

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Advanced Level

MARK SCHEME for the October 2005 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5171 Business Organisation and Environment, maximum mark 100

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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*.

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- 1 (a) **Unique Experience Plc is owned by a holding company called Shogun Investments. Identify and describe two features of a holding company.** [4]

The candidate has a choice from e.g.:

- a holding company owns the majority of shares in a company;
- it is able to control or influence the company/ies without actually being directly involved in their day-to-day management;
- there is always the possibility of centralised control from the holding company;
- the holding company tends to keep its companies separate so they remain independent of each other e.g. for policy changes.

Marks: 1-2 marks for each feature

- (b) **Although the company was set up as a private company, it later became a public limited company. Explain two reasons for Unique Experience Plc becoming a public limited company.** [4]

The candidate has been asked for **two** reasons and may choose from: e.g.

- enables the company to be listed on the stock exchange;
- shares are freely transferable;
- enables the company to raise potentially a large amount of capital through the public sale of shares;
- may confer greater status on the company and help give it profile;
- the directors could have a valuable range of experience to offer.

Marks: 1-2 marks for each reason

- (c) **Identify and discuss three business objectives of Unique Experience Plc.** [3 x 4 = 12]

Each business objective needs to be fairly well explained – the candidate must demonstrate knowledge and application of the objectives to the company.

The responses can be drawn from e.g.

- profit making;
- economic survival;
- satisfying client demand;
- improving sales revenue year on year;
- developing market penetration.

Marks: 1-4 marks for each objective as follows:

- 1-2 marks:** basic/limited understanding of objectives
3-4 marks: good to sound demonstration of appropriate objectives

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- 2 (a) Each 'unique experience' project is managed by a team. Explain what team working means and identify one benefit it provides for the employees. [4]

Essentially team working means allowing a team of employees to organise a large task i.e. seeing through a complete project rather than contributing elements to it (as in the division of labour) – in the case study, the team will assemble and manage a unique experience.

One benefit is asked for and can be drawn from e.g.

- better use of the employees' skills and experience;
- enables easier management and supervision of employees on a project;
- encourages sharing of responsibility and ideas;
- helps motivation.

Marks: 1-2 marks: for the definition, plus
1-2 marks: for the benefit to the employees

- (b) The management style of Unique Experience plc is regarded as paternalistic. Explain what paternalistic style means and identify one advantage it offers the company. [4]

The paternalistic style is essentially autocratic although the decisions and the leadership style are intended to be in the best interests of the employees. Senior Management may consult staff before announcing a decision but they will not encourage participation.

The company benefits by:

- not supporting time consuming 'democratic' processes in the company – the managers are paid to take the decisions, and that saves time and money;
- the paternalistic style is concerned that employees are happy in their jobs and if that is the case then time and money is saved by low rates of staff turnover and dissatisfaction.

Marks: 1-2 marks: for the definition, plus
1-2 marks: for the benefit to the employees

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- (c) **The Board of Unique Experience Plc is reviewing the structure of the company. Identify and explain three factors which determine the structure of a business organisation.** [3 x 4 = 12]

The text only says the directors are unhappy with the structure of the company and are currently reviewing it – this leaves the candidate scope to discuss appropriate factors which can be drawn from such issues as e.g:

- chain of command;
- span of control;
- the extent of delegation;
- the nature and size of the company;
- hierarchy or matrix;
- centralisation versus decentralisation.

Marks: 1-4 marks for each factor as follows:

1-2 marks: basic/limited understanding of factors

3-4 marks: good to sound demonstration of relevant factors

- 3 (a) **Describe the working environment on the hunting trips, and list two skills in which staff should be trained.** [4]

The working environment is obvious from the text – outdoors, potentially very dangerous, weather and local conditions can be extreme, although the campsites are luxurious they will lack the amenities of a five-star hotel.

Unique Experience staff should be trained in e.g. personal survival, safety procedures, first aid, local customs, language, driving off-road vehicles, customer care, project management.

Marks: 1-2 marks for a description of the working environment, plus
1 mark for each of the two appropriate skills identified

- (b) **Each hunting trip employs local staff who work hard and for long hours, and they receive the average pay rate for the region. Identify two incentives that the staff could be offered to ensure the hunting experience is successful.** [4]

The focus of this task is on the local staff e.g. the bearers, beaters, servants, trackers, bodyguards.

The basic approach would be to promise benefits given the satisfactory conclusion to the trip e.g. money will be an important incentive for people who may not earn much – the pay is the average rate for the region but monetary incentives will be attractive and stimulate performance e.g. terminal bonus, a specific reward for ensuring an appropriate kill or trophy.

Other incentives may include free uniforms and equipment, customer service or other specialised training, the promise of further employment, appropriate gifts for the employees' families.

Marks: 1-2 marks for each of the two appropriate incentives

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- (c) **Identify and discuss three expectations the permanent staff might reasonably have of their employer.** [3 x 4 = 12]

Each expectation needs to be discussed in the content of the case. The candidate can choose three from the following list of expectations e.g.

- fair wages and salaries;
- suitable and safe conditions of work;
- training and retraining if necessary;
- opportunities for advancement;
- appropriate incentives;
- provision of channels of consultation and negotiation.

Marks: 1-4 marks for each expectation as follows:

1-2 marks: basic rehearsal of a point with little application/explanation

3-4 marks: good awareness and application to case

- 4 (a) **Unique Experience Plc is aware of the influences of the environment on business organisations. Explain how the company might be affected by the following factors:**

- (i) **pressure groups and public opinion** [5]

The candidate needs to offer a well written statement explaining how pressure groups and public opinion can affect the company. No specific number of points are called for but a brief and well structured explanation is expected, e.g:

- pressure groups represent organised public opinion and exist to fight specific campaigns e.g. Greenpeace; they seek to influence Boards of Directors, share-holders, councils and Governments;
- 'Unique Experience' could be affected by the direct action of animal rights protesters interfering with e.g. a big game hunt, encouraging a lot of adverse publicity in the media, influencing a government to refuse to licence the company's activities; disaffecting the people who work for the company; discouraging business and driving away potential clients.

- (ii) **fluctuating exchange rates** [5]

Clearly the company is concerned about this issue as it operates throughout the world; it sells activities, pays wages and invoices in different currencies.

Basically an exchange rate is the price of one currency in terms of another (in this case the dollar \$); there are always some variations in exchange rates and it means that the company has to monitor the movements.

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Once a price has been agreed for an activity then a change in exchange rate could affect the company's revenue one way or another; the price will always be changed to take into account movements in the rate – this is why it operates the cost-plus pricing method.

Marks: 1-5 marks per factor as follows:

- 1-2 marks:** limited appreciation of pressure groups/public opinion
3-4 marks: competent to strong explanation; clear understanding and application of the factor
5 marks: best possible answer

(b) Some public opinion has suggested that the various activities of Unique Experience plc cause negative externalities.

(i) Explain what is meant by the term externalities. [5]

Externalities can be either positive (conferring benefits) or negative (incurring costs) which arise as a result of an activity undertaken by an individual, government or company e.g. a company may build a manufacturing plant which will give much needed jobs to an area (i.e. benefits) but it might pollute the area with its waste (i.e. the community bears the costs).

The essential point here is that externalities are not usually borne by the company but by the community.

(ii) Describe the kind of negative externalities in this case study, that would concern the public. [5]

The negative externalities created by Unique Experience will include e.g:

- the reduction of wildlife populations (e.g. lions mentioned in the text);
- the wear and tear on beaches and forests;
- possible pollution of the rivers and the sea;
- the prospect of illegal hunting and the encouragement of local populations being involved in illegal trade.

Marks: 1-5 marks per factor as follows:

- 1-2 marks:** limited appreciation of pressure groups/public opinion
3-4 marks: competent to strong explanation; clear understanding and application of the factor
5 marks: best possible answer

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- 5 (a) The company uses local agents to help arrange the Unique Experiences. Identify two benefits to the company of using local agents. [4]

The candidate needs to offer two points from e.g.:

- an agent is an independent expert appointed to represent 'Unique Experience' in another country;
- the agent should have in-depth knowledge of the region/country and can advise the project teams(s);
- the agent ought to know how to secure the appropriate licences to undertake the activities, especially the hunting trips;
- using an agent is cheaper than setting up an office/network;
- agents work for fees or commission rather than salary.

Marks: 1-2 marks for each benefit

- (b) The company says its pricing method is cost-plus. Explain what is meant by cost-plus pricing and identify one benefit to the company of this method of pricing. [4]

- essentially this is a simple form of pricing method – it seeks to ensure that Unique Experience covers its costs and makes an acceptable profit:
- the benefit to the company is that any cost increases are passed onto the clients in the form of higher prices:
- it is suitable because each project or activity may have a number of unforeseen costs and the company can recover these by building in the price contingency costs:
- the company is dealing with extreme activities designed to attract wealthy people and the situation favours cost-plus.

Marks: 1-2 marks for the definition of cost-plus pricing plan
1-2 marks for the benefit to the company

- (c) Unique Experience Plc deals with wealthy clients who expect quality service. They are likely to complain if standards fall below their expectations. Discuss how the company should ensure a high level of customer service. [12]

The high level of customer service is required since the clients all tend to be wealthy and pay a lot of money (upwards of \$40,000) for the hunting trips and also high fees for the other activities.

It is not surprising, therefore, that they are very demanding and expect high standards of delivery. They are well aware how important they are to the company and it is imperative that the company, in turn, readily appreciates how important they are.

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The company needs to ensure e.g.:

- that all its staff are properly trained and suitable for the tasks;
- the focus must be on the clients and their specific needs;
- above all there must be the recognition that clients are the lifeblood of the business and they pay the employees' salaries;
- should anything go wrong or clients appear to be dissatisfied then senior management must be prepared to go to the site and remedy the situation;
- all activities and projects must be carefully planned in advance to minimise problems (what if? approach);
- appropriate insurances must be taken out to cover such elements as theft, injury, loss of equipment in transit, even death.

Marks: 1-12 marks as follows:

- 1-3 marks:** basic/limited appreciation of customer services
4-6 marks: descriptive, competent discussion of relevant factors
7-9 marks: context, good knowledge and application to case
10-12 marks: fluent discussion, judgement, context, good application