

**Advanced GCE UNIT  
BUSINESS STUDIES**

**2876**

Further People in Organisations

**FRIDAY 26 JANUARY 2007**

Morning

Time: 1 hour 30 minutes

Additional materials: Answer Booklet (8 pages)

**Candidates may use calculators in this examination.**



**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** questions.
- If you need extra sheets, fasten these sheets securely to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

**INFORMATION FOR CANDIDATES**

- The number of marks for each question is given in brackets [ ] at the end of each question or part-question.
- The total number of marks for this paper is 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This document consists of **4** printed pages.

## F.K. Crackers Ltd (FKCL)

Freddie King started his business in December 2003, using the redundancy payment he received from a previous employer where he had been a quality control inspector. Freddie had always loved organising parties for his seven children, and had even learnt how to make crackers, party poppers, and other party accessories at evening classes. Market research and visits to local retail outlets had convinced him that there was a demand for such products. Freddie began production at a small, rented industrial unit situated in Leadbourne, a village with limited access by public transport. Recruiting workers had proved difficult, but Freddie eventually attracted the 12 people needed by putting a notice in the village shop window. Employees spent their first week being trained in the skills required to make the full range of products, and were then allocated to specific tasks at various stages of a simple production line. 5 10

FKCL had mixed fortunes during its first two years. Demand for FKCL's products was mostly at profitable levels, with a big increase as Christmas time approached. However, Freddie had been plagued by several problems. Firstly, labour turnover had been high, with a total of 62 different people being employed in 2004 and 74 in 2005, often for relatively short periods of time. Secondly, workers complained about the boredom of carrying out the same simple, specialised tasks day after day. Finally, wastage of raw materials was always quite high. Freddie was convinced that his workers did not take enough care when assembling products. The workers claimed that he did not check the quality of incoming raw materials thoroughly enough. They also said Freddie's strict quality control standards for FKCL's finished products were to blame for the consistently high levels of waste. 15 20

In mid-November 2005 Freddie decided to take drastic action and re-organise the business. He planned to dismiss all of his current workforce, cease production at the industrial unit, and recruit 24 new outworkers paid on the basis of the number of crackers produced. These outworkers would work from their own homes, on temporary contracts of employment. The necessary raw materials would be delivered to the outworkers' homes by a newly appointed van driver. At the same time dates and times for the collection of finished products would be arranged. This, Freddie thought, would eliminate the problems he had been experiencing at the industrial unit. His best worker at the industrial unit was usually able to produce 120 crackers per hour. He quickly jotted down some figures about how much he pays the existing factory workers, and wondered what this would equate to if he paid outworkers by performance rather than hourly rates (see Fig. 1). The industrial unit would now be solely used as a storage facility and Freddie intended to recruit two new staff to work in this warehouse. 25 30 35

Factory	Outworkers
12 workers	? per cracker
40 hour per week	
Weekly wage bill £2,880	
Best worker, 120 crackers per hour	

Fig. 1

On 1 December 2005 he announced the closure of the industrial unit with effect from

31 December. None of his current workforce took up his offer of jobs as outworkers. He also heard several of them mumbling angrily about taking some form of action against FKCL. Undeterred, he carried out his plan. He received a positive response to his advertisement in the local newspaper, which offered potential outworkers 'high potential earnings in the comfort of their own home'. By the beginning of January 2006 he had drawn up his first schedule of deliveries of materials and collection of finished products, having recruited 24 outworkers after carrying out brief telephone interviews. 45 50

Initially, the decision to use outworkers was successful. The outworkers, who consisted mainly of senior citizens and young mothers, seemed enthusiastic about their tasks and the flexibility of the working routine. As a result, Freddie was easily able to satisfy customer demand. 55

However, in the spring of 2006, problems started to occur. Several of the senior citizens decided to go on holiday without telling Freddie. Most of the young mothers complained that they could not earn enough money and get out with their children now the weather was improving. Freddie's van driver found that he had to visit people's homes several times to catch them when they were in. When he rang people up to organise visits they were often out, and to make matters worse people were complaining that their earnings were low unless they spent extremely long hours making products. The senior citizens complained that making crackers all the time was extremely tedious. Both groups said that the nature of the work made them feel isolated. 60 65

Production levels started to fall dramatically. It was becoming increasingly difficult for Freddie to meet his customers' demands due to the unpredictable level of output. Freddie and his family had to work long hours themselves to ensure that orders for Christmas stock were met on time.

Freddie now had a new set of problems to resolve. How could he encourage the outworkers to be more focused on their activities? Should he recruit more outworkers to ensure higher production levels? How could he ensure more effective communication with his outworkers? He began to wonder whether he should have stopped production at the industrial unit after all. 70

Answer **all** questions.

- 1 (a) (i) Freddie hoped that his outworkers could earn the equivalent hourly rate to his workers formerly employed at the industrial unit. Calculate the payment per cracker required to achieve this. [4]
- (ii) Analyse **two** possible human resource implications to FKCL of paying the outworkers by performance rather than hourly rates. [6]
- (b) Evaluate Freddie's decision to cease production at the industrial unit and use outworkers. [16]
- (c) To what extent might the specialisation of tasks affect levels of motivation at FKCL? [10]
- 2 (a) Analyse the potential impact on training at FKCL now that outworkers have been employed. [6]
- (b) Evaluate methods Freddie could use to enhance the performance of employees at FKCL. [16]

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