

**InThinking IB Business Management**  
**Paper 2 Exam Practice Question – Alvarez Corporation**  
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Alvarez Corporation (AC) is a large manufacturer of microchips and computer accessories, established in 1990 in Mendoza, Argentina. The company has recently decided to implement a new capital-intensive production process that would increase efficiency and gain from additional **economies of scale**. However, many employees have resisted the change, making it difficult for the management team to fully implement the new production process.

**a.** Define the term *economies of scale*. [2 marks]

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Many of AC's employees are afraid of losing their jobs or being forced to learn new skills. Some of the employees also claim that the management team has not clearly communicated the reasons for the change, leading to a lack of transparency and trust in the decision making process. These employees are not aware of the benefits of the new production process.

**b.** Explain **two** reasons for resistance to change at *Alvarez Corporation (AC)*. [4 marks]

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c. Explain the impact of resistance to change for AC. [4 marks]

[illegible]

To address these issues, the management team at AC has taken several steps to mitigate resistance to change. The senior managers have offered additional training sessions to support employees to help them learn the new production process. They have also run meetings with employees where they provide regular updates on the progress of the change and address any questions or concerns that the employees may have.

Many of the employees feel burdened with the extra time involved to attend training sessions and meetings. Some workers still have anxieties and are afraid to ask about job security.

**d. Evaluate the effectiveness of AC's approach to mitigate resistance to change. [10 marks]**

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## Mark scheme

### a. Define the term *economies of scale*. [2 marks]

Economies of scale refer to the benefit of a reduction in average cost of production (the cost per unit of output) as a firm increases its level of output.

Award *1 mark* for a basic definition that conveys partial knowledge and understanding of the term economies of scale.

Award *2 marks* for a full, clear definition that conveys knowledge and understanding of economies of scale, similar to the example above.

### b. Explain **two** reasons for resistance to change at *Alvarez Corporation (AC)*. [4 marks]

Possible responses include an explanation of:

- Fear of the unknown
- Lack of trust in AC's management team
- A lack of understanding of the reasons or urgency for the change
- Poor communication about the benefits of change for employees
- *Accept any other relevant reason that is explained in the context of the case study.*

*Mark as a 2+2*

For each reason, award *[1 mark]* for a valid reason, plus *[1 mark]* for an accurate explanation, written in the context of the case study.

### c. Explain the impact of resistance to change for AC. [4 marks]

Resistance to change can have a negative impact on an organization if not managed effectively and in a time efficient manner. Possible reasons for this could include an explanation of:

- Slowing down or even preventing the implementation of the proposed change. This would then mean that AC would not benefit from making progress, despite the need to grow and evolve to remain relevant in the marketplace.
- It can lead to decreased efficiency, increased average costs, and a lack of competitiveness for AC.
- It can also cause low staff morale and employee dissatisfaction, which could escalate into conflict and industrial action.
- *Accept any other relevant impact that is explained in the context of the case study.*

Award *[1 – 2 marks]* for an answer that shows some understanding of the demands of the question.

Award *[3 – 4 marks]* for an answer that shows good understanding of the demands of the question, using relevant terminology and application throughout the response.

d. Evaluate the effectiveness of AC's approach to mitigate resistance to change. [10 marks]

Points that could be considered for discussion include the following:

- AC's management team has tried to address the resistance to change by providing additional training sessions and meeting to help employees learn about the new production process. The increased communication and transparency may gain some support from employees.
- Providing regular updates on the progress of the change and addressing any questions and concerns that employees may have help to (re)build trust with the workforce. • Informing workers about the benefits of the new production process (emphasizing the positive impacts it will have on the company's competitiveness and profits) can help to alleviate the employees' concerns about job security.
- By providing support to employees throughout the change process can help them feel valued and engaged, and more likely to embrace the change. However, the management team at AC do not seem to have engaged with getting feedback from their employees, so this is likely to be a cause of the lack of trust and resistance to embrace the proposed change.
- Furthermore, attempts thus far have failed to convince all workers of the need for or benefits of change, i.e., employees cannot see the value in the change especially as there has not been any reassurances from AC's management team about job security.
- In addition, there does not seem to be any communication about the timeframe of the proposed implementation of the new production process. The company's approach has not taken into account the time it is likely to take the employees to adapt to the change, and there is no indication about whether the process has been rushed.
- Nevertheless, providing additional training and running additional meetings, with increased communications and transparency can work as effective ways for AC to minimize or mitigate the resistance to change.
- *Accept any other relevant factor written in the context of the case study.*

Award 1 – 2 marks for a response that shows limited understanding of the demands of the question. There is limited use of appropriate terminology and little, if any, reference to the stimulus material.

Award 3 – 4 marks for a response that shows some understanding of the demands of the question. Some relevant business management tools, techniques, and theories are explained or applied, and some appropriate terminology is used. There is some reference to the stimulus material.

Award 5 – 6 marks for a response that shows understanding of most of the demands of the question. There is relevant use of business management tools, techniques, and theories which are explained and applied, and appropriate terminology is used throughout most of the answer. There is some reference to the stimulus material that goes beyond the name of the organization. There is some evidence of a balanced response.

Award 7 – 8 marks for a response that shows a good understanding of the demands of the

question. There is relevant use of business management tools, techniques, and theories which are explained and applied well, and appropriate terminology is used. There is good reference to the stimulus material, and good evidence of a balanced response. There are judgements that are relevant but not always well substantiated.

Award 9 – *10 marks* for an answer that shows a good understanding of the demands of the question, including the impacts on the organization. There is relevant use of business management tools, techniques, and theories which are explained clearly and applied skilfully, with appropriate terminology used throughout the response. There is effective use of the stimulus material in a way that significantly strengthens the response. There is evidence of balance, which is consistent throughout the response. The judgements made are relevant and well substantiated.