



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma in Business
Standard Level

BUSINESS ORGANISATION AND ENVIRONMENT

5169/01

Core Module

October 2012

2 hours plus 15 minutes' reading time

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Attempt **all** tasks.

Start each task on a new piece of paper.

Please leave a margin on the right and left hand side of each new page.

At the end of the examination, fasten all your work securely together, in the correct order.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **4** printed pages.

* 2 2 5 8 2 2 4 5 8 4 9 1 *

You must read the case study below and attempt ALL of the tasks which follow.

(This case study is fictitious.)

Eastern Copper Mine Ltd.

Eastern Copper Mine Ltd (ECM) is located on Irian Jaya in Indonesia. It is 40 miles from a small port and is 2 000 metres above sea level. It is an open-pit copper mine managed for 30 years by Guntur Alatas and he is now assisted by his son Budi Alatas. The original venture capital was provided by Guntur and four local businessmen. The firm is a limited company with Guntur and Budi between them holding 60% of the shares, and the remaining 40% are held by seven local businessmen. Guntur and Budi are executive directors of ECM, with two of the other shareholders operating as non-executive directors. 5

ECM employs 47 people in their open-pit operation which exploits the rich copper content of the area. It is estimated that, at the present rate of extraction, the known reserves should last another 30 years. The firm has a small exploration department which is looking for more copper reserves in the area. 10

The mine operates 16 hours a day, working two eight hour shifts. 40 of the staff, organised in a hierarchical structure, work on machinery used in the extraction of the copper ore, while 5 staff are employed in administrative duties and 2 in exploration. Many of these staff have been at ECM for over 20 years and are very loyal to the company. Budi gained a degree in Business at an Indonesian university and is in charge of the administrative side of the business. Guntur controls the extraction operation with 4 supervisors reporting directly to him. The copper ore is put through a concentration process at the pit site. It is then sold to a number of copper manufacturers in several different countries under long term agreements which guarantee volumes of ore, but at fluctuating world prices. 15 20

The business has been profitable for the last 10 years and has paid a dividend in each of those years. This has partly been due to an increase in world demand resulting in higher prices, and partly due to greater efficiencies at ECM. It has had additional expenses however, due to the increased environmental protection standards now imposed by governments. One example is the reforestation scheme that is now in place. The area in which the mine is located is a naturally forested area, and after they have finished extracting the copper ore in one location, they are now responsible for replanting the trees native to that area. 25

About 5 years ago, Budi was responsible for setting up a small copper smelter in a remote part of the mine. This uses the copper ore to manufacture raw copper. They then employ local people to manufacture copper products that will appeal to the tourists in other parts of Indonesia, particularly the very popular tourist island of Bali. Budi's wife, who studied art at university, designs these retail products. This subsidiary employs 5 full-time and 10 part-time workers. All of the part-time workers work at home using simple hand tools to finish the products, and they are paid a piece rate, which gives them a fixed amount for each product made. While this is a small operation, taking less than 2% of the ore mined, the sales amount to 10% of ECM's total turnover, and it is therefore a very profitable part of the operation. 30 35

You must attempt ALL of the following tasks.

Where appropriate use information from the case study to support your answer.

- 1 (a) List **two** factors of production for a firm such as ECM. [2 x 2 = 4]
- (b) Describe **two long-term objectives** that the shareholders of ECM may feel are important. [2 x 2 = 4]
- (c) Explain the meaning of venture capital, detailing why local businessmen may have originally provided it. [6]
- (d) Explain how a break-even analysis could be used by ECM when planning future development of the mine. [6]
- [Total: 20]**
- 2 (a) Describe how the hierarchical structure of ECM leads to easily identifiable channels of communication. [4]
- (b) List **four** stakeholders of ECM. [4 x 1 = 4]
- (c) Explain **three** advantages to ECM of having non-executive directors. [3 x 2 = 6]
- (d) Explain **two** advantages of ECM manufacturing its own retail copper products. [2 x 3 = 6]
- [Total: 20]**
- 3 (a) Describe **two** advantages **to ECM** of having the part-time staff working from home on piece rate. [2 x 2 = 4]
- (b) Describe **two** advantages **to ECM** of employing many staff who have been with the company for over 20 years. [2 x 2 = 4]
- (c) Explain why ECM might prefer to employ and train local people rather than bring in trained people from other areas of Indonesia. [6]
- (d) Explain **two** problems for ECM in having two eight-hour shifts per day. [2 x 3 = 6]
- [Total: 20]**

- 4 (a) Describe **two** reasons why the Indonesian Government might financially support ECM. [2 x 2 = 4]
- (b) Describe **two** problems that had to be solved regarding the location of the mine. [2 x 2 = 4]
- (c) Explain why it is important for ECM to spend money on environmental schemes such as reforestation. [6]
- (d) Explain **two** reasons why foreign copper manufacturers might sign long-term agreements at fluctuating world prices with ECM. [2 x 3 = 6]
- [Total: 20]
- 5 (a) Describe **two** advantages to ECM of starting a retail products operation. [2 x 2 = 4]
- (b) Describe **two** ways in which ECM could find out what retail products will be popular with the tourists, who are the ultimate customers for these products. [2 x 2 = 4]
- (c) Explain how the general state of the world economy affects the price of copper ore. [6]
- (d) Explain why the quality of the product (copper ore) will probably be the most important part of the marketing mix when selling to overseas copper manufacturers. [6]
- [Total: 20]

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