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# Answers

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**Note**

*It is not always possible to publish suggested answers which comprehensively cover all the valid points which candidates might make. Credit will be given to candidates for points not included in the suggested answers, but which, nevertheless, are relevant to the requirements.*

*In addition, in this integrated case study examination points made in one question may be re-introduced or fully developed in other question(s) as long as these are made in the specific context of the requirements of the part of the question being answered.*

*The suggested answers presented below may give much more detail than would be expected from most candidates under examination conditions; they may also have used a particular approach or model which should not be taken as the only approach or model which could have been used. Different approaches and structuring of the answers are expected and full credit will be given for relevant and appropriate solutions to the tasks given. The answers provided here are therefore intended to support revision and tuition for future examinations.*

*Finally, it should be noted that candidates will not get full professional skills marks in a task requirement if they have not presented their answers according to the format asked for. For example, if a task is to be completed using a report and evaluation skills are tested, even if the answer has met the specifically stated evaluation criteria, candidates will not be able to earn all the professional skills marks available if they have not used the report format.*

**1 (a) Briefing notes: Factors enabling HiLite's success in Deeland**

If we are to consider developing the HiLite brand within another country, a useful starting point would be to understand the key factors which have made HiLite so successful in Deeland, and then assess the availability of these same factors and conditions in other countries. This would allow us to evaluate the viability of such a strategy and assess our ability to achieve sustainable competitive advantage overseas. Below are key factors present in Deeland which have helped HiLite to be successful.

**Factor conditions**

We should start by assessing the factor conditions, which include the physical resources, human resources, knowledge and infrastructure present within Deeland, which HiLite is able to access. Deeland has some advantages in regard of its factor conditions, as it has a well-developed infrastructure, based on sound local and national investment policies in air, road and rail travel. A new airport has recently been constructed in Deeland's second largest city, generating an additional 2.5 million overseas passengers to Deeland last year. This is likely to have a significant impact on tourism and the number of visitors to Deeland and therefore will obviously assist in supporting the hotel industry and, of course, our own business.

As a business, we have exploited the transport infrastructure which Deeland offers, locating our hotels on major road networks and near to rail stations. National and regional level investment in such infrastructure has been a great advantage to our business.

Also, Deeland's education system is another endowment to HiLite's service supply. The education system supports the travel and tourism industry with many of Deeland's universities offering highly regarded travel and tourism qualifications, which in turn leads to the availability of highly skilled human resources within the hotel and tourism industries. However, we must be aware that although the education system supports the provision of labour in the industry, we appear to have a problem in recruiting and retaining skilled staff and this is something we must work on in the future.

Therefore, Deeland has positive factor conditions in both infrastructure and human resources which have had a positive effect on the success of our business.

**Demand conditions**

When an organisation is located in a country where the home market demand is strong and where home-based customers are sophisticated and require high standards of innovation and/or quality, this can assist it in achieving sustainable competitive advantage.

In the case of Deeland, it is evident from the recently published 20X8 Hotel Industry Report, that travellers in Deeland continue to be highly demanding customers, who expect high standards but also value for money. It is noted in the report that a recent survey of online hotel customers clearly indicated that 70% would shop around for the best deal in the best location. This indicates that our customers are sophisticated and this must drive us to respond to their needs.

Therefore, focusing on our customers' needs and our particular focus on value for money, as highlighted in the Chief Executive's Report on Performance, has helped HiLite to offer services which are in line with customer demands. This has allowed us to maintain and strengthen our competitive advantage, whilst other organisations, such as Waterbay Leisure and EzeeHols Group, two of Deeland's most long established luxury hotel chains, have both gone out of business this year. It is evident that they have not responded effectively to the needs of its home-based customers.

**Related and supporting industries**

The success of an industry can also be influenced by other industries/organisations which support it and supply it. In the case of HiLite, our location in Deeland provides us with an advantage due to the highly developed hotel and tourism industries within the country. Travel companies both online and on the high street are thriving in Deeland, which clearly will support and enhance the business opportunities of HiLite.

Online hotel booking websites and price comparison sites are also a key factor in driving the success of hotel businesses. In particular, the price comparison websites, comparing our prices with our closest competitors drives our business to be more competitive and to offer better and more flexible pricing options for customers. Only those hotels which can respond to this and are adaptable and flexible to customer pricing demands will survive and remain competitive. This is a potential reason why the two luxury hotel chains mentioned in the previous section have gone out of business this year.

In addition, growth in the business activity in the overall economy of Deeland, will also support the development of more business travel in the country which is another factor in supporting the growth and development of our business traveller provision and opportunities in Deeland.

#### **Firm strategy, structure and rivalry**

Success can be influenced by the way an organisation is created, organised and managed. Evidence suggests, from the comments made in the recent Chief Executive's Report on Performance for 20X7/20X8 that in Deeland there is continuing growth of the budget hotel market, as the luxury and mid-price sectors continue to decline. This is an obvious advantage for HiLite, as we are the leading budget brand hotel chain in Deeland. Therefore, we are perfectly placed to exploit the overall market conditions in the economy. Our brand is a key strength and we must ensure we maintain this strong brand image and customer loyalty to the brand.

Our brand itself is the focus of our overall strategy, which is one of value for money and overall operating efficiency in order to ensure the best price for our customers. As stated above, we have highly demanding business and leisure customers in Deeland who are looking for value for money and best price and are prepared to shop around for this. Therefore, our strategy of a value for money approach, as highlighted in the Chief Executive's Report on Performance 20X7/20X8, should assist in building upon this demand from customers and provide us with sustainable competitive advantage.

Competitive rivalry is also a key consideration, with growth in business activity in the economy driving more opportunities and creating a highly competitive environment. As can be seen in the Hotel Industry Report for 20X8, two new national branded chains of hotels have opened during this year in the main tourist centres of Deeland and national competition remains intense. This rivalry is a key factor in encouraging us to innovate and be flexible to our customer demands, in particular to respond to key trends in the industry, such as technological developments and in particular, the threat of disruptive technologies. The two luxury chains of hotels which have recently gone out of business in Deeland may indeed point to the fact that the intensity of rivalry in the industry is affecting the luxury end of the market more adversely than the more flexible budget hotels. This supports our overall strategic position as a budget hotel operator.

#### **Government support**

It is clear that the Deeland government is supportive of the travel and hotel industry in a number of ways. As already mentioned, investment in infrastructure at both a regional and national level is a major influence on attracting travellers to Deeland, in particular the investment in the new airport, as previously highlighted. Additionally, support in the education sector to develop skilled and well-trained staff for the travel and tourism industry is also a key factor in ensuring a high level of supply of talented and well-educated staff for our hotels.

A further factor highlighted in the Hotel Industry Report 20X8 is that the government of Deeland has recently announced investment and tax breaks for employers offering job creation schemes in a wide range of industries, including travel and tourism. Again, this points to a high level of government support to encourage a thriving business economy, including the tourism and hotel industry. HiLite could take advantage of such tax breaks.

- (b) Tutorial note:** *Under exam conditions, candidates would not be expected to replicate the financial table presented in Exhibit 3 within the body of the report which they have been asked to present to the finance director. It has been included in the answer below for the purpose of demonstrating how a professionally presented report should have been provided to the finance director in a real-life situation.*

**To:** The Chief business analyst

**From:** Senior business analyst

**Date:** xx/12/20X8

#### **An evaluation of the proposed acquisition of the Comfi Stay hotel chain**

##### **Introduction**

The following report presents an evaluation of the proposal to acquire the Comfi Stay hotel chain located in Veelandia. The report will consider the financial viability of the proposal and also consider a range of other criteria upon which to base the final decision and will evaluate the implications of this proposal for HiLite.

## Financial considerations

Table 1: Financial evaluation of the proposal (Note all figures have been converted to the \$)

		Year					
	0	1	2	3	4	5	6
<b>Revenues</b>		48,180,000	48,180,000	53,961,600	53,961,600	53,961,600	53,961,600
<b>Initial Investment</b>	80,000,000						
<b>Refurbishment</b>	10,000,000	5,000,000					
<b>Environmental Investment</b>		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
<b>Training Costs</b>		3,000,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
<b>Operating costs</b>		21,681,000	21,681,000	24,282,720	24,282,720	24,282,720	24,282,720
<b>Total Costs</b>	90,000,000	30,681,000	24,181,000	26,782,720	26,782,720	26,782,720	26,782,720
<b>Cash Flow</b>	- 90,000,000	17,499,000	23,999,000	27,178,880	27,178,880	27,178,880	27,178,880
<b>Discount Factor 12%</b>	1.00	0.89	0.80	0.71	0.64	0.57	0.51
<b>Present Value</b>	- 90,000,000	15,624,107	19,131,856	19,345,390	17,272,670	15,422,026	13,769,666
<b>Net Present Value</b>	<u>10,565,715</u>						

From the net present value calculation of the proposed acquisition of the Comfi Stay hotel chain (Table 1), it would appear to be financially viable, returning an NPV of nearly \$10.6 million. This equates to a return on the initial investment of 13.2%. Discounted payback occurs at approximately five years and three months.

However, it would be necessary to assess the viability and reliability of the data contained in the above NPV to assess how realistic the revenue predictions are, based upon predicted customer numbers and revenue per room calculations. Economic conditions may be difficult to predict in a country such as Veelandia and we would need to take a cautious approach in any forecast revenue results. Likewise, although our initial investment and refurbishment costs may be relatively straightforward to assess, long-term costs in training and operations need to be carefully considered, particularly in the light of the lack of investment which has been carried out in these hotels previously.

We should also consider foreign currency risk exposure, in relation to the stability of the Veelandia currency. We have never operated any hotels overseas and this brings with it a number of challenges for our business in terms of translation and transaction risks. We have carried out our NPV calculation in our own currency (\$), but we must consider the potential impact of the Veelandia currency fluctuations in particular on our forecasted revenues and operating costs.

Before making any decision based upon these financial results, I would like to see possibly a range of NPV calculations based upon best and worst-case scenarios. In addition, before proceeding with the acquisition of the Comfi Stay hotel chain, we should also consider a range of other issues which are set out below:

### Strategic fit of the proposed acquisition

We should assess whether the proposed acquisition of Comfi Stay is in line with our strategic position; that is, does it have a strategic fit with the rest of our business? We should also consider the cultural fit with our existing operations, particularly as the Comfi Stay hotel chain is located in a different country, 5,000 miles away.

As the Comfi Stay hotel chain is within our current sphere of business operations as a hotel, it would be considered to have a strategic fit. However, the strength of that strategic fit may be questionable, based on the fact that it is a mid-range hotel chain offering additional facilities such as gyms and pool facilities. Our current HiLite hotels located in Deeland do not offer such additional facilities and we would need to carefully consider how to integrate Comfi Stay's hotels into the HiLite brand, which is based upon a 'budget' offering. Therefore, strategic fit may not be as clear-cut as we may think.

However, it is evident from the recent Hotel Industry Report for 20X8, that consolidation in the marketplace is becoming common, and hotels operating within different sectors of the market are consolidating through acquisition. Therefore, it would seem that this option could be suitable, based upon recent acquisition activity in the market. Also, our chief executive has suggested in his Report on Performance for 20X7/20X8 that HiLite is considering the strategic direction of developing the HiLite brand overseas and therefore this would exploit this potential opportunity for us.

Another consideration is the cultural fit of the Comfi Stay hotel chain. As Veelandia is located over 5,000 miles away from Deeland and the fact that the hotels are not budget hotels, there may be cultural differences to consider. The fact that it is a family-run business may also mean that it has a family-based culture which may be difficult to change and integrate into our current operations and style of management.

National culture is also clearly different in Veelandia and may be challenging for HiLite. Poor employment practices and evidence of use of under-age labour in the hotel industry in Veelandia must be thoroughly investigated and we must make sure that our own cultural behaviours are transferred to replace ones which are clearly not suitable for our own operations. This

must be a priority for HiLite, as our own reputation could be damaged by association with the Comfi Stay hotel chain if we do not address these issues. However, we will also be sensitive to cultural differences and only make changes where necessary.

#### **Acceptability of the acquisition**

When considering the acceptability of the proposed acquisition of the Comfi Stay hotel chain, we need to evaluate whether it is consistent with our current objectives in terms of risk and return, and importantly whether it will be acceptable to our stakeholders.

When considering the calculations of net present value, it would be prudent to test the sensitivity of some of our assumptions to evaluate the overall impact of and potential sensitivity of these factors on the final outcome. For example, a failure to achieve the expected occupancy levels from year 3 onwards could reduce the final NPV significantly, as expected revenues would be significantly reduced. Any combination of variable changes needs to be tested, to assess our sensitivity to potential changes in the underlying assumptions made and the risks which these changes may pose. We must also verify the accuracy of our assumptions.

We also need to consider acceptability of the proposed acquisition to our stakeholders. Our own staff based in Deeland may be largely indifferent to the decision, but those hotel managers who may be requested to re-locate may potentially be reluctant (or conversely may indeed be enthusiastic at the proposal). We must ensure that this is communicated effectively to these hotel managers in good time, should the decision to acquire Comfi Stay be made. Staff in Veelandia will likely react positively to this investment, if it means that employment will continue and there is likely to be a high possibility of improved employment rights and an improvement in working conditions and opportunities for training.

Our shareholders are likely to be favourable towards the strategy if it creates a positive return on shareholder wealth. The chief executive has clearly stated in his Report on Performance that this is a proposed strategy and therefore shareholders will be accepting of this business development opportunity, as long as it impacts favourably on the profits of the business. However, we must be mindful of the impact of this decision on our shareholders if they believe this decision may impact adversely on our reputation, as this could indeed impact adversely on shareholder wealth. Effective and regular communication with our shareholders must be carried out.

Customers in Veelandia may not favour this direction for Comfi Stay hotels if it means an increase in prices. However, hotel refurbishments and updates should increase the quality of the hotel offering, which have clearly become outdated due to lack of investment. This improvement to the quality of the Comfi Stay hotels should satisfy potential customers.

We also need to consider how the wider community and the media will react to this decision. There is a risk that it will be seen as unfavourable by the wider public, as Veelandia does not operate to the standards of Deeland and may be seen as being unethical to operate in a low wage economy. We must make it clear to these stakeholders that it is our intention to operate at the highest ethical standards within Veelandia, should the acquisition be successful. For example, we should follow strict guidelines on offering a fair wage to employees and not allowing under-age workers.

#### **Assessment of resource requirement of the proposed acquisition**

We must also consider whether we have the resources we need to carry out the acquisition of the Comfi Stay hotel chain. It would appear that we have the necessary funds available to undertake the strategy, through a combination of debt and equity. We are a highly profitable business and shareholders will be expecting us to continue the growth in profit which we have achieved in recent years. Therefore, shareholders should be supportive of such an investment through equity and debt finance.

We also need to consider our core competences and our strategic capabilities required to undertake this acquisition. We have never undertaken an acquisition strategy before, therefore we must assess our own management skills and capabilities to undertake this strategy successfully. Without the necessary expertise, we could make a number of errors in the process of acquisition, resulting in its failure. We may need to consider hiring external consultants to assist with the acquisition process.

We must also assess our skills and competences to operate and manage these hotels in Veelandia. We have highly skilled staff who can be used to train and work with the Comfi Stay hotel staff to ensure that we manage the transition carefully and successfully. However, it is likely that local staff will not have the same level of training, commitment and loyalty which will need to be developed if the venture is to succeed. This may be a large barrier to overcome. However, the planned investment in training local staff is significant and therefore this should go a long way to ensuring that the proposed acquisition is successful. However, on-going management and monitoring of local staff and management will be critical.

#### **Concluding comments**

There are a number of positive factors to suggest that the acquisition of Comfi Stay hotel chain is a viable strategy for HiLite. However, the board of directors should prioritise which aspects of the decision criteria are most important to the success of the venture before making a final decision.

## **2 (a) PRESS RELEASE**

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#### **For immediate release**

#### **HiLite's proposed acquisition of the Comfi Stay hotel chain, Veelandia**

HiLite Hotels, Deeland's most popular and largest budget hotel chain, has recently announced its intention to acquire the family-run 'Comfi Stay' chain of hotels, located in Veelandia. Since the announcement, there have been some concerns raised that the acquisition of the Comfi Stay hotel chain goes against the high principles and standards which HiLite strives to attain.

HiLite wishes to make clear the following points in response to these concerns:

### **1. Employees' rights**

Although the Comfi Stay hotel chain is located in a low wage economy, it would be HiLite's intention to ensure that its staff located in Veelandia are not exploited in any way, and if it is found that child labour is being used or staff are working excessive hours, then this practice will immediately be ceased on acquisition. HiLite values its hotel staff highly and is committed to ensuring that it is a great place to work, and this commitment will also be given to its hotel staff in Veelandia.

It is not unethical for HiLite to pay staff in Veelandia below the rates which its staff in Deeland are paid, particularly if the wage rates are favourable when benchmarked within the local economy, for similar employees in the hotel sector. This is common business practice across many industries operating in multiple locations. However, as stated above, it is not the intention of HiLite to exploit staff located in Veelandia. HiLite invests around \$10 million annually in skills and development programmes for its staff in Deeland, and has implemented the new Deeland National Living Wage six months in advance of the government's launch date. Therefore, rates of pay will be reviewed for all staff and will be commensurate with the role undertaken and the expected and fair wage rate in Veelandia. We will provide training opportunities for all staff and will also offer employment contracts which will give employees security of employment.

### **2. Employment opportunities**

HiLite's intention is to provide employment and development opportunities for the staff employed in all of its hotels. Over the next six years, HiLite intends to invest \$10 million in training and staff development in Veelandia to ensure staff there are as highly skilled as those operating in Deeland.

In line with our diversity and equality policies, HiLite will immediately cease the policy of only employing male hotel managers and will implement a policy of selection for senior roles based upon experience and suitability for the role and not based upon gender, age or ethnicity. Obviously, HiLite will need to ensure cultural sensitivity in all of its employment activities but will ensure that its own employment policies, in terms of equality and diversity, are adhered to, wherever it is located throughout the world.

### **3. Environmental investment**

In terms of the environmental impact of the decision to acquire the Comfi Stay hotel chain, HiLite intends to invest \$6 million over the next six years in environmental investment in the Comfi Stay hotels. This should go some way towards prevention of further incidents of pollution which have recently occurred in some of its hotels.

In addition, a thorough investigation of environmental practices and policies of the whole business and at individual hotel sites would need to be carried out to assess any further investment, training or policies which need to be implemented throughout the Comfi Stay hotel chain. It will be expected that all of Comfi Stay hotels will operate to the same environmental and sustainable standards as all HiLite hotels, once the environmental investments are fully operational.

Targets will be set and monitored by HiLite for all of the Comfi Stay hotels in terms of recycling, CO<sub>2</sub> emissions and levels of wastage, in line with those operated throughout the rest of the business and training will be given to all staff in environmental management activities. These targets will need to be set to reflect the local resources available to each hotel to undertake environmental management activities such as the existence of local re-cycling depots.

### **4. Long-term approach**

It would also be HiLite's long-term intention to work with the government of Veelandia and the travel and tourism industry in the country to try to work together on improving the environmental awareness in the whole industry.

HiLite intends to take a pro-active approach to managing the social and environmental impact of its activities in Veelandia. Experienced hotel managers from HiLite will be seconded to Comfi Stay hotels to ensure a smooth transition and to assist in the training of local staff to run and manage the operations effectively. Although the Comfi Stay hotels are located 5,000 miles away from the main operations of the business, they will be expected to adhere to the corporate guidelines and standards set by HiLite.

It is the intention of the management of HiLite to invest in re-vitalising the Comfi Stay hotel chain to develop long-term employment opportunities for staff and to provide a great location for international travellers to visit.

**For any further information please contact our Sales and Marketing Department.**

## **(b) For the attention of the Finance Director**

### **Notes on the role and benefits of integrated reporting to stakeholders**

#### **Aims of integrated reporting in effective communication**

If we are to implement an integrated reporting approach, we should do so with the aim to improve the quality of information we provide to our stakeholders and to promote a more efficient approach to our corporate reporting activities which consolidates and draws upon different communication strands and methodologies. This should enable us to present a more efficient, cohesive approach to stakeholder communication.

#### **Role of integrated reporting**

HiLite's integrated report should be designed to benefit all of our stakeholders who are interested in how we create value over time, including our hotel staff, the hotel customers, local communities where our hotels are located, suppliers and, of course, our investors. Importantly, our ability to create value is linked directly to the value we create for those stakeholders.

The primary role of an integrated report is to improve the quality of information available to our stakeholders, by communicating broader and more relevant information which can assist them in effective decision making, in particular for our investors (however, investors form only a part of this system). Research indicates that investors want broader information which goes beyond pure financial data, similar to the needs of our wider stakeholder groups mentioned above.

### **The benefits of integrated reporting**

The benefits to stakeholders of using a broader information set are numerous and have been highlighted in several studies which have surveyed stakeholder attitudes to such information. The benefits include (amongst others): an improved relationship between HiLite and our investors, a greater insight for our hotel customers and our hotel staff into our organisation's business model and the benefits we can offer them, strategy and long-term outlook, as well as a greater understanding of our use and dependence on different resources and 'capitals' and our access to and effect on them.

HiLite's investors in particular would benefit from such information which informs investment decision-making. Using a broader set of information can also benefit them by providing a greater understanding of the drivers of our performance and value creation. With this information, they can be more confident of our long-term outlook and our ability to create value over time.

Benefits recognised at the company level could also impact on our stakeholders. For example, studies suggest that companies who adopt an integrated reporting approach outperform those which do not and have more long-term investors. This will clearly benefit all of our stakeholders, including our hotel staff and our customers.

### **Building relationships with our stakeholders**

By providing information which stakeholders need, value and find useful will help us build long-term relationships with these stakeholders. Information which stakeholders would value includes an overall explanation of our business model, how we generate our business and a well-articulated strategy and a clear understanding of our anticipated future opportunities/direction and risks. Stakeholders could then use this information in many ways, including to help manage investment risk, evaluate the hotel industry dynamics and the regulatory environment and to assess HiLite's long-term prospects and stability.

This will be useful for our investors, but would also be important to our staff who are looking for employment stability and future employment prospects. Our local communities will also wish to see our commitment to the local economy in to the future. As a hotel business, we can stimulate local economies by bringing in tourists to the area to spend money in the local economies in which we operate.

Integrated reporting could help us to focus on aspects which materially affect our long-term ability to create value. Through communication to our stakeholders and transparency, the application of integrated reporting allows us to 'tell our own story', preventing analysts and external observers (such as the recent newspaper article) from making assumptions on our behalf.

Although institutional investors are largely interested in the financial performance and quantitative key performance indicators of HiLite, assessing other performance indicators is also likely to play a pivotal role in an investment decision-making process, including wider information for instance, environmental, social and governance issues, which will help investors to assess investment risks more fully.

Reporting on broader areas of value creation is likely to be important to a wide range of stakeholders also, offering an insight into business strategy, performance, governance and prospects, encouraging improved relationships with customers, employees, suppliers and local communities. Stakeholders are able to use integrated reporting information in the following ways:

- Economic analysis: to understand trends and externalities in the hotel industry which could affect the economic outlook and value creation of HiLite.
- Industry analysis: to understand factors driving competitiveness in the hotel industry and the potential for sustained value creation in an industry.
- Company strategy: to understand management quality and corporate strategy and evaluate our ability to respond to emerging trends in the hotel industry, such as disruptive technologies and consolidation of the industry.

**3 (a) To: The Board of HiLite**  
**From: Senior business analyst**  
**Date: XX/12/20X8**

### **The impact of disruptive technologies on HiLite**

#### **Introduction**

The following report will evaluate the potential strategic impact on HiLite of the disruptive technologies which are emerging in the hotel industry, and will consider the range of technologies emerging in the industry and the likely impact they could have on HiLite. The report will also highlight a number of potential applications of disruptive technologies which HiLite may consider implementing.

#### **The emergence of disruptive technologies**

A disruptive technology is a new emerging technology which unexpectedly displaces an established one with the outcome of 're-shaping' that industry, or indeed, creating a new one. Today's hotel customer is looking for a more unique and personal experience, valuing variety, choice and individuality, which disruptive technologies are attempting to address. So, what can we

do to protect ourselves against disruptive technologies, and attract guests to stay in one of our HiLite hotels? The answer would seem to be to offer a more personal, individual unique service and experience, matching customers' budgets and spending patterns. The use of disruptive technologies may help us move some way towards achieving this, or if we choose to ignore this development, may in fact be a considerable competitive threat to our future. The comments made by the sales and marketing director, that the concept of a hotel is under threat, may be considered to be somewhat pessimistic, but her overall assessment of the growth and emergence of disruptive technologies must be taken seriously by the board. It is unlikely to be an issue which will simply 'blow over', as suggested by one of the board members.

### **The challenges posed by disruptive technologies**

As discussions at the recent board meeting highlighted, there have never been more alternatives to staying in a 'traditional' hotel, such as ours. Online accommodation providers, such as 'Rent-a-Room' and perhaps more importantly, access to such a wide range of alternative accommodation provision options through the internet, has never been easier or more convenient for customers.

Disruptive technologies such as 'Rent-a-Room' are a real threat to HiLite and the comments made by the operations director at the recent board meeting should be challenged. The belief that the threat is an 'if' rather than a 'when' is indeed incorrect and likely to be dangerous to our long-term existence, as clearly Rent-a-Room is already a present and growing threat to us. There is clearly no 'if' as to the emergence of disruptive technologies and therefore this is a threat we must address. We simply cannot wait for it to go away. This is evidenced by the Hotel Industry Report for 20X8 which points to the changing competitive dynamics as one of the main challenges for the hotel industry for 2019 and beyond.

### **Flexibility**

The hosts advertising with Rent-a-Room have the flexibility to be able to offer a wide range of services, such as individually tailored breakfast requirements, local on-site knowledge to offer up to the minute recommendations for highlights of the city, or providing introductions to local contacts which can get customers the best up to the minute offers. This provides guests with a far more customer-focused and individualised service than a 'homogeneous' service provider like HiLite could ever hope to successfully or economically provide.

In addition, the majority of hosts in this online 'space-sharing' environment, are likely to have high speed internet and web-movies for their own use, so those benefits can automatically be included in the price to guests, which is often considerably less than a hotel room, due to the significantly lower overheads incurred by host providers. Therefore, these alternative hosts are not only challenging us on product offering, but more importantly, on price. As we are a low-price focus business, our whole basis of competitive advantage is being challenged by disruptive technologies.

### **Wider choice of product offerings**

The comments made by the finance director at the recent board meeting demonstrate a clear and realistic understanding of the challenges faced by HiLite from disruptive technologies. We must not be complacent and think that our customers will be satisfied with what we offer and will not be tempted by the offerings of disruptive technologies. We must be aware that disruptive technologies such as Rent-a-Room can create some novel product offerings and as the number of these offerings grow and the choice becomes wider, the more the traditional mainstream hotel user will be tempted to try out these offerings.

### **Personalisation**

For a homogeneous product offering such as ours, we are likely to face significant challenges in being able to personalise our customer experiences. For Rent-a-Room hosts, personalisation of customer experience is significantly easier, as they are only dealing with one customer at a time, making the process straightforward. However, HiLite manages 46,000 hotel rooms across 510 hotels, meaning that personalisation of customer offerings is not only likely to be logistically difficult but also very expensive. Our hotels run with low levels of staff, albeit staff who are highly trained in customer services, but offering such high levels of personalisation will be a significant challenge.

### **Smartphone technology**

Disruptive technologies do not only take the form of alternative product offerings such as Rent-a-Room. The use of smartphone applications in a range of ways from customisation through to door entry technology is a major development in the industry and one which we must consider. Although it is evident that customers are demanding greater flexibility, we would be faced with considerable obstacles if we changed the customer check-in process, to enable greater customer flexibility through smartphone technology. New software would need to be installed to manage the secure interface with customer smartphone apps with our hotel property management system, bringing with this the risk of data corruption and external systems access threats. The cost would also be significant.

There is also the problem of universal access for all of our customers, as many may not use smartphone technology. Implementing new door entry technology will also be expensive with the need for multiple entry and access systems including smartphone access and key card access. Managing multiple access methods adds unnecessary operational complexity for us which is likely to be a major barrier.

### **Potential for application of disruptive technologies by HiLite**

However, we could consider some less expensive adaptations of disruptive technologies. There are opportunities for personalisation in the form of smartphone apps capable of providing information to guests throughout their stay in a destination, giving us the opportunity to enhance the guests' experience – such as local weather reports, local events and ticket offerings and also restaurant, theatre or other visitor attraction booking facilities through third party channels close to our hotels. We



could also offer advance booking facilities to local gyms or sporting events which are taking place nearby. Overall, we should look into the possibility of offering an online and mobile interactive concierge facility for our guests which provides the facility to book rooms, extra services and personal experiences unique to them, on the move. This could be a starting point for HiLite to move into a more personalised service which moves us some way towards addressing the threats of the disruptive technologies in the hotel industry. However, much more work and evaluation of this threat must be done on an on-going basis. It can no longer be ignored.

## Conclusion

Disruptive technologies present significant challenges to our business. As stated, we can no longer simply offer hotel rooms to our guests – we need to become a relevant focal point for destination experiences and tailor our offerings to more individual customer needs. This will be a significant challenge to us and one which we simply cannot ignore.

(b)

### Risk 1: Lack of focus on IT/IS strategy

#### Outcomes

- HiLite's business strategy is not supported by IT/IS strategy, leading to failure
- Business opportunities missed due to poor IT/IS strategy
- Wasted resources due to lack of strategic leadership and direction

#### Recommended actions

- Employ an IT director
- Align the business strategy with the IT/IS strategy

## Notes:

### Outcomes

A fundamental starting point of a well-managed and controlled information system is the development of an information system strategy. A major risk to the long-term success of our business is our lack of strategic focus on information systems and its importance to achieving our overall business strategy. If our business strategy is not supported and integrated with our information systems strategy, then it is likely that our overall business objectives will not be successfully achieved. For example, our strategic focus of 'growth through innovation' as defined in our Chief Executive's Statement, would be jeopardised if this innovation was not considered alongside the appropriate technologies which can support and drive such innovation.

Without adequate focus on the strategic importance of information systems then it is likely that business opportunities such as innovation in product and service delivery could be missed which may harm our competitive advantage and result in our competitors moving ahead of us. Likely also to waste resources on ineffective systems which do not add value to our business.

### Recommended actions

A contributory factor towards this lack of focus on the importance of an information systems strategy is the fact that we do not have an IT director who can lead our information systems development needs. For a business of our size and the nature of the dynamic technological developments occurring, an IT director would seem to be essential. We should therefore consider the employment of an IT director who would then provide a strategic focus and direction for our information systems to ensure that the information system strategy is supported and it enhances the overall business strategy.

As stated above, it is likely that business opportunities could be missed as a result of a poor focus on IT/IS strategy. Therefore, a key recommendation is that we must ensure that any strategy we consider in the future must be aligned to our IT/IS strategy. We should consider how our IT/IS capabilities and activities can enhance or potentially inhibit our strategic direction and how we must develop out IT/IS capabilities to support our strategic direction.

### Risk 2: Cyber and data security breaches

#### Outcomes

- Loss of key organisational and customer data
- Severe business interruption leading to loss of business
- Damage to reputation and financial cost due to compensation and legal claims

#### Recommended actions

- Invest in the latest cyber security systems and controls
- Implement and upgrade information systems physical and access control environment

**Notes:****Outcomes**

Cyber and data security breaches are a significant threat to modern businesses, including HiLite. As an organisation, we could be vulnerable to the threat of external hacking of our key organisational data. A considerable threat could also be that of virus infection which could corrupt, or in the worst-case scenario, delete or disable our critical operating systems. The consequences of such threats are that our business would suffer severe interruption, particularly our online booking facility for customers which would be unable to function, leading to loss of business and dissatisfied customers.

Similarly, internal physical and access control weakness in our information systems environment could lead to system failure or corruption of data. Allowing unauthorised or untrained staff access to our information systems could result in data breaches and incorrect processing of bookings or transactions. Correcting these errors will be costly and time consuming. Consequently, any breaches to the security of our information is likely to be highly damaging to our reputation and also may result in costly compensation claims from customers who have been affected by any such breaches.

**Recommended actions**

We must make sure that we operate the latest industry standard firewalls and virus protection software and procedures. Regular testing of our security systems should be carried out and back-ups of all our data undertaken regularly and stored separately.

Access to our systems internally should be given to only authorised and trained staff. Authority of systems usage should be set and authorisation controls such as passwords and user ID systems should be used at all times. The system should produce regular reports on systems access and usage which should be monitored by IT staff and any exceptions should be reported.

**Risk 3: Business continuity threat****Outcomes**

- Unable to operate effectively due to no disaster recovery plan
- Loss of business/damage to reputation
- Cease to operate

**Recommended actions**

- Implement a disaster recovery plan
- Strategic level focus on role of IT/IS in overall business activities

**Notes:****Outcomes**

There is a lack of awareness at board level of the importance of our critical information systems on the continuity of our operations and the need to ensure that we have plans in place to ensure business continuity, should a disaster event take place. With insufficient planning and risk assessment it is likely that HiLite will not be ready for a business-critical event.

This may result in the business being unable to operate for a period of time, within which we will lose customers, and revenue will be severely affected. Our reputation is also likely to be damaged if our disaster recovery plans are ineffective or inadequate.

In the worst-case scenario, the business may not be recoverable and we could go out of business.

**Recommended actions**

The board must implement a disaster recovery plan to encompass a range of potential threats to our information systems including terrorist attacks, cyber-attacks, fire, flood or any other potential critical systems threat. We need to assess which disasters may occur and assess their level of threat to the business and ensure we have sufficient arrangements to manage such an event.

This reiterates a point made in a previous slide that the focus of information systems should be at the strategic/board level of the organisation. Our information systems should be seen not only as critically important business assets but also as key drivers of our business strategy and therefore it is important that we have a strategic focus and direction for our information systems.

- 1 (a)** Up to 2 marks for each relevant point made in discussing the factors which have enabled HiLite to be successful in its own country.

To including following points:

- Well-developed infrastructure
- New airport – significant impact on tourism
- Locating hotels on major road networks and near to rail stations
- National and regional level investment
- Education system which supports travel and tourism industry
- Highly skilled human resources in the hotel and tourism industries
- Travellers in Deeland highly demanding
- Customers are sophisticated
- Offering services in line with customer demands
- Maintain and strengthen competitive advantage
- Competitors gone out of business
- Highly developed hotel and tourism industries within Deeland
- Travel companies thriving
- Hotel booking websites and price comparison sites – driving the success of hotel businesses
- Flexible pricing options
- Growth in the activity in the overall economy
- Continuing growth of the budget market
- HiLite – perfectly placed to exploit overall market conditions
- Brand is focus of its overall strategy
- Value for money approach in building sustainable competitive advantage
- National competition remains intense
- Intensity of rivalry affecting luxury end of the market more adversely
- Supportive of travel and hotel industry
- Investment in infrastructure
- Support in education sector
- Tax breaks

(Up a maximum of 16 marks in total)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
1 (a) Analysis skills in identifying relevant information	<i>The candidate has demonstrated no analysis skills. They have failed to effectively use and consider the appropriate and relevant data sources presented in the exhibits (particularly Exhibit 1 and 2). There is very little evidence of the candidate investigating the relevant information provided.</i>	<i>The candidate has demonstrated some basic analysis skills, by presenting some evidence of investigating a limited set of relevant data sources presented in the exhibits. There is some relevant analysis contained in the answer but most of the answer is merely restatement of the information provided, rather than clear demonstration of analysis.</i>	<i>The candidate has demonstrated some good analysis skills. The candidate has investigated and used most of the appropriate and relevant information contained in the exhibits and, in most cases, has attempted to demonstrate investigation and analysis rather than mere restatement of the information.</i>	<i>The candidate has demonstrated excellent analysis skills. The candidate has also demonstrated an ability to investigate and analyse a wide range of appropriate information from the exhibits and the candidate has presented a sound and well-considered analysis and investigation of the most relevant information presented to them.</i>
Example	<i>The candidate has provided little structure to their answer, presenting a poorly considered and limited number of points, which may include reference to Deeland's infrastructure, customers and/or competitors but there is no logical or clear analytical approach taken.</i>	<i>The candidate has recognised that Deeland has a well-developed infrastructure and has described these, including the new airport, but these have merely been stated and not analysed in terms of their impact on supporting the development of HiLite's growth.</i>	<i>The candidate has correctly considered strong home demand as identified from the Hotel Industry Report and has recognised the potential threat that customers are prepared to shop around. However, the candidate has not then considered the information from the Chief Executive's Report relating to offering value for money in order to ensure that customers remain loyal, demonstrating less well developed analytical skills than an answer assessed as 'very well'.</i>	<i>When considering the strong home demand, the candidate has assimilated information from both the Hotel Industry Report (relating to the highly demanding customers of Deeland and their indication that they are prepared to shop around), with the Chief Executive's Report indicating HiLite's focus on value for money to address these customers' demands. The candidate has recognised the clear link between these two pieces of information and has also considered that other organisations have not responded as successfully as HiLite. This demonstrated strong analytical skills.</i>
	0	1	2	3

- (b) Up to 2 marks for each relevant point for evaluating the proposal to acquire the Comfi Stay hotel chain.

Points to include:

- Positive NPV – so likely to be acceptable
- Return on initial investment of 13.2%
- Discounted payback of approximately five years
- Need to assess viability and reliability of the data
- Economic conditions may be difficult to predict
- Foreign currency risk exposure
- Undertake sensitivity analysis

**Strategic fit**

- Within current sphere of business operations as a hotel
- Consider how to integrate Comfi Stay's hotels into a budget brand
- Consolidation in the marketplace is becoming common
- Considering overseas development fits with this proposed strategic direction
- Cultural fit needs consideration
- Family-run business
- National culture different
- Reputation issues must be considered

**Acceptability**

- Consistency with current objectives
- Test sensitivity of assumptions in the NPV
- Staff based in Deeland may be indifferent to the decision
- Hotel managers requested to re-locate may be reluctant
- Staff reaction
- Shareholders' reaction
- Customers' reaction
- Wider community and the media views

**Resources requirement**

- Availability of funds
- Shareholders supportive of an investment
- Consideration of core competencies and capabilities
- On-going management and monitoring of local staff critical
- Local staff may not have skills and competencies

(Up a maximum of 16 marks in total)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
1 (b) Evaluation skills in presenting a balanced and objective appraisal of the relevant information relating to the acquisition of the Comfi Stay hotel chain	<i>The candidate has failed to demonstrate any suitable evaluation skills. The answer is merely descriptive and repetitive of the information provided in the fact sheet and contains no evidence of the use of professional judgement to evaluate/appraise the acquisition proposal objectively.</i>	<i>The candidate has demonstrated limited evaluation skills in appraising only some of the relevant information related to the acquisition of the Comfi Stay hotel chain. There was some evidence of professional judgement shown but this was weak, as the answer was not well balanced (For example, there was NO financial analysis at all or the candidate presented ONLY financial analysis).</i>	<i>The candidate has presented a report and demonstrated good evaluation skills in providing an objective and well balanced appraisal and a good range of the financial and non-financial information related to the acquisition of the Comfi Stay hotel chain. The candidate demonstrated sound evidence of professional judgement in providing a largely balanced and objective evaluation of the relevant sources of information.</i>	<i>The candidate has presented a report and demonstrated excellent evaluation skills in objectively appraising most/all of the relevant financial and non-financial information related to the acquisition of the Comfi Stay hotel chain. The candidate demonstrated excellent judgement in assessing a wide range of facts and evidence from various sources to present a well-balanced and objective report, which was highly suitable for evaluation of the Comfi Stay acquisition.</i>
<b>Example</b>	<i>The candidate has only described the results of the NPV calculation, with little or no other appraisal of any other information presented to them.</i>	<i>The candidate has appraised the results of the NPV, including a discussion of the return on investment and payback but has provided no other appraisal of the non-financial information, therefore the answer has not considered all potential relevant information and is therefore not balanced.</i>	<i>The candidate has considered both the financial and non-financial information but has not used all of the relevant information available, such as the lack of evaluation of the strategic fit, based on the location of Comfi Stay and the differences in its operations and culture. Also, the candidate has considered some of the stakeholders but not all of the most relevant ones. Therefore, the answer is not adequately balanced or objective for all potential stakeholders.</i>	<i>The candidate has objectively considered the NPV data and recognised the need to assess the viability and reliability of the data contained in it and they have also considered the need to evaluate the sensitivity of the data. This shows clear objectivity. They have also clearly assessed strategic fit in terms of operational and cultural factors and have presented a sound evaluation of a range of stakeholders and the acceptability of the investment to these, including staff, customers and shareholders. Therefore, the answer is well balanced.</i>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>4</b>

- 2 (a)** Up to 2 marks for each relevant point made, in relation to assessing the social and environmental impact of the proposed investment in Veelandia and considering how this reassures the stakeholders of HiLite.

Points to include:

**1. Employees' rights (SOCIAL)**

- Intention to ensure staff in Veelandia are not exploited
- Stop child labour or excessive working hours
- Values all staff highly
- Not unethical to pay staff below rates in Deeland
- Invests in skills and development programmes
- Implemented Deeland National Living Wage six months in advance
- Fair wage rate in Veelandia
- Training opportunities for all staff
- Offer security of employment

**2. Employment opportunities (SOCIAL)**

- HiLite intends to invest \$10 million in training and staff development in Veelandia
- Follow diversity and equality policies
- Selection for senior roles on experience
- Cultural sensitivity in employment activities

**3. Environmental investment (ENVIRONMENTAL)**

- Investing in environmental systems
- Investigation of environmental practices and policies to be carried out
- Comfi Stay hotels to operate the same environmental and sustainable standards as HiLite hotels
- Targets set and monitored in recycling, CO<sub>2</sub> emissions and wastage
- Training given to staff in environmental management activities

**4. Long-term approach (SOCIAL and ENVIRONMENTAL)**

- Work with the government of Veelandia and travel and tourism industry to improve environmental awareness
- Pro-active approach to managing social and environmental impact
- Hotel managers from HiLite seconded to Comfi Stay hotels
- Comfi Stay hotels expected to adhere to corporate guidelines and standards set by HiLite
- Develop long-term employment opportunities and provide a great location for international travellers

(Up to a maximum of 10 marks)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
2 (a) Communication skills in clarifying and conveying relevant information to HiLite's stakeholders	<i>The candidate has demonstrated poor communication skills. Presentation format is weak/inappropriate and the information presented is not relevant to reassure the stakeholders of HiLite's social and environmental intentions. This communication would not be appropriate for HiLite's stakeholders. There is no evidence of counter arguing the points made in the News article.</i>	<i>The candidate has demonstrated limited communication skills in attempting to present the answer in a valid format. The communication may be appropriate for only some of HiLite's stakeholders and overall, it lacks clarity. Much of the content does not appropriately convey the most relevant information to HiLite's stakeholders of its social and environmental intentions of the acquisition.</i>	<i>The candidate has demonstrated reasonably good communication skills in presenting a press release which is well laid out and in which some of the content would be relevant, convincing and reassuring to several of HiLite's stakeholders. The press release would likely be appropriate to persuade some of its stakeholders of its social and environmental intentions of the acquisition.</i>	<i>The candidate has demonstrated excellent communication skills. The press release is well presented, clear and concise and would be understandable and reassuring for most/all of its stakeholders. The press release would be appropriate to persuade most/all of its stakeholders of its social and environmental intentions of the acquisition. The press release is clear and communicates the most relevant points very effectively.</i>
<b>Example</b>	<i>The candidate's answer is totally theoretical and makes no reference to the specific social and environmental activities proposed by HiLite.</i>	<i>There is little evidence that the format is appropriate for a press release. The answer is brief and covers only a very limited range of social and/or environmental factors such as the more obvious ones in the information, such as child labour and HiLite's investment in training. The answer will not be sufficient in terms of depth and coverage to convince its wide range of stakeholders of its commitment to employment opportunities, diversity and environmental commitment.</i>	<i>The press release is set out in an appropriate and well-structured format, but the answer has addressed only some of the stakeholders' concerns. Therefore, the answer focuses on the social concerns in relation to HiLite's commitment to staff, the value it places on them, its commitment to diversity and equality, and its intention to commit to investment in staff development (most of which is from the CE's Report on Performance). However, the answer does not consider the environmental considerations and the stakeholders who would be interested in this information.</i>	<i>The press release will be well set out and include key headings such as 'employees rights' and 'environmental investment'. In terms of content, the answer will reaffirm to all of its interested stakeholders the intended focus on employment opportunities, for example, including reference to HiLite's commitment to staff, the value it places on them, its commitment to diversity and equality, and its intention to commit to investment in staff development (most of which is from the CE's Report on Performance). This will be written in a way to reassure a wide range of stakeholders (including employees, shareholders, the public and customers) of HiLite's social intentions. The answer will also be further developed in the same way to address the environmental concerns of its key stakeholders (Including investment in environmental management systems to address government concerns).</i>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>



- (b) Up to 2 marks for each relevant point made in relation to assessing the role and benefit of integrated reporting in assisting effective communication and building relationships with key stakeholders.

Points to include:

**Role of integrated reporting in communication/building relationships**

- Designed to benefit **all** stakeholders
- Primary role to improve quality of information available to stakeholders
- Communicating broader and more relevant information to assist decision-making
- Information which goes beyond pure financial data
- Providing information which stakeholders need, value and find useful will help build long-term relationships
- Stakeholders use information in many ways – manage investment risk/evaluate hotel industry dynamics/assess regulatory environment/assess term prospects and stability
- Important to staff looking for employment stability/employment prospects
- Local communities want to see commitment to local economy in the future
- Allows us to 'tell our own story', preventing analysts and external observers from making assumptions
- Investors largely interested in quantitative KPIs but other indicators important in decision-making process (environmental, social and governance issues)
- IR offers insight into business strategy, performance, governance and prospects, encouraging improved relationships with stakeholders

**Benefits of integrated reporting**

- Improved relationship between HiLite and investors
- Greater insight for customers and staff into organisation's business model and benefits offered to them
- Strategy and long-term outlook
- Greater understanding of use and dependence on resources and 'capitals'
- Investors benefit from information which informs decision-making
- Using broader set of information can benefit them by providing a greater understanding of value creation
- More confident in long-term outlook

(Up to a maximum of 12 marks)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
2 (b) Evaluation skills in using appropriate professional judgement to assess how useful Integrated Reporting could be to HiLite	<i>The candidate has failed to demonstrate any evaluation skills. The candidate has failed to evaluate the usefulness to HiLite of integrated reporting in communications and relationships with its key stakeholders. There is no evidence of the candidate using sound professional judgement and the answer is purely descriptive and theoretical. .</i>	<i>The candidate has demonstrated some, but limited, evaluation skills. There is some limited evidence of the candidate applying some professional judgement in assessing the usefulness of integrated reporting in communicating and building relationships with HiLite's key stakeholders, but this has not been developed effectively throughout the whole answer.</i>	<i>The candidate has demonstrated reasonable evaluation skills. They have used some sound professional judgement in evaluating and assessing the usefulness to HiLite of integrated reporting in communicating and/or building relationships with key stakeholders. However, the answer lacks full development in terms of a full and complete assessment of the usefulness of &lt;IR&gt; to HiLite.</i>	<i>The candidate has presented briefing notes and demonstrated excellent evaluation skills. The candidate has demonstrated excellent professional judgement in assessing a wide range of factors to assist them in fully considering the usefulness to HiLite of integrated reporting in communicating and building relationships with its key stakeholders. The answer is well developed, objective and takes into account most/all of the potential implications of the decision to implement &lt;IR&gt;.</i>
<b>Example</b>	<i>The answer will describe integrated reporting and the inclusion of the six categories of 'Capital' but does not demonstrate any application of this to HiLite and the relevance to it and its stakeholders</i>	<i>The candidate has attempted some application of the benefits of &lt;IR&gt; to HiLite, but the examples of application are brief and limited. There is some reference to HiLite's shareholders use of &lt;IR&gt; to make better investment decisions but little more than this.</i>	<i>The candidate has considered the benefits and impact of &lt;IR&gt; for a number of stakeholders, including shareholders and staff and there is evidence of some professional judgement in identifying these as key stakeholders of HiLite (i.e. shareholders will be able to make better informed long-term investment decisions). However, other important stakeholders have not been considered or the depth of consideration is not strong.</i>	<i>The candidate has clearly considered the benefits and impact of &lt;IR&gt; for a wide range of its stakeholders including its hotel staff, hotel customers, shareholders and the local communities, and has clearly identified the importance to these stakeholders of the type and quality of information &lt;IR&gt; would provide. Examples of considerations would be the improved relationship with its shareholders by giving them information to manage their investments, a better understanding of the value of business for its customers and a better relationship with its staff through a more open and long-term approach for them to consider their future employment prospects. Importantly, evaluation skills have been demonstrated by recognition of a range of benefits to key stakeholders and HiLite itself.</i>
	0	1	2	3

- 3 (a)** Up to 2 marks for each relevant point related to the challenges of the disruptive technologies which are emerging in the hotel industry.

**Disruptive technologies – Definition/explanation points**

- New emerging technology which unexpectedly displaces an established one
- Hotel customer looking for a more unique personal experience
- Offer more personal, individual unique service and experience, matching customers' budgets and spending patterns
- Growth of disruptive technologies must be taken seriously
- Unlikely to be an issue which will 'blow over'

**Challenges posed**

- Re-shaping the industry
- Online accommodation providers – convenient for customers
- Comments made by the OD should be challenged
- Changing competitive dynamics
- Rent-a-Room hosts have flexibility to offer a wide range of services
- More customer-focused and individualised service than a 'homogenous' service provider like HiLite
- Price considerably less
- Competitive advantage being challenged
- Comments made by FD more realistic
- Must not be complacent
- Likely to face significant challenges in personalising customer experiences
- Considerable obstacles to customer check-in process, to enable greater customer flexibility through smartphone technology
- New software to manage secure interface between customer smartphone apps and hotel property management systems
- Risk of data corruption and external systems access threats
- Problem of universal access – many may not use smartphone technology
- New door entry technology expensive

Up to 2 marks for each relevant recommendation for the potential application of disruptive technologies by HiLite.

**Application of disruptive technologies**

Points to include:

- Consider less expensive adaptations of disruptive technologies
- Smartphone apps providing information to guests throughout their stay
- Local weather reports, local events, ticket offerings and restaurant, theatre or visitor attraction booking facilities
- Advance booking facilities to local attractions or sporting events
- Online and mobile interactive concierge facility for guests – facility to book rooms, extra services and personal experiences unique to them
- A starting point to move into a more personalised service

(Up to a maximum of 14 marks in total)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
3 (a) Scepticism skills in probing and challenging the opinions of the Board, in a professional and courteous manner	<i>The candidate has demonstrated no scepticism skills. They have failed to question the opinions of the board members and have failed to challenge information presented in the exhibits relating to the potential impact on HiLite of disruptive technologies in the hotel industry.</i>	<i>The candidate has demonstrated some, but limited, scepticism skills. There is some evidence of questioning the opinions and assertions made by some of the board members in relation to their opinions on disruptive technology, but this was limited and the challenge was not presented in the most appropriate or professional manner/style.</i>	<i>The candidate has demonstrated a reasonable level of scepticism skills. The candidate has questioned and correctly challenged a number of the assertions made by board members in relation to their opinions on disruptive technology, but could have presented more evidence to support their challenge to these assertions.</i>	<i>The candidate has presented a report and demonstrated excellent scepticism skills. The candidate has strongly but appropriately questioned and challenged the assertions made by board members in relation to their opinions on disruptive technology, and has presented suitable and well-argued evidence to support their challenge to these opinions. The response was appropriate and courteous for a report at this level.</i>
Example	<i>The answer makes no reference at all to the comments made by the operations director or those made by the finance director, therefore there is no evidence of demonstrating scepticism in countering these comments.</i>	<i>The answer is phrased in a manner which would be considered inappropriate in response to a board level discussion. Also, the candidate has identified the comment made by the operations director as being incorrect but has not presented a reasonable or justified challenge to his comments nor used any evidence in the exhibits to counter the comments made.</i>	<i>The answer clearly commits to challenging and explaining this challenge to the operations director's opinions at the recent board meeting. However, the candidate has presented only limited evidence from the exhibits to support their challenge to the threat of Rent-a-Room and therefore has not demonstrated strong professionalism (for example, they have recognised information from comments made at the board meeting but could also have used other evidence in other exhibits). In addition, the answer could have been phrased in a more professional and courteous tone.</i>	<i>The answer is presented in a courteous manner, in that it does not state that the operations director is 'wrong', rather, that his views should be challenged and re-considered. Also, the answer clearly commits to challenging and indeed explaining this challenge to the operations director's opinion with reference to the evidence presented by the finance director and from the Industry Report. The candidate has also presented sound evidence to support their challenge by using the evidence relating to the threat of Rent-a-Room from the exhibits, demonstrating sound professionalism.</i>
	0	1	2	4

- (b) Up to 2 marks for each relevant point made, in assessing the potential outcomes of each of the information systems risks identified by the finance director.

Up to 2 marks for each justified recommended action which HiLite should take in order to control these risks.

**Risk 1: Lack of focus on IT/IS strategy**

**Outcomes**

- Risk to long-term success of business – if business strategy not supported/integrated with information systems strategy
- Business opportunities could be missed – harming competitive advantage
- Waste resources on ineffective systems

**Recommended actions**

- Employment of an IT director
- Ensure that any strategy considered must be aligned to IT/IS strategy

**Risk 2: Cyber and data security breaches**

**Outcomes**

- Vulnerable to threat of external hacking of key organisational data
- Threat of virus infection
- Online booking facility unable to function
- Internal physical and access control weakness
- Unauthorised or untrained staff access
- Damaging to reputation and costly compensation

**Recommended actions**

- Operate latest industry standard firewalls and virus protection software
- Regular testing of security systems
- Back-ups of all data undertaken regularly and stored separately
- Access to systems given to only authorised and trained staff
- Authorisation controls such as passwords and user ID systems
- Regular reports on systems access and usage

**Risk 3: Business continuity threat**

**Outcomes**

- May not be ready for a business-critical event
- Lose customers, and revenue
- Reputation damaged if disaster recovery plans are ineffective/inadequate
- Worst-case scenario – could go out of business

**Recommended actions**

- Implement a disaster recovery plan
- Assess level of threat to the business and ensure sufficient arrangements to manage such events

Up to 4 marks maximum per slide presented (3 slides x 4 marks each)

(Up to a maximum of 12 marks in total)

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
3 (b) Commercial acumen skills in demonstrating insight and understanding of the information systems risks and controls	<i>The candidate has demonstrated no commercial acumen skills and has demonstrated poor judgement of the outcomes of the information systems risks identified by the finance director. They have failed to demonstrate any insight in arriving at appropriate and relevant solutions for HiLite to address these information systems risks.</i>	<i>The candidate has demonstrated limited commercial acumen skills and has demonstrated limited judgement of the outcomes of the information systems risks identified by the finance director. There is evidence of some, but limited, insight and acumen as they have presented only a very limited range of relevant actions to address these information systems risks.</i>	<i>The candidate has presented slides with clear notes and demonstrated reasonably good commercial acumen skills. The candidate has demonstrated evidence of sound judgement in identifying some of the outcomes of the information systems risks identified by the finance director. The candidate has demonstrated some commercial acumen in recommending a reasonable number of relevant actions to address these risks.</i>	<i>The candidate has presented slides with clear notes and demonstrated excellent commercial acumen skills. There is evidence of well-developed and strong commercial judgement of the potential outcomes of the information systems risks identified by the finance director. Also, the range of actions to address these risks demonstrates excellent insight and commercial acumen.</i>
<b>Example</b>	<i>The answer in relation to Risk 1 is merely descriptive and there is no reference to the commercial impact of a lack of IT/IS strategy on the achievement of overall business objectives. There are no recommendations presented.</i>	<i>For Risk 1, the candidate has recognised the link between IT/IS strategy and overall business strategy but this is merely theoretical and not considered in terms of the IT/IS needs of HiLite. Also, the answer has provided few, if any potential relevant recommended actions and, for example, for Risk 1 has not recognised the importance of strategic leadership, i.e. an IT director, demonstrating weak commercial acumen.</i>	<i>For Risk 1, there is evidence of commercial acumen through recognising the link between having an IT/IS strategy and the achievement of overall business strategy and this is applied directly to HiLite's business strategies. However, recommended actions are limited and not sufficient to address the risks (for example, the candidate has not recognised the relevance of employing an IT director and/or ensuring that the IT/IS and business strategy are developed together). Therefore, the candidate's demonstration of commercial acumen is not fully developed.</i>	<i>For Risk 1, the candidate has clearly recognised the commercial impact of a sound information strategy upon the successful achievement of HiLite's overall business strategy and the potential for business opportunities to be missed and has consequently recommended and justified sound commercial solutions to these potential risks, including the relevance of employing an IT director. The answer focuses directly and correctly on how this strategic risk could affect the long-term survival of the business. Overall, application of how these three strategic risks can impact on the commercial viability of HiLite and how they should be addressed is clearly the focus of the answer demonstrating strong commercial acumen.</i>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>