

IB Business & Management

Practice Paper 1

Higher Level

80 Marks

2h 15 m

INSTRUCTIONS

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management case study [The Imperial]*** 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

1. (a) Define the following terms:
- (i) Margin of safety (*line 25*). [2 marks]
 - (ii) Working capital (*line 62*). [2 marks]
- (b) Explain **two** reasons why *The Imperial* produces final accounts. (*line 69*). [4 marks]
- (c) With reference to appropriate motivation theory, analyse the likely impact of Martin's belief in "empowerment and delegation" (*line 90*) on the level of employee motivation at *The Imperial*. [7 marks]
2. (a) Using a SWOT analysis framework, identify **two** weaknesses and **two** threats to *The Imperial*. [4 marks]
- (b) Using data from the additional information on page 3, calculate *The Imperial's*:
- (i) Gross profit margin. [2 marks]
 - (ii) Acid test (quick) ratio. [2 marks]
- (c) Interpret your results from part (b). [7 marks]
3. (a) Define the following terms:
- (i) Liquidity (*line 66*). [2 marks]
 - (ii) Marketing audit (*line 59*). [2 marks]
- (b) With reference to *The Imperial*, distinguish between autocratic (*line 98*) and laissez-faire (*line 90*) leadership. [4 marks]
- (c) Analyse the advantages and disadvantages for *The Imperial* of forming "a strategic alliance with the famous safari tour company KenSafar" (*line 150*). [7 marks]

SECTION B

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

- 4. (a) With reference to *The Imperial*, outline **one** assumption and **one** limitation of using break-even analysis (line 24). [4 marks]

- (b) Explain **two** advantages of using separate cost and profit centres (lines 67-69). [4 marks]

- (c) Explain how Handy's shamrock organization management theory can be applied to the proposal in **Option 2** to "reduce the housekeeping staff by 70%" (line 148-149). [4 marks]

- (d) Using Lewin's force field analysis model (**no** numerical weightings are required for your forces), recommend to Martin whether he should select **Option 2** of transforming the hotel into self-contained apartments (lines 138-149). [8 marks]

Additional information for question 2 (b) and 2 (c)

Selected information from *The Imperial's* Catering Department's financial accounts:

	\$000	
Financial Results	2010	2011
Turnover	342	341
Gross profit	182	162
Net profit	36	35
Current assets	28.5	24
Current liabilities	29.75	30
Stock	12	21
Ratios		
Gross Profit Margin (%)	?	?
Net Profit Margin (%)	10.53	10.26
Current Ratio (times)	0.96	0.8
Acid Test Ratio (times)	?	?

SECTION C

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

Martin came to the conclusion that selecting **Option 1**, closing the hotel down for one year and upgrading the property with mass renovations, would be the best strategic decision for the future of *The Imperial*.

At the beginning of January 2014, Martin presented the strategic options and his conclusion in a report to the board of directors of Global Properties. The board was not convinced that *The Imperial* should pursue **Option 1** as they were concerned about several weaknesses in the quality of Martin's report. These weaknesses include:

- The market research consisted only of his visits to hotels in Dubai and Muscat as well as secondary market research.
- The time estimated to complete each option were incomplete or missing.
- The net expected value of investment for each option was missing.

The board asked Martin to consider hiring a market research agency to conduct market research. They also asked for the missing information to be added to the report. The revised report is to be presented to the board at the beginning of February 2014.

Martin recently averted a major crisis with the employees of the hotel by reinstating Guthoni to her job in the Housekeeping Department, thus avoiding an employee strike in December 2013. However, despite this outcome, housekeeping employees continued to complain amongst themselves about the difficulties of working with Susan. They already perceive Susan as being too autocratic but her recent dismissal of Guthoni added to the negative perceptions held by the housekeeping staff. Their complaints began to grow to include their dissatisfaction with Martin. The housekeeping staff thought Martin should have taken disciplinary action against Susan for behaving unethically in her management of Guthoni's absenteeism. They began to perceive Martin as an unethical leader who could not be trusted.

5. (a) Referring to Item 1, identify for *The Imperial* **two** opportunities as a result of demographic changes forecasted in the twenty-first century. [2 marks]
- (b) (i) Using the information from Item 2, copy and complete into your answer booklet the network diagram for activities A to H and identify the critical path for implementing **Option 1**. [5 marks]
- (ii) With reference to the case study, explain one disadvantage of using a critical path analysis. [2 marks]
- (c) Analyse the usefulness of Martin hiring a market research agency to conduct market research. [9 marks]
- (d) Using the information contained in the case study and Items 1 to 6, evaluate whether Martin decision to select **Option 1** is the best strategic decision for *The Imperial*. [12 marks]

Additional information is on the following pages.

Additional Information

Item 1: Extract from Martin's report – the workforce planning study.

Demographics of Kenya

Total population: 44,037,656 (est. 2013)

Age Structure in 2013 (est. 2013)			
Age	Percentage of total population	Number of males	Number of females
0-14 years	42.4%	9,357,084	9,299,586
15-24 years	18.8%	4,148,153	4,147,896
25-54 years	32.4%	7,210,891	7,070,217
55-64 years	3.6%	719,374	876,458
65 years and over	2.7%	529,873	678,124

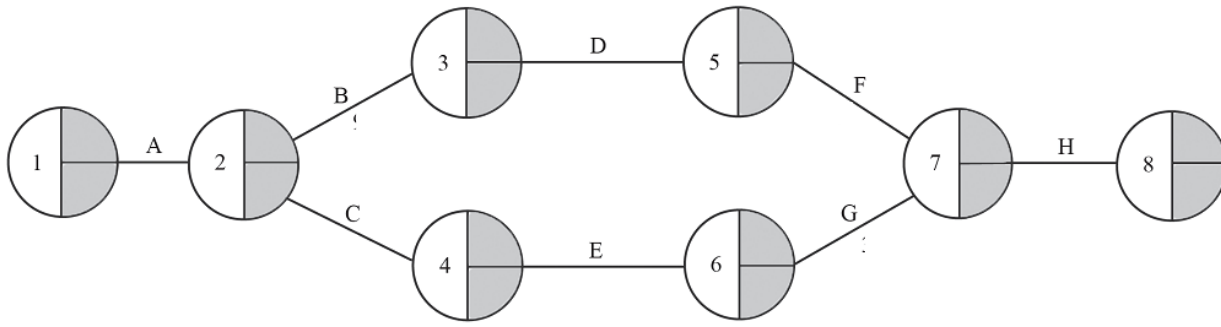
Unemployment rate: 40% (est. 2008)

[Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html>, accessed 7th January 2013]

Item 2: Extract from Martin's report - critical path analysis for mass renovations of *The Imperial* (Option 1)

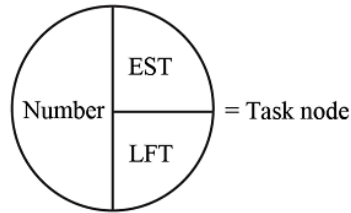
Tasks	Estimated duration (weeks)
A	13
B	13
C	10
D	8
E	6
F	10
G	7
H	7

Do **not** write your answers to 5(b)(i) on this page.

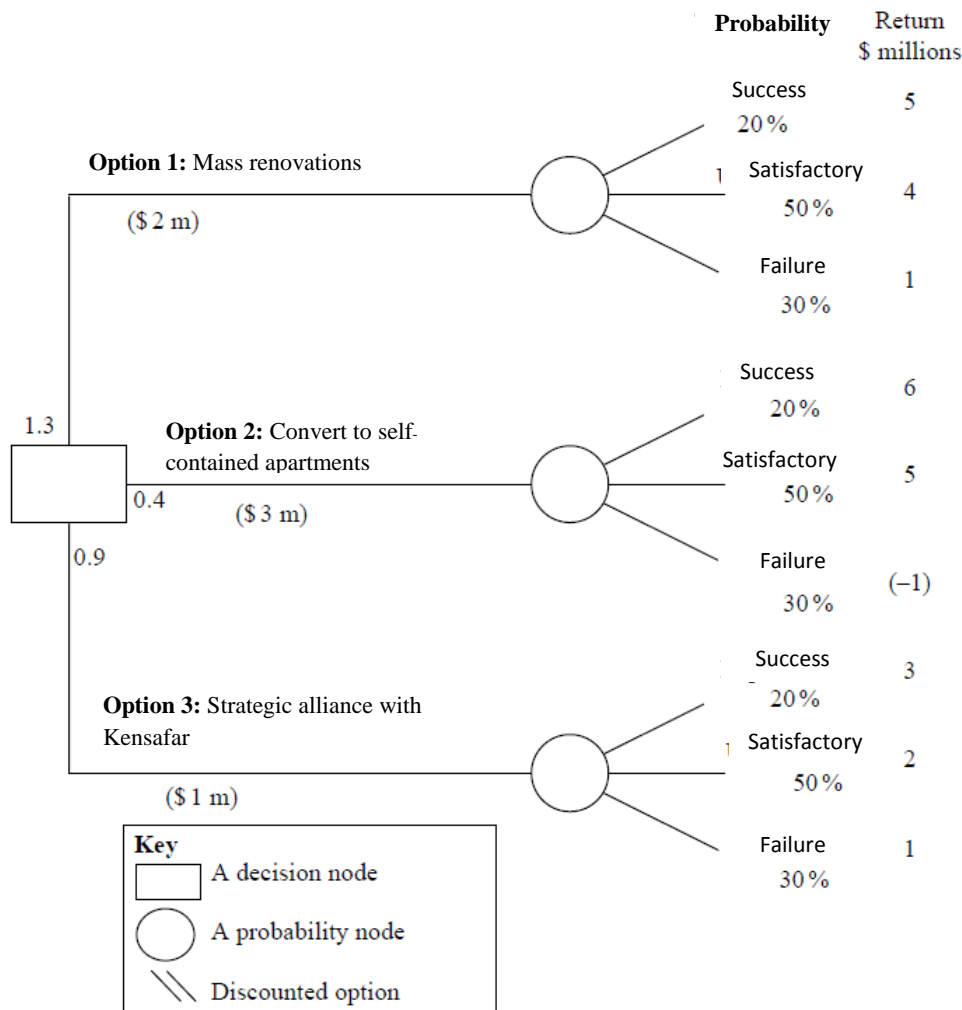


Key:

// = Critical path
 EST = Earliest starting time
 LFT = Latest finishing time



Item 3: Extract from Martin's report - decision tree regarding strategic options available to *The Imperial*



Item 4: Extract from A ‘*Marshall Plan*’ needed to tackle Africa’s unemployment challenge news article from The East African newspaper (11th January 2014)

To Africa’s many challenges, add one more: unemployment. Unemployment, independent of any other factor, threatens to derail the economic promise that Africa deserves. It’s a ticking time bomb with no geographical boundaries. Economists expect Africa to create 54 million new jobs by 2020, but 122 million Africans will enter the labour force during that time. Adding to this shortfall are tens of millions currently unemployed or underemployed. Thus, even with the strong economic growth we have seen over the past decade, job creation in Africa remains much too slow.

[Source: <http://www.theeastafrican.co.ke/OpEd/comment/Marshall-Plan-needed-to-tackle-Africa-unemployment/-/434750/2142504/-/135ryde/-/index.html>, accessed 15th January 2014]

Item 5: Extract from *Christmas spells bumper business for hoteliers* news article from the Daily Nation newspaper (27th December 2013)

Business is booming at hotels, lodges and tented camps across the country as visitors flock to popular tourist destinations to celebrate the festive season. Hotels in Mombasa were on Wednesday bursting at the seams with domestic, regional and international tourists mostly from Europe.

Lodges and tented camps in the Maasai Mara, Amboseli, Samburu, Nakuru and Tsavo national parks were also busy with visitors pouring in for Christmas.

According to Ashnil Hotels marketing manager Paul Kurgat, the Ashnil Mara camp in the Maasai Mara, Ashnil Samburu and Aruba Lodge in Tsavo East National Park were packed to capacity on Monday. He noted that the facilities had 60 per cent of locals and 40 per cent of international guests.

Travellers Beach Hotel marketing manager Wafula Waswa said the number of international guests had soared to 60 per cent up from 30 per cent last month due to the Christmas holiday. He noted that the hotel had guests from the UK, the US, Germany, France, Italy and from the Scandinavian countries.

“Business has improved significantly as international visitors are here to celebrate Christmas as well as to enjoy the warm weather and sunbathing,” he said.

[Source: <http://www.nation.co.ke/business/corporates/Christmas-spells-bumper-business-for-hoteliers/-/1954162/2127144/-/kkj7qf/-/index.html>, accessed 15th January 2014)

