

## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Advanced Level

### MARK SCHEME for the May 2006 question paper

#### **CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS**

5171

Business Organisation and Environment, maximum mark 100

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show 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.

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The following are not model answers but are nevertheless to be regarded as persuasive. A candidate may offer other relevant and appropriate responses. Generally speaking all responses should be made in context. 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.

- 1 (a) The entrepreneurs decided to register 'Better Feet' as a private limited company rather than as a partnership or a public limited company. Identify and describe three features and/or advantages of the private limited company. [3 x 4 = 12]

The features need to be appropriately discussed and may be drawn from e.g.:

- limited liability
- shares cannot be sold on the open market
- company is not vulnerable to take-over bids
- company has continuity
- the company is not quoted on the stock exchange
- shares can only be transferred with the agreement of other shareholders

1-4 marks per feature as follows:

1-2 marks basic/elementary description; no elaboration

3-4 marks well defined, apposite, context

- (b) Explain the following two business objectives of 'Better Feet':

- (i) profit [4]

e.g.:  
justification of being in business  
creates an internal source of finance  
reflects success, position in the market  
motivation/reward for risk taking

- (ii) contributing to the improvement of the local community's living standards. [4]

e.g.:  
This aspect appears harder than it actually is – it is a matter of basic deduction.

- employment enables employees to sustain themselves and their families
- employees' expenditure employs others
- employees' standard of living rises
- better earnings means ability to pay taxes which in turn bring benefits to a community
- the annual bonus improves disposable income and ability to improve living standards

The responses are not likely to be sophisticated but what we are looking for are competent statements indicating a grasp of the issues.

1-4 marks for each objective as follows:

1-2 marks limited/basic approach; outline understanding only

3-4 marks well described, application, context, judgement

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2 (a) The Managing Director said that the stakeholders were considered of equal status and value.

(i) Explain what a stakeholder is. [2]

Definition to cover e.g.:

- person, persons or organisation[s] with a direct interest in the performance of 'Better Feet'
- some will hold no formal authority over the business
- company needs to pay attention to their needs

(ii) Identify two of the company's stakeholders and indicate why they could be regarded as the most important. [2 x 4 = 8]

The candidate needs to identify the most important stakeholder and justify the choice from e.g.:

Investors; directors; managers; employees; suppliers; customers; local authority; government departments. There is no right answer.

A list of stakeholders is NOT required although it is likely that some candidates will offer a list.

- |    |            |  |
|----|------------|--|
| L1 | 1-2 marks  | weak outline, definition only                              |
| L2 | 3-5 marks  | descriptive, competent, both aspects referred to           |
| L3 | 6-8 marks  | both aspects well described; knowledge; relevant selection |
| L4 | 9-10 marks | clear knowledge demonstrated; context                      |

(b) A journalist described the company's leadership style as a mixture of democracy and paternalism. Explain what the journalist meant. [10]

This is only about the two leadership styles in the task. There are clear clues in the text.

The response is likely to take the form of two definitions. That is acceptable but the task clearly suggests context. The clues are in the text and they need to be used.

*Democratic:* employee participation i.e. team working, quality circles, profit-sharing, the view that stakeholders are of equal value.

*Paternalism:* reference to the role of the executives – must manage and control; Leadership style intended to be in the best interests of the employees; some consultation; but hint of autocracy here.

The candidate can be awarded L4 9-10 marks for judgement e.g. that neither democratic nor paternalistic is entirely applicable as one element amends the other e.g. quality circles versus management decisions. Both styles to be offered to award 6 or more marks.

- |    |            |   |
|----|------------|---|
| L1 | 1-2 marks  | weak knowledge, mere mention of one/both styles |
| L2 | 3-5 marks  | descriptive response, explanation of styles     |
| L3 | 6-8 marks  | both styles understood, linkage, context        |
| L4 | 9-10 marks | good definitions, linkage, judgement            |

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- 3 (a) Identify and explain three expectations that the employers might reasonably have of their employees. [3 x 4 = 12]**

This is a standard task. A general approach is acceptable. Each expectation needs a supporting statement. The three points can be chosen from e.g.:

- cooperative attitude
- ability to manage time effectively
- have appropriate skills/willingness to update/enhance skills
- accept company code of conduct
- work safely and not endanger self or others
- be efficient and effective

1-4 marks for each expectation as follows:

1-2 marks      basic/limited appreciation;

3-4 marks      good response; context, judgement,

- (b) (i) The company offers a number of incentives. Suggest two incentives which 'Better Feet' might offer its employees. [2 x 2 = 4]**

Likely incentives e.g.:

- medical/dental care
- performance bonuses
- loyalty bonuses
- annual profit-sharing bonus [already in text]
- purchase of shoes at staff discount
- holidays and service days

1-2 marks for each incentive [1 for just a mention, 2 for description/explanation]

- (ii) 'Better Feet' makes wide use of computer technology. Suggest two ways in which computer technology likely to be used in the company. [2 x 2 = 4]**

The task can be applied to almost any business but there is scope for context. Points to be drawn from e.g.:

Accounting; human resource records; payroll; production of shoes; design of shoes; ordering of supplies; customer records.

1-2 marks for each use of the computer [1 mark just for a mention, 2 marks for description/explanation]

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**4 (a) Explain how 'Better Feet' is directly affected by:**

**(i) price [4]**

**(ii) consumer preferences [4]**

These are PEST factors; do not expect sophisticated or complicated arguments but ones that demonstrate understanding. Essentially the candidate needs to pursue this line of argument: e.g.

*Price*: uncomplicated pricing system [cost-plus]; prices are affordable as evidenced by the turnover/trade; willingness of consumers to buy as a result.

*Disposable income*: indicates ability to buy, exercise choice i.e. *Consumer preference*.

1-4 marks for each factor as follows:

1-2 marks basic/limited understanding of PEST factors

3-4 marks good understanding of impact, context, judgement

**(b) Explain how the location of the company was influenced by**

**(i) the supply of labour [4]**

**(ii) a reliable postal service [4]**

**(iii) one other factor [4]**

Three location issues are asked for and two of them are given in the task [and text]. The candidate needs to identify a third relevant location point.

*Postal service*: this can be regarded as synonymous with access to markets; the company delivers shoes to any address in the world [not possible without reliability of postal distribution];

*Supply of Labour*: the labour was already experienced having worked for the previous company;

*The third* can be selected from e.g. resources, occupancy and labour costs, incentives like tax holidays, business subsidies.

1-4 marks per location factor as follows:

1-2 marks weak response, little knowledge and application

3-4 marks context, judgement, well explained, knowledge

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5 (a) Explain the importance of three of the main features of 'Better Feet's Customer Service policy. [3 x 4 = 12]

The detail is in the text but the issue is really about *importance*, and that needs to be emphasised particularly for entry into L4.

The features are:

- delivery within 15 days
- returns free of charge
- help-line for customers
- unconditional guarantee i.e. if not fully satisfied 'Better Feet' offer replacement or refund.

The importance of the policy is highlighted by the fact the customers purchase remotely i.e. computer, phone or mail order – it important that customers are reassured by the level and quality of service e.g. security, merchantable quality.

- L1 1-2 marks identity of 1-2 points without description; weak effort  
L2 3-5 marks descriptive, some points offered  
L3 6-8 marks all details identified, good explanation of importance  
L4 9-10 marks clear context; strong response, judgement

(b) (i) Explain the differences between niche marketing and mass marketing. [2 x 2 = 4]

The task essentially calls for two definitions e.g.:

*Niche*: selling in a relatively small market segment; 'Better Feet' can exist because of its particular strategy; sells to individual not retail customers.

*Mass*: high productivity, machine based [no hand finishing]; large scale production; previous company produced for retail chains.

1-3 marks for each explanation [1-2 marks for the definition; 3 marks for context]

(ii) 'Better Feet' uses the cost-plus pricing method. Explain what is meant by cost-plus pricing. [4]

Definition required: adding set profit percentage to total costs of production; cost increases passed on to consumer; margins protected; works well if there is no effective competition [company has no real competitors so the policy is suitable].

- 1-2 marks basic definition i.e. percentage profit to costs  
3-4 marks good definition; understanding; context.