

UNIVERSITY OF CAMBRIDGE LOCAL EXAMINATIONS SYNDICATE  
CAMBRIDGE CAREER AWARD – ADVANCED LEVEL

**BUSINESS**

**5171/1**

Business Organisation and Environment  
Core module

**OCTOBER 2002**

Additional materials:  
Answer paper

**TIME** 2 hours plus 15 minutes reading time

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided on the answer paper/booklet.

Attempt all tasks.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets [ ] at the end of each task or part task.

You may use a calculator.

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**This question paper consists of 4 printed pages.**

**[Turn over**

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

(The following case study is fictitious)

### **Case Study: The Iron Furniture Company**

Nearly three years ago Global Holdings Plc took over South Seas Investments which operated a number of companies involved in a variety of business activities. Global sold off several companies, reorganised and kept only the highly profitable ones. One of the companies, The Iron Furniture Company, produced iron garden furniture with a turnover of \$1m and a profit of only \$2000. Global felt that this business was too small, old fashioned and inefficient, and that it was struggling for markets. Global decided to close it, but a group of employees offered to buy and run it themselves. Global agreed and set the purchase price at just \$200 000. 5

The employees, representing management and workforce, were convinced that, given updated equipment and improved productivity, they could make a success of the business. They raised \$150 000 from their severance pay and sought to borrow the rest i.e. \$50 000 plus the cost of better machinery. They approached a bank which agreed a loan of \$150 000 on the condition that one of the bank's managers was appointed to the Board as a non-executive director. The bank also insisted on a mission statement. 10

The new owners decided to remain a private company and keep the name. The company was reorganised, and layers of management and supervision reduced to a minimum. Other changes were then introduced: the directors, except any non-executive directors, are drawn not just from the management but from the company at large; the workforce has been reorganised by the introduction of teamworking and quality circles. The managing director said the new approach would improve the motivation of the workforce – 'They will all become Theory Y people!' It is also recognised that, despite the employees also being the owners, the company still had a responsibility towards the workforce. 15 20

The Iron Furniture Company, trading under the brand name of 'IronF', decided to target two markets: gardens (tables and chairs for the patio or terrace) and bedrooms (namely iron bedsteads of an antique pattern which would sell well in the UK). It commissioned a well designed brochure and then appointed an agent in the UK. The company has survived and the trading results for the first two years were, respectively, \$800 000 with a loss of \$6000, and \$1.4m with a profit of \$45 000. In this current year, the forecasts are for sales of \$1.7m with a profit of \$75 000 and fixed costs of \$350 000. 25

'IronF' expects to maintain its small home market but sees its future in developing trade with the UK and other European countries. The entry into the UK market was based on minimal market research and destroyer pricing, which seem to have paid off. However, it is recognised that future expansion of business must be based on reliable market planning. 30

'IronF' realises that all firms are affected to some extent by business environmental or PEST factors. Being a relatively small business, the company is concerned that it might become a victim, particularly of the trade cycle and competition. At a recent company meeting some employees said growth would ruin the family atmosphere of the firm, whilst others supported the expansion of the export market and recognised the need to install the latest technology and increase investment. 35

The Directors reported that they may have to build a new factory and that the Government wants to encourage firms to relocate to a region desperate for employment and business. 'IronF' is aware that it might be directed into building a new factory in an area chosen not by the company but by the Government. 40

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

- 1 (a) Using a scale of 1cm to every \$100 000, draw a break-even graph or chart for 'IronF' and calculate the break-even point. The sales forecast is \$1.7m with a profit of \$75 000; fixed costs are \$350 000. **[10]**
- (b) The bank was willing to assist 'IronF' with a loan of \$150 000 but made two specific conditions.
- (i) Say what a mission statement is and explain why you think the bank wanted a copy. **[5]**
- (ii) Explain why you think the bank demanded that one of its own managers be appointed to the Board of Directors. **[5]**
- [Total: 20]**
- 2 (a) The Managing Director thinks that the firm's distinctive approach to company organisation will make every employee a 'Theory Y person'. With reference to McGregor's Theory X and Theory Y, explain what you think the MD means. **[10]**
- (b) 'IronF' has introduced teamworking and quality circles.
- (i) Define **either** teamworking **or** quality circle, and **[5]**
- (ii) explain how you think it might benefit both 'IronF' and the employees. **[5]**
- [Total: 20]**
- 3 (a) Despite being shareholders, i.e. the owners, the employees still expect the company to recognise its responsibilities towards them. Explain and discuss the following two expectations of employees:
- (i) to be offered appropriate financial and non-financial incentives **[5]**
- (ii) to have a channel of communication, consultation and negotiation **[5]**
- (b) The firm bought better machinery but recognises, that to remain in business, it must invest in the latest technology. Advise 'IronF' how the introduction of new technology is likely to affect the company and employees. **[10]**
- [Total: 20]**
- 4 (a) 'IronF' realises that all firms are affected to some extent by business environmental or PEST factors. Discuss how 'IronF' might be influenced by
- (i) the trade cycle **[5]**
- (ii) competition **[5]**
- (b) Assuming 'IronF' considered relocating to another region, discuss two examples of likely Government support and incentives which you think the company can expect. **[10]**
- [Total: 20]**

- 5 (a) To develop its export market, 'IronF' adopted destroyer pricing and appointed an agent in the UK:
- (i) briefly explain what is meant by destroyer pricing [5]
  - (ii) briefly discuss the reason(s) for appointing an agent [5]
- (b) If 'IronF' wants to increase exports, it must carry out a marketing plan. Advise 'IronF' of the benefits of marketing planning. [10]
- [Total: 20]