

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
Cambridge International Diploma Advanced Level

## **MARK SCHEME for the October 2012 series**

### **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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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## HAMED OIL SERVICES PLC

### 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.
- Usually, each response is followed by advice on the interpretation and application of marks.

Since each task is worth up to 5 marks, it seems unnecessary to append virtually the same advice to each task. *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 the 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 the 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) Describe the advantages and disadvantages of a plc (Public Limited Company) compared with a Ltd (Private Limited Company) [5]

Advantages

- Plc shares can be quoted on Stock Exchange.
- More shares can be easily sold to anybody to raise capital.
- Usually much larger companies with economies of scale.

Disadvantages

- Expensive to set up.
- Anyone can buy shares therefore vulnerable to takeover.
- Have to publish more information than private companies.

- (b) Describe how HOS might respond to the increased emphasis on the environmental impact of its work. [5]

- Must have extensive environmental policies in place and make these public.
- Must react to public concerns, for example may have to change production techniques to combat pollution.
- May have to increase budgets due to increased costs caused by improvements in environmental practices e.g. R&D costs may increase.

- (c) Describe the advantages and disadvantages to HOS of the following types of borrowing:

- (i) overdrafts [5]

Advantages

- Only used when needed thus usually reducing interest costs.
- Can be used at times when cash flow is negative.
- HOS use it as a standby line of credit.

Disadvantages

- Can be expensive when being used.
- Bank can demand repayment at any time.
- HOS could drift into permanent use of overdraft which then may be difficult to repay.

- (ii) debentures (loans) [5]

Advantages

- Holder of a debenture is not usually an owner, they are entitled to a fixed rate of interest but have no voting rights.
- Repayment is usually set on a fixed date with annual or monthly instalments often being required.
- A long term source of finance often used to acquire fixed assets.

Disadvantages

- The interest due has to be paid with principal at due date.
- The interest will reduce the amount of profit available for dividends for the ordinary shareholders.

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**2 (a) Explain why a matrix structure might be used in most parts of the organisational structure of HOS. [5]**

- Matrix structure emphasises getting people with particular specialist skills together into project teams.
- HOS's work involves different projects for various companies and the matrix structure will be ideal to employ.
- Gives scope to employees to use their talent more effectively.

**(b) Describe how HOS might use both formal and informal channels of communication in its business [5]**

- Formal channels are recognised and approved by the organisation. HOS may arrange a formal meeting of employees at a set time to announce a new employee benefit.
- Informal channels are, for example, when employees meet by chance and exchange information. Managers can exchange information with employees quickly and often more honestly.
- To be effective HOS need both formal and informal channels. Formal statements can be supported by informal explanations.

**(c) Explain why delegation might be viewed as important by HOS. [5]**

- Delegation is authority given by a superior to a subordinate, but overall responsibility is retained by the superior.
- Delegation reduces the burdens of senior managers.
- Provides subordinates with greater job satisfaction.
- Decision making is quicker when decisions do not always have to be referred to senior managers.

**(d) Explain how McGregor's Theory X and Theory Y might be viewed by HOS management. [5]**

- McGregor's Theory X states that workers are motivated by money, are lazy and need to be controlled.
- McGregor's Theory Y states that workers are motivated by many different needs, and this motivation means they take responsibility. Management should create situations where this can flourish.
- HOS management should therefore embrace Theory Y to gain well-motivated workers who want to work.

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- 3 (a) Explain the advantages and disadvantages to HOS of having some employees on fixed-term contracts. [5]

Advantages

- Employment term can be set to the expected term of the project.
- Employment costs are then easier to control, with less likelihood of having employees' surplus to requirements.

Disadvantages

- May lose good employees at the end of their fixed term.
- More recruiting needs to be done and therefore higher costs.

- (b) Explain why encouraging a positive attitude to safety at work might:

- (i) motivate employees [5]

- Safety is the second tier from the bottom of Maslow's Hierarchy of Needs which means it has to be in place before higher order motivations will work.
- An unsafe work environment will mean that workers will not work to their full potential and the quality of work may decrease.

- (ii) become a positive asset for HOS [5]

- Workers will be easier to recruit.
- HOS's image will be improved.
- Customers may insist on a safe working environment before awarding contracts.
- In many countries laws state safety rules and HOS risks fines if they break the rules.

- (c) Describe the advantages and disadvantages of working in HOS, where the technology is constantly changing. [5]

Advantages

- Managers and workers are constantly being challenged which, in moderation, is motivating.
- Employees should receive a lot of training which is motivating.

Disadvantages

- More Research & Development will be necessary which is costly.
- Culture of Organisation needs to respond to change.
- While training is motivating it is also costly.

- 4 (a) Explain how the 'boom and bust periods', rise and fall, of the business cycle will influence oil prices. [5]

- During the boom part, overall demand in the economy is high and this will increase the demand for oil which will increase its price.
- During the bust part overall demand is low and thus decreases the demand for oil and pushes its price down.

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**(b) Describe how the Abu Dhabi Government might encourage the growth of a successful business like HOS. [5]**

- Taxation rates must be kept as low as possible to leave more money in the business for investment in their growth.
- Low interest rates will encourage growth as interest on borrowed money is a cost.
- Government could offer subsidies to firms in order to assist them to expand.

**(c) If HOS decided to open a branch office to serve the North American oil exploration market, describe the principal factors that the company should consider when choosing its location. [5]**

- HOS may choose to locate close to existing oilfields.
- HOS may locate close to the North American Head Offices of their customers.
- They may locate in an area that qualifies for Government incentives.
- They will consider costs such as building lease costs.
- They will want to make sure that suitable workers are available.
- Availability of good communication facilities such as fast broadband.

**(d) As Abu Dhabi is a major oil producer, explain why it is important that it also has businesses such as HOS which operate internationally in the oil service industry. [5]**

- Oil is a diminishing resource and Abu Dhabi needs firms that are not over-reliant on its oil.
- International firms owned largely in Abu Dhabi will bring money into the country.
- Operating internationally will increase the knowledge and skill of the firm.

**5 (a) Describe the main ways in which HOS could deliver good customer service. [5]**

- Ensure that all work is completed to a high quality.
- Ensure all work is completed on time.
- Liaise with customers promptly when difficulties are encountered.
- Make sure all prices are competitive.
- Ensure that the needs of the customers are identified, understood and met.

**(b) Explain why customers of HOS might consider the level of service more important than a low price. [5]**

- Customers are major international businesses expecting a high level product.
- Customers need to have confidence in HOS to deliver on time and this will be more important than price.
- If HOS consistently deliver a high quality service then the customers will prefer to use HOS ahead of less well-known businesses with a lower price.

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**(c) Discuss the following statements:**

- (i) Customers are the main resource of HOS. [5]**
- Without customers there will be no business.
  - In this type of high-tech business there will be a limited number of potential customers, therefore every customer is important.
  - The other main resource of HOS is the skill of its workforce, but even the highest skilled workforce is helpless unless there are customers.
- (ii) The image of HOS is more important than its market share. [5]**
- Market share could be increased by lowering price and maintaining quality, probably therefore reducing profitability.
  - Image is the responsibility shown to stakeholders such as customers, employees and suppliers.
  - Image is built up over the long term and should lead to a greater market share.
  - Pursuit of a large market share may result in a reduction in quality and is therefore detrimental to the image of HOS.