

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
Cambridge International Diploma Standard Level

## **MARK SCHEME for the May 2007 question paper**

### **CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS**

**5169 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.

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.

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

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## THE ETHICAL TRADING ENTERPRISE plc [TETE]

### 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 a candidate's knowledge and awareness.
- Extensive answers are not called for but candidates should offer well-written informative responses.
- Tasks earn either 2 or 4 marks: a 2-mark response requires little more than one/two well written sentences which clearly indicate the knowledge required; 4-mark tasks call for more detail, understanding, knowledge and context.
- The points identified below indicate the most likely responses.
- English is not the first language of the majority of our candidates. The quality of written language is no part of the assessment.
- This is a *standard level* paper.

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[NB: the points given in each task are guidelines and ideas, and they are also the most likely responses. They do not necessarily represent full answers but may be more or less than is required.]

1 (a) *The Ethical Trading Enterprise [TETE] is a public limited company. Identify and describe two features of a public limited company.*

- This is a fairly standard task which requires the rehearsal of just two features. If a candidate offers more than two then mark all the responses and choose the best two.
- Candidates have several points to choose from and perhaps the following are the more likely examples:
  - Limited liability
  - Ease of selling shares
  - Continuity
  - Separate legal identity
  - Annual accounts must be published
  - Public listing potentially enables a large amount of capital to be raised.

[4]

Marks: 1-2 marks per feature as follows:

1 mark for the listing or mention of each feature.

2 marks for each feature identified and basically described.

(b) *Explain the company's objectives to:*

(i) *satisfy the demands of their customers*

- Without customers there is no business.
- Customers spend money to satisfy their needs so there must be suppliers.
- TETE is in a luxury market devoted to satisfying those customers who have the disposable income to buy African and/or Indian artefacts.
- TETE must not only meet the demands of its producers but also those of customers – this means offering a suitable catalogue of goods and guaranteeing e.g. quality, service.

[2]

(ii) *make a profit*

- TETE is a commercial organisation and profit is its main objective/incentive.
- Profit is TETE's reward or payment for enterprise and risk-taking.
- It provides a return on investors' investments.
- Profit is a source of future capital for the company.
- It also represents how well the company is doing.

[2]

Marks: 1-2 marks for each explanation according to content.

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(c) Describe all **three** of the following business and financial terms:

(i) *fixed and variable costs*

- Candidates are very likely to offer two separate definitions which is quite acceptable.
- *Fixed costs* – [2 marks]
- Costs which TETE must pay regardless of whether it sells anything or not – examples are insurance, salaries, premises.
- *Variable costs* – [2 marks]
- These costs change with the amount of TETE's activity – the more goods they buy and sell, the higher the variable costs e.g. importing the goods, casual staff costs to meet higher demand.

[4]

Marks: 1-2 marks per definition according to treatment and content.

(ii) *invoice*

- An important business document i.e. a record of a transaction.
- It is sent to a purchaser who has bought goods on trade credit and is a request for payment.
- The invoice contains information e.g. details of the goods/services bought; delivery charges; prices; taxes; payment terms.

[4]

(iii) *break-even analysis*

- Break-even is the point at which revenue equals costs – it is the point at which the company moves into profit.
- The analysis helps TETE to calculate what it needs to sell to cover costs i.e. break-even.
- It can help TETE calculate/forecast results given changes in both cost and selling prices, costs, level of supplies.

[4]

Marks: 1-4 marks per financial term in 1(c)(ii) & (iii) as follows:

1-2 marks for a brief/limited explanation indicating little knowledge.

3-4 marks for clear understanding of a term, knowledge and application.

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2 (a) Explain how **EACH** of the following can be considered stakeholders of TETE plc:

- Candidates need to bear mind that a stakeholder is an individual, group, or company with a *direct* interest [which does not have to be financial] in TETE's performance and activities.

(i) *shareholders*

- They invest the capital to form the company.
- They are the real owners of TETE.
- Shareholders are directly interested in TETE's performance and profitability, and the return on their investments.
- They may elect members of the Board. [2]

(ii) *the African and Indian producers*

- The African and Indian producers rely heavily on TETE for their livelihood.
- They rely on the company to market and distribute their artefacts world-wide.
- The success or otherwise of TETE affects them directly. [2]

Marks: 1-2 for each stakeholder according to content.

(b) Describe the following power and duty of TETE's directors to:

- NB: roles, power and duties of directors is covered by 2.2 of the syllabus but generally speaking candidates don't do well with tasks on directors. Some latitude is advised although each item is only worth 2 marks.

(i) *declare a dividend*

- It is a fact that investors are not automatically entitled to receive dividends – clearly they must have a share of the profits else they would not invest
- The directors have the power to decide whether or not a dividend is to be paid e.g. insufficient profits, need to re-invest in the company. [2]

(ii) *act as agents of the company*

- A company has to act through human agents i.e. the directors.
- The directors cannot be held personally liable for decisions or actions so long as they act in good faith.
- Any action that is illegal is clearly excluded from this indemnity. [2]

Marks: 1-2 for each point according to content and treatment

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(c) Explain how TETE's hierarchical structure helps the Managing Director to:

(i) *organise employees*

- An employee's position in terms of responsibility and authority is identified.
- All employees know their respective roles.
- The structure reflects the channels of communications and instruction both vertically and horizontally.
- As authority is clearly displayed, it is easier to supervise groups of employees. [4]

(ii) *identify the chain of command*

- The structure reflects the chain of command and how instructions flow downwards and problems and reporting-back flow upwards.
- It is the vertical line of authority flowing through the company.
- The chain of command can be readily displayed in chart form. [4]

(iii) *achieve **one other** relevant factor*

- Candidates must offer the third factor e.g.
- Target setting
- Co-ordination of resources
- Communications [4]

Marks: 1-4 marks per factor as follows:  
 1-2 marks for a limited appreciation of elements of structure  
 3-4 marks for a clear understanding, knowledge and application.

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3 (a) Describe the **three** following expectations that the employees might reasonably have of their employers:

- NB: It is not unusual with this task for some candidates to get the instruction the wrong way round. If that is the case then you cannot award any marks [except, of course, if there is some ambiguity and a token 1 mark is justified].

(i) *appropriate training*

- Computer-related training isn't the only kind of training required in TETE e.g. the buyers who go overseas need specialist training and updating too.
- Training helps to make the employees to become more productive e.g. call centre staff.
- Training will give employees some satisfaction from the work they do and so help them to achieve better earnings and promotion.
- New employees will need training in TETE's procedures and all employees will need retraining when systems/procedures are upgraded.

[4]

(ii) *financial and non-financial incentives*

- An incentive is a reward or an inducement to encourage staff loyalty and/or better performance – it can be either an individual or a group scheme.
- Examples of incentives may include e.g. bonuses, commission, pension scheme, productivity agreement, medical insurance, subsidised membership of a sports club, profit sharing.
- Employees of TETE would expect incentives in addition to pay as a recognition for effort or unsocial hours e.g. call-centre shift work.

[4]

(iii) *suitable conditions of work and pay*

- Employees will want fair pay i.e. appropriate for the tasks and the region.
- They should not work in unsafe and health threatening conditions and should be provided with appropriate protection against, e.g. computer screen glare and fatigue in the call-centre.
- They should have adequate e.g. lighting, heating, working space, rest periods.

[4]

Marks: 1-4 marks per expectation as follows:

1-2 for a weak interpretation of an expectation; limited knowledge

3-4 for a well-expressed piece indicating knowledge and application.

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(b) (i) *The company supports job sharing. Explain what job sharing means and identify **one** benefit it gives the employees.*

- *Definition* – [2 marks]:
- It describes TETE's employment situation where two people can share one full-time job [usually] on a 50:50 basis.
- Each employee is paid pro rata.
  
- *Benefit to the employee* – [2 marks]
- Essentially it enables a person to be economically active and contribute to TETE on a part-time basis.
- Work can be fitted around e.g. family demands, studying. [4]

(ii) *Explain what is meant by teleworking and identify **one** benefit it gives the company.*

- *Definition* – [2 marks]
- It enables TETE's buyers to work in any location e.g. at home, on a train or aeroplane, overseas so long as there is a link between them and head office [modem, fax, telephone].
  
- *Benefit to the company* – [2 marks]
- It makes the buyers more productive; they can file orders and reports, waste less time commuting and reporting back at head office. [4]

Marks: 1-2 for the definition and 1-2 for the benefit according to treatment



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4 (a) *Every business is influenced in some way by external factors. Explain how TETE might be influenced by:*

(i) *changing technology*

- TETE is dependent on computer technology so changing technology must affect the company.
- Computer technology is always changing and is the company setting aside sufficient funding?
- If it doesn't update occasionally, will it become uncompetitive and inefficient?
- Are there any training/recruitment implications?

[4]

(ii) *trade cycle*

- Essentially the cycle from boom to slump, then recovery and so on.
- It affects TETE because it is in the luxury market and people can afford to spend in boom times but curtail their expenditure during a downturn.
- TETE's profitability and activity will reflect the trade cycle.

[4]

(iii) **one other relevant factor**

- Candidates must choose a suitable third factor e.g.
- Competition
- Taxation policies
- Distribution of income

Marks: 1-4 marks per factor as follows:

1-2 marks for a brief/limited explanation indicating little understanding.

3-4 marks for clear knowledge of a factor, application and context.

[4]

(b) *Discuss the following **two** factors which may affect the relocation of TETE's call-centre:*

(i) *availability of labour and skills*

- Both Delhi and Singapore are areas where there are highly skilled and educated staff.
- Both areas have knowledge and experience of computer technology and its applications – and many western companies have already established their call-centres there.
- TETE should have no difficulty in recruiting excellent employees at much lower employment costs than in Europe.

[4]

(ii) *incentives*

- TETE may be offered incentives by the Indian or Singaporean governments e.g. employment and location grants, tax holidays
- Occupancy, land and labour costs are cheaper than in Europe.
- It could be argued that TETE will see the location itself as an incentive as it is nearer the producing areas and distribution centres.

[4]

Marks: 1-4 marks per factor as follows:

1-2 marks for a weak understanding of a location factor, little development.

3-4 marks for a fluent appreciation of a factor; knowledge and application.

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5 (a) TETE needs to maintain its good reputation.

(i) Explain what a customer relations policy is.

- It is TETE's policy which indicates how to satisfy customers and influence positively their relationship to the company.
- It will contain e.g. how customers are to be treated, how orders are to be fulfilled, how to deal with complaints and problems.
- The policy is all the more important since TETE deals with imported goods and sells only over the internet – the policy needs to offer customers certain safeguards.

[4]

Marks: 1-4 marks as follows:

- 1-2 marks for a weak explanation indicating poor appreciation of the issues
- 3-4 marks for a strong understanding of the policy; knowledge and context.

(ii) List **four** ways in which the company can maintain customer loyalty and satisfaction.

- The key word here is **list**. Candidates are only required to *make a list* of the issues.
- Secure on-line purchasing system
- Refunds/replacements for faulty goods
- Compensation for e.g. unnecessary delays, sub-standard service
- Guaranteed delivery time
- No-quibble 30 day returns service
- Guarantees on quality and specification

[4]

Marks: 1 mark for each appropriate way identified.

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(b) According to the Managing Director, the market for the company's goods is dictated by **three** specific factors. Explain each of the following factors:

- Candidates ought to recognise that these are elements of the 7Ps. 'Educated customers' fall under the heading of 'people'.

(i) *price*

- Some items can be bought quite cheaply [plus shipping costs] whilst the carpets and furniture have a minimum price of US \$300.
- The price structure appears reasonable as TETE has little problem selling world-wide – there is clearly a sufficiency of people with enough disposable income to buy the artefacts.
- The price needs to be set at a level which enables TETE to pay the producers a 'fair' return.

[4]

(ii) *product*

- The products are of good quality and generally fall under the luxury category.
- As people travel more or watch television travel programmes, there is an awareness of the richness of Indian and African art and design.
- The products represent, perhaps, style and status – certainly pride of ownership.

[4]

(iii) *educated customers*

- It is TETE's argument that its customers are better educated about the need to help developing communities become self-sufficient.
- Their marketing is directed at the educated middle class with disposable income.
- The customers buy something interesting on the one hand but know, on the other, they are directly assisting producers.

[4]

Marks: 1-4 marks per factor as follows:

1-2 for limited awareness of the Ps; little or no expansion or application

3-4 for good interpretation, knowledge and context.