

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

**BUSINESS ORGANISATION AND ENVIRONMENT**

**5171/01**

**5179/01**

Core Module

May 2006

**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.

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 **3** printed pages and **1** blank page.



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

[The following case study is fictitious.]

**‘BETTER FEET’**

Five years ago, a shoe factory was closed because it was not profitable enough. However a group of skilled workers persuaded entrepreneurs to acquire the factory, modernise it, and restart shoe production. The new business organisation is called the Malaysian Shoe Manufacturing Company and trades under the name of ‘Better Feet’. The company is very busy and earns a good profit.

‘Better Feet’ is a private company with just six shareholders who contributed the share capital of \$1 million<sup>1</sup> to start the new business. As the business was relatively cheap to set up, it wasn’t considered appropriate to form a public limited company. The entrepreneurs also rejected the idea of a partnership in favour of a private company. 5

Profit is the primary business objective for ‘Better Feet’ but, according to the company, there are other objectives that are also important such as contributing to the improvement of the local community’s living standards. 10

The Managing Director [MD] said that the function of the executives is to manage and control, as they know more than the employees. On the other hand, employee participation is encouraged through team-working, quality circles and profit sharing. The MD also said that the various stakeholders were considered by the company to be of equal status and value. Following these comments, a business journalist described the company’s leadership style as a mixture of democracy and paternalism. 15

‘Better Feet’ has good employee relations, and these contribute to the company’s success. Wages and salaries are average for the region but all employees receive an annual profit-sharing bonus which is just one of a number of incentives offered by the company. Another reason for the company’s success is its use of computer technology in all aspects of the business although each pair of shoes is finished off by hand. 20

Every company is affected by factors that influence its business operation. For some it may be taxation, for others it will be business legislation. The MD says that ‘Better Feet’ is directly affected by price and consumer preferences. 25

The previous company mass-produced shoes for distribution to retail chains mainly in Europe. ‘Better Feet’ produces only for pre-paid orders from individual customers wherever they are in the world. The company now sells to a niche market. The MD has suggested that there are only two essential issues affecting the location of the company: the supply of labour and a reliable postal service. 30

The company produces men’s and women’s footwear in three basic styles (casual, sport and business), in three widths (narrow, normal and wide), and in eight colours.

Sales are made by a freephone facility, which is open 24 hours a day for 7 days a week, by mail order, or via the website. The company has no debtors. Customers are obliged to pay in advance for their shoes. It takes 10 days to process and manufacture an order and a customer can expect delivery within 15 days. 35

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

The company does not undertake any sustained advertising campaigns except when it is attempting to enter a new market area. Apart from the website, 'Better Feet' produces a catalogue which is widely distributed to existing customers and to those requesting it via the website. The company has a policy of cost-plus pricing. The price range for a pair of shoes is between \$60 and \$100. 40

'Better Feet' is proud of its customer service policy. It offers an unconditional guarantee that if a customer is not fully satisfied with a product then it may be returned free of charge. The customer will be offered either a full refund or a replacement. The company also offers a help-line for customers who need advice regarding their orders. 45

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

- 1 (a) The entrepreneurs decided to register 'Better Feet' as a private limited company rather than as a partnership or a public limited company. Identify and describe **three** features and/or advantages of the private limited company. **[3x4=12]**
- (b) Explain the following **two** business objectives of 'Better Feet':
- (i) profit; **[4]**
- (ii) contributing to the improvement of the local community's living standards. **[4]**
- [Total: 20]**
- 2 (a) The Managing Director said that the stakeholders were considered to be of equal status and value.
- (i) Explain what a stakeholder is. **[2]**
- (ii) Identify **two** of the company's stakeholders and indicate why they could be regarded as the most important. **[2x4=8]**
- (b) A journalist **described** the company's leadership style as a mixture of democracy and paternalism. Explain what the journalist meant. **[10]**
- [Total: 20]**
- 3 (a) Identify and explain **three** expectations that the employers might reasonably have of their employees. **[3x4=12]**
- (b) (i) The company offers a number of incentives. Suggest **two** incentives which 'Better Feet' might offer its employees. **[2x2=4]**
- (ii) 'Better Feet' makes wide use of computer technology. Suggest **two** ways in which computer technology is likely to be used in the company. **[2x2=4]**
- [Total: 20]**
- 4 (a) Explain how 'Better Feet' is directly affected by:
- (i) price; **[4]**
- (ii) consumer preferences. **[4]**
- (b) Explain how the location of the company was influenced by:
- (i) the supply of labour; **[4]**
- (ii) a reliable postal service; **[4]**
- (iii) **one** other factor. **[4]**
- [Total: 20]**
- 5 (a) Explain the importance of **three** of the main features of 'Better Feet's' Customer Service policy. **[3x4=12]**
- (b) (i) Explain the differences between niche marketing and mass marketing. **[2x2=4]**
- (ii) 'Better Feet' uses the cost-plus pricing method. Explain what is meant by cost-plus pricing. **[4]**
- [Total: 20]**

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