

Markscheme

November 2024

Business management

Higher level and Standard level

Paper 1

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The markbands on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptor.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately. • Little or no reference to the stimulus material. • No arguments are made.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance. • Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization. • Any arguments made are mostly unsubstantiated.
5–6	<ul style="list-style-type: none"> • The response indicates an understanding of the demands of the question, but these demands are only partially addressed. • Some relevant and accurate use of business management tools and theories. • Some relevant use of information from the stimulus material that goes beyond the name of the person(s) or name of the organization but does not effectively support the argument. • Arguments are substantiated but are mostly one-sided.
7–8	<ul style="list-style-type: none"> • Mostly addresses the demands of the question. • Mostly relevant and accurate use of business management tools and theories. • Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. • Arguments are substantiated and have some balance.
9–10	<ul style="list-style-type: none"> • Clear focus on addressing the demands of the question. • Relevant and accurate use of business management tools and theories. • Relevant information from the stimulus material is integrated effectively to support the argument. • Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.

Section A

1. State **two** types of businesses, **other than** hotels, that operate in the tertiary sector (line 14). [2]

Businesses include:

- banks
- insurance companies
- restaurants
- real estate
- personal services
- *accept any other relevant business.*

Award [1] for each example of a business that operates in the tertiary sector up to a maximum of [2].

2. Define the term *overdraft* (line 15). [2]

Overdraft is when a business spends more **money/overdraws (cash) than it has available** in its **current account**. A bank will allow such spending by offering an overdraft facility to the business, allowing the excess spending. An overdraft is a **short-term (less than 12 months) external source** of finance that **incurs overdraft fees or interest**.

N.B. no application required. Do not credit examples or answers that refer to credit cards.

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

Award [1] for a basic definition that conveys partial knowledge and understanding such as one of the four bold elements are given.

Award [2] for a full definition that conveys knowledge and understanding such as two of the four bold elements are given.

3. Describe the **two** types of **financial reward**, **other than** wages and salaries, used by OWL (lines 16–19). [4]

Financial rewards used are performance-related pay and fringe payments.

Performance related pay (PRP) is where an employee or group of employees get additional financial rewards by achieving an improved level of output or result in the work they carry out. Staff gained an average of \$500 in 2023.

Fringe payments are non-wage compensations in addition to their normal rate of pay. They can include company cars, lunch vouchers etc. In OWL they gain free meals and a uniforms.

Mark as 2+2.

Award [1] for each type of financial reward identified and an additional [1] for a description of that type of financial reward as used by OWL, up to a maximum of [2].

If a candidate describes a financial reward, without application to OWL, award [1] for each reward described.

4. Explain **one** advantage **and one** disadvantage for OWL of allowing managers to work flexi-time (lines 20–22 and lines 27–29).

[4]

Advantages include:

- may increase the pool of employees OWL can employ from which is important
- makes them more competitive in terms of recruitment as competitor hotels allow managers to work flexi-time
- workers have greater control over their schedule; it may reduce absenteeism.
- it may improve employee loyalty
- it may improve employee motivation
- work-life balance/flexibility
- potential cost benefits. I.e. OWL does not have to provide a free lunch on the day the employee is at home
- could improve productivity.

Examples of context:

- many of OWL's former managers had found jobs that offered flexi-time and the opportunity to work from home part of the week.
- OWL is still recovering from the pandemic losses.
- keeping existing staff motivated is important as many competitors have employee shortages.
- could motivate employees with childcare commitments.

Accept any other relevant advantage.

Disadvantages include:

- a lack of control over day-to-day operations on the days managers work from home
- managers will not always be available for face-to-face advice to employees / make decisions
- managers will no longer be available to answer guest queries in person as they may be working from home - new employees may require close supervision by managers and not always possible if manager not present
- less efficiency
- lower quality service.

Examples of context:

- some customers complained that managers were not available to deal with a problem until the next day
- OWL had to employ some applicants with limited experience
- it takes seven days to train new employees
- increased customer complaints
- existing employees have to spend 3 days training new employees.

Accept any other relevant disadvantage.

Mark as 2+2.

Award [1] for a relevant advantage/disadvantage identified and an additional [1] for a relevant explanation of that advantage/disadvantage in the context of OWL, up to a maximum of [2].

5. Explain **one** advantage for OWL of outsourcing the cleaning of its hotels (lines 30–31). [2]

Advantages of outsourcing:

- OWL can focus on their core activities
- they can control their costs on the cleaning function. Reduce costs.
- overall business efficiency could improve
- cleaners should have the necessary experience and skills.

Examples of context:

- (cleaning is not a key specialist activity). Could focus on its restaurants, the CSR (including the app)
- reduction of 30 employees reduces cost. There is no need to hire cleaners
- OWL does not need to train employees which is expensive and time consuming. I.e. takes seven days at OWL
- OWL has had financial issues in the past.

Award [1] for explaining an advantage of outsourcing the cleaning function. Award an additional [1] for application to the case study, up to a maximum of [2].

6. Explain **one** way in which OWL is improving its corporate social responsibility (CSR) **and two** ways it is not. [6]

Ways OWL is improving its CSR

- Employee relations. I.e. OWL plans to offer accommodation to employees of the theme park.
- Improve the quality of life for Xanadu residents. I.e. it allows the less privileged residents on Xanadu the opportunity to make use of the unused food for \$2 a box which would cost \$10.
- Waste reduction i.e. cut food waste by 50%. OWL also has the “Waste Not” app.

Ways OWL is not improving its CSR

- May be accused of exploiting workers by charging high rents (40% of wages) for accommodation.
- Increased energy consumption is bad for the environment. I.e. the additional refrigeration required.
- Some may see the move as a cynical publicity stunt to improve their perception of Xanadu.
- The increased use of plastic / single use plastic is bad for the environment, can end up in landfills. The plastic is used for storage/stock food.
- Redundancy/unemployment/employment rates/employee relations. I.e. Outsourcing the cleaning or converting to an all-inclusive led to the loss of 30 part-time cleaners and fewer restaurant and kitchen employees. Wage costs reduced by 15%.
- Increased waste caused by the conversion to an all-inclusive model. I.e. Food wastage increased by 25%.

Accept any other relevant way.

Mark as 2 + [2 + 2]

***N.B.** do not accept HR issues: flexi-time working, work from home, fringe payments, employing migrant workers.*

Award [1] for identifying a way that OWL is improving its commitment to CSR and an additional [1] for explaining it up to a maximum of [2].

For each way in which OWL is not improving its commitment to CSR mark as 2 + 2.

*Award [1] for identifying a way that OWL **is not** improving its commitment to CSR and an additional [1] for explaining it up to a maximum of [2].*

Up to a maximum of [6].

Section B

7. Discuss whether OWL should change all of its hotels to operate using the all-inclusive model. **[10]**

All-inclusive in hotels allows customers to have their requirements packaged together. This means that guests would no longer have to pay extra for drinks, or any food provided by the hotel. The package would be charged at a premium price compared to their existing prices.

Reasons for converting to all-inclusive:

- reductions in employees needed in the kitchen and the restaurant.
- wage costs fell by 15% in the Ryen
- bookings increased by 30% in the Ryen
- profits increased by 25% to \$12 million in the Ryen
- cost to convert each hotel is \$500 000 but would increase restaurant capacity by 50%
- conversions could be done in the winter to reduce disruption
- other hotels on Xanadu are currently not offering all-inclusive
- the complaints about not getting tables suggest that the all-inclusive option is very popular
- improved capacity utilization of the restaurant and kitchen.

Reasons for not converting to all-inclusive:

- increased levels of food wastage (25% in the Ryen)
- guest complaints about the restaurant being too busy.
- \$500 000 conversion costs for each hotel
- there is no guarantee it would be successful in all the hotels.
- possible redundancy costs for kitchen and restaurant staff.
- may lose some of their loyal customer base as many customers are repeat customers.

Accept any other relevant answer.

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

8. Recommend to OWL’s board of directors whether they should open a theme park. **[10]**

The theme park is something of a diversification for OWL. At a cost of \$78 million and is a strategically large investment, both in terms of time and finance.

Reasons for opening a theme park:

- the cost is externally financed. OWL does not have to fund the project from the outset
- provides positive diversification.
- should provide a healthy profit if forecasts are correct.
- OWL will gain money (\$2m p.a.) by outsourcing catering
- has a short payback period – less than 5 years.

Reasons for not opening the theme park:

- the cost is \$78m, which will have to be covered at some point.
- the ARR is only 4.82% which is quite low and if compared to current rate of interest (5%) it suggests it is not worthwhile.
- further investment would be needed in Year 6
- reduction in visitor numbers in years 4 and 5 (finance directors concern) would have significant impact on the payback period and ARR calculated by the finance director
- there could be poor publicity stemming from the decision to house and charge the employees
- increased costs of providing the accommodation (conversion and ongoing).

Accept any other relevant answer.

Candidates are expected to present an advisable course of action with appropriate supporting evidence/reasons. This recommendation may be presented as a conclusion.

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