



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
Cambridge International Diploma in Business  
Standard Level

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**BUSINESS ORGANISATION AND ENVIRONMENT**

**5161/01**

Core Module

**October 2009**

**2 hours plus 15 minutes reading time**

Additional Materials: Answer Booklet/Paper

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**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.

You may use a soft pencil for any diagrams, graphs or rough working.

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

Attempt **all** tasks.

Start each task on a new piece of paper.

Please leave a margin on the right and left hand side of each new page.

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

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 **4** printed pages.



**You must read the case study below and attempt ALL the tasks which follow.**

(The case study is fictitious.)

### **THE CELESTIAL SOUNDS CO-OPERATIVE SOCIETY Ltd**

The Celestial Sounds Co-operative Society was registered 30 years ago in Djakarta (Indonesia). The 15 founding members were all musicians. Their business idea was to set up a recording studio to produce and distribute their music albums. Each member contributed between \$500<sup>1</sup> and \$2000 in \$1 shares and enough capital was raised to buy suitable premises for both a studio and a small shop. Several major department stores agreed to stock and promote their albums. The Society then took on production work for other bands. 5

There were three main reasons why the musicians wanted a co-operative society rather than a private company or a partnership: firstly, the control or ownership is democratic; secondly, the shares are non-transferable; and thirdly, there is a limit to the number of shares a member can own. At the start, the Society's business objectives were to make a profit (or surplus) and help the musicians to improve their earnings. As Celestial Sounds succeeded, its objectives expanded to include satisfying customer demand, gaining and enlarging a share of the music market, and increasing sales revenue. In the beginning, the members were part-time unpaid employees until they could afford to employ appropriate staff. They had to learn about financial records and books of account e.g. petty cash, invoices, and journal. 10 15

At first, the Society had an informal and flat organisational structure but, as business grew and became more complicated, the Chairman said the Society needed a formal structure to help coordinate its resources. The structure became hierarchical, which was considered necessary because of the Society's wide geographical spread and it made it easier to identify the chain of command and the channel of communication. 20

The Society became very successful and attracted many more members and their capital contributions. It expanded throughout Indonesia and Malaysia until it owned 170 retail shops for music and 50 bookstores which also sell CDs. It remains active in music recording.

Celestial Sounds has more than 3,000 employees and is regarded as a fair employer and offers reasonable working conditions. Employees are paid the appropriate wage rate for the region and they all have incentives like health care and staff discounts. The Society easily recruits staff for the shops and is committed to staff training and development. Most employees are full-time and permanent but there is also a large number of part-time workers. The employees regard themselves as the most important stakeholders in the Society although the Chairman says all stakeholders are important. 25 30

Despite its past success, the Society is now experiencing trading difficulties. Profits are down by 70% and turnover has been falling significantly. Some shops which were once located in prime sites are now in rundown shopping centres as retail facilities have been developed elsewhere or they are in areas of economic decline. The Chairman blames the lack of fair trading, the cost of employing staff and business taxation for the fall in profits. 35

The Chairman says that the market for the Society's products is dictated by quality, competition, and the state of the economy. The Society is also facing problems because its music can be downloaded online and there are many counterfeit or pirated CDs on the market. There has also been a number of complaints of poor service in the shops. CDs and books can be bought on the internet but sales have fallen recently because of customer concerns about online security, quality guarantees and refunds. The Society does not have an effective customer relations policy. 40

<sup>1</sup> Quoted in US dollars

You must attempt ALL of the following tasks. Where appropriate use information from the case study to support your answer.

- 1 (a) Celestial Sounds is a co-operative society. Explain the following **two** features of a co-operative society:
- (i) the non-transferability of shares; [4]
  - (ii) the control or ownership is democratic. [4]
- (b) Explain the Society's business objectives to:
- (i) satisfy customer demand; [4]
  - (ii) gain and enlarge a share of the music market. [4]
- (c) Describe the following financial terms:
- (i) petty cash; [2]
  - (ii) invoice. [2]
- [Total: 20]
- 2 (a) The Chairman of the Society says that **all** stakeholders are important.
- (i) Explain why the employees think **they** are the most important stakeholders. [4]
  - (ii) Excluding employees, identify **two** of Celestial Sounds' stakeholders and indicate why they could be regarded as the most important. [2 x 2 = 4]
- (b) The Society's structure used to be flat but is now hierarchical. The Chairman says the hierarchical structure helps to coordinate the Society's resources.
- (i) Explain the difference between a flat and a hierarchical organisational structure. [4]
  - (ii) Explain how the organisational structure helps to coordinate the Society's resources. [4]
- (c) With reference to Celestial Sounds, define the following terms:
- (i) the chain of command; [2]
  - (ii) the channel of communication. [2]
- [Total: 20]
- 3 (a) The employees are offered incentives.
- (i) Explain what an incentive is. [2]
  - (ii) List **two** incentives that you consider to be the most important. [2]
- (b) The Society employs many part-time employees.
- (i) Define the term 'part-time employee'. [2]
  - (ii) Describe **one** benefit to the Society of employing part-time staff. [2]

(c) Describe **each** of the **three** expectations that the employees might reasonably have of their employers:

(i) fair treatment; [4]

(ii) staff training and development; [4]

(iii) reasonable working conditions. [4]

[Total: 20]

4 (a) Every business is influenced in some way by external or PEST factors. Explain how Celestial Sounds might be influenced by:

(i) the lack of fair trading; [4]

(ii) business taxation; [4]

(iii) the cost of employing staff. [4]

(b) Identify the factors which affect the location of the Society's:

(i) shops; [4]

(ii) recording studio. [4]

[Total: 20]

5 (a) Celestial Sounds lacks an effective customer relations policy. Explain what is meant by a customer relations policy. [4]

(b) List **four** ways to maintain customer loyalty and satisfaction. [4]

(c) According to the Chairman of Celestial Sounds, the Society's market is dictated by specific factors.

With reference to the Chairman's comment, explain **each** of the following factors:

(i) quality; [4]

(ii) competition; [4]

(iii) the state of the economy. [4]

[Total: 20]