

CAMBRIDGE INTERNATIONAL EXAMINATIONS  
Cambridge Career Award in Business  
Advanced Level

**BUSINESS ORGANISATION AND ENVIRONMENT**

**5171/01**

Core Module

May 2003

**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.  
You may use a soft pencil for any diagrams, graphs or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.  
You may use a calculator.

Attempt **all** tasks.  
Write your answers on the separate Answer Booklet/Paper provided.  
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.

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)

**Case Study: The Happy Reward Trading Company Ltd.**

The Happy Reward Trading Company Ltd was founded nearly 20 years ago and imports leading Italian men's and ladies' fashions. The business operates a retail shop on Hong Kong Island and a warehouse in Kowloon which supplies both the shop and the mail order business which is run via the internet. The retail shop has a manager and four sales staff; the warehouse has a manager and five staff.

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The business is open 12 hours a day for 363 days a year, closing only for the two days of Chinese New Year. Trading reached a peak seven years ago but since then has declined every year. Various reasons have been put forward for this – the assimilation of Hong Kong into China, the general economic downturn in the Far East and Pacific area, and more recently, the effects of international politics.

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Happy Reward began life as a partnership between Miss Sit Oi-Fan, Mr Chan Mah-Wing, and Madam Chung Phi-Ling. With ongoing economic difficulties they decided, four years ago, to become a private limited company with Miss Sit as the majority shareholder with 52% of shares and the other two each having 24%. Miss Sit is the Chairman and Chief Executive Officer [CEO] and the other two are directors, with Mr Chan serving as company secretary and Madam Chung as director of finance.

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Last year's trading results show that Happy Reward's retail results are down 50% on the \$2,520,000<sup>1</sup> turnover of seven years ago. Mail order activity has done rather better but has fallen in the same period from \$2,200,000 to \$1,710,000. In order to combat the prospect of difficult trading, the company revised its pricing policy. In 1996-97 the mark-up was 100%, but by the financial year 2002-03 the mark-up had been reduced to 50%.

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There is hope for an economic upturn for Hong Kong but the owners of Happy Reward feel now is the time to expand into China itself and are looking at the prospect of opening a shop in, for example, Shanghai or Beijing. The company already enjoys the custom of Chinese businessmen and politicians who receive discounts.

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The main objective is still profit and Happy Reward currently receives the small return of 4%, but Miss Sit told the Chamber of Commerce that her prime objective at the moment is economic survival. However, the plans to expand, and the hope for an economic upturn, indicate the company's determination to remain in business. To satisfy the bank, the company has had to produce a detailed business plan.

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The atmosphere in the business was pleasant and relaxed when they were making a lot of money but, in the last two years or so, the style of management has become progressively authoritarian. The two managers are under instruction to make their staff work harder and, as the managers' span of control is narrow, it helps them to supervise more effectively. They used to work in two quality circles but it is now very much a matter of staff doing just as they are told to improve sales. The CEO has taken to communicating with her staff by written memoranda so that 'no one can argue with or doubt the instructions'.

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The company has tried various forms of employment contract when staff have left and been replaced. They have had freelance and part-time staff but now the employees are all on a one-year rolling contract which gives the company a more flexible staffing policy. However, the company remains very keen on training as it believes it to be a key to business success.

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<sup>1</sup> Expressed in US not Hong Kong dollars

The Chinese government is supporting the business culture and moving away from the planned economy. Potentially it is an enormous market and is attracting inward investment. Happy Reward wants to locate a branch in China, particularly where there is likely to be economic growth, and is researching the population features of the market e.g. people at work, earning levels, age groups, their tastes and needs, price levels, and consumer preference. It is also very well aware from experience that there are many economic and political factors influencing business over which it has little or no control. 45

Originally the marketing approach was simple and based on the obvious fact that Italian fashions were available and popular with those with good incomes. Economic changes and recent trading results mean the marketing policy and planning need redefining. A realistic pricing strategy has helped to keep the company in business. Happy Reward also needs to pay attention to its customer service policy. 50

**You must attempt ALL of the following tasks.**

- 1 (a) Happy Reward began its life as a partnership but has now changed into a private limited company.

Suggest why the owners took the action to change to a private limited company. [5]

- (b) The bank has asked Happy Reward to produce a detailed business plan.

List **five** items the business plan might contain. [5]

- (c) Profit is clearly the main objective of every business but according to the Chief Executive Officer, Happy Reward is, for the time being, concentrating on economic survival.

Explain what the CEO means when she talks of economic survival. [10]  
[Total: 20]

- 2 The atmosphere in the company has changed recently and staff no longer participate in the quality circles.

- (a) Describe how a quality circle could be of help to Happy Reward. [5]

- (b) The managers are expected to work their staff harder using the advantage of a narrow span of control.

Describe how a narrow span enables managers to supervise their staff more easily. [5]

- (c) Using the details of the company, create an organisational chart or diagram for the Happy Reward organisation. [10]

[Total: 20]

- 3 It appears that staff have been on various forms of employment contracts but are now on the one year rolling contract.

- (a) Explain the meaning of a one-year rolling contract. [5]

- (b) The company remains keen on training as it aids business success. Happy Reward deals with high-class clothing at prices that reflect the quality.

List **three** areas or activities in which you think the staff should be trained. [5]

- (c) The employees of Happy Reward not only work hard but are also closely supervised.

Identify and describe **three** expectations the employers can reasonably have of their employees. [10]

[Total: 20]

- 4 (a) The Chinese government appears to be encouraging the business culture and moving away from the planned economy.

Give a definition of:

(i) a planned economy [5]

(ii) business culture [5]

- (b) Happy Reward's recent experience indicates that it is aware of the various factors influencing business organisations.

Thinking about the company's position, future plans and its research into population issues, indicate how Happy Reward might be affected by both consumer demand and economic growth. [10]

[Total: 20]

- 5 (a) If Happy Reward is to move ahead with its future plans, then it must redefine its marketing policy and planning.

Advise Happy Reward of the benefits of marketing planning. [10]

- (b) The company has employed a realistic pricing strategy which has helped the company to remain in business and now it needs to pay attention to its customer service policy.

(i) Describe Happy Reward's pricing strategy. [5]

(ii) Explain why Happy Reward needs a customer service policy. [5]

[Total: 20]

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