

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the May 2012 question paper
for the guidance of teachers

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5179 Business Organisation and Environment, maximum mark 100

This mark scheme is published as an aid to teachers and candidates, 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, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

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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 the candidate's knowledge and awareness.
- Extensive answers are not called for but candidates should offer well-written informative responses.
- Each task can earn up to 5 marks.
- English is not the first language of the majority of our candidates. The quality of written language is not part of the assessment.
- This is an *advanced level* paper.
- *This note is the guide for the entire examination paper.*

Marks	Descriptors
1	A response indicating some basic or limited knowledge; identity of perhaps one element without discussion, explanation or application.
2	A response which indicates elementary knowledge; offers key words; indicates some awareness, limited explanation.
3	Default mark. A good answer reflecting understanding, obvious knowledge and application; good use of text as a source; perhaps limited context.
4	A firm answer reflecting a good understanding of the issue; obvious knowledge and application; good use of text; context.
5	The best possible response given the examination pressure; clear and direct answer to the task; reflects knowledge, application, perhaps some judgement and, importantly, context; well structured.

Candidates are expected to use material in the case study to support their responses i.e. respond in **context** wherever appropriate.

This is *advanced level* so the responses are expected to display a higher level of knowledge and application than standard level responses. We are looking for balanced responses which indicate knowledge, understanding, application and context.

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1 (a) Explain the statement – ‘A major advantage to the shareholders of a limited company is their limited liability’. [5]

- The shareholders can only lose the amount they have invested into the business.
- The creditors of the limited company are not entitled to be repaid from the personal assets of the shareholders.
- The financial risk to the shareholders is reduced.

(b) Describe the advantages to a car business of being a franchised car dealership. [5]

- They should benefit from national and international advertising.
- They are selling a recognised product or service so the chances of failure are reduced.
- They will receive training and help with administration.

(c) Explain what a break-even analysis is, and explain how it helps a business to plan ahead. [5]

- If a business knows its fixed costs and variable costs, and has set the price for the product, it can calculate how many products it needs to sell to cover its costs; this is the break-even point.
- The business can see the effect on the break-even point of changes in price or costs.
- This can aid planning, particularly in setting prices, where new products are to be introduced.

(d) Explain the risks involved in FCP giving credit to its business customers and explain how these risks may be minimised. [5]

- The main risks are either that the customer will not pay FCP, or that they will be very slow in paying FCP.
- These risks may be minimised by FCP taking credit references on all potential customers.
- FCP may offer discounts for prompt payment of invoices.
- FCP must have a comprehensive system of follow-up on outstanding bills.

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2 (a) Explain the advantages and disadvantages to FCP of the supervisors having a wide span of control. [5]

- Lower costs due to fewer supervisors.
- Greater decision making authority for subordinates may improve job satisfaction.
- Control and supervision are not as tight.
- Managers have less time to plan their activities.
- Communication with subordinates may be more difficult due to the larger number of them.

(b) Explain the importance of non-financial incentives to FCP's staff in terms of Maslow's or Herzberg's theories. [5]

- Maslow's hierarchy of needs states that workers have different needs that can be placed in a hierarchy, and that each level must be satisfied before the next level can be used as a motivator.
- Therefore the workers must have their lower level needs met e.g. safety before the higher level needs will motivate e.g. esteem.
- Herzberg's two factor theory states that there are a number of needs that must be met to prevent dissatisfaction e.g. pay, conditions of work.
- Once these have been met then the workers can be motivated by motivators such as a chance of promotion or recognition of effort.

Please note that only ONE of these theories is needed to answer the question.

(c) Pablo and Rafael have different leadership styles. Describe the following styles:

(i) authoritarian [5]

- An authoritarian leader makes the decision himself with minimal input from others.
- He then informs his subordinates of the decision and expects them to carry out the necessary tasks.
- The result of this style is that subordinates often become dissatisfied or frustrated and this is seen in the case study where Pablo has caused problems with the unions.
- This style may be successful when business is failing due to previous weak management.

(ii) democratic [5]

- Leader encourages participation in decision making.
- Leader may consult employees or attempt to persuade them of final decision.
- Leader needs good communication skills.
- Decisions may take longer to be reached.

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3 (a) Describe the advantages to FCP of employing temporary part-time workers. [5]

- More flexibility.
- Can hire more staff when work peaks and lay them off at minimum cost when less work available.
- Usually pay lower wages with no extra benefits.

(b) Explain the advantages and disadvantages to FCP of the workers being members of a trade union. [5]

- FCP have one set of negotiations covering all workers.
- Union may be more realistic than an individual worker.
- Union is more powerful and can organise industrial action.
- FCP may get caught up in industry wide action that is not their fault.

(c) Describe the advantages to FCP of the majority of the workforce having more than five years experience with the company. [5]

- Trained and experienced workforce should be more efficient.
- Lower staff turnover results in lower recruitment and training costs.
- Majority of staff should be loyal to FCP.

(d) Describe non-financial incentives, apart from promotion, that would be appropriate for FCP's workers. [5]

- Interesting and stimulating tasks through job enlargement, job rotation or job enrichment.
- Involving workers in decision making e.g. in Quality Circles.
- Fringe benefits such as longer holidays.
- Improving the workplace environment.

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4 (a) If FCP relocated its premises, describe other factors, apart from ease of access, which it would consider. [5]

- Availability of good communications.
- Land available at reasonable price.
- Being close to their major customers.
- Ease of further expansion.

(b) Describe how both an increase and a decrease in exchange rates would affect how FCP prices its products to its customers. [5]

- FCP import most of their products therefore the cost to them will vary with fluctuations in exchange rate.
- An increase in exchange rate will strengthen the Uruguayan currency and therefore decrease the price of their imported goods. FCP can either reduce their prices, or leave them the same and make a bigger gross margin.
- A decrease in exchange rate will weaken the Uruguayan currency and therefore increase FCP's import costs. They can either increase their prices and maintain the same gross margin or leave the prices the same and experience a decrease in gross margin.

(c) Describe the effect on FCP of:

(i) an increase in interest rates [5]

- FCP will have to pay more interest on any variable rate borrowing they have outstanding, thus increasing their costs.
- Consumers will have to pay more interest on their borrowing and therefore have less disposable income and consumer purchases will decrease.
- FCP may find their debtors take longer to pay due to their poorer cash flow.

(ii) a reduction in direct taxation [5]

- Direct taxation is levied on the income of individuals and the profits of businesses.
- A decrease will mean more disposable income for individuals which will increase their spending.
- A decrease in the tax on FCP's profits will increase their available cash flow and they may increase their dividends or increase their investment in more assets.

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5 (a) Explain the following two pricing methods:

(i) cost-plus [5]

- This involves setting a price by calculating the average cost of a product and adding a mark-up for profit.
- It is a simple and quick way of pricing and ensures the firm always makes a gross profit.
- It does not, however, take into account market conditions.

(ii) contribution [5]

- This method takes into account that different products might need to be priced using different criteria because of market conditions.
- Therefore for the manufactured products, FCP calculate the direct costs of manufacture and then adds on a contribution that FCP wants that product to make towards covering its indirect costs and towards profit.
- This allows more flexibility as successful products can be priced to provide more contribution, whilst less successful products can be priced more competitively as they make a lower contribution.

(b) Explain the importance of the following two types of promotion to FCP:

(i) personal selling [5]

- FCP's salesmen must maintain a good relationship with their business customers to encourage repeat business.
- They must also call on new businesses or businesses who do not presently buy from FCP to try to persuade them to open accounts and buy.
- They will also be an important source of knowledge about competitors' activities as they travel around the area.

(ii) advertising [5]

- Advertising will raise awareness of FCP's products.
- If competitors advertise then FCP must advertise in order to compete.
- Advertising will help build a positive image of the company.

[Total: 20]