate has already scored 2 marks.

▲ The candidate tells us why customers are particularly important: not just as a direct source of income, but because the business relies on word of mouth promotion (a reference to the case study).



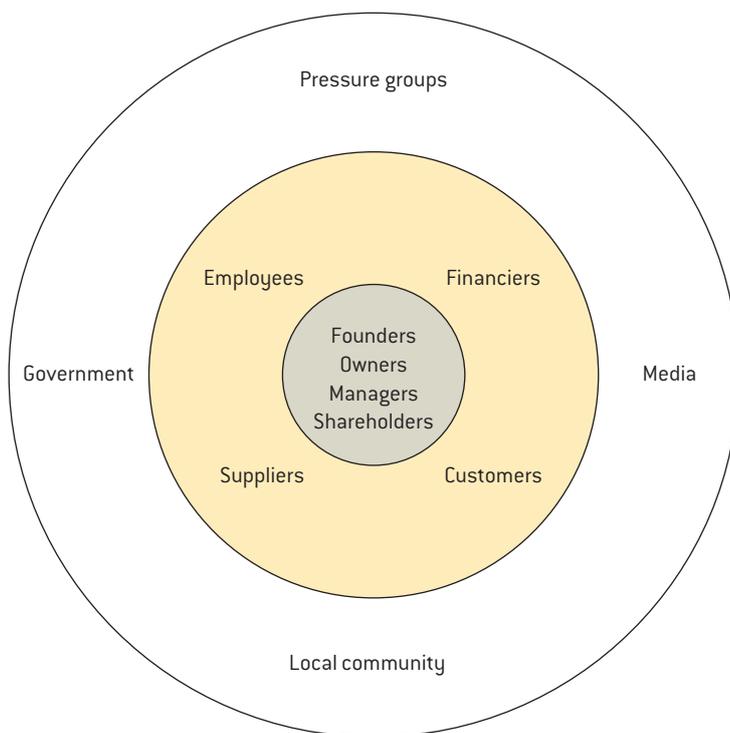
customers. Suppliers are important as they affect the price and quality of the product. For example, Utopia serves high quality coffee; however, it is expensive.

This response could have achieved 4/4 marks.

▲ The candidate tells us why suppliers are particularly important for the *Utopia* brand, with a financial dimension too (they supply ethically produced fair trade Aora coffee, however it is expensive (reference to the case study)). The answer is clear and thorough overall.

### Link to extended responses (Section C)

In your extended responses (Sections C of SL paper 2, HL paper 1 and HL paper 2) you will need to refer to a range of stakeholders; this is assessed under “**Criterion E: Individuals and societies**”. This criterion assesses the extent to which you can give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups, internal and external to the organization. As you prepare your revision materials and your case studies for Section C, make sure that you can write knowingly about several stakeholders, both internal and external. This diagram, which shows the comparative closeness of stakeholders to decision-making, may help you:



▲ **Figure 1.4.1** The comparative closeness of stakeholders to decision-making

Looking at your section C case studies, can you readily write about *all* these stakeholders? And can you compare their level of interest in the success of the organization, and their ability to affect it?

### Content link

#### Link to your IA

As you work on your IA, identify the main internal and external stakeholders of your organization. Can you also identify some possible areas of conflict between some stakeholders? Your IA gives you the chance to learn more about the contents of this sub-unit in context.

### Assessment tip

If you are asked to write about two stakeholders of your choice, choose very different ones – for example for external stakeholders: customers and suppliers, like in the example above. If you choose two stakeholders who are too similar (for example the suppliers of locally grown organic food and the suppliers of fair trade coffee), the two parts of your answer could overlap too much and you might not achieve the maximum marks, as ultimately you only show partial knowledge.

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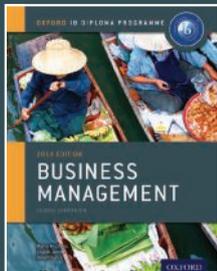
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**5 OPERATIONS MANAGEMENT**

**QUESTION PRACTICE**  
This question refers to a company called AS that uses cellular manufacturing. Describe two advantages for AS of using cellular manufacturing in the production of its solar power systems. [4]

**SAMPLE STUDENT ANSWER**

**Response 1**

- Cellular manufacturing is a process of producing parts of a product in different cells located next to each other.
- Using cellular manufacturing reduces the cost and time consumed for production. Splitting the work between cells will reduce the issue of transportation and each team can focus on their assigned work at the same time. This reduces waste between divisions and can produce more solar power systems in such a less time.

**Note:** The candidate knows about cellular manufacturing, which is what the question aims to assess. For a higher mark, the candidate should have written about a second advantage, such as an increase in worker motivation through job enlargement. This response could have achieved 2/4 marks.

**Response 2**

- Cellular manufacturing can lead to more employee motivation, as employees work together as a team and build relationships with other workers.
- Cellular manufacturing can produce higher quality goods as production is split into sections, and workers in each section would be specialized and efficient.

**Note:** The response is good but too theoretical there is no reference to the context of the case study, this is necessary for top marks in business management exam answers. This response could have achieved 2/4 marks.

**Assessment tip**  
Command terms are very important: you can always get some points if you show your knowledge of the course contents, but for full marks your answer must do what you are asked to do in the question. To assess

**Content link**  
Link to your IB  
Even if your IB is not about operations management, you could apply the contents of this task-set to your chosen organization if they manufacture goods. What method(s) of production do they use, and why? What are the advantages and the disadvantages?



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