

# Markscheme

May 2024

Business management

Higher level

Paper 2

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

### Section A

1. (a) State **two** features of a cooperative. [2]

The main features of a cooperative include:

- An aim is to serve the members of the cooperative/members with a common interest.
- A cooperative is a type of corporation.
- A cooperative has a board of directors or trustees.
- Members of the cooperative have limited liability (accept the cooperative has limited liability).
- Cooperatives have democratic or democratically spirited management.
- Legal existence is separate from the members themselves.
- Membership is usually open and voluntary.
- Surpluses/profit are distributed among the members except when needed for finance.
- The organization will not end if a member dies or withdraws.
- All owners have equal voting rights.
- There is no maximum to the number of members.
- A cooperative is owned and run by its members.
- For profit social enterprise.

*Accept any other relevant feature. Accept the word "owners" if used in the same context as "members".*

*Award [1] for each relevant feature identified up to [2].*

- (b) Using straight-line depreciation, calculate MC's total annual depreciation expense for its machinery (*show all your working*). [2]

Depreciation = (historic value – residual value) / number of years of useful life

$$(100\ 000 - 30\ 000) / 10 = \$7000$$

*Award [1] for working and [1] for the correct answer with \$ sign, up to a maximum of [2].*

**N.B do not penalize more than once for sign/unit omission in any one question part (b), (c)(i), (c)(ii).** Allow BOD if other signs e.g £ or € etc. used in error.  
*Accept if sign is present in either the working or final answer.*

- (c) Using **Table 1**, calculate:

- (i) the number of pairs of socks MC needs to sell to achieve an annual target profit of \$47 000 (*show all your working*); [2]

Target profit level of output = (fixed costs + target profit) / contribution

$$(70\ 000 + 47\ 000) / 10 = 11\ 700 \text{ units}$$

Contribution = current price \$40 minus variable cost per unit \$30

MC will have to sell 11 700 pairs of socks to achieve a target profit of \$47 000.

*Award [1] for working and [1] for the correct answer, up to a maximum of [2].  
Deduct [1] if the words units/socks absent.*

- (ii) the price *MC* must charge to achieve a target profit of \$47 000, assuming it will sell 9750 pairs of socks per year (*show all your working*). [2]

Price = (target profit + fixed costs + unit variable cost × quantity) / quantity

$$\text{Price} = \frac{(47\,000 + 70\,000 + (30 \times 9750))}{9750}$$

Price = \$42

\$42 is the price *MC* must charge for a target profit of \$47 000 with sales of 9750 **pairs of socks per year**.

*Award [1] for working and [1] for the correct answer with \$ sign, up to a maximum of [2]. Accept if sign is present in either the working or final answer.*

- (d) Explain **one** advantage for *MC* of the demand for its socks being price inelastic. [2]

If *MC*'s price elasticity of demand is inelastic, a price increase will result in a proportionally smaller change in quantity demanded of socks. An advantage is that *MC* can increase its price and still make sales to reach its target profit.

*Award [1].*

Application mark:

Alternatively, *MC* should produce and sell 11 700 pairs of socks to reach its target profit, however this is not possible as *MC*'s maximum production capacity is 11000 pairs of socks a year. The only alternative for *MC* to reach a target profit of \$47 000 is by increasing its selling price from \$40 to \$42. An inelastic demand is then a crucial advantage to *MC*.

*Accept any other relevant advantage.*

*If the candidate uses wrong figures own figure rule (OFR) applies.*

*Award [1] for identifying or describing the advantage for *MC* and a further [1] for a suitable application with respect to *MC*. Award a maximum of [2].*

*[2] cannot be awarded if the response lacks either explanation or application.*

2. (a) Define the term *patent*. [2]

A patent is a legal right granted by an authorized government agency to a person or organization allowing the patent holder to exclude others from making, using, or selling products reliant on the patent holder’s innovation. A form of intellectual property, a patent expires after a period of time.

Candidates are not expected to use the **exact** wording above.

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

Award [2] for a full definition that conveys knowledge and understanding that the patent (1) excludes others from using the innovation and (2) lasts for a period of time (candidates do not need to specify the number of years).

N.B. Do not reward examples nor answers which define either trademarks – protection of logos, slogans OR copyright – works of authorship or art.

- (b) Using information from **Table 2**, calculate, for UEB’s modernized factory:

- (i) the payback period (show all your working); [2]

All figures below are in millions.

$$\begin{aligned} \text{Cumulative net cash flow by the end of year 3} &= -\$3 + \$0.75 + \$1 + \$1.1 \\ &= -\$0.15 \end{aligned}$$

By the end of year 3, there is a shortfall of \$150 000 to recover the investment cost of \$3 000 000.

$$\text{Shortfall / year 4 net cash flow} = (\$150\,000 / \$1\,150\,000) = 1.56 \text{ months (48.4 days)}$$

$$\text{Payback period} = 3 \text{ years} + 1.56 \text{ months}$$

Accept 3.130 years or 3 years and 49 days.

OR alternative answer:

$$\text{Capital investment} = \$3$$

Year	Net cash flow (\$)	Cumulative net cash flow (\$)
1	0.75	0.75
2	1.00	1.75
3	1.10	2.85
4	1.15	4

OR Alternative answer:

Year	Net cash flow (\$)	Cumulative net cash flow (\$)
0	(3)	(3)
1	0.75	(2.25)
2	1.00	(1.25)
3	1.10	(0.15)
4	1.15	1 ←

The payback period occurs between years 3 and 4.

By the end of year 3, there is a shortfall of \$150 000 to recover the investment cost of \$3 000 000.

In year 4, the net cash flow is \$1 150 000, or \$95 833 a month (\$1 150 000 / 12 months). Thus, the shortfall of \$150 000 is recovered in 1.565 months (\$95 833 x 1.565 months).

Also, (\$150 000 / \$1 150 000) x 12 months = 1.565 months.

So, **the payback period is 3 years and 1.565 months**

Accept 3.130 years or 3 years and 49 days or 3 years 1 month and 18 days

Award **[1]** for correct working and **[1]** for the correct answer with units.

**N.B. do not penalize more than once for sign/unit omission in any one question part (b)(i), (b)(ii), (c).**

Accept if unit is present in either the working or final answer.

Award up to a maximum of **[2]**.

Accept any other method of calculation.

Accept answer discrepancies due to decimal rounding or where candidates may have used different days in a month which may result in answers after rounding slightly different from those above.

Accept if a candidate correctly calculates the number of month/days in the fourth year but rounds up to 3 years and 2 months. but also provides sufficient working.

Do not award full marks if the candidate rounds down final answer.

- (ii) the average rate of return (ARR) (show all your working); [2]

All figures below are in millions.

Cumulative net cash flows: (\$3) + \$0.75 + \$1 + \$1.1 + \$1.15 = \$1

\$1 / 4 years = \$0.25 per year

\$0.25 / \$3 = 0.0833

0.0833 x 100 = 8.33%

Accept 8.3%

Award **[1]** for the correct answer with % sign and **[1]** for correct working, up to a maximum of **[2]**. Accept if sign is present in either the working or final answer.

- (c) Complete **Table 3** by calculating the present value for *UEB's* modernized factory for the first four years, using a discount rate of 6%.

**Table 3**

Year	Net cash flows in millions of \$	Discount rate at 6%	Present value in millions of \$
1	0.75	0.9434	<b>0.70755</b>
2	1	0.8900	<b>0.8900</b>
3	1.1	0.8396	<b>0.92356</b>
4	1.15	0.7921	<b>0.910915</b>
			<b>Total: 3.432025</b>

Using your completed **Table 3**, calculate the net present value (NPV) for *UEB's* modernized factory for the first four years (*show all your working*). [2]

Present value: \$3.43

NPV: \$3.43 – \$3 = \$0.43 m

*Award [1] for the correct answer and [1] for working, up to a maximum of [2].*

*Award [1] if only the TPV is calculated correctly.*

*Accept answer discrepancies due to decimal rounding.*

*The \$ sign is not needed as already given in the answer box, but units i.e millions are needed unless figures written in full.*

- (d) Many economists have forecast that interest rates are going to rise.

Explain how an increase in interest rates could impact your answer to part (b)(ii) **or** (c). [2]

Possible impacts include:

- If interest rates increase, an ARR of 8.33% for the modernized factory project could be less attractive to UEB.
- UEB should consider a discount rate higher than 6% to calculate the present value of UEB's modernized factory, which will lower UEB's NPV.

Accept the assumption that UEB has borrowed money to modernize the factory then:

- The expected net cash flows may end up being lower than estimated, lowering the ARR of the investment in the modernized factory. The investment would be less attractive.
- The NPV of \$0.43 m calculated at a discount rate of 6% would now be lower as interest rates are higher, meaning a higher discount rate would need to be used making the TPV and hence NPV less attractive or even negative, making the investment less advantageous.

*Accept any other relevant impact.*

*Award [1] for a relevant impact and [1] for a suitable application of context. Some reference to the figures in (b)(ii) **or** (c) are required for application and not simply mentioning the words ARR or NPV*

*Award up to a maximum of [2].*

3. (a) Define the term *cost-plus (mark-up) pricing*. [2]

Cost-plus pricing is where products or services are priced by ensuring that the costs involved are less than the price that the good or service is sold for. Total costs are calculated with an additional amount added on to set the price. The additional amount could be a fixed amount or a percentage of the total cost.

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

Award [1] for partial understanding concerning cost calculations. i.e. that all costs are accounted for.

Do not accept production costs as they are only a part of total costs not including marketing, administration etc.

Award [2] if the candidate provides an accurate and clear definition with some mention of an additional amount added to total cost.

Do not accept “unit costs” or “average costs” unless preceded by the word “total”.

- (b) Using information from **Table 4**, calculate:

- (i) the **actual** average capacity utilization for SM in December 2023 (*show all your working*); [2]

Average actual rooms sold in December = 18  
Total rooms available (capacity) = 120  
Capacity utilization =  $18/120 \times 100 = 15\%$

Award [1] for correct working and [1] for a correct answer with % sign.

Accept if sign is present in either the working or final answer.

- (ii) the monthly change in revenue variance for April 2024, **X**, and state whether it is adverse or favourable (*show all your working*); [2]

Daily change in revenues variance =  $1 \times \text{€}150 = \text{€}150$   
Monthly change in revenues variance =  $\text{€}150 \times 30 = \text{€}4500$  [1]  
The €4500 variance is favourable (F) [1]

Award [1] for working and [1] for the correct value, X, and for correctly stating favourable.

**The sign can be omitted as the answer is referring directly to a figure in a table which already has the sign in the heading.**

Allow BOD if other signs e.g £ or \$ etc. used in error.

**N.B. do not reward Adverse/Favourable if the final answer is wrong.**

- (iii) the total six-month (November 2023–April 2024) change in revenue variance, **Y**, and state whether it is adverse or favourable (*show all your working*). [2]

Total variance is adverse variances (1800 + 5580 + 5220 + 15 500) less the favourable variances (1860 + 4500) = 28 100 (A) less 6360 (F) = €21 740 (A)

*Award [1] for working and [1] the correct value, Y, and for correctly stating adverse – allow for own figure rule (OFR).*

**The sign in this case can be omitted as the answer is referring directly to a figure in a table which already has the sign in the heading.**

*Allow BOD if other signs e.g £ or \$ etc are used in error.*

**N.B.** do not reward Adverse/Favourable if the final answer is wrong.

- (c) Explain **one** method that Cristiano could use to improve capacity utilization in the quieter months. [2]

Capacity utilization could be improved at *SM* in many ways:

- Increase promotion/advertising to increase interest in the hotel.
- Try a more flexible pricing method – not rigid from Nov to Feb.
- Put on special events e.g., concerts; fairs; festivals; parties, etc. that may require the booking of rooms overnight.
- Arrange a special Christmas/New Year programme to help in December again where rooms might need to be booked.

**N.B.** Do not accept lower prices as this is already used as stated in the table under average room rate.

*Accept any relevant explanation that increases capacity utilization and NOT simply increases revenue.*

*Award [1] for an appropriate method with an additional [1] for application to SM.*

*Award up to a maximum of [2].*

## Section B

4. (a) Define the term *target market*. [2]

A target market is a specific group of people with shared characteristics that a business wants to sell its products or services to.

*Award [1] for partial understanding which may include some reference to a group of people with **shared/common characteristics/needs/wants**. Award a maximum of [2] if the candidate **also** makes reference to the fact that it's a group which the business **wants to aim to sell its products or services**.*

*Do not reward candidates that use "target its products and services" as this is a tautology. Do not reward the term "market segment" in isolation as this is a case of using one undefined term to define another undefined term.*

- (b) Explain **one** advantage **and one** disadvantage for AV of recruiting pilots externally. [4]

External recruitment refers to a business seeking to fill a position with someone who does not work within the company.

Advantages include:

- **More candidates to select from.** AV can explore a much larger pool of candidates and increase the chances of finding qualified experienced pilots. AV employs a total of 50 pilots, of which only 30 are first officers that could be trained and promoted as captains.
- **Finding pilot trainers** Several captain pilots are resigning. AV's training of first officers could be jeopardized. Searching outside the organization can allow AV to find pilots who are already experienced in flying to dangerous areas who could also provide training to first officers.
- **Fresh ideas and fresher work environment.** New applicants can bring in ideas and strategies from their previous experience that can help improve AV's practices. AV's pilots are now in a conflicted labour relationship with AV. Some captains are unhappy as salaries are low and training is not well paid. New recruits could bring some fresh perspectives and feel to AV's work environment.
- As an airline **AV can concentrate on achieving its core goals** rather than being engaged in a lengthy recruitment exercise.

Disadvantages include:

- **External recruitment could be more costly** as AV will pay an agency to manage the process. If recruitment was done internally, AV would probably manage the process "at home", which seems to be less costly.
- **Six months seems too long** considering captain pilots' resignations and AV's current conflict with the pilots' union. Internal recruitment will probably be faster, as AV already has first officers that would be interested in those vacancies.
- **Effects on employee morale/conflict.** Some of AV's first officers are expressing strong interest in applying for those vacancies. If AV recruits pilots externally, it may affect the already eroded pilots' morale at AV. The union is already in conflict with AV. The outside hire can feel like a threat to AV's pilots and the union. which in turn could lead to an escalation of conflict. New outside pilots would have to be trained in AV's business processes. Despite the advantages mentioned above it may be difficult to find "experienced" pilots willing to accept low pay, unsafe aircraft and industrial conflict.

*Accept any other relevant response.*

**Mark as 2+2.**

*Award [1] for a relevant advantage/disadvantage, with an additional [1] for application to AV. Award up to a maximum of [2].*

(c) Explain **one** advantage **and one** disadvantage for AV of creating a customer loyalty programme. [4]

Advantages include:

- Customer retention. The primary motive behind a loyalty programme is to retain customers by rewarding them for their repeat purchase behavior. AV's customer satisfaction and brand loyalty seems to be strong, AV should be interested in retaining customers due to the potential threat of new competitive entrants in the low-cost airline market in South America.
- Relevant customer data and trends could be obtained and recorded. AV makes little use of customer information, and the customer database is very poor. By developing a loyalty programme, AV can get valuable consumer data to be used for marketing purposes, promotions, new services, etc.

**N.B.** do not accept that loyalty cards produce/create brand loyal customers – AV already has this, however, accept **increased customer satisfaction** or **increase brand loyalty** if accompanied by an explanation as why.

Do not accept the word competitors as application unless accompanied by the word “new” or “with loyalty programmes”.

Disadvantages include:

- Market Saturation. Loyalty programmes are everywhere. They usually have similar benefits. AV is already late, new low-cost entrants in the South American market have already developed successful rewards programmes and promotions.
- Increasing costs. AV does not have the human resources to develop the programme. They will need to hire an agency or expert staff in data mining to design the programme and analyze customer data trends.
- **Given loyalty and satisfaction** are already good. Is the cost versus benefits worthwhile?
- **Having a poorly run loyalty programme** (lack of staff and investment) could have more negative effects than having none at all.
- Opportunity cost of alternate methods of attracting/retaining customers.

Accept any other relevant response.

**Mark as 2+2.**

Award **[1]** for a relevant advantage/disadvantage, with an additional **[1]** for application to AV. Award up to a maximum of **[2]**.

(d) Using **Table 5, Figure 2, and** other information in the stimulus, examine whether *AV* should accept *FL*'s joint venture proposal. [10]

- A joint venture *with* *FL* could be considered a **growth and defensive strategy** for *AV*. *AV* will gain on a **larger market share** and **economies of scale** to face the increasing competition of new entrants in the market. Table 5 suggests that both airlines could reach together a 23% market share.
- If mergers and acquisitions are taking place in the industry, *AV* should also think about survival. A joint venture with *FL* could be strategic to remain competitive in the industry.
- *AV* could benefit from **synergies**. *FL* has numerous departments, such as marketing and IT, with qualified staff; *AV* could develop its new loyalty programme at lower costs. *FL* has pilots that could be trained. *AV* could have a larger pool of pilots to fly to dangerous secluded areas. In addition, *AV* could benefit from *FL*'s modern aircraft fleet.
- **Financially**, *AV*'s profit margins (PMs) for 2022 and 2023 are both negative and below the industry averages. With aircraft repair costs increasing from 7% in 2022 to 9% in 2023, *AV*'s PM are falling. In an increasingly competitive market a joint venture with *FL*, larger profitable company seems to be an option to consider to return to profitability.
- Financially, *FL*'s gearing suggests that they are lowly geared. This could be advantageous to *AV* as they potentially could have more access to sources of debt finance than a small company like *AV*. With low gearing *FL* is less exposed to economic downturns or increasing interest rates. A joint venture with a lowly geared company could be low risk for *AV*.

However:

The two airlines deal with customer service and operations in different ways. *AV* has a strong brand image and loyalty, and it has been named the customers' favourite airline for five years. *FL*'s customer satisfaction is low. *FL* does not deal with customer complaints, and flight delays and cancellations are usual. *AV*'s brand image could be damaged.

Managerial and cultural differences between both airlines could jeopardize the joint venture's success. If this happens, *AV* could possibly disappear as a company.

This is exemplified by the fact that *FL* is an international airline running most likely predominantly long-haul flights versus *AS* running shorter haul flights. These are very different markets with specific profitability and operational factors.

**Financially**, *FL*'s gearing ratio is higher than the market average. Therefore, there could be a marginal risk for *AV* in partnering with *FL*. However, considering the overall levels this risk should be considered low.

Possible answer:

*AV* has numerous reasons to accept the deal. An increasing competitive market with mergers and acquisitions taking place reveals a more concentrated market. *AV* will have to find defensive ways to remain competitive. A joint venture with *FL* will imply gaining from managerial and operational economies of scale. *AV* will also benefit from the synergies created. *FL* has numerous departments with qualified HR. *AV* could develop a loyalty programme and benefit from a larger pool of experienced pilots and a modern aircraft fleet.

Financially, *AV* has shown negative profit margins for two years in a row, probably due to increasing aircrafts repair costs deriving from an obsolete aircraft fleet. *AV*'s profit margins are also below the industry average. Join venturing with *FL*, a profitable company, could help *AV* to come back to a profitable path through costs reductions and increased market share. Both companies together could reach a 23% dominance in the South American market.

However, both companies have different ways of doing business. *FL* has low customer satisfaction as flight delays and cancellations are more than often. *AV*'s brand image could be damaged if customers amalgamate their impressions to *FL*'s negative image and bad reputation. Internally, managerial and cultural clashes may occur. Will *AV*'s workforce adapt to *FL*? Will *AV*'s pilots and union be happy working for a venture with a different culture?

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

*If there is no balance, then for a one-sided response where only one approach is considered then award a maximum of [4].*

***N.B.*** *The main focus must be on the joint venture from AV perspective and not FL. Not doing this, results in at varying levels, not meeting the demands of the question.*

***N.B.*** *The nature of the question requires that candidates make a judgment – either they accept the joint venture, or they do not. If balanced arguments are presented but there is no judgment, then the candidate is only partly addressing the demands of the question. Hence award a maximum [7-8].*

*For [10], there is some awareness of the limitations of the stimulus material. Such limitations might include: financial information on competitor airlines (would another airline make a better joint venture partner, profitability of long haul versus shorthaul, the profitability of individual routes (would FL want to scrap the least profitable routes etc.).*

5. (a) Describe **one** feature of induction training. [2]

Induction training is given to an employee as they start their job. The training includes initial aspects of the role plus all the familiarization aspects of working in that role (location; start times; breaks; initial expectations (what the job entails), corporate culture etc.)

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

*Award [1] for a partial description (e.g., as employees start the job) with an additional [1] to include an aspect of an induction process. Award a maximum of [2].*

- (b) Comment on the employee survey carried out by Brian. [2]

The survey was carried out in a two-month period where only 35% of the staff responded. Results were mixed, as seen in the table.

Comments may include:

- Low response rate of 35% hence accuracy not guaranteed.
- Most were generally happy with the hours they worked, but unhappy with all other questions.
- The range of questions was very limited - only 5 questions.
- The option choices to answer were also limited - only 3 choices.
- Only 20% felt they were supported by management; 21% felt that management listened to them and 13% felt they were valued.
- Managers were not asked to answer the survey.

*Award [1] for a comment in context. An additional [1] if there is some mention of at least ONE item of actual data in terms of a percentage from the results of the survey (including low response rate) that links with the comment. Award a maximum of [2].*

- (c) With reference to expectancy theory **and Table 6**, explain **one** reason why Brian should be concerned by the results of the employee survey. [2]

Vrooms expectancy theory states that the "intensity of work effort depends on the perception that an individual's effort will result in the desired outcome." Simply put, people work harder when they believe increasing their efforts will improve their performance and lead to rewards. Employees are motivated when they believe:

- their work contributes to a larger goal or value
- they are competent at the work
- they will be rewarded for their efforts.

Expectancy theory suggests that individuals are motivated to perform if they know that their extra performance is both recognized and rewarded. A switch to performance-related pay (PRP) may generate improvements in motivation.

The evidence suggests that their expectations are certainly not met in 4 out of the 5 categories.

Table 6 suggests that employees do not feel valued, which could be contributing to poor attitudes and a negative working culture.

Salary is not a strong positive, and staff do not feel supported by or valued by management.

Making use of expectancy theory would suggest that Brian should be using PRP and listen much more to his staff.

The problems he faces could stem from poor motivation due to staff feeling undervalued, unsupported and under rewarded due to poor pay.

*Award [1] for showing understanding of expectancy theory. This would include reference to at least one of the three main aspects of recognition, support and reward - although the exact words (expectancy, instrumentality and valence) do not need to be used.*

*Award [1] for some contextual comment referring to the table. (Reference to actual figures not required) The table comment must link to some aspect of expectancy theory.*

*Award a maximum of [2].*

- (d) Explain **two** disadvantages for AS of its employees implementing a work-to-rule. [4]

Disadvantages could include:

- It causes a slowdown or reduction in productivity. AS will still have to pay employees so no financial possibility for AS to replace them as they are working according to their contracts.
- AS will not be able to fulfil the new contracts.
- Damaging reputation and image for AS as work to rule could affect the upcoming busy times and impact the chances of contracts being renewed in the future.
- Employees will not work overtime which in turn could affect AS's contracts and current operations.
- Unlikely to improve the already poor relationship between management and workers namely that managers do not listen (Table 6).

*Accept any other relevant response. N.B. Quality and efficiency are separate features.*

**Mark as 2+2.**

*Award [1] for a relevant disadvantage, with an additional [1] for application to AS.*

*Award up to a maximum of [2] per disadvantage.*

- (e) Using the information provided in the stimulus **and** in **Table 6**, discuss **two** possible approaches to conflict resolution that Brian could use at AS. [10]

There are many approaches to conflict resolution.

Conflict resolution tends to start with some form of **collective bargaining** but other approaches such as **arbitration; conciliation; employee participation; industrial democracy; no-strike agreements; single-union agreements** are also acceptable.

In the case of AS, the following relevant contextual information is **expected to be used**:

- Baggage handling and security services are vital airline functions that cannot easily be replaced or substituted.
- The upcoming busy summer period is a vital time for AS, and loss of staff at this time would be damaging to the reputation of AS.
- Industrial action could stop other airport contracts being secured.
- 15% and 6% are very far apart in terms of negotiation.
- Staff are struggling to feel good about their dealings with management (Table 6), so communication and employee participation may be difficult to arrange.

*Candidates not incorporating any of the above award a maximum of [7-8].*

As a possible solution to the problem, Brian could/should try to open dialogue with the workforce and offer some form of improved offer. He could use the anticipated additional revenue from AS expanding.

Some form of communication would need to be a part of the answer.

*Allow any reasonable developed solution.*

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

*Additional guidance: If the candidate discusses only one approach to conflict resolution (with balanced and substantiated arguments) then award a maximum of [5].*

*If there is no balance, then for a one-sided response where only one approach is considered then award a maximum of [4].*

*If candidates discuss motivational theories as part of e.g employee participation, these are mainly longer term solutions and not likely to resolve the immediate conflict issues.*

*For [10], there is some awareness of the limitations of the stimulus material.*

*For example: Do AS managers get training, are there any other workplace incentives apart from overtime e.g bonuses, free meals, promotions, flat or tall hierarchy, Brian's management style, what are the managers views of their workplace, centralized or decentralized authority (airports are in different geographical locations).*

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