

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Career Award in Business
Standard Level

BUSINESS ORGANISATION AND ENVIRONMENT

5161/01

Core Module

May 2003

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.
You may use a calculator.

Attempt **all** tasks.
Write your answers on the separate Answer Booklet/Paper provided.
At the end of the examination, fasten all your work securely together.
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 below and attempt all the tasks that follow.

(The following case study is fictitious)

Case Study: RAJ TOURS

India is becoming a major destination for foreign tourists who currently number slightly less than 3 million a year, but this sector of the tourist market is growing by approximately 5% annually. As an earner of foreign exchange, Tourism attracts about \$3 billion per year and ranks third after Textiles and IT. This indicates just how important the industry is to the Indian economy. 175 million Indians also take their holidays within India. Tourism directly employs 8.5 million workers and indirectly more than 20 million others rely on the industry for their employment. 5

Prithvi Bhatiani and Sunil Chandrasekhar set up **Raj Tours** in 1998. They identified a niche market which they could develop – namely, specialist or individually designed tours for ‘discerning travellers’ ie wealthy people who want to be ‘treated like Maharajahs’, stay in ornate palaces, and travel by luxury air-conditioned trains or limousines. 10

Sunil and Prithvi created the business as a private limited company with just themselves as shareholders. They invested \$100,000 and \$150,000 respectively which gave them a lot of working capital. Prithvi is the Chief Executive Officer and Sunil the Company Secretary. After five years the business is well established and successful, and the orders books are virtually full for the next three years. They now have offices in Delhi, Pune and Calcutta. Several leading specialist travel agents in Europe and USA represent Raj Tours. 15

Prithvi is very outgoing and likes attending social functions, serving on committees, and giving talks as he sees these activities as good public relations. He likes going to universities and giving keynote lectures on the objectives and ethics of business.

Raj Tours is doing well. Sunil and Prithvi have been talking about the future of the firm. Prithvi thinks that they could increase business if they had a lot more capital. Converting to a public limited company would attract a number of shareholders and, hopefully, a large sum of capital injection. Sunil is of the opinion that the firm is doing well enough and should treat ideas of large expansion with caution. In any case he feels that more ploughed-back profit supported by a loan from the bank ought to be sufficient to fund appropriate business plans. 20 25

Both Sunil and Prithvi regard themselves as hands-on managers which reflects the centralised nature of the firm. Some staff have the feeling they are not fully trusted. One manager said that the centralisation was inevitable because Sunil and Prithvi had built up the business from nothing. The business is an extension of themselves.

Even now the structure of the firm has not settled down. As the firm has grown, many employees have been frequently moved about the various departments and undertaken a variety of functions so that an organisation chart has proven difficult to maintain. Sunil says that he knows everybody and what they do and that a chart would not help him. 30

Despite this centralisation, working for Raj Tours is not unpleasant and most staff seem well satisfied. The tour guides are the best paid but they also receive much in the way of tips and gifts from their clients. The policy of the firm is to look after their staff in order to encourage loyalty and motivation. Over 300 staff are employed under different forms of contract. The guides obviously cannot operate according to office hours as they work long hours, but most, especially those who speak several languages and have a lot of experience, prefer to be self-employed. Some staff are full-time, others part-time; some work rigid office hours whilst others have flexitime; a few even have a job share. 35 40

Prithvi is a firm believer in the profit motive and considers it the prime, but not the only, reason for being in business. Although he is a hard businessman, he believes in fair trading, a matter he

emphasises in his business lectures. He feels that supporting the practice of fair trading has been a key issue in the firm's success. Both Prithvi and Sunil consider themselves well aware of those external influences on a business, ie PEST factors. Raj Tours is particularly affected by, for example, fluctuations in exchange rates and increasing costs which must be paid by the airlines. 45

A large expense for the firm is marketing. The reputation of Raj Tours has grown to the point that the company's 'products' virtually sell themselves. Much effort is still invested in marketing as there are always new opportunities. The business continues to expand but Sunil and Prithvi still worry that they might lose business and drop below the break-even point. They always wonder whether they have the correct marketing mix. Raj Tours is and has to be very customer conscious. The key selling points of the business are efficient organisation, guaranteed personal safety, and high quality personal service. The whole business rests exclusively on customer satisfaction. 50

You must attempt ALL of the following tasks.

- 1 Define the following terms which are used in the case study.
- (a) niche market (line 7/8) [3]
- (b) shareholders (line 12) [3]
- (c) ploughed-back profit (line 24) [3]
- (d) job share (line 41) [3]
- (e) break-even point (line 51) [3]
- [Total: 15]**
- 2 (a) Prithvi is soon to give another lecture to business students and his theme is the objectives of a business organisation.
- List **three** objectives of a business organisation *other than profit*. [5]
- (b) Raj Tours is a private limited company. Prithvi has suggested the company converts to a public limited company [Plc] but Sunil is not keen to change.
- Identify and explain **one advantage** and **one disadvantage** to Raj Tours of becoming a Plc. [5]
- (c) Raj Tours began with \$250,000 of share capital. Some of this capital became working capital and some was used to purchase fixed assets.
- Explain what working capital is and what it is used for. [5]
- [Total: 15]**
- 3 (a) Sunil and Prithvi like to be in complete control of the business. Raj Tours is a very centralised operation.
- Select and discuss **two** points in **favour** AND **two against** centralisation in a business like Raj Tours. [10]
- (b) Sunil argues that since he knows what everybody does in the firm, an organisation chart is of little use to him.
- List **three** reasons for having an organisation chart. [5]
- (c) Prithvi is the Chief Executive Officer of Raj Tours.
- Explain briefly what Prithvi's role is in Raj Tours. [5]
- [Total: 20]**

- 4 (a) Raj Tours employs over 300 staff.

Select and explain **three** expectations that the staff might reasonably have of their employers. [10]

- (b) Most of the tour guides are self-employed.

Explain what being self-employed means and suggest what advantage it might offer a tour guide. [5]

[Total: 15]

- 5 (a) An influence on Raj Tours is the profit motive.

Briefly explain the profit motive and say why it is important in business. [5]

- (b) Prithvi believes in business ethics and fair trading.

Explain what fair trading means. [5]

- (c) All businesses are affected to some degree by those external influences that determine the business climate.

Describe how Raj Tours might be affected by

(i) the distribution of income

(ii) the business cycle.

[10]

[Total: 20]

- 6 (a) Sunil and Prithvi are concerned about their marketing mix.

Explain the meaning of **marketing mix** with reference to Raj Tours. [10]

- (b) The success of Raj Tours rests exclusively on achieving customer satisfaction.

Explain what achieving customer satisfaction means in relation to Raj Tours. [5]

[Total: 15]

BLANK PAGE

BLANK PAGE

BLANK PAGE