



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

**BUSINESS ORGANISATION AND ENVIRONMENT**

5171/01, 5179/01

Core Module

May 2009

**2 hours plus 15 minutes reading time**

Additional Materials: Answer Booklet/Paper

**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.

This document consists of **5** printed pages and **3** blank pages.



**You must read the case study and attempt all the tasks that follow.**

(The following case study is fictitious.)

### **THE LUCKY JET AIRLINE PLC**

Lucky Jet began operations in March 2007. The airline has two Boeing 767 aircraft which fly daily between Birmingham (in the UK) and Shanghai (China). There is a night flight from the UK to Shanghai and a day flight from Shanghai to Birmingham. Lucky Jet owns one of the planes outright and leases the other.

China is developing fast and offering a lot of business and investment opportunity. The founders of the company, aware of the situation, decided to set up an airline that primarily attracts business people with interests in China. The company's mission statement commits the airline to the highest standards of service together with the lowest competitive fares. 5

Every company has many business objectives but the Chief Executive Officer of Lucky Jet, Ms Wong Lo-kit, said her personal priorities are economic survival, continuing product development, and making a healthy profit within the shortest period possible. The airline was regarded as a risky investment but managed to raise its required initial capital by the issue of ordinary and preference shares. Finance and cost controls will always be a concern for a small airline. In future, additional finance may come from leasing, or ploughing back profit. Offering a high quality product and low fares requires the strict control of both fixed and variable costs. 10 15

Ms Wong says that the organisational structure of the company is still developing and she is certain that a hierarchical structure will be inappropriate for Lucky Jet. The CEO wants to develop an efficient and friendly workforce and has introduced quality circles and reorganised employees into teams. She claims that her leadership style is democratic and this encourages employees to become more motivated. She only wants to employ people who fit the 'Theory Y' model and who are capable of achieving self-actualisation. 20

All employees, regardless of their roles, are expected to be representatives of the airline and to accept the company's code of conduct. Many personal and technical skills are required if high standards are to be maintained and they should be prepared to support their own continuous professional development. The company also expects employees to be committed to the business and its objectives. Flight and cabin crews are recruited from both the UK and China. The pay rate is good and comparable to what other airlines offer. In addition, employees are offered some excellent financial and non-financial incentives. Most staff are permanent although a few are temporary. The pilots are all on one-year fixed-term contracts. 25

The company chose to fly from Birmingham because it is the geographical centre of the UK and located in an industrial region. At a press conference Ms Wong said that Shanghai was selected because it gave ready access to resources and markets, and because it was a centre of regional growth. 30

Every business is influenced in some way by external or PEST factors. Ms Wong has identified three specific influences. Firstly, there is competition from other airlines; and secondly, the trade or business cycle is an ongoing concern because even if business prospects look promising there is always a chance of economic problems which may affect the airline. 35

The third influence is posed by environmental pressure groups which regard additional air routes as harmful to the climate. However, Lucky Jet is a 'Carbon Neutral' airline. This means that there is a carbon offset contribution for every 1 tonne of CO<sub>2</sub>. 40

In keeping with the mission statement the airline believes it has a strong unique selling point in that the aircraft are entirely business class. The aircraft's usual 300 seats have been replaced by 100 convertible seats. Passengers can choose their seats in advance and the latest check-in time is

only thirty minutes. Another feature is in-flight catering: western or oriental cuisine can be cooked to order whenever the passengers want it. Equally they can sleep when they want. Additionally there are separate lavatory facilities for men and women, power points for laptops at each seat, and a lounge. 45

The airline has adopted penetration pricing. A return flight costs only \$1899<sup>1</sup> (but with two days hotel accommodation the price is \$2199) and this is significantly less than other airlines. Tickets must be paid for in full at the time of booking. Fares may be refundable but subject to a 30% cancellation fee. If a passenger fails to turn up then no refund can be offered. 50

The mission statement also recognises the customer as the main company resource. It has suitable customer services that are designed to develop customer loyalty and increased business. The airline has an efficient department which handles enquiries and deals with complaints. The marketing and operational strategies take into account customer profile and psychological factors. Ms Wong is pleased to claim that the company has got its marketing mix right. 55

<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) Explain and justify the following **two** business objectives of Lucky Jet:
- (i) economic survival; [4]
  - (ii) continuous product development. [4]
- (b) Finance will always be a concern for the airline.
- (i) Describe what is meant by ploughing back profits. [4]
  - (ii) Explain how leasing can help the airline's finances. [4]
- (c) With reference to Lucky Jet, explain the difference between fixed and variable costs and give **one** example of **each**. [4]  
[Total: 20]
- 2 (a) Explain what Ms Wong means when she says her leadership style is democratic. [4]
- (b) Explain the following motivational features:
- (i) self-actualisation; [4]
  - (ii) theory Y. [4]
- (c) Lucky Jet has introduced team working and quality circles.
- (i) Describe a quality circle and suggest **one** benefit of it to the company. [4]
  - (ii) Explain what team working means and suggest **one** benefit of it to the employee. [4]  
[Total: 20]
- 3 (a) The airline offers an attractive package of incentives. Describe **two** incentives which the airline might offer its employees. [2 x 2 =4]
- (b) The pilots are employed on one-year fixed-term contracts.
- (i) Explain what a one-year fixed-term contract is. [2]
  - (ii) Describe **one** benefit to the airline of one-year fixed-term contracts. [2]
- (c) Describe the **three** following expectations that Lucky Jet might reasonably have of the employees:
- (i) commitment to the business and its objectives; [4]
  - (ii) to have and develop appropriate skills; [4]
  - (iii) the acceptance of the Company's code of conduct. [4]  
[Total: 20]

- 4 (a) Every business is influenced in some way by external or PEST factors. Explain how Lucky Jet might be influenced by:
- (i) competition; [4]
  - (ii) environmental pressure groups; [4]
  - (iii) the trade or business cycle. [4]
- (b) With reference to the following location factors, explain why Lucky Jet flies to Shanghai.
- (i) access to markets; [4]
  - (ii) regional growth. [4]
- [Total: 20]**
- 5 (a) The airline values its customers.
- (i) Explain what the company means when it claims that the passengers are its main resource. [4]
  - (ii) Explain the importance to the airline of a customer service policy. [4]
  - (iii) Explain what is meant by customer profile and psychological factors. [4]
- (b) The airline has adopted penetration pricing.
- (i) Explain what is meant by penetration pricing. [2]
  - (ii) Describe **one** benefit to the airline of penetration pricing. [2]
- (c) Explain what Ms Wong means when she says that the company has got its marketing mix right. [4]
- [Total: 20]**





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