



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

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**BUSINESS ORGANISATION AND ENVIRONMENT**

**5179/01**

Core Module

**May 2012**

**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 of the tasks which follow.**

(This case study is fictitious.)

### **Fernandez Car Parts Ltd. (FCP)**

Fernandez Car Parts was established as a limited company in 1965 in Montevideo, Uruguay. The shares are now owned 50% each by two brothers, Pablo and Rafael Fernandez. The business imports car parts for three European makes, Fiat, BMW and Mercedes. These parts are not manufactured by the car companies, but are still made to a high standard, and are mainly fitted to older cars after the new car warranty has expired. They are priced at about 50% of the similar part made by the car manufacturer. FCP also recondition used engines for resale. 5

FCP employ a total of 32 people, 27 full-time and 5 temporary part-time. 22 of the full-time workers have been with the business over 5 years, with some over 20 years. Pablo manages the workshops and warehouse whilst his brother Rafael manages the sales and administration departments. The organisation was set up on hierarchical lines with supervisors, who generally have wide spans of control over their subordinates, reporting directly to one of the brothers. The Board of Directors consists of Rafael, Pablo and their lawyer. 10

The main customers of FCP are independent car repair businesses, and they employ two salesmen who visit these businesses. The customers open accounts with FCP and order their needed parts by phone. There is also a small amount of retail trade direct to the consumer. The recession that started in 2008 has not had a large effect on FCP, as people keep their cars longer and therefore need more replacement parts. It has in fact had one positive effect, as they have found it easier to recruit qualified workers who have been made redundant by the franchised car dealerships. All of the workers below the supervisor level are members of a nationally recognised trade union. This has caused some problems in the past, although with high levels of unemployment at the moment, relations with the workers and trade unions have been easier. 15 20

FCP has remained profitable during the last 10 years, partly due to Rafael keeping close control of overheads. Fixed costs have increased only slightly in that period, mainly because of FCP owning the premises they operate from, with only a small mortgage remaining outstanding. Rafael produces a break-even analysis at the start of each year, and this is used as a basis for controlling both sales and costs. 25

Pablo is an authoritarian leader and this has led to some problems with the unions in the past. Rafael is much more democratic and has had to step in to calm several tense situations that could easily have led to industrial action. Rafael has also realised the importance of non-financial incentives. 30

Their warehouse is situated in an old commercial district of Montevideo where the traffic is busy and this does not help the delivery of parts. However the easy access to consumer credit has led to the rapid growth of car ownership, especially amongst the young who now own the majority of the older cars that make up FCP's market. Until 2008 the easy credit policy was encouraged by the government, but since then there has been a tightening of credit policy, which FCP worries may affect their sales. 35

For imported goods, FCP use a cost-plus pricing policy, whilst for the parts they manufacture themselves, they use a contribution pricing policy. The firm has always emphasised the importance of good customer service and all sales staff have regular training in this important area.

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

**Where appropriate use information from the case study to support each answer.**

- 1 (a) Explain the statement 'A major advantage to the shareholders of a limited company is their limited liability'. [5]
- (b) Describe the advantages to a car business of being a franchised car dealership. [5]
- (c) Explain what a break-even analysis is, and explain how it helps a business to plan ahead. [5]
- (d) Explain the risks involved in FCP giving credit to its business customers and explain how these risks may be minimised. [5]

**[Total: 20]**

- 2 (a) Explain the advantages and disadvantages to FCP of the supervisors having a wide span of control. [5]
- (b) Explain the importance of non-financial incentives to FCP's staff in terms of Maslow's **or** Herzberg's theories. [5]
- (c) Pablo and Rafael have different leadership styles. Describe the following styles:
- (i) authoritarian [5]
- (ii) democratic [5]

**[Total: 20]**

- 3 (a) Describe the advantages to FCP of employing temporary part-time workers. [5]
- (b) Explain the advantages and disadvantages **to FCP** of the workers being members of a trade union. [5]
- (c) Describe the advantages to FCP of the majority of the workforce having more than five years experience with the company. [5]
- (d) Describe non-financial incentives, apart from promotion, that would be appropriate for FCP's workers. [5]

**[Total: 20]**

- 4 (a) If FCP relocated its premises, describe other factors, apart from ease of access, which it would consider. [5]
- (b) Describe how both an increase **and** a decrease in exchange rates would affect how FCP prices its products to its customers. [5]
- (c) Describe the effect on FCP of:
- (i) an increase in interest rates [5]
- (ii) a reduction in direct taxation [5]

**[Total: 20]**

- 5 (a) Explain the following **two** pricing methods:
- (i) cost-plus [5]
  - (ii) contribution [5]
- (b) Explain the importance of the following **two** types of promotion to FCP:
- (i) personal selling [5]
  - (ii) advertising [5]
- [Total: 20]**

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