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**OCR Advanced Extension Award in Business (9914)**

**Specimen Assessment Materials**

QAN 100/4654/9

**Foreword**

These Specimen Assessment Materials are designed to accompany the OCR AEA in Business Specification for certification from June 2005 and every June thereafter.

Centres are permitted to copy material from this booklet for their own internal use.

OCR has prepared specifications to incorporate the range of features required by AEAs and subject criteria. The specimen assessment material accompanying the specification is provided to give centres a reasonable idea of the general shape and character of the planned question papers in advance of the first operational examination.



# Contents

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Question Paper	4
Questions	5
Case Study Materials	6
Extract A – Shell's Aims	7
Extract B – Summarised Financial Performance, 2002	8
Extract C – Can we still be sure of Shell?	9
Extract D – Double-Dutch Message	10
Extract E – Shell Group Structure	11
Extract F – Bribery and Multinationals	12
Extract G – Shell Makes Greens See Red	13
Extract H – Share Price	14
Extract I – Breakdown of Petrol Prices	14
Mark Scheme	15





**Oxford Cambridge and RSA Examinations**

**Advanced Extension Award**

**BUSINESS**

**9914**

**Specimen Paper**

Additional materials: Answer booklet.

**TIME** 3 hours including reading time

**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Write your answers, in blue or black ink, in the separate answer booklet provided.
- It is recommended that you spend up to 30 minutes reading and annotating the material in the *Case Study*. You will be expected to refer to this material in your answers.
- You must answer the compulsory question in Section A and **one** part-question from Section B. You should not need to spend more than about 1 hour 15 minutes on either answer.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- No texts, dictionaries or sources of reference other than the material in the *Case Study* may be brought into the examination. However, in your answers you may refer to any sources or material you have studied for Advanced GCE Business Studies/Advanced VCE Business.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- Each question is worth 20 marks. The total number of marks for this paper is 40.

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**Answer the compulsory question from Section A and ONE part-question from Section B**

**Section A**

- 1 Evaluate the extent to which Shell has met its responsibilities to its various stakeholders. **[20]**

**Section B**

- 2 Recommend, and justify, a strategy which Shell might adopt in the light of **one** of the following scenarios:
- Either (i) an increase in production costs;
- Or (ii) concerns about ethical employment practices amongst multinational companies;
- Or (iii) Shell's decision to downgrade its oil reserves;
- Or (iv) environmental concerns about its operations raised by Friends of the Earth. **[20]**



Oxford Cambridge and RSA Examinations

Advanced Extension Award

**BUSINESS**

**(9914)**

**Specimen Case Study Materials**

To be given to candidates at the start of the examination.

Extract	Title	Source
A	Shell's Aims	Adapted from <i>Shell report, 2002</i>
B	Summarised Financial Performance, 2000	Adapted from <i>Shell report, 2002</i>
C	Can we still be sure of Shell?	Adapted from <i>BBCi report, 2004</i>
D	Double-Dutch message	Adapted from <i>The Observer</i> and <i>BBCi reports, 2004</i>
E	Shell Group Structure	Adapted from <i>Shell report, 2002</i>
F	Bribery and Multinationals	Adapted from article in <i>The Economist, 2002</i>
G	Shell Makes Greens See Red	Adapted from article in <i>The Observer, 2004</i>
H	Share Price	Adapted from <i>Shell report, 2002</i>
I	Breakdown of Petrol Prices	Adapted from <i>BBCi report, 2004</i>

#### INFORMATION FOR CANDIDATES

- Candidates are advised to read all extracts contained in these case study materials before starting the test.
- 30 minutes of the three hour test is allowed for reading and annotating the material.

## Extract A

### Shell's Aims

**Our aim is to meet the energy needs of society in ways that are economically, socially and environmentally viable, now and in the future.**

We aim to be a world leader in energy and petrochemicals. We intend to deliver superior total shareholder returns in our industry through:

- Delivering robust profitability – solid earnings, competitive returns and strong cash generation resilient to a broad range of economic and geopolitical\* conditions. We achieve this through capital discipline, active portfolio management, personal accountability, operational excellence and cost leadership.
- Demonstrating competitive edge – developing, and benefiting from, our ability to attract people of the highest calibre and diversity; constantly innovating to meet changing customer needs, and benefiting from our strong brand position, technology and extensive global reach. We operate in line with our Business Principles, including our commitment to sustainable development, and view this as critical to maintaining our competitive edge.

Adapted from: *Shell report, 2002*

\* *Geopolitics can be defined as the combination of geographical and political factors affecting a country or area.*



**Extract B**

<b>Summarised Financial Performance, 2002</b>	
Balance sheet	£m
Fixed assets	15,632.3
Current assets	1,354.1
Current liabilities	912.5
Net Current assets	441.6
Net assets employed	<u>16,073.9</u>
Capital & reserves	
Ordinary shares	2,428.9
Reserves	13,201.6
Profit & loss account	443.4
Shareholders' funds	<u>16,073.9</u>
Profit & Loss Account	
Income from shares in Royal Dutch/ Shell Group	1,403.2
Interest and other income	<u>5.4</u>
	1,408.6
Administrative expenses	<u>4.2</u>
Profit before taxation	1,404.4
Taxation	<u>0.4</u>
Distributable profit	1,404.0
Shareholder information	Pence
Earnings per 25p Ordinary share	25.9
Dividend per 25p Ordinary share	15.2
Highest share price, London Stock exchange	543
Lowest share price, London Stock Exchange	361

Adapted from: *Shell report, 2002*

**Extract C****Can we still be sure of Shell?**

Shell recently reported net profits of \$11.7bn, a 27% increase compared with 2003. It also reported progress on cost-cutting. However, after announcing these figures, its share price fell.

Philip Watts, Shell's outgoing chairman, concedes it may have an image problem: "I know that there is significant concern and, in some quarters, outrage," he admitted, after revealing that the firm had overestimated its oil reserve base\* by one-fifth. And it is that overstatement that probably caused the fall in Shell's share price. Restating reserve levels is nothing especially unusual, and in practice simply means moving oil - which certainly exists in the ground - from one accounting category to another, more speculative one, but it was the size of the restatement that worried shareholders.

First, shareholders felt that the company, which prides itself on probity and fair dealing, could have been falsely reporting its assets in previous years. Second, it showed that Shell was falling behind its rivals in a key operating measure, the reserves replacement ratio, which shows how much new oil and gas a business is discovering compared with the amount it is extracting. Most effective is BP, which replaces 175% of the oil it pumps. However, Shell's ratio was just 98% in 2003, and may well have been far lower over the past few years. Shell insists that its replacement ratio will increase after some heavy investments in oilfield technology.

The restatement of Shell's oil reserves was the result of rules drawn up by the Securities and Exchange Commission (SEC), the US stock market regulator. In an effort to create transparency in an unclear market, the SEC insists that oil firms can only book reserves when commercially viable oil is flowing; until then, fields must be categorised as "provable" rather than "proved". This can make a huge difference to a business's portfolio of assets. Technology, oil companies say, makes it perfectly easy to prove the existence of oil without having expensively to start drilling it. It is only in the US that these rules apply, something that leaves whopping inconsistencies in companies' international reporting. This commercial viability rule means that some oil assets can be removed from a company's balance sheet when global oil price changes make a particular field no longer profitable. As a result, almost all analysts look at a company's total reserves, proved and provable.

So where does this leave Shell? If the SEC, as many expect, takes a more liberal view of oil companies in its next guidance, Shell's reserves problem will be eliminated overnight. However, after its problems with revaluing oil reserves, Shell's next chairman will almost certainly have investor relations at the top of his or her agenda.

Adapted from: *BBCi*, February 5<sup>th</sup> 2004

\* *Oil reserve base – the amount of oil which is available for commercial extraction from a business's oil fields.*

**Extract D****Double-Dutch message**

Most British companies are run by one board, complete with chairman, executive and non-executive directors, with clear lines of reporting and accountability to shareholders. Shell has three boards and none is as accountable, or structured as effectively, as shareholders would like.

Whilst shareholders accept that dual-registered companies - Shell was created through the merger of the Dutch group Royal Dutch and Britain's Shell - inevitably require more complicated structures than single-nationality ones, they point to companies such as Unilever and Fortis, which have managed the problem much more elegantly. Fortis, for example, has one chairman, one chief executive and one board of directors for its two companies.

Royal Dutch/Shell has two entirely different boards, one for each part of the group. But the operational power rests with neither of them, but with a separate, un-elected board, the Committee of Managing Directors (CMD), consisting of senior executives from each of the two public companies. Its members are not accountable, and do not report, to the chairmen of the public companies. As a consequence, Shell's top management operates in what Shell refers to as a "collegiate" fashion, with no CEO having authority or responsibility for management of the group as a whole.

Financing is complicated as the two businesses are separately listed, and issue their own debt. Worse, say shareholders, it pushes their interests to the back of a long queue. It also reduces the transparency of company decisions and many shareholders feel that they should have more say in company strategy.

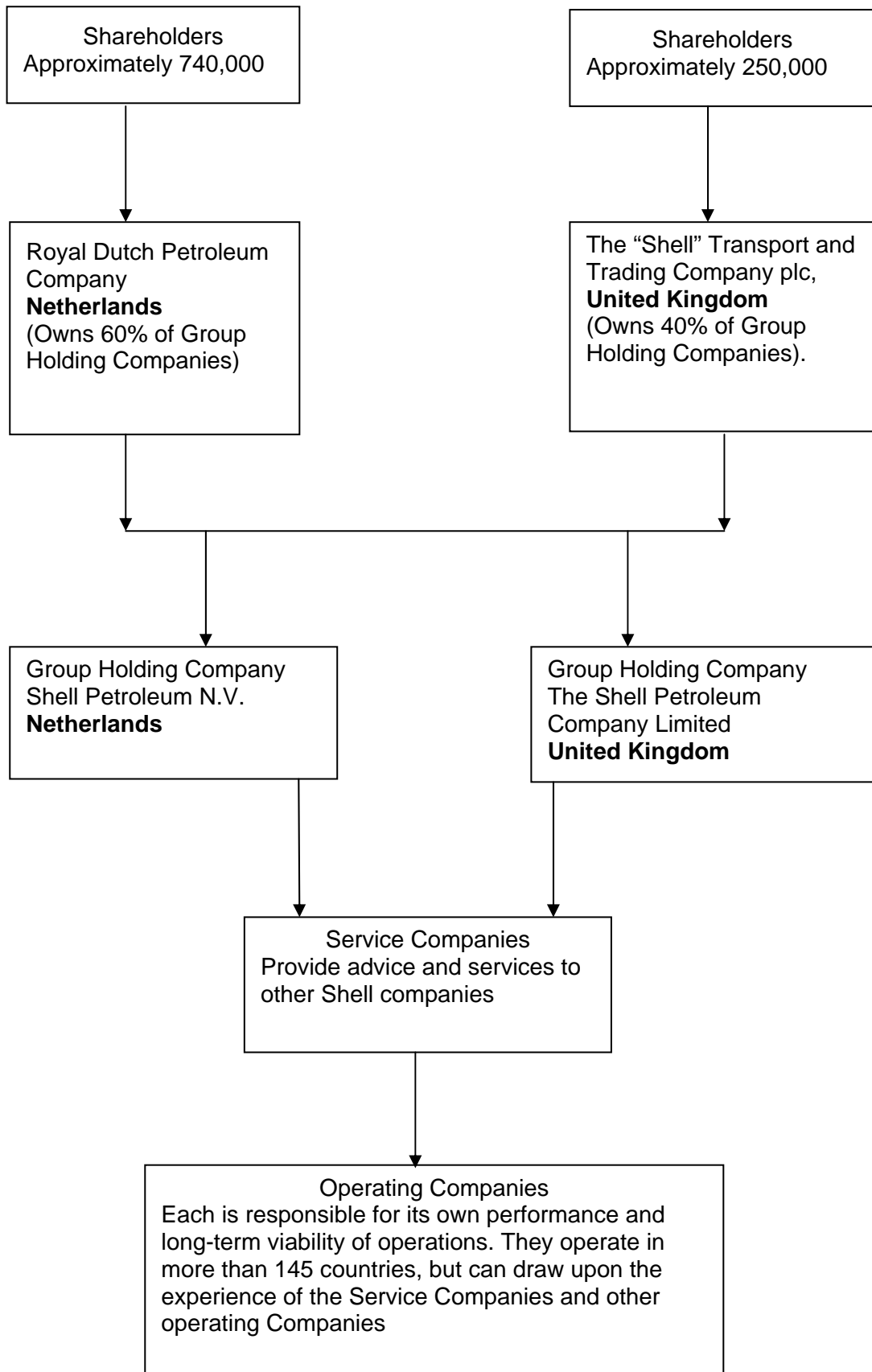
Shell defends its position by arguing that company strategy within the oil industry requires long term planning – sometimes 50 years and more into the future. The short term demands of minority shareholders, Shell feels, run counter to the methodical approach oil companies bring to their decision-making; what appears sluggishly bureaucratic to outsiders is, in fact, careful planning.

However, shareholders also want new blood on the board. Like many well-run companies, Shell has traditionally promoted from within. Sir Philip Watts, who was forced to resign as chairman of the CMD earlier this month, had been with the company for more than 30 years. His successor, Jeroen Van der Veer, joined the group many years ago. Similarly, many of the non-executives on the two boards also came up through the ranks.

Adapted from *The Observer*, March 21, 2004 and *BBCi* February 5<sup>th</sup> 2004

**Extract E**

**Shell Group Structure**



**Extract F****Bribery and Multinationals**

New legislation has just come into force in Britain extending anti-bribery laws to cover British nationals and companies abroad. The law on bribery and corruption applies if “a national of the United Kingdom or a body incorporated under the law of any part of the United Kingdom does anything in a country or territory outside the United Kingdom.” A Home Office spokeswoman says that the legislation will apply “if there is conspiracy between a UK parent and a foreign subsidiary”.

However, there is little to stop the subsidiaries of British companies from offering and accepting bribes. Unfortunately, the new laws are difficult to enforce and have several “loop-holes” which allow companies and individuals to avoid prosecution. The law against bribery abroad is rendered still more ineffective by the use of “facilitation payments”. These are small payments made to speed up routine international trade transactions, e.g. clearing customs, obtaining permits, and so on. Britain's Department of Trade and Industry accepts that there is no clear definition of a facilitation payment or of precisely how it differs from a bribe.

Shell is viewed by many as having strong anti-bribery policies. The Shell report for 2000 states that “we are a ‘no bribes’, fair competition business”; it also publishes a chart of the internal reported cases of bribery in recent years. No other large public company seems to do the same. The chart shows no reported cases in 2000 of “bribes offered and/or paid by Shell company employees directly or indirectly to third parties”. In 1999 there was one case (of a bribe of \$300)—exactly the same number and amount as in 1998. The company also says that in 2000 “Shell companies reported four instances in which a total of seven employees were detected soliciting/accepting bribes directly or indirectly. The total financial value was estimated to be \$89,000. All were dismissed.”

The very low numbers of bribes reported by Shell have been questioned by several people who have worked with or for Shell in Nigeria. Either the company's internal investigation and reporting systems are inadequate, they allege, or the figures are being “economical with the truth”.

How widespread is the problem of bribery? There is some evidence that the practice is growing. Many believe that in large parts of the world a company that does not pay bribes does not do business.

In the meantime, multinationals have been left pretty much to their own devices. A few have taken serious steps to stamp out bribery—Procter & Gamble, for example, even closed a Pampers plant in Nigeria rather than pay a bribe to a customs inspector. Many others, however, have merely pretended to stamp it out. Companies that are serious about implementing a “no bribery” policy need to do a lot more than just pontificate about the evils of corruption and ask managers to fill in a form once a year.

The cost to individuals and businesses of bribery is difficult to estimate. However, one international report, published by the World Bank, estimates that bribes in Uganda increase companies' overall costs by 8%. Some of those costs will eat into profits: even if a single company gains from paying a bribe, collectively, companies (and shareholders) will lose. Bribery is often a means for companies to avoid health and safety regulations, resulting in deteriorating and dangerous working conditions. Bribery is also bad for the economic health of the countries. And it is their economic health that more affects the long-run ability of companies to increase profits.

Adapted from: *The Economist*, February 28<sup>th</sup> 2002

**Extract G****Shell Makes Greens See Red**

Shareholders were not the only ones who were upset when Shell recently postponed its annual report and general meeting. Shell's new chairman, Jeroen van der Veer, will have to face human rights activists and environmental protesters when the rearranged meeting takes place in two months time. The protesters say they represent victims of the alleged environmental and social costs generated by Shell's activities in places as far apart as Texas, Nigeria and the Philippines.

Shell is facing particular difficulties in Nigeria where its environmental policies are coming under question. Friends of the Earth (FoE) report that 'the decades of pollution caused by Shell's rusting network of pipes continue to blight daily life, ruining farmland, poisoning water tables and creating the constant risk of serious fires'. FoE also cites an incident in December 2003, when pipeline corrosion caused an oil spill in the Rukpokwu region. Widespread environmental damage allegedly ensued, and Shell is also accused of taking weeks to make basic repairs. The report quotes a government official accusing the company of 'negligence, delay and lack of goodwill'. Shell rejects the allegation, saying repairs were delayed because staff were harassed by locals.

In addition, FoE also claims Shell has little to show for spending more than \$50m a year on community projects in Nigeria. Hospitals, schools and water projects funded by the firm are unfinished. The company states that 75 per cent of the development projects it supports in Nigeria are successful, but FoE says this should be independently verified. Christian Aid recently alleged that a critical internal Shell report into community relations was suppressed, but Shell denies the claim and continues to insist that its development programme is sound.

With rising crime and reports of mounting local hostility to Shell in many parts of Nigeria, the company may be planning a wholesale rethink of its future there. Shell has said it plans to cut jobs in Nigeria, so it can invest more money in better production methods. The aim is to raise output by 500,000 barrels a day within two years, says the head of Shell's Nigeria operations, Chris Finlayson. "In the current extremely tight budget environment, it is essential to reduce our operating costs to allow sufficient funds for profitable investments." The reorganisation will mean, according to some reports, 1,000 jobs, or 20% of its Nigerian workforce, will be cut.

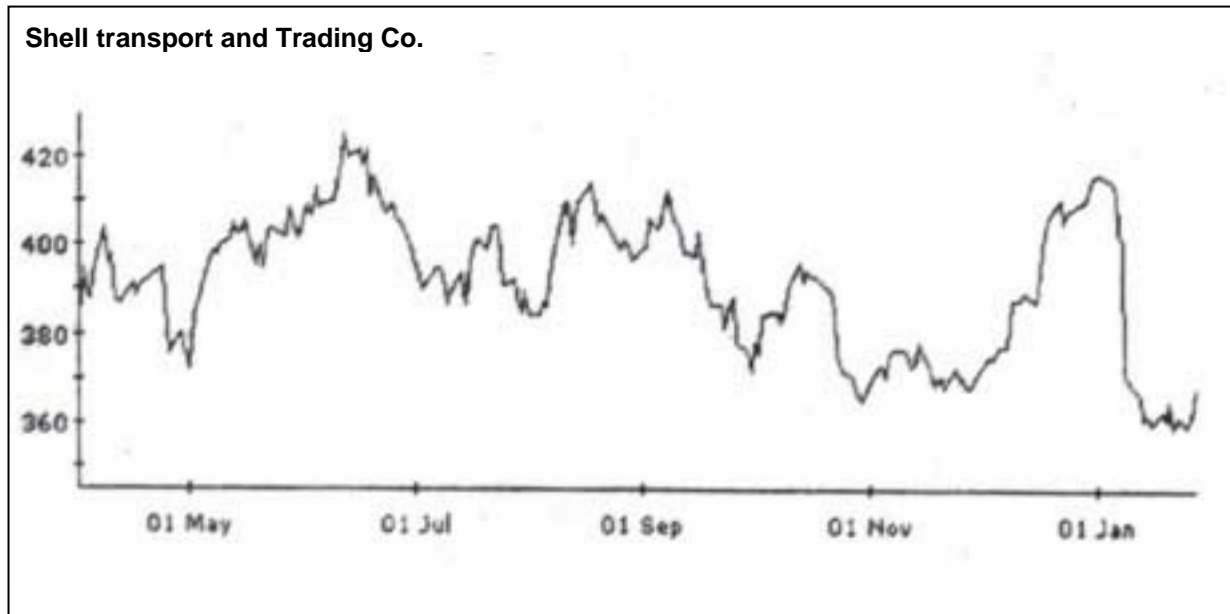
Correspondents say Shell's restructuring in Nigeria is consistent with moves by oil multinationals in the country to cut back on on-shore operations in the unsettled Niger Delta in favour of offshore operations, where large oil discoveries have been made.

However, cutting jobs in a poor country is never easy and could damage relations with the Nigerian government. That friendship is already looking strained. Nigerian President Olusegun Obasanjo is trying to recover hundreds of millions of pounds' worth of tax credits handed to oil companies during the military dictatorships of his predecessors. Shell has a greater presence than any of its rivals in Nigeria, and wouldn't want the country to become less tolerant of some of the company's more controversial practices there.

Adapted from: *The Observer*, March 21<sup>st</sup> 2004

**Extract H**

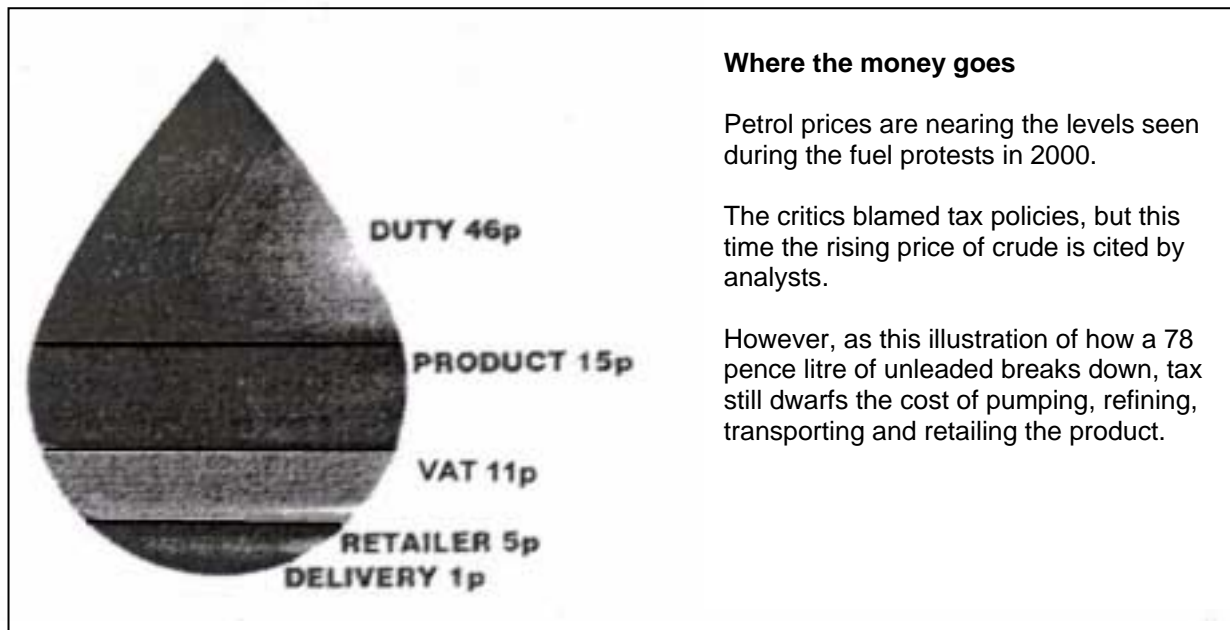
**Share Price**



Adapted from: *Shell report, 2002*

**Extract I**

**How one Litre of Petrol Breaks Down**



Adapted from: *BBCi, February 5<sup>th</sup> 2004*

**Extracts end here**





**OCR Advanced Extension Award in Business (9914)**

**Specimen Mark Scheme**

QAN 100/4654/9

# Advanced Extension Award – Business

## Mark Scheme

### Question 1:

Evaluate the extent to which Shell has met its responsibilities to its various stakeholders.

[20]

Level	The candidate:	Mark
4	<ul style="list-style-type: none"> <li>• Demonstrates excellent subject knowledge and applies this accurately and with precision to the given business situation.</li> <li>• Can assimilate complex information, organising and prioritising the evidence required from a range of sources, to address the given business situation.</li> <li>• Integrates subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a coherent, reasoned and logically correct response.</li> <li>• Selects from and applies appropriately the variety of tools and techniques within the subject specification to support reasoning.</li> <li>• Shows innovation and creativity in offering a solution to the task that is both effective and sensitive to constraints.</li> <li>• Communicates conclusion in an effective manner using appropriate grammatical and linguistic style.</li> </ul>	20 - 16
3	<ul style="list-style-type: none"> <li>• Demonstrates good subject knowledge and applies this accurately and with precision to the given business situation.</li> <li>• Can assimilate complex information, organising the evidence required from a range of sources, to address the given business situation.</li> <li>• Integrates subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a coherent response.</li> <li>• Applies tools and techniques within the subject specification to support reasoning.</li> <li>• Shows imagination in offering a solution to the task that is effective and recognises constraints.</li> <li>• Communicates conclusions in an effective manner using appropriate grammatical and linguistic style.</li> </ul>	15 - 11

Level	The candidate:	Mark
2	<ul style="list-style-type: none"> <li>• Demonstrates some subject knowledge and applies this accurately to the given business situation.</li> <li>• Can interpret complex information from a range of sources to address the given business situation.</li> <li>• Applies subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a response.</li> <li>• Selects tools and techniques within the subject specification to support reasoning.</li> <li>• Shows creative thinking in offering a solution to the task that is effective.</li> <li>• Communicates conclusions using an appropriate grammatical and linguistic style.</li> </ul>	10 - 6
1	<ul style="list-style-type: none"> <li>• Demonstrates some subject knowledge and applies this to the given business situation.</li> <li>• Can use complex information from a range of sources to support response to the given business situation.</li> <li>• Shows subject understanding with the given context, drawing on ideas, evidence and subject theory to produce a response.</li> <li>• Selects tools and techniques within the subject specification.</li> <li>• Offers a solution to the task.</li> <li>• Communicates conclusion using an appropriate grammatical and linguistic style.</li> </ul>	5 - 1

Candidates might reasonably be expected to identify what Shell's are responsibilities, and who are its stakeholders, and thus link the two.

- Shareholders
- Delay in publishing annual report (Companies Act requires publication of results)
- Accountable to auditors
- Complex board structure
- Major shareholders seemingly unaware of how Shell is run
- Resignations suggest response
- Bribery legislation seemingly ineffective suggests may have met responsibilities regarding the letter of the law but perhaps not its spirit
- Meeting ethical concerns about bribery might damage Shell's competitive position in some markets and/or countries
- Environmental pressure groups, especially Friends of the Earth
- International human rights groups
- Media attention can create pressure to meet responsibilities
- Employees – responsibilities surrounding dismissal of Nigerian workers
- Sheer size of Shell might render some stakeholders unable to enforce responsibility
- Communities in which it operates – differing environmental standards allows different practices, e.g. flaring

**Question 2:**

Recommend, and justify, a strategy which Shell might adopt in the light of **one** of the four scenarios.

[20]

Level	The candidate:	Mark
4	<ul style="list-style-type: none"> <li>• Demonstrates excellent subject knowledge and applies this accurately and with precision when addressing the given problem or opportunity.</li> <li>• Can assimilate complex information, organising and prioritising the evidence required from a range of sources, to address the given problem or opportunity.</li> <li>• Integrates subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a coherent, reasoned and logically correct strategy.</li> <li>• Selects from and applies appropriately the variety of tools and techniques within the subject specification to support reasoning.</li> <li>• Shows innovation and creativity in offering a strategy that is both effective and sensitive to constraints.</li> <li>• Communicates conclusion in an effective manner using appropriate grammatical and linguistic style.</li> </ul>	20 - 16
3	<ul style="list-style-type: none"> <li>• Demonstrates good subject knowledge and applies this accurately and with precision when addressing the given problem or opportunity.</li> <li>• Can assimilate complex information, organising the evidence required from a range of sources, to address the given problem or opportunity.</li> <li>• Integrates subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a coherent strategy.</li> <li>• Applies tools and techniques within the subject specification to support reasoning.</li> <li>• Shows imagination in offering a strategy that is effective and recognises constraints.</li> <li>• Communicates conclusion in an effective manner using an appropriate grammatical and linguistic style.</li> </ul>	15 - 11
2	<ul style="list-style-type: none"> <li>• Demonstrates some subject knowledge and applies this accurately when addressing the given problem or opportunity.</li> <li>• Can interpret complex information from a range of sources to address the given problem or situation.</li> <li>• Applies subject understanding with the given context, synthesising ideas, evidence and subject theory to produce a strategy.</li> <li>• Selects tools and techniques within the subject specification to support reasoning.</li> <li>• Shows creative thinking in offering a strategy that is effective.</li> <li>• Communicates conclusion using an appropriate grammatical and linguistic style.</li> </ul>	10 - 6

Level	The candidate:	Mark
1	<ul style="list-style-type: none"> <li>• Demonstrates some subject knowledge and applies this to the given problem or opportunity.</li> <li>• Can use complex information from a range of sources to support response to the given problem or opportunity.</li> <li>• Shows subject understanding with the given context, drawing on ideas, evidence and subject theory to produce a solution (or limited strategy).</li> <li>• Applies tools and techniques within the subject specification.</li> <li>• Offers a solution to the task.</li> <li>• Communicates conclusion using an appropriate grammatical and linguistic style.</li> </ul>	5 - 1

NB. Each problem or opportunity requires a strategic response and as such should consider Shell's objective, its resources, the context in which it is operating and those affected by it. In each scenario it is for the candidate to decide how to respond, but in each there should be justification for the strategy, while better candidates are also likely to consider success and be innovative and creative in developing an argument/devising a strategy, etc.

(a) An increase in production costs

- Response depends upon several factors including:
  - how much by, how quickly and speed of increase;
  - is cost increase temporary/ seasonal or permanent;
  - whether cost increase is industry wide or limited to Shell;
  - cause of increase; technology, distribution, labour etc.
  - consideration of elasticity, and alternative energy forms;
  - counteracting pressures, e.g. movements in exchange rates.

(b) Concerns about ethical employment practices amongst multinational companies

- Response depends upon several factors including:
  - where these concerns are being expressed and degree of influence of those voicing them;
  - local and international labour markets;
  - local legislation v best practice;
  - whether concerns might result in consumer reaction;
  - are concerns justified in local and internal context;
  - ability of employees to exert pressure on Shell.

- (c) Its decision to downgrade its oil reserves
- Response depends upon several factors including:
    - legal reporting requirements in US and elsewhere;
    - shareholder reaction;
    - impact decision has on shareholder wealth;
    - the potential weakening of balance sheet;
    - how other oil firms deal with similar situations;
    - whether downgrade is paper exercise or a loss of, real, physical reserve.
- (d) Environmental concerns about its operations raised by Friends of the Earth
- Response depends upon several factors including:
    - ability of Friends of the Earth to energise key stakeholders;
    - media attention;
    - whether concerns have any credibility;
    - variances between local and international standards;
    - the extent to which operational costs might change;
    - competitive position in key markets.