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International Baccalaureate®
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BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1

Wednesday 21 May 2014 (afternoon)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

*   Do not open this examination paper until instructed to do so.
*   A clean copy of the **Business and Management** *case study* is required for this examination paper.
*   Read the case study carefully.
*   Section A: answer two questions.
*   Section B: answer the compulsory question.
*   Section C: answer the compulsory question.
*   A calculator is required for this examination paper.
*   Clean copies of the **Business and Management** *formulae sheet and discount tables* are required for this examination paper.
*   The maximum mark for this examination paper is *[80 marks]*.

SECTION A

*Answer **two** questions from this section.*

1. (a) Define the following terms:

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

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

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

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

2. (a) Define the following terms:

   (i)   *appraisal (line 102)*   *[2 marks]*

   (ii) *dismissal (line 113).*   *[2 marks]*

   (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]*

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

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

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

   (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]*

SECTION B

*Answer **the compulsory** question from this section.*

4. (a) Describe **two** features of benchmarking. *[4 marks]*

(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]*

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

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

Additional information

There is no additional information in this paper for Sections A and B.

Turn over

SECTION C

*Answer **the compulsory** question from this section.*

5.   Martin Kimathi faced three major problems. Firstly, he had employee negotiations about the strike. Secondly, there was the issue with Susan Chapman. Thirdly, Martin would soon have his annual meeting with *GP* to discuss the strategic direction of *The Imperial* and to set target profits for the coming year. Because *GP* had rejected the idea of making a major investment in the hotel (**Option 1**), the discussions would focus on **Option 2** (targeting *The Imperial* at business travellers staying for at least one week) and **Option 3** (forming a strategic alliance with *KenSafar*).

During negotiations with the employee representatives, Martin discovered that they wanted Susan to be dismissed. Otherwise the entire staff would go on strike in December, which would put *The Imperial*'s profits for the year below target. However, Susan had threatened to take legal action, if dismissed. She said she would claim that she was a victim of discrimination.

Option 2 appeared to be the best and Martin wanted to go even further. He had discovered that outsourcing the housekeeping staff would be even cheaper than the initial idea of a 70% reduction in housekeeping staff *(Item 1)*. His original decision tree *(Item 2)*, when modified to take this lower cost into account, would make **Option 2** even better. This could also avoid the problem with Susan: he could say in court that he was making all housekeeping staff redundant, including Susan, as part of a total business reorganization.

Laying-off all the housekeeping staff worried Martin. Unemployment is high in Kenya, and he feared they might not find new jobs. Intuitively he favoured **Option 3** which would build on *The Imperial*'s history while linking it to the fastest growing areas of Kenyan tourism.

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

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

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

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

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

(d)   Using information contained in the case study and Items 1 to 5, evaluate the need for *The Imperial* to change objectives in response to changes in the internal and external environment.   *[12 marks]*
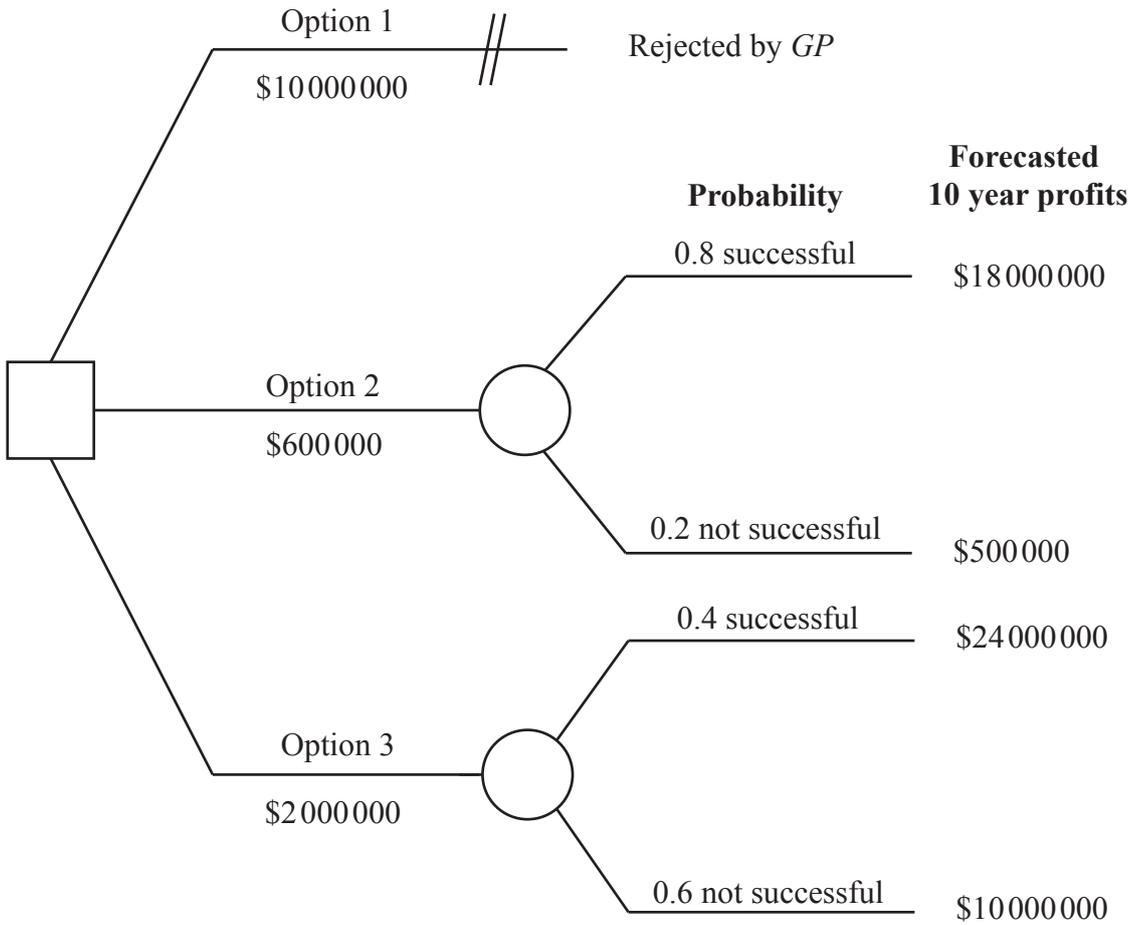
Additional Information

Item 1: Internal memo from the Finance Office to Martin Kimathi

To:	Martin Kimathi	
From:	Finance Office	
Re:	Outsourcing the Housekeeping Department	

After receiving bids from several cleaning service companies, I am pleased to report that we can reduce the costs of housekeeping by $150 000 per year by outsourcing this department; this does not include one-time costs related to making all housekeeping positions redundant. This would lower our break-even number of customers as shown below, which assumes single occupancy of each apartment and 150 apartments (all numbers in the table have been rounded to the nearest figure):

	With the current housekeeping staff	With housekeeping outsourced
Average sales revenue per customer per night	$157	$157
Variable costs per night	$17	$17
Fixed costs	$4 600 000	$4 450 000
Break-even number of customers	32 857	31 786
Average occupancy rate	60 %	58 %

Item 2: Original decision tree

Option 1

$10 000 000

Rejected by *GP*

Probability

Forecasted 10 year profits

0.8 successful

$18 000 000

Option 2

$600 000

0.2 not successful

$500 000

0.4 successful

$24 000 000

Option 3

$2 000 000

0.6 not successful

$10 000 000

Key:

Decision point

Possible outcomes

Rejected option

Item 3: External Memo from *GP* to Martin Kimathi

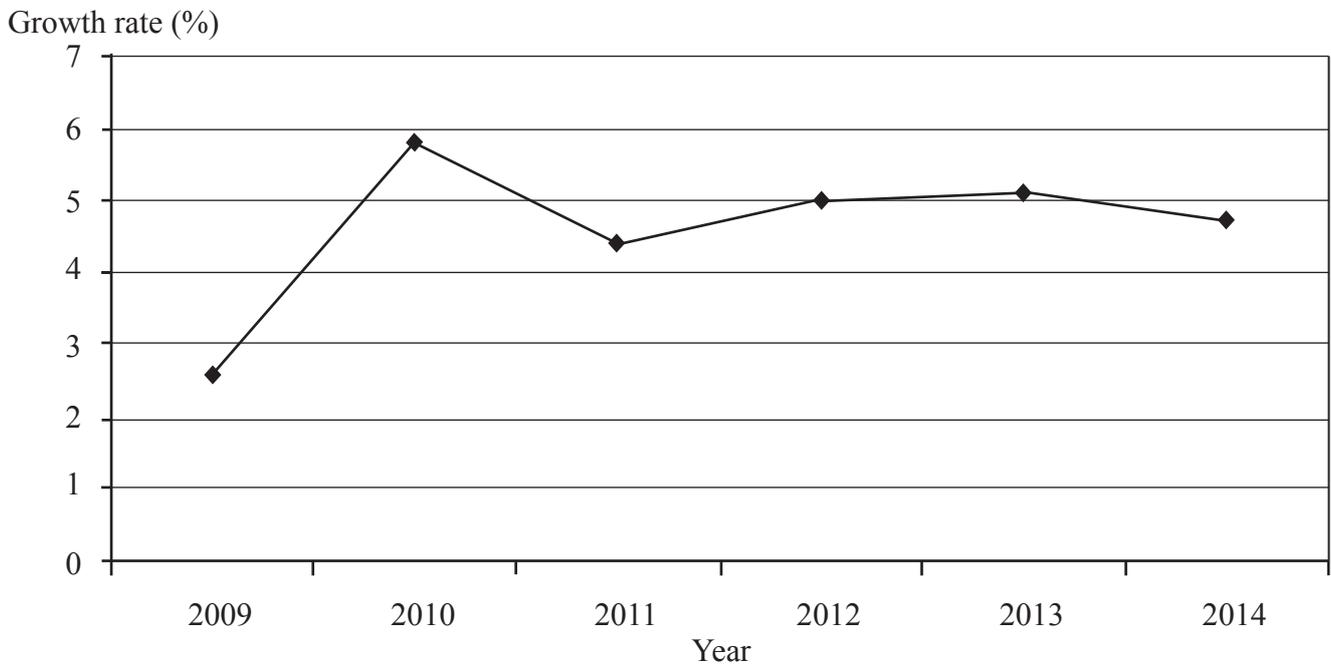|	
To:	Martin Kimathi
From:	*GP*
Re:	Target profits for upcoming year

Due to the global economic crisis, the directors of *GP* have decided that specific properties including *The Imperial* hotel will have to reach higher target profits than initially planned. The aim is to compensate for poor returns in other investments.

Item 4: Kenya fact-file (Statistics from World Factbook as at January 2013)

Capital	Nairobi
Population	43 013 341
Life expectancy	63.07 years
Literacy rate	87.4%
Unemployment rate (% of labour force without a job)	40%
Population below poverty line	50%

[Source: adapted from www.habitatforhumanity.org.uk, 2013]

Item 5: Kenya GDP growth rate (World Bank)

Growth rate (%)

[Source: The World Bank]