

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

BUSINESS ORGANISATION AND ENVIRONMENT

5161/01

Core Module

October 2004

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

The time allocated for this examination includes 15 minutes reading time.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs, music 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 below and attempt all the tasks that follow.

[The following case study is fictitious]

PERFECT PARTIES

Fatima Massoud once organised a children's party as a favour for a friend and it turned out so well that she decided that party planning would make an excellent means of self-employment. To begin with, Fatima only planned children's events. She became very busy as there were plenty of parents willing to pay someone to worry about the catering, games and entertainment. It wasn't long before she had to recruit assistants on a casual basis to help her run these parties. Fatima did not have to advertise; business came readily as one satisfied client advised another. 5

Soon she was asked to plan corporate events, and running Perfect Parties became so busy that Fatima had to make a big decision. Either she was going to continue as a sole trader, or she would have to expand, relying on staff to organise most of the contracts. If she remained as a sole trader, she could still be personally involved in every party and event, but this would restrict the size and future of her business. 10

She would require additional capital and Fatima decided to register her business as a private company. The authorised capital was \$50,000¹, but Fatima needed \$30,000 to finance the expansion. Shares were sold to friends and family, and she was able to raise the required amount. Fatima's own contribution came from her accumulated profits and she secured 51% of the shares to maintain her control. She is the firm's sole director. 15

Despite its success, the company was very structured indeed. Fatima found it difficult to avoid interfering in all levels of decision-making. She acted as if she were still a sole trader running a micro business instead of an expanding private company. Fatima liked to say that she was the company! An employee said that a short chain of command was acceptable but in this small business it was too short! Another employee suggested the company should be organised as a matrix but Fatima was not interested as, after all, the company was her idea! 20

The corporate side of the business was very profitable and grew quickly. It soon exceeded the original business of the children's entertainment, and before long Fatima disposed of that side of the business through a series of franchises. Fatima concentrated on dealing with very special events for leading politicians and business people. Such was her achievement that her business became internationally known with agents operating in several countries. 25

There are now more than 40 employees and Perfect Parties sets out precisely what is expected of the staff, but any expression of dissatisfaction or expectation is threatened with dismissal. The company code of conduct for staff has to be accepted without argument. The terms and conditions of employment are generally quite good but for a number of staff frequent travel abroad is necessary. Fatima expects long hours and does not want to know about family commitments. Because of the nature of the business Fatima likes to employ only well-educated, middle class and good-looking people. 30

To a varying degree, all businesses are subject to those external influences that affect the business climate. Fatima says she doesn't understand these influences and in any case they don't affect her business. In the eight years since she started, her profit has risen steadily and the company, despite operating internationally, has faced no significant problems. However, she is thinking of relocating for tax reasons and there have been some complaints from competitors about her marketing methods. In a radio interview, Fatima said the benefit of being in her type of business was that location no longer matters. 40

¹ Expressed in US dollars

Once the business had been incorporated, Fatima advertised in all the leading journals and set up promotion stalls at major conferences. As the business became more successful, it was featured widely in the media, which helped to promote the company. Even being well known does not guarantee business, and so Perfect Parties still has to market its product aggressively. The company sends out a promotion pack which is considered to be a very good model of a public relations kit. The success of the company has meant an extension of the client base. 45

The clients are very demanding and influential. The company has to work hard to satisfy them. A failure could ruin the business. Events are expensive and only the best organisation will do. The company's customer relations policy indicates that 'satisfaction is guaranteed'. 50

You must attempt ALL of the following tasks.

- 1 (a) Fatima disposed of the children's entertainment side of the business in a series of franchises. Explain **two** features of a franchise. [5]
- (b) Fatima started out as a sole trader and then registered Perfect Parties as a private company. Suggest **two** advantages to Fatima of becoming a private company. [5]
- (c) The company's authorised capital is \$50,000 and Fatima has raised \$30,000.
- (i) Explain the meaning of authorised capital. [5]
- (ii) Explain the benefit to Fatima of having \$20,000 of unissued capital. [5]
- [Total: 20]**
- 2 (a) It has been said that the chain of command in the company is too short and it is clear that Fatima has created a centralised company structure.
- (i) Explain what is meant, in this case, by the chain of command being too short. [5]
- (ii) Explain **two** advantages of decentralisation. [5]
- (b) An employee thought the company should be organised as a matrix. Describe **two** features of a matrix. [5]
- (c) Fatima is the sole director of the company. Explain **three** powers or duties of a company director. [5]
- [Total: 20]**
- 3 (a) When Perfect Parties was set up, Fatima employed assistants on a casual basis. Explain the difference between permanent and casual employment. [5]
- (b) The company's code of conduct for staff has to be accepted without argument. Explain what a code of conduct is and what it might contain. [5]
- (c) Describe **three** expectations that Fatima might reasonably have of her employees. [10]
- [Total: 20]**
- 4 (a) Perfect Parties is subject to external influences that determine the business climate. Describe how the company might be affected by:
- (i) taxation policies [5]
- (ii) competition [5]
- (b) Fatima has said that location does not matter in her type of business. Explain why the location of Perfect Parties no longer matters. [5]
- (c) Some competitors have complained about Perfect Parties' marketing methods. This may suggest that Fatima is not trading fairly. Explain what fair trading means. [5]
- [Total: 20]**

- 5 (a) Describe **two** factors which affect or influence the nature of Perfect Parties' market. [5]
- (b) The success of the company resulted in an extension of its client base. Explain what client base means. [5]
- (c) The company's clients are influential and very demanding. Suggest how Perfect Parties might ensure client satisfaction. [10]

[Total: 20]

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