



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

BUSINESS ORGANISATION AND ENVIRONMENT

5179/01, 5171/01

Core Module

October 2008

2 hours plus 15 minutes reading time

Additional Materials: Answer Booklet/Paper

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.

This document consists of **5** printed pages and **3** blank pages.



You must read the case study and attempt ALL the tasks which follow.

(The case study is fictitious.)

OOLONG FOODS

Chan Shui-wing is the owner of Oolong Foods which has twelve supermarkets, one large warehouse, and a small farm of 5 hectares for the growing of fruit and vegetables for sale in the supermarkets.

Mr Chan is a sole trader and began his business career 70 years ago when he sold fruit and vegetables in the street from a handcart. He has managed to build up a flourishing business without raising capital from shareholders and relying entirely on retained profits. Mr Chan is now 83 years old and still works long hours. 5

Mr Chan says he has only two business objectives: firstly to make a profit and, secondly, to satisfy his customers' demands. He feels that they are both closely linked. Mr Chan concentrates on the business finances and says he is always worried about controlling indirect costs and trying to reduce the break-even point – after all that is 'the way to make a good profit'. 10

He is under pressure from the family to change the form or type of business away from the sole trader status. The family are concerned about what might happen to the business should Mr Chan become seriously ill. Some family members suggest that a private company would be the most suitable form. Mr Chan understands their concern but sharing business and financial information is not his way. He thinks that if he shares his decision-making and business details, even with his son, he will begin to lose control. 15

The supermarkets, warehouse and farm are all managed by members of Chan Shui-wing's family. Mr Chan expects the family employees to be at his disposal at any time of day and they constantly complain about the hours they work. They also say they don't really understand how the business works as there is no obvious formal structure and they criticise the absence of a business organisation chart. 20

Mr Chan says he is the boss and that is all the structure they need to know! Clearly Oolong Foods is a centralised business, which also enables Mr Chan to maintain his authoritarian leadership style. He regularly visits every part of his business and staff never know when to expect him. 25

More than 2500 people are employed by Oolong Foods and Mr Chan refuses to put anyone on a permanent employment contract. His managers are all employed on one-year fixed-term renewable contracts but everyone else, regardless of length of service, is regarded as temporary. Mr Chan has high expectations of his employees, namely, that they must be effective and efficient workers, willingly do any job, and obey his code of conduct. 30

The size of the business makes the use of computers necessary. Oolong Foods is an efficient and modern business organisation which makes full use of computer systems.

Every business organisation is affected in some way by PEST or external factors which influence its operation. Mr Chan is concerned about Government policies towards business, competition and disposable income. Mr Chan has no interests outside his business except for the active role he plays as Chairman of his retail trade association. He thinks membership of the association is beneficial to retail traders like him. 35

Location is an important factor when opening supermarkets. His warehouse is located in an out-of-town industrial district which offers the benefits of low occupancy costs. The supermarkets need to occupy positions which are accessible to all. Mr Chan makes the point that even with an increasing car population not all his customers own cars so the location of his outlets must cater for them too. 40

The prices charged by Oolong Foods are a little above those of other supermarkets but Mr Chan prides himself on stocking high quality food and non-food products. He believes his customers are his main resource and feels he owes them good service, clean stores, smart and efficient staff, and even free delivery for the elderly and disabled.

45

The main marketing objectives of Oolong Foods are to achieve and maintain a targeted market share and operate a successful marketing mix.

You must attempt ALL of the following tasks.

- 1 (a) Explain and justify the following business objectives of Oolong Foods:
- (i) profit [4]
 - (ii) satisfying customer demand [4]
- (b) Mr Chan is always worried about costs. Explain what is meant by:
- (i) indirect costs [2]
 - (ii) break-even point [2]
- (c) Explain **two** reasons why a private limited company would be more appropriate for Oolong Foods. [2 x 4 = 8]
[Total: 20]
- 2 (a) Oolong Foods does not have an organisation chart. Give **four** purposes of an organisation chart. [4 x 2 = 8]
- (b) Oolong Foods is a centralised business. Identify and discuss **one** advantage and **one** disadvantage of Mr Chan's business being centralised. [2 x 4 = 8]
- (c) Mr Chan's leadership style is considered to be authoritarian. Explain what is meant by an authoritarian style of leadership. [4]
[Total: 20]
- 3 (a) Discuss the following expectations that the employer, Mr Chan, might reasonably have of his employees:
- (i) effective and efficient work [4]
 - (ii) willingness to undertake any work reasonably asked of them [4]
 - (iii) acceptance of Mr Chan's code of conduct [4]
- (b) Explain what a one-year fixed-term renewable contract is and suggest **one** benefit to Mr Chan's business of employing senior managers on fixed-term renewable contracts. [2 x 2 = 4]
- (c) Oolong Foods makes wide use of computer technology. Suggest **two** ways in which computer technology is likely to be used in the business. [2 x 2 = 4]
[Total: 20]

- 4 (a) Every business is affected by PEST or external factors that influence its activity. Explain how Oolong Foods might be affected by:
- (i) competition [4]
 - (ii) disposable income [4]
 - (iii) government policies towards business [4]
- (b) Mr Chan is the chairman of a trade association. Explain what a trade association is and how Mr Chan benefits from membership. [4]
- (c) Identify **two** factors which influence the location of Oolong Foods' supermarkets. [2 x 2 = 4]
[Total: 20]
- 5 (a) Explain the following marketing objectives of Oolong Foods:
- (i) operate a successful marketing mix [4]
 - (ii) achieve and maintain a targeted market share [4]
- (b) Mr Chan believes that his customers are his main resource. Explain what he means. [4]
- (c) (i) Explain the importance to Oolong Foods of a customer service policy. [4]
- (ii) List **four** likely features of Mr Chan's customer service policy. [4]
[Total: 20]

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