



MARKSCHEME

May 2014

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

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The markbands on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Section C	Level descriptors
Q5 (c)	
Marks 0–9	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study and/or the extension material within Section C.
4–6	<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study and/or the extension material within Section C, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
7–9	<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study and/or the extension material within Section C.

Section C		
Q5 (d)	Level descriptors	
Marks 0–12		
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C. 	
4–6	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical. 	
7–9	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response. 	
10–12	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made throughout the response. 	

SECTION A

1. (a) Define the following terms:

- (i) *primary sector (line 2)* *[2 marks]*

The primary sector of an economy includes agriculture as well as fishing, forestry and mining. It extracts natural resources / raw materials.

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

Award *[1 mark]* for a basic definition that conveys partial knowledge and understanding.

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding, similar to the answer above.

For **only** a relevant example **or** application to the stimulus award *[1 mark]*.

- (ii) *dividends (line 23).* *[2 marks]*

Dividends are the payments that a business pays to its shareholders on a proportional basis (percentage) of the company's profit (a fixed payment amount for each share of the business).

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

Award *[1 mark]* for a basic definition that conveys partial knowledge and understanding.

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award *[1 mark]*.

- (b) Explain *one* advantage and *one* disadvantage for Martin Kimathi of receiving “a salary based on performance-related pay” (*line 45*). *[4 marks]*

Possible advantages include:

- Martin will be financially motivated to ensure the success of *The Imperial*, because the higher the number of guests, the more Martin himself will earn, which is also good for *GP* as it ensures higher dividends.
- In the longer term, Martin will pay attention to areas such as marketing and strategic development: if some of the options are very successful, that is, if Martin performs well as manager he could become very rich, which could be a major achievement for the son of a groundskeeper.

Possible disadvantages include:

- For some external reasons, for example political or economic, beyond Martin’s control, Mombasa could lose its popularity as a tourist destination; fewer tourists would stay at *The Imperial* and Martin’s salary would decrease, by no fault of his own, even if he does an excellent job as a manager.
- The notion of “performance” could be very ambiguous for Martin if it is not well defined in his contract: it could be about the number of guests coming to the hotel, or the amount they spend (duration, extras...) or it could involve other aspects, such as their ratings or comments posted on a website (TripAdvisor for example) that Martin cannot control; he would earn less money to support his family just because someone gave unfair negative feedback about the hotel.

Accept any other relevant advantage / disadvantage in the context of The Imperial.

Mark as 2 + 2.

Award *[1 mark]* for each valid advantage/disadvantage, and *[1 mark]* for each development of a valid point, showing why this is an advantage/disadvantage in the context of *The Imperial*.

Award a maximum of *[2 marks]* if there is no application to the case study.

- (c) **Analyse the advantages and disadvantages for *The Imperial* of the strategic alliance with *KenSafar* (Option 3).** [7 marks]

The strategic alliance with *KenSafar* presents both advantages and disadvantages for *The Imperial*. On the one hand, this scheme would ensure a regular and predictable flow of guests at *The Imperial*; the hotel would know when to expect them and could make special arrangements, for example organizing transport to the hotel. Martin could also benefit from Kamau's networks and contacts, and take advantage of the increasing number of tourists interested in safaris. On the other hand, the strategic alliance with *KenSafar* would be costly for *The Imperial*, in two ways: firstly, the cost of the initial improvements to the building; secondly, the 20 % commission, which could substantially make a dent into *The Imperial's* cash-flow (Martin would need to take this into account when calculating his break-even; it could even affect his own performance-related pay).

Accept any other relevant point, such as spreading risk, poor communication, brand image, reputation.

Accept any other relevant advantage / disadvantage in the context of The Imperial.

Candidates are **not** expected to refer to all of the above points for top marks, but their analysis must be balanced in order to reach the highest level of the markband.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:

(i) *appraisal (line 102)*

[2 marks]

Appraisal refers to a meeting between a worker and a manager (in the case study: Susan and Martin) where they review key aspects of the worker’s performance, including objectives and development. Different organizations have different systems of appraisal, such as peer appraisal and 360 degrees appraisal.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award [1 mark].

(ii) *dismissal (line 113).*

[2 marks]

Dismissal occurs when an employer terminates the contract of an employee; it is often just called “firing”. To be dismissed, the employee must have been incompetent or must have breached the terms of his or her contract.

Accept the term lay-off.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award [1 mark].

- (b) **Martin Kimathi prepares two types of final accounts for *Global Properties (GP)*: profit and loss accounts and balance sheets. Explain the importance of those *two* types of final accounts for *GP* (lines 69–70).** [4 marks]

The profit and loss account of a company shows the sales revenue for a given period of time (usually a year), as well as the costs – and also the levels of profit (gross profit, net profit). In the case of *GP* and *The Imperial*, it is important for *GP* to see how profitable the hotel is and what the dividends and retained profit are (the dividends that can be paid to *GP* shareholders, the retained profit that can be used by the hotel for maintenance and other types of investment).

The balance sheet shows what an organization owns (fixed assets such as the building, current assets such as stock and cash) and what it owes others (liabilities such as money still to be paid to suppliers). In the case of *GP* and *The Imperial*, it is important for *GP* shareholders to see how safe the investment is and how well the manager (Martin) is performing, for example towards debtors and creditors. The balance sheet also indicates the business's level of working capital and its liquidity, which provide insight into the business's ability to survive in the short term.

Mark as 2 + 2.

Award [1 mark] for each correct answer, and [1 mark] for each development about the importance for *GP* (ie to get the second mark, the candidate must refer to *GP* in the context of the case study: a purely theoretical answer is not sufficient for full marks).

- (c) Analyse the impact that *one* opportunity and *one* threat may have on *The Imperial*. [7 marks]

This question implicitly refers to a SWOT analysis (opportunities and threats being external, as opposed to internal strengths and weaknesses). Candidates are not required to carry out a SWOT analysis, but they must identify a valid and relevant opportunity and a valid and relevant threat.

The opportunity / threat must be external.

Valid and relevant opportunities include:

- Tourists to Kenya are increasingly interested in combining leisurely beach holidays with safaris or cultural tourism; lying by the Indian Ocean, *The Imperial* has traditionally targeted holidaymakers, but Martin has carried out market research and realised that market development (to use a term from the Ansoff matrix) is a possible opportunity for *The Imperial*; this corresponds to Martin's Option 3 (strategic alliance with *KenSafar*).
- Although *The Imperial* has always been a hotel for leisure tourists, paying per night, Martin has recently considered a different target market altogether (this is the opportunity): "business travellers staying at least one week" (see Option 2). Although the core product would stay the same (accommodation), several aspects would be different (the rooms would be turned into "self-contained apartments with small kitchens"). This may seem quite a radical change, but there may well be a business opportunity there. The marketing audit has revealed that there is increasing demand for this kind of accommodation and there are very few hotels in Mombasa offering such apartments.
- The case study makes some brief and separate references to WiFi access, to business travellers and to special events services – although this is not explicitly suggested, *The Imperial* could also specialize in other areas, for example developing conference facilities to target high-level meetings with politicians and senior civil servants of organizations such as the AU (African Union); this again represents an external opportunity that *The Imperial* could seize.

Valid and relevant threats:

- Competition from the "new luxurious hotels" nearby: "with their spas, themed restaurants and fast WiFi internet access, they offered better facilities and better services than *The Imperial*"; Martin is very aware of the issue, he has also travelled to Dubai and Muscat to get ideas about how *The Imperial* could reinvent itself to try to compete.
- Although Kenya is seen as a stable country, terrorist attacks are always possible (some candidates might have researched the fact that there was a terrorist attack in Mombasa in 2002, outside the Paradise Hotel, killing 13 people); this threat could deter some travellers from going to Kenya, which would affect *The Imperial*.
- Global economic conditions. When major economies such as those of the United States, Europe, or the Pacific Rim are in economic recession or are merely in periods of slower economic growth, the tourism industry often suffers or experiences decreases in revenue.

If only one threat or one opportunity is external award a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

3. (a) Describe how a hotel such as *The Imperial* combines human resources, physical resources and financial resources for its business activity. [4 marks]

The “human resources” correspond to the staff employed (not just the workers but the managers too, middle managers such as Susan and even Martin as manager of the entire hotel), the “physical resources” correspond to the hotel itself (the building with the rooms), the “financial resources” correspond to current assets, liabilities and even retained profit (simply put: the money in the bank that the manager can use). As in any business, the three types of resources are combined, *ie* not taken in isolation: they are interrelated, as for example the financial resources may make it possible to improve the human resources (by hiring more staff) and the physical resources (by renovating the rooms), which in turn may lead to more financial resources.

Award [1 mark] for a basic answer showing some limited knowledge of what “human resources”, “physical resources” or “financial resources” are.

Award [2 marks] for an adequate answer showing knowledge of “human resources”, “physical resources” and “financial resources” by applying them to a hotel (for example the fact that “physical resources” correspond to the premises and that “human resources” are the staff employed in the hotel).

Award [3 marks] for a satisfactory answer which partially describes how the resources (human, physical and financial) are combined in a hotel (for example how the main revenue comes from the physical resources); such an answer shows the integration of any two types of resources.

Award [4 marks] for a good answer which correctly describes how the resources (human, physical and financial) are combined in a hotel (for example how the financial resources may make it possible to improve the human resources, by hiring more staff); such an answer shows the integration of the three types of resources.

- (b) Explain *two* benefits for Martin Kimathi of conducting a marketing audit (line 59). [4 marks]

A marketing audit evaluates the existing marketing activities in a business. It has the following benefits:

- Based on his experience and intuition, Martin has some generic (preconceived) ideas about the types of tourists who come to Kenya; his marketing audit however will give him more reliable, factual information. (Note: candidates could refer to TOK concepts here).
- As Martin knows *The Imperial* and its guests (customers) so well, he might miss/ignore some important marketing aspects, for example about some of their needs or some of the extra services they could benefit from; the marketing audit will enable *The Imperial* to find out the changes in customers' needs that Martin has not perceived and to analyse data in a more systematic way, not based on anecdotes, but on representative samples.
- The marketing audit could help Martin appreciate which aspects of the marketing mix he should change, or not, at *The Imperial* (for example about “physical evidence” the marketing audit could reveal the fact that many guests do seek and value the old-fashioned colonial charm of the hotel and stay there precisely for that reason).

Candidates are not asked to define “marketing audit”; they may do so at the beginning of their answer. A candidate whose answer solely consists in a definition of “marketing audit” would still be awarded [1 mark] overall, in order to credit the fact that they have some knowledge of the concept being examined here (“marketing audit”).

There are two references to marketing audit in the case study, one about tourism to Kenya in general (see lines 59–61) and one about strategic option 3 (see line 161). Candidates may refer to one in particular or to both or just to Martin's marketing audits in general.

Accept market research as part of a marketing audit. However, if the answer only refers to market research, award a maximum of [2 marks].

Mark as 2 + 2

Award [1 mark] for each valid answer, and [1 mark] for each development, showing why this is beneficial for Martin.

- (c) Using examples of migrant workers (such as Jomo Kimathi, Martin Kimathi and Craig Chapman), analyse the significance of changes in domestic and international labour mobility.

[7 marks]

The case study provides three examples of migrant workers: Jomo Kimathi (who first worked in Kenya, then in England, once *The Imperial* was sold in 1959), Martin Kimathi (who was born and educated in England, but went to Kenya in 2000 to work as hotel receptionist there) and Craig Chapman (who went to Kenya in the early 20th century to open and operate an orphanage there). Those three examples of international labour mobility show that people migrate for a range of work motivation (to find a new job, to find a first job, for financial or humanitarian reasons). It is beneficial for the country of arrival (*eg* with Martin and Craig: qualified workforce in Kenya) and sometimes also for the country of departure too (*eg* in the short term, migrants often send money back home, as did Jomo, maybe; in the long term, many migrant workers decide to go back home, as Jomo returned to Kenya to retire). International labour mobility usually has an economic dimension (for example from less developed countries to more developed countries) though other factors are important too (for example, joining family or avoiding political situations, as with refugees).

Accept any other relevant point.

N.B. Change can refer to changes in individual circumstances as well as to labour markets.

Candidates are **not** expected to cover all the above-mentioned points. However, for candidates' responses in the 6–7 markband, they must include **at least two** of the examples above, in some fashion and consider both the impact on the destination country and the “departure country” and recognize that people migrate for both financial and non-financial reasons.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) Describe *two* features of benchmarking.

[4 marks]

Benchmarking is a form of external comparison with industry standards and competitors as a basis. In the case of *The Imperial*, a possible approach is to use the system of stars used by hotels worldwide – for example if *The Imperial* is locally classified as a 4 star hotel, Martin could compare his hotel to what the other 4 star hotels offer locally in Mombasa, and even in Kenya and internationally. Another feature of benchmarking is to establish standards: Martin's trip to Dubai and Muscat was done in that perspective. This is an objective approach, based on what the hotel can offer (*eg* about personalized services and additional extras). The French journalist who praised *The Imperial* in terms of housekeeping compared it to the higher international standards, using his own experience – so a more subjective form of benchmarking, based on his own experience of *The Imperial* and what he saw there.

Features of benchmarking include:

- established by a person or body outside the organization
- have some claim to objectivity
- are known (by customers, industry analysts, government regulators, *etc*)
- reflect and help define industry “best practice”
- typically quantifiable (stars, points, “classes” or grades)
- can apply to a range of issues (cleanliness, quality of service, quality of food, and other areas in various industries) or can be summative (a “four star restaurant”, whereby the ranking synthesizes all features)
- typically are periodic used/measured against for identification of trends.

Accept any other relevant point.

N.B. No reference to the case study needed.

Mark as 2 + 2.

Award [1 mark] for each correct feature, and [1 mark] for each development about that feature of benchmarking.

- (b) Explain *two* advantages for *The Imperial* of having “separate profit centres for the hotel itself, for the restaurant and for the special events services” (lines 67–68). [4 marks]

The advantages of *The Imperial* of having separate profit centres include the following:

- The three business units (hotel, restaurant, special events) do not generate the same level of profit and do not contribute in the same way to the financial performance of *The Imperial*; it will be useful for Martin to see the differences between the three.
- The three could then set different targets and different priorities, as a one-size-fits-all strategic objective might not work (for example aiming for an increase of 5 % might be too ambitious for the hotel itself, but not ambitious enough for the restaurant which could also target locals).
- It will also make it easier to identify weaknesses or problem areas where action may be required (for example, Martin could realise that the “special events services” department costs more money than it generates, or the other way around).
- It will also make it easier for the respective managers to understand their budgets and their place in the organization as a whole, also getting more responsibility and a sense of control, possibly with some sense of empowerment too.

Accept any other relevant point.

Mark as 2 + 2.

Award [1 mark] for each correct point and [1 mark] for each explanation of why this is an advantage for *The Imperial*.

Award a maximum of [2 marks] if there is no reference to the case study.

- (c) **Explain how Porter’s generic strategies may provide Martin Kimathi with a framework for building competitive advantage.** **[4 marks]**

In *Competitive Advantage*, Free Press, New York (1985), Porter argued that as a strategic plan and for gaining competitive advantage, businesses must adopt one of three strategies (or, with some very large businesses, some combination according to products and markets):

- cost leadership – basically, offering lower prices than competitors to gain market share
- differentiation – offering products with some USP (other than price) that appeals to customers (and may allow for higher prices)
- focus or segmentation – focusing on a narrow slice of the market that has special needs or requirements that other businesses have not anticipated.

N.B. Award a maximum of **[1 mark]** if the answer refers to Porters five forces and gives some sense that difference from competitors is important.

The **[4 marks]** available are allocated as follows:

Award **[1 mark]** for an answer that shows knowledge and understanding of what Porter’s generic strategies are (cost leadership, differentiation, and focus or segmentation); this could be in the form of a diagram.

Award **[1 mark]** for an answer that shows knowledge and understanding of Porter’s generic strategies. In other words, the candidates do not merely list cost leadership, differentiation, and focus or segmentation, but provide a brief explanation of what those terms mean.

Award **[1 mark]** for the application to *The Imperial*.

Award **[1 mark]** for an explanation of how Porter’s generic strategies may provide Martin with a framework for building competitive advantage.

- (d) Evaluate *two* alternative approaches to resolve the conflict surrounding Guthoni's dismissal. **[8 marks]**

The conflict may be resolved in different ways, for example:

- Through negotiations between Martin and employee representatives, agreements could be reached, such as reinstating Guthoni (which might not be suitable, as she has a terminal illness and needs to be off sick for treatment) or offering her financial compensation (possibly for unfair dismissal, without any further action taken by the hotel employees).
- The hotel employees could adopt methods, such as go-slow and work-to-rule, yet short of strike action, in order to put pressure on Martin (without jeopardizing the business in its peak season).
- Martin could put pressure on the employees (though this does not seem to correspond to his leadership style) through further threats of redundancy, changes of contract or even lock-out (though this seems unlikely, as Martin is keen to ensure *The Imperial's* business is successful).
- Worst case scenario (for all key stakeholders) the strike could go ahead, if the negotiations fail (this would be bad for Martin as December is one of the busiest months of the year for *The Imperial*, but it would also be bad for the employees, as strike action means that they would not be paid whilst they are on strike); this would also have long-term implications (as the image of *The Imperial* would suffer: future tourists would hesitate to book there).

Accept any other valid answer.

Award a maximum of **[4 marks]** if there is relevant understanding of conflict solving methods that are mainly theoretical (*eg* long-term solutions).

Candidates are asked to evaluate two approaches; if they evaluate only one, award a maximum of **[5 marks]**.

Marks should be allocated according to the markbands on page 4.

SECTION C

5. (a) Define the term *outsourcing*. [2 marks]

Outsourcing is the method of transferring particular functions of a business or portions of stages of work to outside contractors/suppliers instead of doing those functions or that work internally. Companies usually outsource to lower costs or for the expertise provided by the outside supplier.

Accept *offshoring*.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding.

For **only** a relevant example **or** application to the stimulus, or reference to subsidiaries, award [1 mark].

(b) (i) Using information from Item 1, calculate the target profit that would result from an 80 % occupancy rate *with housekeeping outsourced*. [3 marks]

150×0.80 (occupancy rate) \times \$157 (revenue per night) \times 365 days	= 6876 600
Less: 150×0.80 (occupancy rate) \times \$17 (variable cost per night) \times 365	= 744 600
Less: Fixed costs	= 4450 000
Target profit	= <u>\$1682 000</u>

Alternatively, candidates might calculate the target profit (80 % occupancy rate, *etc*) as follows:

$150 \times 0.80 \times \$140$ [$\$157 - \$17 = 140$] \times 365 days	= 6132 000
Less: Fixed costs	= 4450 000
Target profit	= <u>\$1682 000</u>

Allow \$4608.22 which is the target profit per day.

N.B. Do not penalize if the candidate uses 200 rooms (instead of 150) in their calculation as line 14 of the case study says 200 rooms, which gives a target profit of \$3 726 000.

Award [1 mark] if the candidate conveys some sense of how the target profit should be calculated (revenue minus expenses) but does not set up the calculation correctly. Award [2 marks] if the candidate correctly shows a method for determining the target profit but has one error in their working. Award [3 marks] for a correct response and demonstration of working.

- (ii) Calculate the expected outcomes of Option 2 and 3, using the decision tree in Item 2. [2 marks]

Option 2:

$\$18\text{m} \times 0.8$	=	14.4m
$\$0.5\text{m} \times 0.2$	=	<u>0.1m</u>
		14.5m (expected value)
Less:		<u>0.6m</u> (costs of implementation)
Final Expected value		\$13.9m

Option 3:

$\$24\text{m} \times 0.4$	=	\$9.6m
$\$10\text{m} \times 0.6$	=	<u>\$6.0m</u>
	\$	15.6m (expected value)
Less:		<u>\$2.0m</u> (costs of implementation)
Final Expected value		\$13.6m

Award [1 mark] for each correct expected value. Maximum award: [2 marks]

- (iii) Comment on the expected outcomes calculated in part (ii). [2 marks]

Apply Own Figure Rule (OFR).

Award [1 mark] for a basic answer, with the candidate recognizing that Option 2 is better, though the difference is relatively minor.

Award [2 marks] where a candidate provides some nuance to their basic answer by:

- Developing the idea that decision trees are projections, or
- Options 2 and 3 have differences, as noted above, despite their overall mathematically similar outcomes, or
- Developing the idea that, with outsourcing, Option 2 becomes even better, or
- Some other relevant commentary adding meaningful nuance.

- (c) **With reference to Martin Kimathi and *The Imperial*, compare and contrast scientific and intuitive decision-making processes.** [9 marks]

Scientific decision-making refers to various approaches to decision-making undertaken systematically often quantitative. Many of the “decision-making tools” that are in the IB Business and Management Guide are types of so-called scientific processes: decision trees, ratio analysis, force field analysis, *etc.*

Intuitive decision-making processes are often described as a “feeling” about the best possible course of action, but actually intuitive decision-making is often more rational than typically given credit. Intuitive decision-making often involves prior experience usually made consciously, but sometime subconsciously. Often some of these data do not fit the narrow structures necessary for scientific decision-making models. Intuitive decision makers often described intuitive decisions in affective terms: as “a hunch”, a “feel”, or intuition.

As a good manager, Martin is well trained in scientific decision-making models: decision trees, break-even analysis, ratio analysis, *etc.* He uses these types of methods to help him to evaluate options. Even when not formulaic, he uses solid logic and reasoning. For example, in addition to the cost savings from outsourcing the housekeeping staff, Martin is aware that this would provide him with an opportunity to terminate Susan’s employment and, at the same time, take away most of her basis for a discrimination law suit.

Martin is also being influenced by intuitive decision-making processes. He senses the importance of Option 3, which would connect with the history of the hotel. He also has some sense of the growing importance to people from developed countries of eco-tourism and he can imagine *The Imperial* connecting to this global trend. Martin has a certain reluctance to lay-off the housekeeping staff (the employees would probably struggle to find new jobs), despite the cost savings involved. These intuitive processes make him question the value of the scientifically arrived at “best solution”.

One point of comparison in the case is between Martin and Susan. Susan relied exclusively on scientific decision-making (and bureaucratic approaches, which often overlaps with scientific decision-making, though they do not necessarily have to). Because of this approach, she was perceived as cold, official and impersonal. She consciously would not let what she considered “non-relevant” information to influence her decisions. Martin, on the other hand, relied on both approaches, which made him more appealing at a human level though, from a certain perspective, left him open to criticism, *eg* his “laissez-faire” style.

Accept any other relevant comparison or contrast.

If the answer is one sided, award a maximum of [5 marks].

If the answer is unbalanced, award a maximum of [6 marks].

Marks should be allocated according to the markbands on page 5.

- (d) Using information contained in the case study and Items 1 to 4, evaluate the need for *The Imperial* to change objectives in response to changes in the internal and external environment. [12 marks]

The Imperial has strong reasons to change objectives in response to changes in both the internal and external environment.

The internal environment has changed in two significant ways:

1. Tensions between the staff and Susan have become significant and, though some opportunities might come out of it (employees coming together), these tensions also pose some risks. This changed internal environment has propelled Susan to consider a legal claim against *The Imperial*. The Kenyan constitution, Appendix 2, clearly stands against discrimination.
2. The other significant change in the internal environment is the higher expectations for profits by the owners of *The Imperial*. *The Imperial* will have to make some changes. These pressures are causing Martin to look for ways to cut costs (Item 1), though this might lead to laying off some of the staff, which he is reluctant to do.

Major external factors include:

1. global economic conditions (Items 4 and 5)
2. increased competition of new hotels
3. changes in consumer tastes (more luxurious hotels, eco-tourism, etc).

These and other relevant internal and external factors, in the context of the options Martin is considering, should be examined as candidates evaluate the need for *The Imperial* to change objectives. Candidates should recognize that *The Imperial* needs to change its objectives; they have latitude in the direction *The Imperial* should go provided that they can support their answer.

Award a maximum of [7–9 marks] where **either** the case study **and** Items 1–4 have been used, *ie* only one set of data.

If candidates discuss strategies and tactics with some sense of changing objectives without explicitly mentioning them award a maximum of [8 marks].

Marks should be allocated according to the markbands on page 6.
