

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 2006 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5161 Business Organisation and Environment
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 instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

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.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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Examiners should note that:

- The following are *not* model answers but should be regarded as persuasive.
- The guidance identifies the more likely points that candidates will raise.
- A candidate may offer other relevant and suitable responses.
- Although some tasks can relate to any business, responses should be made in context where appropriate.
- The key is to test a candidate's knowledge and awareness.
- Extensive answers are not called for but candidates should offer well-written informative responses.
- Tasks earn between 2 and 6 marks: a 2-mark response requires little more than one/two well written sentences which clearly indicate the knowledge required whereas a 6-mark task calls for more detail, understanding, knowledge and context. **1 (c)** is worth 10 marks.
- The points identified below indicate the most likely responses.
- English is not the first language of the majority of our candidates. The quality of written language is no part of the assessment.
- This is a *standard level* paper.

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1 (a) The Chairman referred to the four factors of production and mentioned land and labour. Identify and describe the other two factors. [4]

- The two factors looked for here are capital and enterprise [the entrepreneurial function]:
 - *Capital*; the candidate may limit the response to e.g. shares but reference is expected to equipment, machinery and buildings.
 - *Enterprise*; managerial ability and skill, risk taking, reading the market.

1-2 marks for each factor.

(b) Universal Merchandising is a plc. Identify and describe three features of a public limited company. [6]

- This is a fairly standard activity. The candidate needs to offer three features e.g.:
 - *Limited liability quoted on the stock market*; distinction between ownership and control.
 - *Continuity*; ease of selling shares.
 - *Separate legal identity*; public listing potentially enables a large amount of capital to be raised.
- Each feature needs some brief description or explanation

1-2 marks for each feature.

(c) Using the following information, draw up a break-even chart to calculate the break-even point of Universal Merchandising plc:

Sales: \$40 million
 fixed costs: \$10 million
 variable costs: 50% of sales revenue

[10]

- This is a limited and fairly easy break-even exercise but it may challenge some candidates.
- Although a **chart** has been asked for, there is the possibility that the candidate will use a formulaic approach. *Should this be the case then award 7 marks for the correct answer.*
- The chart needs to be drawn accurately in order to arrive at the correct break-even point. Ideally the chart will use a scale of \$5m increments up to \$40m.
- The chart must also display the FC, VC and turnover [or revenue].
- *The break-even point is \$20m and full marks can only be given for a correct answer calculated via the chart.*

1-10 marks as follows:

1-2 marks weak effort, badly designed chart, wrong answer
 3-5 marks wrong answer but structure of chart indicates knowledge
 6-8 marks good structure, knowledge of BE, but not accurate
 9-10 marks correct answer of \$20m [which means an accurate chart]

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2 (a) Briefly outline two powers or duties of a company director. [4]

- The candidate has to identify two powers/duties and it is expected that there will be a brief explanation of each point to demonstrate understanding.
- The candidate needs to focus on the *legal responsibility* of a director and not talk about a management role.
- The issues to identify include:
 - 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

1-2 marks for each power/duty

(b) Explain the difference between executive and non-executive directors. [4]

- The candidate needs to demonstrate recognition that *executive directors* are also full-time employees of the company and occupying senior managerial/executive roles e.g. head of human resources finance. They are on the Board because of their internal roles.
- The *non-executive directors* are external to the company i.e. they do not have a post within the company. They are chosen because they have sufficient business knowledge and experience which is of value to the company. It may be that some are chosen from stakeholders e.g. bank.

1-2 marks for each explanation or definition

(c) The company has a bureaucratic [or tall] structure but some managers would prefer a flatter structure. Describe

- (i) a bureaucratic structure [6]
(ii) a flat structure. [6]

- This appears to be a difficult task but clearly a deep knowledge is not required and the candidate should have dealt with structure under Competence Criterion 2.1. Some demonstration is required of understanding.
- The candidate should suggest e.g.:
 - both are examples of internal or management structures
 - *bureaucratic* is based on levels of authority [hierarchy] and responsibility, pyramid form, question of control, define chain of command
 - *flat* [or flatter] has fewer layers but wider span of control, should offer more scope for initiative, improvement in communication flows, delegates more responsibility

1-6 marks per structure as follows:

- 1-2 limited/basic indication of knowledge
3-5 descriptive, good to firm expression of knowledge, understanding, context
6 structure well described, context, some judgement

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3 (a) Explain what flexitime is and suggest one benefit to Universal Merchandising plc of flexitime. [4]

- The points to make are e.g.: employment contract allowing employees to complete the contracted weekly/monthly hours in a timetable which is, to some extent, convenient to them.
- Starting and finishing times are flexible but there are core hours when employees must be present.
- The company benefits because it enables valued staff to work at their jobs and still care for family.
- It also enables staff to make appointments e.g. hospital appointments without asking for/taking leave.
- There is an economic benefit.

1-2 marks for the definition
plus
1-2 marks for the benefit

(b) Explain the difference between the skilled and unskilled employees in Universal Merchandising plc. [4]

- The candidate must suggest that these two categories represent differing degrees of skill:
 - *Skilled*; craft, hi-tech, training and education, qualifications, complex and responsible tasks.
 - *Unskilled*; no special skills, lower order jobs, mundane, repetitive.
- Precise definitions will not necessarily be offered but the candidate needs to demonstrate an understanding of the difference.

1-2 marks for each definition

(c) Identify and explain three expectations that the employees of Universal Merchandising plc might reasonably have of their employers. [3 x 4 = 12]

- This is a familiar task. The candidate needs to select three appropriate expectations e.g.:
 - financial and non-financial incentives
 - fair treatment
 - realistic pay and conditions
 - training and retraining
 - safe working conditions
 - prospects of advancement
 - holiday entitlements
 - code of conduct

1-4 marks per expectation as follows:

- 1-2 limited/basic appreciation, appropriate point but partial awareness
- 3-4 firm explanation of suitable point, showing good knowledge

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4 (a) Every business is influenced in some way by external factors. Explain how Universal Merchandising plc might be influenced by both

- (i) changing technology [5]
(ii) competition. [5]

- *Competition:*
 - textile industry is highly competitive [reason for locating to a lower wage/cost area];
 - competition can be threat or stimulant;
 - if the company is inefficient then the competition will penetrate further into the market;
 - competition can bring about improvement in customer service, quality of products, pricing;
 - as far as Universal Merchandising is concerned, the company needs to be aware of market developments so that it does not lose market share.
- *Changing technology:*
 - the text mentioned greater use of computer technology;
 - innovation in technology is developing fast – can the company afford the cost of change?
 - will inability to adopt new technology make it uncompetitive?
 - is the company setting aside sufficient finance to invest in new equipment?

1-5 marks per external factor as follows:

1-2 weak/basic understanding of PEST factors and their impact

3-5 good demonstration of PEST factors on UM plc; answered in context

(b) Explain why the company chose to relocate its business to the Philippines. [10]

- The candidate can find clues in the text, namely
 - *rising business costs in Europe* – this clearly suggests that costs [e.g. land, occupancy, labour] are much lower in the Philippines;
 - *ready availability of labour* – indicates supply of people skilled in textiles;
 - *salaries and wages are average for the region* – suggests lower wage levels [in European terms];
 - *Government incentives* – the text does not specify what these are but the candidate can assume incentives such as tax holiday, employment grant etc.;
 - *orders can be sent across the world in hours* – access to efficient and frequent air freight.
- The task does *not ask for any firm number of reasons*, rather the candidate should put together a meaningful statement why Universal Merchandise plc relocated to the Philippines.
- Assessment is to be made on the demonstration of awareness - the reasons are mostly in the text.

1-10 marks as follows:

1-2 basic/limited understanding of location

3-5 descriptive rehearsal of location factors

6-8 good use of case study material

9-10 judgement, good use of case study, answered in context

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5 (a) Identify the features of Universal Merchandising plc's customer services policy. [4]

- A straightforward task as the clues are in the text: guarantees on delivery, quality and specifications; compensation paid for faulty goods and/or poor service.
- The candidate should offer a clear explanation of these points.

1-4 marks as follows:

- 1-2 poor use of text, identifies part of answer
 3-4 good to strong use of text, main features recognised

(b) Explain what is meant by the purpose and activities of marketing. [4]

- The candidate needs to demonstrate an appreciation of the marketing function.
- A detailed response is not required.
- The essential functions are to keep in business and get the right product to the right client at the right time at the right price.
- This will suffice as a reasonable answer but the tools need to be identified e.g. market research, marketing mix, image promotion, development of new products.

1-4 marks as follows:

- 1-2 marks basic appreciation of the marketing function
 3-4 marks good definition, reference to marketing tool[s]

(c) With reference to the 4Ps, explain what the Chairman means by the statement that the company has the right marketing mix. [4 x 3 = 12]

- This is a standard task and the candidate needs to *rehearse the 4Ps in the context of the case study*.
- The candidate may have studied 7Ps but this task requires the four *standard* Ps.
- The candidate must read the text carefully as the answers are there.
- Points to make include:
 - *Product*: range of personalised/endorsed textile goods; made to client specification.
 - *Place*: chosen by client; sold at sports events, fan clubs etc.
 - *Price*: negotiated with client, price depends upon size of order and status of client.
 - *Promotion*: website, catalogue, direct approaches to potential clients

1-3 marks for each P

- 1 for the identification/mention of a P
 2-3 explanation/relevance