

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Standard Level

MARK SCHEME for the October 2004 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5161 Business Organisation and Environment (Standard),
maximum mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.



October 2004

CAMBRIDGE INTERNATIONAL DIPLOMA

Standard Level

MARK SCHEME

MAXIMUM MARK: 100

PAPER: 5161

BUSINESS

Business Organisation and Environment

Page 1	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

MARK SCHEME

The following are *not model answers* but are nevertheless to be regarded as persuasive. A candidate may offer other relevant and appropriate responses.

- 1 (a) **Fatima disposed of the children’s entertainment side of the business in a series of franchises. Explain two features of a franchise. [5]**

The candidate is asked for TWO features; if more than two are offered then mark them all and award marks on the best answers.

The candidate needs to offer two from, for example:

- the franchise is not a form of company but a legal contract between two firms
- the franchisee is allowed the use of the name, logo and marketing methods of the franchisor in return for an initial buy-in payment and/or royalties or commission
- allows someone to run a business but with the franchisor’s support in terms of publicity, training, purchasing
- the problems of establishing Perfect Parties have been overcome so the franchisee has a lower start-up risk.

Both features are necessary to earn 3 or more marks.

- L1 two points basically identified or one strong explanation 1-2 marks
L2 good to strong consideration of two franchise features 3-5 marks

- (b) **Fatima started out as a sole trader and then registered Perfect Parties as a private company. Suggest two advantages to Fatima of becoming a private company. [5]**

The candidate is asked for TWO advantages: if more than two are offered then mark them all and award marks on the best answers.

The candidate needs to offer two from, for example:

- it gives the protection of limited liability
- the company has a separate legal personality from the owner[s]
- enables Fatima to raise more capital
- Fatima can still retain control
- not obliged to publish a balance sheet
- not quoted on the stock exchange so no threat from a take-over bid

Two advantages must be offered to earn 3 or more marks.

- L1 one strong advantage or two basic points identified 1-2 marks
L2 two good to strong appropriate advantages 3-5 marks

Page 2	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

(c) The company's authorised capital is \$50,000 and Fatima has raised \$30,000.

(i) Explain the meaning of authorised capital. [5]

The candidate needs to offer a firm definition e.g. it is the maximum amount of capital that the company is entitled or authorised to raise i.e. the value of the share capital that may be issued in order to raise funds. It is identified in the Memorandum of Association.

(ii) Explain the benefit to Fatima of having \$20,000 of unissued capital. [5]

This asks the candidate to indicate an understanding of capital rather than just definition.

The point to be made is, for example, that

- it ensures the ability to raise new funds from existing and/or new shareholders at any time in the future without having to seek loans
- it enables the company to reward shareholders by issuing bonus shares

L1	basic understanding of the points	1-2 marks
L2	good awareness of authorised/issued capital	3-5 marks

2 (a) It has been said that the chain of command in the company is too short and it is clear that Fatima has created a centralised company structure.

(i) Explain what is meant, in this case, by the chain of command being too short [5]

The candidate needs to offer a definition and relate it specifically to the case e.g. the chain of command is the route through which authority and orders are passed down an organisation. A short chain enables close control and direction. In the case it refers to Fatima being too much in control and not allowing staff to undertake any action without her express approval.

Page 3	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

(ii) Explain two advantages of decentralisation [5]

The candidate is asked for TWO advantages: if more than two are offered then mark them all and award marks on the best answers. Two advantages must be offered to earn 3 or more marks.

The candidate needs to offer two from these examples:

- decision making is passed down the hierarchy
- it empowers junior and middle ranking employees and enables them to take decisions reflecting local circumstances and opportunities
- reduce burdens on senior management
- subordinates may have a better knowledge of their areas of work delegation may improve job satisfaction

- L1 one advantage or limited approach to the issues 1-2 marks
L2 good demonstration of appreciation of control issues 3-5 marks

(b) An employee thought the company should be organised as a matrix. Describe two features of a matrix. [5]

The candidate is asked for TWO features: if more than two are offered then mark them all and award marks on the best answers. Two features must be offered in order to earn 3 or more marks.

Two features from, for example:

- involves bringing together employees with particular skills into project teams
- uses the expertise and skills of employees and offers the opportunity for them to use their talents effectively
- encourages the better coordination of projects

- L1 basic understanding of matrix or one feature 1-2 marks
L2 good to strong appreciation, two relevant points 3-5 marks

Page 4	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

- (c) **Fatima is the sole director of the company. Explain *three* powers and duties of a company director.** [5]

The candidate needs to focus on the legal responsibility of a director and not talk about management. Three points are called for this list:

- may sell company assets
- may declare a dividend
- may sue in the company's name
- has the duty of trust
- acts as an agent of the company i.e. not personally liable for their actions if acting within authority.

The candidate is asked for THREE powers and duties: if more than three are offered then mark them all and award marks to the best answers. If the powers and duties are just identified then 2 marks may be awarded. Two points must be explained in order to earn 3 or more marks.

- L1 poor knowledge, basic response only 1-2 marks
L2 explanation of two/three appropriate points, knowledge 3-5 marks

- 3 (a) **When Perfect Parties was set up, Fatima employed assistants on a casual basis. Explain the difference between permanent and casual employment.** [5]

Casual is a category and needs definition. Candidates often confuse casual with part-time. Casual staff are taken on as and when additional help is required e.g. to cover staff absence, in peak periods. They may work full or part-time for the period of employment. They are not usually entitled to any benefits.

Permanent staff expect continuity of employment, to be part of a regular core of workers. They enjoy benefits like medical scheme, pension, training, salary increments. They will take on responsibility.

- L1 limited definition and appreciation of the difference 1-2 marks
L2 firm and clear understanding of the difference 3-5 marks

- (b) **The company's code of conduct for staff has to be accepted without argument. Explain what a code of conduct is and what it might contain.** [5]

An explanation is required suggesting that the code is a document setting out a guideline for employees which might contain rules affecting, for example, dress (personal, company, protection), behaviour (language, discrimination), health and safety.

- L1 limited understanding, weak examples 1-2 marks
L2 clear appreciation of the code and its contents 3-5 marks

Page 5	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

- (c) Describe *three* expectations that Fatima might reasonably have of her employees. [10]

The candidate is asked for THREE expectations: if more than three are offered then mark them all and award marks on the best answers. Three good explanations are required if more than 7 (default L3) marks are to be awarded.

The candidate has the choice from, for example;

- loyalty
- commitment to the business
- cooperative attitude
- effective and efficient working
- have or will acquire the appropriate skills
- ability to work with others

three points chosen will need to be appropriately explained by the candidate. The task offers the candidate scope to display knowledge and awareness.

L1	basic and limited response	1-2 marks
L2	descriptive response, some elementary understanding	3-5 marks
L3	strong analytical approach identifying appropriate points	6-8 marks
L4	evaluative response, clear demonstration of knowledge	9-10 marks

- 4 (a) Perfect Parties is subject to external influences that determine the business climate. Describe how the company might be affected by:

- (i) taxation policies [5]

Most candidates will see this point in a negative way, and that is not wrong but some positive points might also be made. Tax can restrict investment, deter risk taking and initiative on the one hand but on the other it can equally encourage investment and initiative. If personal tax is high then Fatima's staff might not be inclined to work very hard; if the company tax is high then it might suggest that Fatima seek to relocate to where tax levels are more acceptable. The Government can encourage the firm by, for example, tax holidays. This task offers the candidate scope to discuss the effects.

- (ii) competition [5]

Awareness of competition as a stimulant needs to be demonstrated. It can encourage creativity; improvement in customer care and products. The company will be more aware of quality, pricing, delivery, the need to satisfy customer demand. Competition will keep Perfect Parties fighting to maintain its grip on the market.

L1	basic understanding of the effect of PEST issues	1-2 marks
L2	firm demonstration of knowledge of the issues	3-5 marks

Page 6	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

- (b) **Fatima has said that location does not matter in her type of business. Explain why the location of Perfect Parties no longer matters.** [5]

Location matters but what the candidate needs to demonstrate is that, at this stage of the company's development, it does not matter as much as it did when Fatima started out - then she had to be within easy reach of her clients. The candidate can comment that since the company is operating internationally, i.e. goes where the work is, the actual location of the company is not very important except that clearly the company needs to have access to suitable infrastructure.

- L1 basic and weak appreciation of location in this context 1-2 marks
L2 a clear demonstration of the issue in context 3-5 marks

- (c) **Some competitors have complained about Perfect Parties' marketing methods. This may suggest that Fatima is not trading fairly. Explain what fair trading means.** [5]

The candidate has scope in answering this task. It is only a 5 mark task so an in-depth response is not required but maybe two good explanations from the following examples will suffice:

- compliance with trading regulations
- appropriate market behaviour
- not to make false or exaggerated claims for the product/service
- employing unfair influence

The response will need to be based on a firm explanation. The candidate can refer to whatever is relevant in the circumstances.

- L1 limited knowledge and appreciation 1-2 marks
L2 clear demonstration of knowledge of fair trading 3-5 marks

- 5 (a) **Describe two factors which affect or influence the nature of Perfect Parties' market.** [5]

The candidate is asked for TWO factors: if more than two are offered then mark them all and award marks on the best answers. Two factors must be given to earn 3 or more marks.

The candidate will need to demonstrate knowledge of the chosen points, for example:

- the product itself
- quality
- pricing
- competition
- health of the economy/chosen market
- government controls

- L1 limited understanding of the issues, identity of factors 1-2 marks
L2 demonstration of awareness of two appropriate factors 3-5 marks

Page 7	Mark Scheme	Paper
	CAMBRIDGE INTERNATIONAL DIPLOMA – OCTOBER 2004	5161

- (b) **The success of the company resulted in an extension of its client base. Explain what ‘client base’ means. [5]**

The client base is a general term to reflect the type and number of clients which a company has on its books. The wider the client base the more successful the company is likely to be as it has a larger bank of clients from which to draw business. In this case the company has moved from parents to politicians and leading business people.

- L1 limited awareness of the meaning 1-2 marks
L2 good to strong knowledge and application of the term 3-5 marks

- 5 (c) **The company’s clients are influential and very demanding. Suggest how Perfect Parties might ensure client satisfaction. [10]**

The task offers the candidate scope to talk about the importance and relevance of customer or client relations. The general approach and the points identified should be appropriate but also made in the context of the case. Examples of the issues to draw out include;

- maintenance of product [the events] standards
- advising clients
- meeting clients’ needs specifically
- proper planning and preparation
- guaranteed delivery of events
- appreciate the nature and characteristics of their clients

- L1 limited and basic appreciation of customer relations 1-2 marks
L2 descriptive response, competent recognition of issues 3-5 marks
L3 analytical; clear demonstration of understanding 6-8 marks
L4 evaluative; knowledge and application of the issues 9-10 marks