

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the May 2009 question paper
for the guidance of teachers

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS
5171/5179 Business Organisation and Environment, Maximum mark 100

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1 (a) Explain and justify the following *two* business objectives of Lucky Jet:

(i) economic survival [4]

- This means exactly what it says – survival;
- All businesses worry about economic survival but Lucky Jet is in a highly competitive and expensive market;
- The airline saw a gap in the market and the initial development may not be cost-effective;
- Lucky Jet may face difficulties arising from increased costs e.g. landing fees, licences, fuel, maintenance.

(ii) continuous product development [4]

- Lucky Jet is currently a success because it is developing a quality service;
- It is necessary for the company to continue monitoring its service and improve it as appropriate;
- In order to keep its place in the market the company must innovate and respond to clients' needs;
- Lucky Jet must also be aware of competitors' reactions and what changes they may make in their service.

(b) Finance will always be a concern for the airline.

(i) Describe what is meant by ploughing-back profits [4]

- Ploughed-back profits are also known as retained profits;
- It is the profit left after all deductions [tax, distributed profit to shareholder] and reinvested in the business to help with, for example, renewal and expansion;
- It is an important [and cheaper] source of long-term internal finance for Lucky Jet.

(ii) Explain how leasing can help the airline's finances [4]

- Leasing is a means of acquiring [i.e. renting or hiring] assets without the initial cash investment implied by purchasing;
- It avoids adversely affecting the cash flow;
- It releases capital for other [and perhaps more profitable] uses;
- A modern airliner is hugely expensive - the leasing of one aircraft enables the airline to operate two aircraft on the UK-China route without being committed to a large investment.

(c) With reference to Lucky Jet, explain the difference between fixed and variable costs and give *one* example of *each*. [4]

- **Fixed costs** do not alter in relation to changes in demand [in the short run];
- They have to be paid whether Lucky Jet flies its aircraft or not;
- Examples include interest payments, depreciation.
- **Variable costs** vary in direct proportion to changes in output;
- Examples include additional staff, fuel, landing fees.

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2 (a) Explain what Ms Wong means when she says her leadership style is democratic. [4]

- She is running the business on the basis of decisions agreed among the teams and circles;
- There is evidence of delegation and discussion;
- She may act upon advice and will explain reasons for her decisions;
- Staff are involved in problem solving.

(b) Explain the following motivational features:

(i) self-actualisation. [4]

- A discussion on Maslow's hierarchy of needs is **not** required;
- Self-actualisation is a high order need – it is about self-fulfilment;
- It reflects the fulfilment of an individual's potential through achievement, being enriched by learning and experience;
- Most of the staff are highly skilled and will always seek to improve;
- Some staff expect high earnings, challenges, and opportunities to succeed.

(ii) theory Y [4]

- A paragraph on Theory X is **not** required but some reference may be legitimate in order to emphasise a Y point;
- Lucky Jet wants Theory Y staff because they are self-motivated, stimulated by their work, like responsibility, are creative;
- The airline wants to get established and to expand – to do that they need Theory Y people.

(c) Lucky Jet has introduced team working and quality circles.

(i) Describe a quality circle and suggest *one* benefit of it to the company. [4]

- A *quality circle* comprises a group of staff which meets to consider and recommend solutions to problems with some aspect of the airline's operation;
- The group comprises staff drawn from all areas e.g. terminal, air crew, in-flight attendants, sales;
- The *benefit* is that employees appreciate being able to participate in problem solving and using their knowledge and expertise – it makes them feel valued and helps motivation;
- Helps the sharing of ideas;
- Better staff motivation and performance means a better company performance.

(ii) Explain what team working means and suggest *one* benefit of it to the employee. [4]

- Teams are groups of multi-skilled and trained staff;
- A team is given an entire project or process and so have ownership of what it does;
- A team member is involved and so better motivated;
- It means being given responsibility and opportunity;
- It creates interest in the work.

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3 (a) The airline offers an attractive package of incentives. Describe *two* incentives which the airline might offer its employees. [2 x 2 = 4]

- No specific references are made in the text so some conjecture is acceptable so long as the incentives are appropriate to the airline industry;
- Likely incentives include:
Performance bonuses [e.g. flights departing and arriving on time];
Grooming, facials, make-up for in-flight crew;
Medical insurance; free or heavily discounted fares;
Bonus pay for languages [Mandarin]; free meals during working hours.

(b) The pilots are employed on one-year fixed-term contracts.

(i) Explain what a one-year fixed-term contract is. [2]

- An employment contract which runs for a specific fixed term [in this case one year] and expires at the end of that term;
- A pilot is treated as permanent in respect of benefits and pay;
- A pilot's satisfactory performance may mean renewal i.e. a follow-on one year contract.

(ii) Describe *one* benefit to the airline of one-year fixed-term contracts. [2]

- If a pilot does not perform well, Lucky Jet does not have to renew the contract;
- If expansion is not possible or if business slumps then the contract gives Lucky Jet some flexibility in staff management.

(c) Describe the *three* following expectations that Lucky Jet might reasonably have of the employees:

(i) commitment to the business and its objectives. [4]

- The text reinforces the view that Ms Wong wants a close-knit workforce;
- The staff have good employment packages and are expected to work hard to ensure the success of Lucky Jet;
- The objectives of the airline ought to be similar to their own individual objectives – company and personal success.

(ii) to have and develop appropriate skills [4]

- Any reference to skills must reflect what an airline needs in its staff;
- No employee would be appointed without appropriate skills but continuing professional development would be expected to meet changing circumstances;
- Apart from specialist skills, all staff need negotiating, people and presentation skills – perhaps even languages.

(iii) the acceptance of the Company's code of conduct [4]

- The code reflects the way Lucky Jet expects staff to carry out their duties – their behaviour affects company image and reputation;
- It covers personal hygiene, dress, manners, passenger care;
- Staff are ambassadors of an airline which is susceptible to criticism if standards fall.

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4 (a) Every business is influenced in some way by external or PEST factors. Explain how Lucky Jet might be influenced by:

(i) competition [4]

- The airline business is a very competitive market with pressures on costs, prices and target market[s];
- Competition may encourage Lucky Jet to introduce new products and/or services;
- The company may have to review its pricing policy;
- Other small airlines may think there is a niche to fill and attempt to enter the market or the main carriers may offer passengers attractive and special deals;
- The downside is that Lucky Jet could be forced out of the market or suffer a reduction in profitability.

(ii) environmental pressure groups [4]

- There is growing concern worldwide about climate change and the increase in air traffic is seen as a major contributor to carbon emissions and pollution;
- The airline could receive nuisance calls, picketing at its terminals, even minor sabotage, adverse publicity;
- Pressure groups are already calling for more use of video conferencing and emails when conducting business;
- However, Lucky Jet has a 'green' policy and is carbon neutral.

(iii) the trade or business cycle [4]

- It is the cycle of economic growth, the fluctuations in economic activity;
- Basically the cycle moves from boom to slump to boom;
- The cycle will impact on Lucky Jet – if there is a recession then the small airlines will find it harder to survive not having the resources of the main carriers;
- A boom or a stable period will present the airline with opportunity.

(b) With reference to the following location factors, explain why Lucky Jet flies to Shanghai:

(i) access to markets [4]

- The Chinese economy is developing fast and Shanghai is in a region of industrial and commercial activity;
- There is a lot of western investment in China;
- Shanghai offers access to a wide range of business and resources [labour, land, transport, government advice];
- The area is attractive to business people and investors;

(ii) regional growth [4]

- This task is linked to one above and some overlap of argument may occur – and that is acceptable;
- The region is growing particularly fast with massive investment;
- As more business is set up so more is encouraged – and there is a need to shuttle business people to and from China;
- It is a natural destination for Lucky Jet which clearly saw a gap in the market.

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5 (a) The airline values its customers.

(i) Explain what the company means when it claims that the passengers are its main resource. [4]

- Put quite simply, without passengers there would be no airline;
- Passengers mean employment, business, earnings, profit, success;
- Passengers should be treated with due respect and importance;
- They are stakeholders – the long term interest of Lucky Jet will depend on paying attention to their requirements.

(ii) Explain the importance to the airline of a customer service policy. [4]

- Essentially it recognises the passenger/customer as the main resource;
- Customer service deals with a passenger's experience of flying with Lucky Jet and will include e.g. in-flight crew and ground staff behaviour, how well the employees are trained, guarantees, handling of complaints, refunds, ticketing procedure;
- It reflects how well passengers' needs are met;
- The policy should have as its aim the development of customer loyalty and further business.

(iii) Explain what is meant by customer profile and psychological factors. [4]

- The airline takes into account the profile of its target market i.e. passengers, on the basis of their age, employment, socio-economic class, assumed demand for service;
- The psychological factors deal with the image the passengers have of themselves and the levels of service they require;
- It is all to do with customer care.

(b) The airline has adopted penetration pricing.

(i) Explain what is meant by penetration pricing. [2]

- It means setting the fares low enough to gain a sufficient market share;
- In the case of Lucky Jet it is a means of gaining entry to a small part of a mass market.

(ii) Describe *one* benefit to the airline of penetration pricing. [2]

- It may discourage other airlines from entering the Birmingham to Shanghai market;
- It may enable Lucky Jet to get established and then raise its fares.

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- (c) Explain what Ms Wong means when she says that the company has got its marketing mix right. [4]

The candidate does **not** need to give a detailed breakdown of the 4Ps although some reference is clearly required: clues are in the text. The company is currently a success so that justifies the general claim regarding the marketing mix. NB: only four [4] marks are allocated so a general but apposite response proving Ms Wong's point is all that is required.

- **Price:** penetration pricing; good value for money as service is more than proportionate to price; attractive to target market.
- **Product:** affordable business class flight UK to Shanghai; high quality service; tailored to its target market.
- **Promotion:** appropriate media, internet, travel agents, assume general publicity like posters.
- **Place:** air route Birmingham to Shanghai; definite need for it.