



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES

0450/21

Paper 2

October/November 2014

INSERT

1 hour 45 minutes



READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

The syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **3** printed pages and **1** blank page.

PB Bank

PB Bank is a public limited company. The bank has been trading successfully for 20 years. The Board of Directors wants to see the number of customers increasing; however, over the last 2 years the number of customers has remained the same. Should PB Bank try to expand by taking over another bank or should it try to attract more customers from its competitors? DOTT Bank is a smaller bank than PB Bank and could become a takeover target.

PB Bank is a large bank with 15 000 employees. The organisational structure is shown in Appendix 1. The Human Resources (HR) Director is responsible for internal communication. Some employees have complained that they often do not get told about important decisions. Some information is posted on the company website but some of this information is difficult to find.

PB Bank already offers online (Internet) banking and the Marketing Director thinks that mobile (cell) phone banking will become popular with customers. They used a questionnaire to find out the opinions of their customers (see Appendix 3).

An increasing number of PB customers are now only using online banking. PB needs to close either branch X or branch Y.

Branch X

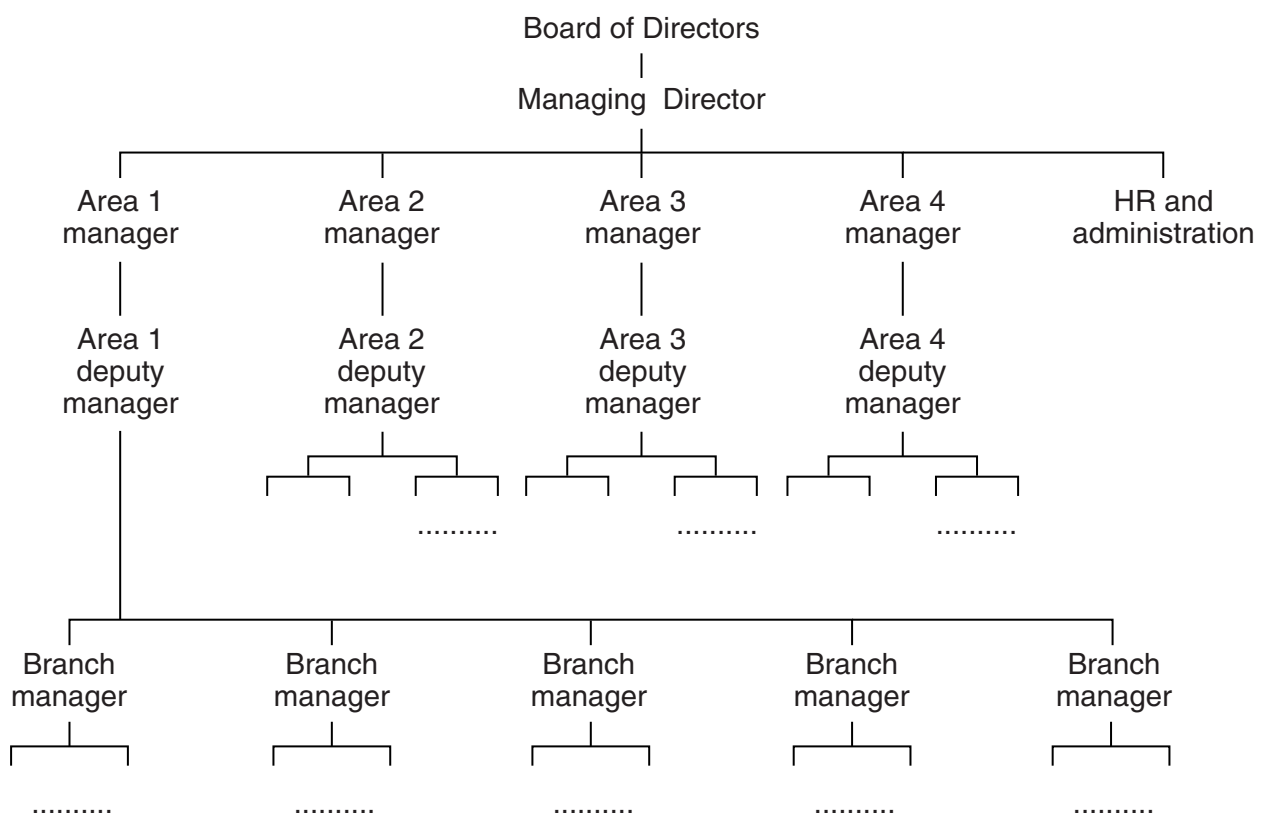
Located in a small town; used mainly by customers of the bank to deposit and withdraw money; no other banks nearby; the branch always has long queues of customers.

Branch Y

Located in the city centre; used mainly by tourists to change foreign currency; not many PB customers live nearby; near to several other bank's branches; the branch is busy only in the mornings.

Appendix 1

Extract from organisational structure of PB Bank



Appendix 2

Information about PB Bank and DOTT Bank in 2013

	PB Bank	DOTT Bank
Fixed assets	\$790m	\$320m
Current assets	\$120m	\$80m
Current liabilities	\$80m	\$100m
Capital employed	\$830m	\$300m
Current ratio	1.5:1	0.8:1
Net profit	\$83m	\$45m
ROCE	10%	15%
Number of customers	3 000 000	1 000 000
Number of branches	1000	250

Appendix 3

Results from a questionnaire used on Monday 5 May 2014 in the main street of the city centre in the afternoon

People who completed the questionnaire:	
Age	Number
10–20	100
21–30	400
31–40	300
41–50	100
50 +	100
<i>Do you have a bank account?</i>	
Yes	800
No	200
<i>Do you have a mobile phone?</i>	
Yes	700
No	300
<i>Would you like to be able to access your bank account details and carry out transactions using your mobile phone?</i>	
Yes	500
No	500

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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

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Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

Do not use staples, paper clips, glue or correction fluid.

DO NOT WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains the case study.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

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This document consists of **11** printed pages, **1** blank page and **1** insert.

1 (a) Identify and explain **two** disadvantages to PB Bank of being a public limited company.

Disadvantage 1: **Hostile takeover**

.....

Explanation: **When a company is listed on the stock market, there is a risk... that an investor might buy a majority stake in the company and the existing owners might lose control. There are some regulations in countries that can limit such hostile takeovers, but still it is a risk. Furthermore, the stock price can fall in the stock market due to reasons related to the economy and not the performance of the business.**

Disadvantage 2: **Disclosure requirements**

.....

Explanation: **Since PLCs are owned by the public, therefore the government will ensure that the money of those investors is protected by controlling... and regulating the listed companies on the stock exchange. This will require a lot of disclosure of information on a regular basis including quarterly... financial statements as well as Annual General Meetings.**

.....[8]

- (b) Employees complain they never know important information about the bank. Consider **three** ways the HR Director could use to improve the internal communication in the bank. Recommend which will be the best way to use. Justify your answer.

Way 1: **Company Portal**

The HR director can require the assistance of the IT manager to set-up
 a company online portal that can have all information about the bank
 with different access to different levels of employees. Each department
 can upload relevant data for its employees and there can be general
 shared data on the banks activities, procedures etc.

Way 2: **Emails**

Each employee should have an email ID to receive and send emails within
 their departments and across other departments as well. Emails are very
 effective since they can be viewed either on desk or through mobile devices.
 Furthermore, emails can be stored and referred back to. Also, emails can
 be sent to many at the same time.

Way 3: **Weekly Conference Meetings**

The management can setup a weekly conference call through audio and/or
 video. This can allow for announcement and progress updates by each
 department manager. This can be a chance for management to set targets
 for the week and address any outstanding issues. This could be a chance
 for employees to ask questions or make suggestions to management.

Recommendation: **I would recommend that the bank uses a company**
portal to upload all documents and announcements. This can be an efficient
way to avoid information overloads caused by emails. It can also avoid time
consumed and capital costs of setting up conference calls. However, the bank
should ensure that security systems are in place to protect the data. Furthermore,
such a portal can be used for collaboration and document sharing. [12]

- 2 (a) Banking is a tertiary sector business. Identify **four** other types of tertiary sector businesses that PB Bank might use and explain what services they offer to PB Bank.

Type of tertiary sector business: **Insurance**

Explanation: **The bank will need an insurance company to provide insurance services to its employees. Many banks give health insurance to their employees as a fringe benefit.**

Type of tertiary sector business: **Auditing**

Explanation: **Since the bank is a PLC, then it will need to have their financial statements audited and reviewed by an independent accountant before publishing those statements.**

Type of tertiary sector business: **Transport**

Explanation: **The bank has many employees, and it could need to have a bus service to transport them from home to the bank and back home.**

Type of tertiary sector business: **Legal Firms**

Explanation: **Usually banks might have outstanding litigation raised against clients who default in paying their loans. Such legal cases should be followed by specialized legal consultants/firms.**

[8]

Recruitment Agents

Internet Service Providers

Courier Services

Telecoms

(b) Refer to the organisational chart in Appendix 1. The directors are thinking of removing the middle management level (deputy managers). Consider the advantages and disadvantages of widening the span of control for the remaining managers. Recommend whether the directors should remove this level of management. Justify your answer.

Advantages: There are several advantages of removing the deputy managers from the organization, those include: First, there would be a cost saving in the total organization labour cost. Second, communication would flow faster down to the employees as well as the feedback. Fourth, this would also involve more delegation of authority which would raise the level of morale amongst the workers.

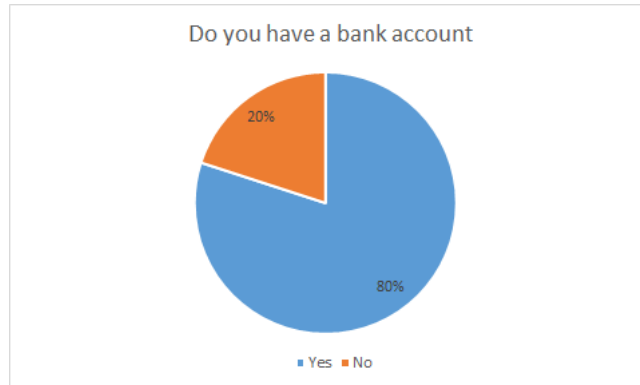
Disadvantages: There are also disadvantages associated with such redundancies which include: First, there could be resentment amongst employees or other managers to see their fellow workers being made redundant. Second, there could be redundancy payments required to those deputy managers, especially those who have served long, which can cause a cash flow strain on the bank. Third, there would be an added burden on the managers to directly deal with the employees in the department which could consume their time and divert their attention from more important and strategic issues.

Recommendation: I would recommend to make this level of deputy managers redundant as this would improve internal communication, which for PB is crucial since their employees are currently unhappy with its level. Furthermore, this would raise the productivity and efficiency of remaining workers and there would be long run savings in labour costs.

[12]

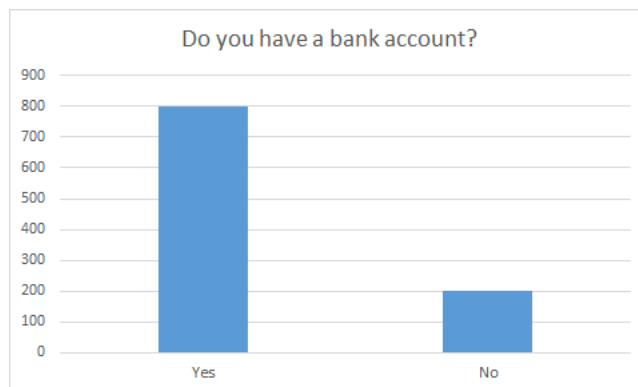
- 3 (a) Identify and explain **two** appropriate ways in which the results from the question 'do you have a bank account?' in Appendix 3 could be **presented**.

Way 1:



Explanation: The above chart is a pie chart which shows the relative size of each response as a share in the circle. Such shares could be expressed as a percentage of the total responses.

Way 2:



Explanation: The chart above is a bar chart that shows separate bars for each response to show their number value on the vertical axis.

[8]

- (b) PB needs to close some of its branches as more customers use online banking. Consider the advantages and disadvantages of branch X and branch Y. Recommend which branch PB should close. Justify your answer.

Branch X: Branch X has the advantage of low competition and high demand from the locals on its services which is evident from long queues. Also, the people living in the small town might not be familiar with online banking and therefore would have difficulty adapting if the branch is closed. However, the disadvantages include not having a wide variety of services demand (only deposits and withdrawals) and long queues which put pressure on the bank's employees.

Branch Y: Branch Y has the advantage of being in the city area which is really busy and they serve a variety of customers like tourists and not just traditional bank clients. However, the disadvantages include fierce competition from surrounding bank branches which could leave PB with a small market share. Furthermore, another disadvantage is that income from tourists is only seasonal.

Recommendation: I would recommend closing down branch Y and replacing it with online services since people living in cities will have more access to IT equipment and internet and they are becoming more aware of online banking. This could also save PB a lot of rent costs in such prime locations in the middle of the city usually are very expensive. Furthermore, tourists are increasing using credit cards as means of payment, while people in small towns will continue to depend on the branch X.

[12]

- 4 (a) Identify and explain **four** reasons why the information in Appendix 3 may not be an accurate record of the views of all bank customers.

Reason 1: **Age groups used**

Explanation: **The first age group from 10-20 years might not be necessary as very few people in this age range use banking services as they are most likely to be dependants. Furthermore, the age groups are too narrow.**

Reason 2: **Location**

Explanation: **A variety of locations should be used to pick a sample of people for the questionnaire. This would give a more representative sample of the population of people and the potential customers of the bank.**

Reason 3: **Generalized and irrelevant questions**

Explanation: **Two questions used (1st and 2nd) should be asked outside the questionnaire when selecting a sample, as those who don't have a mobile phone nor a bank account should not be part of the sample.**

Reason 4: **Limited response options**

Explanation: **All questions have limited response options of yes/no. The questionnaire should allow for a range of responses, for example: never, once per week, once every two weeks and once per month as [8] responses to a question of "how often do you use online banking".**

- (b) The Marketing Director of PB Bank wants to promote mobile (cell) phone banking to its existing customers. Consider the advantages and disadvantages of each of the following **three** ways of promoting mobile phone banking. Recommend which option the Marketing Director should choose. Justify your answer.

Advertising on television: ...This promotion method can reach a large number of audience and can use attractive songs and videos to get the attention of customers. The theme of the TV advert can show how mobile phone banking can increase the productivity of workers who are really busy to go to the bank branches. However, TV adverts are expensive and the channel selected might not be watched by potential customers.

Sending leaflets to customers:This can be an effective method as PB would be promoting the online service to the target customers that are existing with the bank. The leaflets could include instructions of logging in and registering an online bank account to make it easier for the customers who have never been familiar with similar services. However, such a promotion method would deprive the bank from target other potential customers.

Putting information on the website of PB Bank: This can be a relatively cheap and quick method of announcing such a service with appropriate links to help customers fill out online applications or register for the online account. However, customers who don't log in to the bank's website won't hear about the service unless they are informed by a friend who is also a customer.

Recommendation: I would recommend sending leaflets to existing customers since it would be effective in reaching the target audience and still this method is relatively cheap compared to TV. Besides, both TV and website options would not ensure that the information on the online banking service is delivered to enough customers. Furthermore, as customer try and begin to use the service, they will recommend to their friends and spread the word. [12]

- 5 (a) Identify and explain **two** possible effects on DOTT Bank **employees** if DOTT Bank was taken over by PB Bank.

Effect 1: **Lay-offs**

.....

Explanation: **..... If DOTT Bank is taken over by PB Bank, this would result**

..... in many lay-offs since PB management would be wanting

..... to benefit from economies of scale and save labour costs.

..... For example, there would be only one finance manager required

..... and the other would be fired. Furthermore, many duplicate

..... job positions will be lost by their current incumbents.

Effect 2: **Brand image**

.....

Explanation: **..... The remaining employees of DOTT bank would benefit from**

..... having the opportunity to work under a larger brand name

..... such as PB Bank. This can improve their career prospects

..... and opportunities in the banking sector. Furthermore, they

..... would probably be getting experience from their new colleagues

..... at PB Bank who are more experienced......[8]

- (b) Consider the advantages and disadvantages to PB Bank of taking over DOTT Bank. Recommend whether PB should take over DOTT Bank. Justify your answer by using appropriate calculations based on the data in Appendix 2.

Advantages:

Currently DOTT bank has a higher return on capital than PB Bank, therefore, this takeover would increase the ROC of the combine entity. Also, the number of customers will increase for PB Bank from 3m to 4m (a 33.3% increase) and the number of branches will also increase from 1,000 to 1,250 (a 25% increase). This would immediately increase the market share of PB Bank.

Disadvantages:

The disadvantages of taking over DOTT bank is that this bank has a poor liquidity position shown by a current ratio of 0.8:1 while PB Bank has a good ratio of 1.5:1. Therefore, combining both businesses would reduce the current ratio for PB Bank. Also, taking over DOTT Bank can cause an oversized business leading to diseconomies of scale.

Recommendation: I don't recommend that PB bank takes over DOTT bank since this would impair its liquidity position and will lead to an oversized business causing diseconomies of scale due to difficulty to control even more branches and a larger labour force. Furthermore, this would require large capital investments for this acquisition. Although, this takeover can reduce competition, still I believe that the competitive advantage of PB can be gained through diversification of services, such as online banking, rather than taking over competitors to increase market share.^[12]

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