
Business Management

1st Year Examination

August 2010

Paper, Solutions & Examiner's Report



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Accounting Technicians Ireland
First Year Examination: Autumn 2010
Paper: BUSINESS MANAGEMENT

Wednesday 18th AUGUST 2010 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the requisite number of questions are answered, then only the requisite number, in the order filed, will be corrected.

Candidates should allocate their time carefully and should note that 1 mark equates to 1.65 minutes.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on page 2 overleaf.

SECTION A**(COMPULSORY QUESTION)****QUESTION 1 (COMPULSORY)**

- (a) Identify and explain all four phases of the lifecycle of a typical product. **10 Marks**
- (b) Think of two products you use on a regular basis and suggest where they may be located on the lifecycle chart in (a) above, giving reasons in support of your answer. Comment critically on the usefulness of the product life cycle concept as a marketing tool. **10 Marks**
- (c) Describe briefly two ways in which IS/IT may be used as a marketing tool in the growth stage of the lifecycle of a typical product. **5 Marks**

Total 25 Marks**SECTION B****(ANSWER ANY THREE QUESTIONS IN THIS SECTION)****QUESTION 2**

- (a) A former work colleague of yours who runs a business recently attended a talk on "Motivation in the work place". He is a little confused by the terminology mentioned, such as content and process theories of motivation etc. and has asked you for guidance on these matters.

Requirements:

- (i) Explain the concept of motivation. Distinguish between content and process theories of motivation. **10 Marks**
- (ii) Describe one content theory and one process theory of motivation. **10 Marks**
- (b) The type of organisational structure an organisation can adopt is influenced by a variety of factors. Describe any two of these factors. **5 Marks**

Total 25 Marks

QUESTION 3

- (a) Porter identified five competitive forces used in analysing the intensity of competition of an industry. Describe any four of these competitive forces.
10 Marks
- (b) Organisations use a range of distribution strategies in marketing their products; intensive, selective or exclusive. Describe each of these strategies giving examples.
10 Marks
- (c) Explain what is meant by a market-penetration pricing strategy
5 Marks
- Total 25 Marks**

QUESTION 4

- (a) Mintzberg described ten roles commonly undertaken by managers of business organisations. Describe any four of these roles.
10 Marks
- (b) Describe three contemporary skills managers should possess giving reasons in support of your answer.
10 Marks
- (c) Explain what is meant by the acronym "SMART" in the context of setting objectives.
5 Marks
- Total 25 Marks**

QUESTION 5

- (a)** At a recent seminar you attended with your manager one of the speakers stated that “Effective marketing is all about communicating with the market place”. Your manager later requested that you look into this theme. Your organisation sells foreign sun holidays to people all over Ireland. He has specifically requested that you consider the appropriateness of the following media vehicles – TV, Newspapers and the Internet.

Requirements:

- (i)** Describe two benefits and one limitation associated with each of the three media vehicles outlined above.

10 Marks

- (ii)** Describe three factors your choice of media vehicle is likely to depend on. Suggest the media vehicles you would deem most appropriate for the above organisation, giving reasons in support of your answer.

10 Marks

- (b)** Explain what is meant by “Customer Relationship Management” (CRM)?

5 Marks**Total 25 Marks**

QUESTION 6

- (a) There are many ways in which a computer system can be attacked, especially one that has access to the Internet. Describe four ways in which a computer system may be intentionally attacked and three ways in which the risks of such attacks may be minimised.

10 Marks

- (b) Describe three ways in which IS/IT may be deployed to generate competitive advantage for an organisation.

10 Marks

- (c) Briefly describe two approaches to system changeover.

5 Marks**Total 25 Marks****QUESTION 7**

- (a) Describe the role and key tasks of the Finance Function in an organisation.

10 Marks

- (b) In the present economic climate, capital investment appraisal has become increasingly important. Describe two methods for appraising capital investment.

10 Marks

- (c) Explain what is meant by the term “Debentures” and comment on their relevance as sources of finance.

5 Marks**Total 25 Marks**

1st Year Examination: August 2010

Business Management

Suggested Solutions

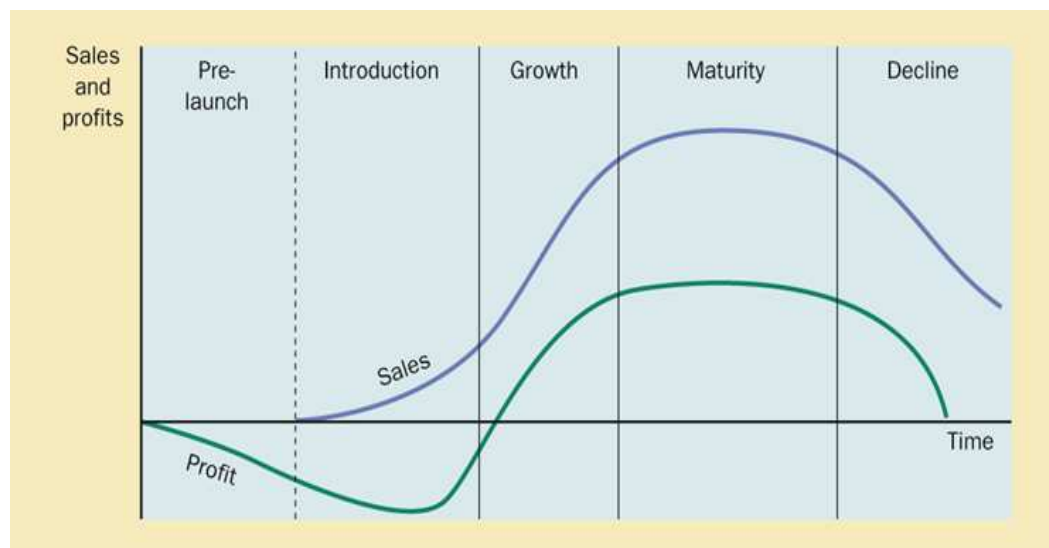
Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

SECTION A

SOLUTION TO QUESTION 1 (COMPULSORY)

PART A

All products have a life cycle - this model includes four stages through which individual products develop over time and extends from introduction to obsolescence. The pre-launch stage (as seen in diagram below) refers to the marketing activities prior to the launch or commercialisation of the new product.



Introduction

- Low sales & high costs as the product is being introduced to the market
- Competition is limited
- Customer type is known as an innovator
- Core objective is to generate awareness among the target audience

SOLUTION TO QUESTION 1 (COMPULSORY)**Growth**

- Rising sales, costs declining and profits being achieved
- Growing number of competitors entering the market
- Customer type is known as an early adopter
- Core objective is to increase demand in order to increase market share

Maturity

- Sales & profits reach their peak, cost per customer is low
- Competition is intense
- Customer type is known as middle majority
- Core objective is to maximize profit and maintain market share

Decline

- Sales & profits decline
- Number of competitors have reduced
- Customer type is known as a laggard
- Core objective is to exploit the brand

PART B

The PLC concept helps interpret product and market dynamics and can be used for planning and control.

Not all products follow the product lifecycle. Some products are introduced and die off quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

Whilst the exact shape and length of a products lifecycle may not be known in advance, the company's task is to recognise the lifecycle pattern of its offerings and to devise appropriate marketing strategies for its portfolio.

A manufacturer of Laptops

In the case of a manufacturer of laptops the PLC is likely to be particularly relevant. It ought to allow the company to adopt different marketing and pricing strategies at the different stages of the life cycle of its products.

In the introduction stage the company is likely to be able to capitalise on the price inelasticity of the early adopters of its offerings. At the growth stage it is likely to pursue intensive marketing initiatives to try to enable it to obtain a sizeable share of the market.

Later in the mature phase competition is likely to be intense and economies of scale will be called for if the company is to match the competitions offerings. At the final stage the

SOLUTION TO QUESTION 1 *(Cont'd)*

company will have to consider its options to exploit the brand whilst pursuing an aggressive innovation strategy to bring out new products. *(e. g. Apple's product range)

Similarly manufacturers of motor vehicles have to constantly strive to enhance the design features of their models every few years to keep them up to date with developments in technology and other environmental and economic concerns. In addition to try and hold their place at the maturity stage of the market for petrol cars they are investing heavily in electric and hybrid cars which are currently at the prelaunch stage of that market.

Some of the common criticisms of the PLC concept are as follows :

1. Duration of the PLC stages is unpredictable
2. Difficult to tell which stage the product is in
3. Not marketing orientated
4. Misleading objective and strategy prescriptions
5. PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow
6. Not all products follow the classic PLC curve

PART C

IT/IS may used as a marketing tool in a number of ways to gain competitive advantage in the growth stage of development

- eMarketing – Just think of the way Airlingus and Ryan make use of the internet and e-mail systems to gain competitive advantage via special offerings etc.
- web site development – many products are marketed over the internet in a variety of different ways. Again this would be an important area to explore and reach a large audience. (e. g. the use of social networking sites and loyalty card information to refine and better target their service offerings).

SECTION B**SOLUTION TO QUESTION 2****PART A**

Motivation is a complex concept. There are a variety of factors which influence the meanings people give to a situation and which prompt them to act in particular ways. Some writers make an important distinction between the motivation of other people and motivating oneself.

"Motivating other people is about getting them to move in a direction you want them to go in to achieve a result".

"Motivating yourself is about setting the direction independently and then taking a course of action which will ensure that you get there".

There is no one universally accepted theory of motivation. Broadly speaking the theories, may be categorised into two groups, content and process theories of motivation.

Content theories of motivation assume that needs are the most important determinant of an individual's level of motivation. These theories focus on the following question;

"What initiates or stimulates behaviour?"

There are four main content theories of motivation – Maslow's hierarchy of needs, Alderfer's ERG theory, McClelland's Achievement theory and Herzberg's two factor theory.

Process theorists propose that people are more complex, more pragmatic and more contemplative than the need theorists suggest. They seek to establish not only what people want from their work situations, but how they believe they can actually achieve it and what influences the process. These theories focus on the dynamic of how people decide as individuals what motivates them. Emphasis is placed on the cognitive processes.

There are three main process theories – Mc Gregor's Theory X and Theory Y, Vroom's expectancy theory and Adam's equity theory.

PART B**Maslows hierarchy of needs is an example of a content theory of motivation**

Maslow's Need Hierarchy theory states that human motivation is dependent on the desire to satisfy various levels of needs and that the type of behaviour exhibited may be influenced / result from the particular need to be fulfilled at a given time. Maslow argued people are motivated by physiological, safety, belongingness, esteem and self actualisation needs. He suggests these five basic needs exist in a hierarchy that runs from lower level deficiency needs to higher growth needs.

Physiological needs: These needs relate to the basic survival needs which allow for continued existence, such as food, water and adequate shelter.

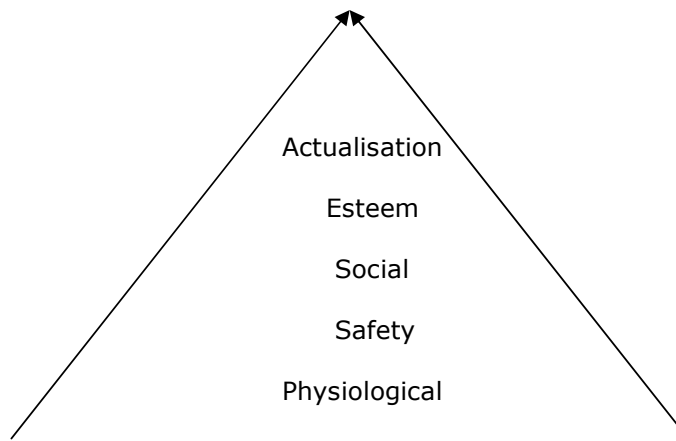
SOLUTION TO QUESTION 2 (Cont'd)

Safety needs: These needs relate to physical and psychological safety from external threats to our well being, such as the need for security and protection. These needs take effect when physiological needs have been met.

Social needs: This level of need relates to the need for company and companionship, and for a sense of personal belonging. The needs for personal contact and interaction with other people tends to be triggered when physiological and safety needs have been met.

Esteem needs: This is the first level of growth needs, which relates to the need for a sense of self-esteem and a feeling of personal self-worth. They become salient once the first three levels of deficiency needs have been satisfied.

Self-actualisation needs: The final level in the hierarchy refers to the need for personal growth, and the development of one's full potential and capabilities. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled. The more they are satisfied the stronger the needs become.



Maslow's theory is a general theory not specifically designed for organizations. However it has relevance to understanding people's motives within organizational settings. It highlights that different levels of needs may take precedence at different times in people's lives. It presents these needs in a form people can identify with and easily understand. It also takes a dynamic view of need satisfaction, in that when one need is satisfied, others in the hierarchy become stronger. It also highlights that once a need is satisfied, it tends to be less of a motivating factor in a person's life.

Expectancy theory is an example of a process theory of motivation

Expectancy theory holds that people make conscious choices about their motivation. The three factors that affect those choices are valence, expectancy, and instrumentality.

Valence is simply the attractiveness or desirability of various rewards or outcomes. Expectancy theory recognizes that the same reward or outcome, say, a promotion, will be highly attractive to some people, will be highly disliked by others, and will not make much difference one way or the other to some others.

SOLUTION TO QUESTION 2 (Cont'd)

Accordingly, when people are deciding how much effort to put forth, expectancy theory says that they will consider the valence of all possible rewards and outcomes that they can receive from their jobs. The greater the sum of those valences, each of which can be positive, negative, or neutral, the more effort people will choose to put forth on the job.

Expectancy is the perceived relationship between effort and performance. When expectancy is strong, employees believe that their hard work and effort will result in a good performance, so they work harder. By contrast, when expectancy is weak, employees figure that no matter what they do or how hard they work, they won't be able to perform their jobs successfully, so they don't work as hard.

Instrumentality is the perceived relationship between performance and rewards. When instrumentality is strong, employees believe that improved performance will lead to better and more rewards, so they choose to work harder. When instrumentality is weak, employees don't believe that better performance will result in more or better rewards, so they choose not to work as hard.

Expectancy theory holds that for people to be highly motivated, all three variables – valence, expectancy, and instrumentality – must be high. Thus, expectancy theory can be represented by the following simple equation

$$\text{Motivation} = \text{Valence} * \text{Expectancy} * \text{Instrumentality}$$

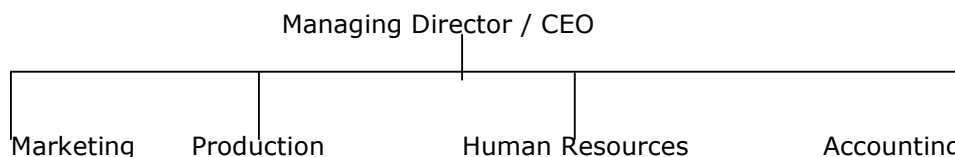
If any one of these variables declines overall motivation will decline too.

PART C

Managers use a number of ways to group people together to perform their work. The functional, divisional and matrix approaches are the more traditional approaches that rely on the chain of command to define departmental groupings and reporting relationships. In recent years, two contemporary approaches, team and network, have emerged to meet organisational needs in a highly competitive global environment.

Functional Approach

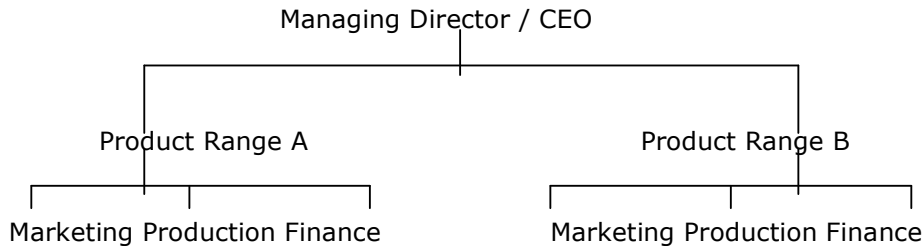
People are grouped together in departments by common skills and work activities, such as in an engineering department or an accounting department.



There is a high degree of division of labour and specialisation in this approach, which can yield economies of scale. However it requires a high degree of co-ordination between the various departments, which may result in delays in adapting to changes in the business environment.

SOLUTION TO QUESTION 2 (Cont'd)**Divisional Approach**

Departments are grouped together into separate, self-contained divisions based on a common product, programme or geographic region.

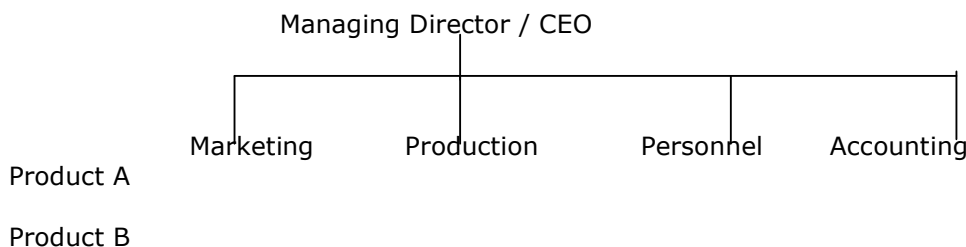


The divisional approach has the advantage that reporting lines and chain of command are directly in line with the primary activities of the organisation. This structure enhances accountability and provides a clear framework for channelling strategic effort and focus in accordance with strategic aims.

The main disadvantages are that divisions can become compartmentalised and pursue narrowly focused divisional goals at the expense of the well-being of the overall organisation. Divisions may also become disconnected and be unaware of what other sections of the business are doing.

The Matrix Approach

Functional and divisional chains of command are implemented simultaneously and overlay one another in the same department. Two chains of command exist and two employees report to two bosses.



This approach attempts to capture the best of both worlds, functional specialisation and expertise and primary activity / product grouping focus.

Naturally the approach looks well on paper but implementation in the real world may prove a little more problematic as individuals experience divided loyalties between individual bosses. It is mainly used in large manufacturing environments.

SOLUTION TO QUESTION 2 (Cont'd)

In general it is incorrect to state that one approach fits all circumstances. Different organisations require different types of structures. The structure needs to fit in with a variety of contingent factors such as

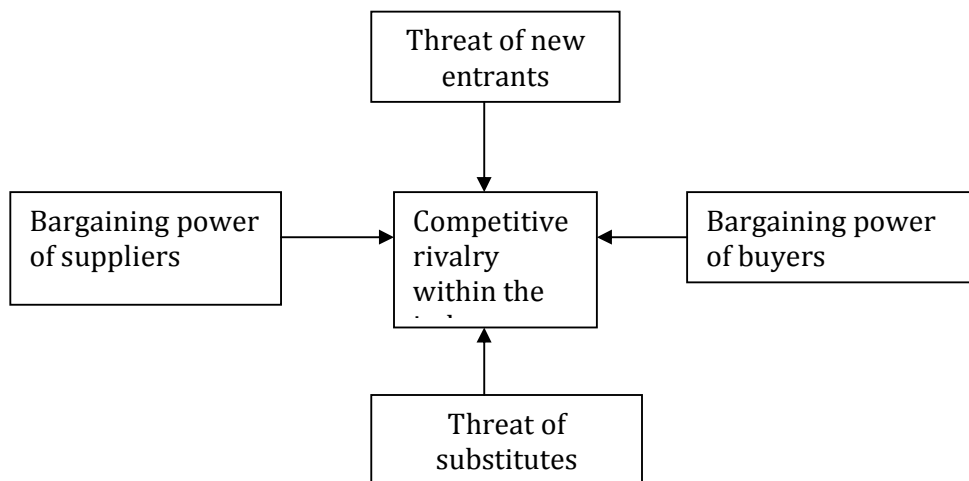
- strategic goals
- the business environment
- size of the organisation
- stage in product life cycle
- manufacturing and service technologies
- departmental interdependence
- geographic distribution

For example, research has shown that firms operating in a dynamic environment need a flexible structure, while those in a more stable environment may adopt a more rigid structure.

SOLUTION TO QUESTION 3**PART A**

Porter identified five forces that assist the organisation in analysing the intensity of competition, profitability and attractiveness of an industry.

Understanding these forces gives managers the necessary insights to facilitate them to develop relevant strategies to be successful in their market. The five forces are:



SOLUTION TO QUESTION 3 (Cont'd)**Threat of new entrants**

The more uncomplicated it is for new companies to enter the industry, the more aggressive the competition will be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

- Existing loyalty to major brands
- Incentives for using a major brand
- High fixed costs
- Scarcity of resources
- High cost of switching brands / companies
- Government restrictions or legislation

Power of Suppliers

This focuses on the amount of pressure suppliers can place on a business entity. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds considerable power. Reasons that suppliers might have this power include:

- Few suppliers of a particular product exist
- No substitute products are available
- Switching to another competitive product is costly
- The product is very important to buyers
- The supplying industry has a higher profitability than the buying industry

Power of Buyers

This relates to the amount of pressure customers can place on a business. If one customer has a large enough purchasing power to affect a company's margins and volumes, then the customer holds considerable power. Reasons that customers might have this power include:

- Small number of buyers exist
- These buyers purchase large volumes of the product
- Switching to another competing product is simple
- The product is not important to buyers; they can do without the product for a period of time
- Customers are price sensitive

Availability of substitutes

If the cost of switching to competitive products is low, then brand switching could be a serious threat. Factors that can affect the threat of substitutes include:

- if substitutes are similar, it can be viewed in the same light as a new entrant
- if the substitutes are perceived to have the same benefits
- if significant price differentials emerge and
- if products are equally available and accessible

SOLUTION TO QUESTION 3 (*Cont'd*)**Competitive rivalry**

This depicts the intensity of competition between existing firms within an industry. Companies that are highly competitive generally earn low returns because the cost of competition is high. A highly competitive market may result from:

- Players within an industry that are similar in size; there is no dominant firm
- Little differentiation between competitor's products and services
- A mature industry with very little growth; companies can only grow by encouraging customers to switch from competitors.

From the foregoing we can see that the variables in the model are intuitively relevant to the nature of competition in most industries.

PART B

Distribution strategies are varied. Some firms use intensive strategies where the product is stocked in as many outlets as possible. FMCGs are examples here. Another option is employing a selective strategy whereby the use of more than one intermediary is seen as effective. This provides good coverage with more control and costs less than intensive distribution. Finally an exclusive strategy can be used. This is where producers purposely limit the number of intermediaries handling their products. Exclusive rights are instead handed to companies in specific regions. Luxury brands often adopt this strategy.

PART C

A market penetration pricing policy occurs when prices are initially set low in order to attract a large volume of customers quickly. Increased market share results and is used to defend against competitors unable to match lower prices. It occurs when demand is price elastic, there is no patent protection and competition is intense.

SOLUTIONS TO QUESTION 4

PART A

Mintzberg suggests, that rather than look at the functions of the manager, it is more beneficial to view the key roles that they play. He isolated ten roles common to all managers and grouped them into three major categories; interpersonal, informational and decisional.

Interpersonal Roles

More than anything else management jobs are people intensive. Most managers spend between 60% and 80% of their time in face-to-face communication with others. If management is "getting things done" through people, managers need to be good at interacting with individuals and teams. As a **Figurehead**, the manager handles ceremonial and symbolic activities for the organisation. In the **Leader** role managers motivate and encourage workers to achieve organisational objectives. They need to be able to read situations, provide direction, persuade and influence. In the **Liaison** role managers deal with others outside their units.

Informational Roles

Not only do managers spend most of their time in face-to-face contact with others, but they spend time obtaining and sharing information. Indeed, Mintzberg found managers spend a considerable amount of their time getting and sharing information with others. In this regard management can be viewed as gathering information by scanning the business environment and listening to others in face-to-face conversations, and then sharing this information with people inside and outside the organisation. In the **Monitor** role, managers scan the environment for information, actively contact others for information, and interpret how it impacts the business – in terms of opportunities and threats etc. The **Disseminator** and **Spokesperson** roles refer to the transmission of information to others who require it, inside and outside the organisation, respectively.

Decisional Roles

Time spent obtaining and sharing information is not an end in itself. The time spent obtaining information is useful if it helps in making good decisions. Managers need to balance competing interests and choose among alternatives. Through decisional roles, strategies are formulated and implemented. The **Entrepreneur** role involves the initiation of change, thinking about the future and devising ways to deal with current and future problems. The **Disturbance Handler** role involves the resolution of conflicts between individuals and teams. The **Resource Allocator** involves making decisions on how to allocate resources to meet stated objectives. The **Negotiator** role refers to the formal negotiation and bargaining activity necessary to attain appropriate outcomes for the manager's area of responsibility.

SOLUTIONS TO QUESTION 4 (*Cont'd*)**PART B**

There a huge array of desirable leadership skills that have been put forward by theorists over the years. The following skills would appear to be fairly ubiquitous across many studies.

Empathy

This is an understanding and identification with another person's feelings, situation and goals. An example of empathy may include a leaders ability to accommodate family / private issues an employee may have.

Competency

An effective leaders attitude should be based on reason and moral principles and not on emotional desires or feelings. E..g the ability of the leader to make decisions based around the reality of the market place and not be influenced by his / her emotions.

Forward Looking

They should have the ability to look forward, develop a vision and set goals. This requires both good business judgement and ethical awareness.

Emotional and Social Intelligence

They should have an awareness of one's own and others' emotions and the ability to manage them. They should have a strong sense of social perceptiveness and behavioral flexibility.

Communication

An effective leader should be an excellent communicator. This requires an ability to listen and be open to the judgements of others as well as the ability to convey a message.

PART C

Ideally goals should be Specific, Measurable, Achievable, Realistic and Time Bound. In the context of setting objectives the terms take on the following meanings:

Specific – well focused and defined

Measurable – ideally they should be quantified where possible

Achievable – within reach with reasonable effort

Realistic – reflective of the circumstances of the situation

Time Bound – they should not be open ended

SOLUTIONS TO QUESTION 5**PART A**

Media vehicles used in advertising include TV, Newspapers and the Internet. The main benefits and limitations associated with each of these forms of advertising media outlined below:

TV**Benefits**

High reach
Low cost per contact
Quality creation opportunities

Limitations

Clutter
High cost per ad
Low recall

Newspapers**Benefits**

Longer copy and message possible
Excellent location for coupons and special purpose features
High geographic segmentation possible – reach local audiences
High credibility

Limitations

Major clutter
Limited audience
Relatively short life span

Internet**Benefits**

High reach
Very targeted
Interactive

Limitations

Clutter
Hard to target older audiences
Security concerns
Intrusive

PART B

Advertising is any paid form of non-personal communication about an organization, product, service or idea by an identified sponsor. It's key purpose is to inform potential customers about products and services and how to use them. Many advertisements are also designed to generate increased consumption of those products or services through the creation and reinforcement of brand image and brand loyalty.

The choice of each vehicle is likely to reflect:

Cost,
Reach,
Competitors choice of media
Geographic coverage

A number of media vehicles may be used to advertise foreign Sun Holidays. Arguments could probably be put forward for using all three media vehicles or some combination of each. The choice will depend on the specific marketing objectives of the company and the budget it has at its disposal for this campaign. The more specific the target population the more focused the advertising vehicle. I would certainly recommend targeting selected populations with special deals via the Internet. This would be relatively inexpensive and could be supplemented from time to time with the use of other advertising vehicles.

PART C

Customer relationship marketing (CRM) is a customer-centric business strategy with the goal of maximising profitability, revenue, and customer satisfaction. It involves building and maintaining profitable customer relationships by delivering enhanced customer value and satisfaction. Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations.

The key is to match customers expectations with company performance. CRM involves

Developing customer loyalty
Emphasising customer service
Looking at the long term

SOLUTION TO QUESTION 6**PART A**

Intentional Threats

There are many ways in which computer systems can be attacked, especially when extensive use is made of eCommerce. Some of the more common threats include

- Hacking
- Viruses
- Worm
- Trojan
- Spyware
- Phishing
- Denial of service
- Trap door

Anything that causes a loss of data or a corruption of data can be considered a security threat. A number of steps can be taken within a single site, ranging from limiting physical access to sensitive areas and installing complex, encrypted codes to deny entry to data to unauthorised personnel etc. Other procedures one would expect are back up procedures, disaster recovery plans, effective virus protection and password procedures.

Computer security can be considered under two general headings 1) securing the physical assets (i.e. the machines and associated hardware) and 2) securing the data. Generally data is considered the most valuable asset, as it is the most difficult to replace and has the most potential value to competitors and fraudsters.

PART B

The information systems strategy has been defined as the long-term directional plan for IS in an organisation. It is seen to be business led and demand driven, and is concerned with exploiting IT either to support business strategies or create new strategic options. An IS strategy therefore deals with the integration of an organisations information requirements and information systems planning, with its long term overall goals.

IS strategy is formulated at the level of business where specific user needs can be delineated. The systems strategy identifies what applications should be developed, and what resources should be deployed.

The key to formulating the systems strategy is an assessment of the information needs that can be satisfied by formal information systems.

It is important to realise that information systems strategy will have to address not just requirements for new systems, but will also be concerned with managing the life cycle development of the systems already in use. The information systems strategy will therefore have to address;

SOLUTION TO QUESTION 6 (Cont'd)

- a) new systems – to meet new business needs or opportunities
- b) improvements to existing systems – enhancements to those already in use
- c) replacement systems – systems to replace live systems that have become obsolete.

Senior management must assess the quality of IT Operations, and depending on how critical it is to the overall strategic mission of the firm they must be involved in determining its structure and service quality standards

PART C**Direct Changeover**

This is when the old system is turned off and the new system goes live straight away. There is no "change over" period. This is fast and appears cheap, but has a number of problems;

- there is no time to identify remaining problems with the new system. If something goes wrong, there is no fall back.
- It will take time for users to get to know the new system, and this will mean that productivity drops.
- When problems occur, it is often expensive to fix them.

Parallel Conversion

This is when both old and new systems run "in parallel" for a certain period of time (the 'changeover' period). This allows problems in the new system to be identified, and also allows time for users to familiarize themselves with the new system. But:

- running two systems in parallel is very resource intensive and can be complex and expensive
- there is a danger that users will just keep using the old system and never engage with the old system.

Pilot Changeover

This is where the system is introduced in one location (or one department) only. This can be viewed almost as a "trial run", and once problems have been ironed out the system will be rolled out to the rest of the company. The pilot location still has to follow either a direct or parallel changeover method.

SOLUTIONS TO QUESTION 7**PART A**

Cash is the lifeblood of any organisation whether in the not for profit or private sector. Decisions made and activities planned are meaningless without the necessary finance to carry them through. The finance function is concerned with not only ensuring the adequate supply of funds for organisational activities but also reporting the results and putting in place procedures to evaluate and examine performance over periods. Indeed the various elements of the finance function are specialist areas in themselves.

Financial Management must not be confused with accounting. Financial management is a management activity whereas accounting is a service activity. As a service activity, accounting processes and interprets information either to those inside an organisation (management accounting) or outside an organisation (financial accounting). In contrast financial management, as its name suggests, deals with the management of an organisation's finances.

Financial Managers are part of the decision-making system within organisations. In the general decision/control context the information processed by financial managers includes:

- the cost of raising funds
- current exchange rates
- short-term interest rates on money markets
- information on new investment opportunities
- internal and external financial reports.

From the foregoing information the Financial Manager will produce:

- information about the interest rates at which the organisation will lend or borrow money
- advice on raising funds (whether by equity, new long-term debt, short-term debt, re-investment of internally generated funds or some combination of the foregoing)
- advice on risk management techniques
- forecasts about future cash needs of the organisation
- forecasts of economic aggregates and interpretations of their effects on the organisation
- internal management accounts
- external financial reports.

Financial control of activities is vital to all organisations. Many smaller firms, for a variety of reasons, such as lack of expertise or over-trading, opt for informal rather than formal systems of control. This can be catastrophic for the small firm as the true performance or profitability cannot be gauged.

Budgetary control requires that realistic profit and loss and cash flow forecasts are prepared at the beginning of the period and that they be updated normally on a quarterly basis as the year progresses. The financial manager is intimately involved in this process ensuring that due care and consideration is given to interpreting variances from budget to ensure managers are held accountable for all those matters that fall within their sphere of control

Monitoring profitability and liquidity in these difficult times is a particularly important function of the financial manager. In this regard he / she will be responsible for preparing cash flow forecasts to determine if company borrowing is required or if surplus funds are likely to be available for re-investment. Comparing actual performance against

SOLUTIONS TO QUESTION 7 (*Cont'd*)

forecasted profit and loss account projections allows them to monitor margins on a regular basis and to take appropriate corrective action before deviations become too serious.

You will see from the above that there are many demands on the finance function some of which require economic analysis (e.g. interest rates, exchange rates, forecasts of economic aggregates and risk analysis) and others accounting related skills.

The key tasks undertaken by the finance function may be summarized as follows:

1. Raising capital by means of equity, long-term debt and short-term debt.
2. Preparation of reports and internal management accounts. Examples of these would include cashflow statements, profit and loss accounts and balance sheets.
3. Preparation of realistic budgets for the organization and the development of an effective costing strategy.
4. Monitoring and controlling the finances of the organisation.

PART B

Students to provide full explanations of any two of the following capital investment appraisal techniques

Net present value – the present value of anticipated outcomes

The net present value considers all costs and benefits associated with the project and also takes into account the timing of these costs and benefits. It works out the present values using the target rate of return or the cost of capital. In general when the NPV is positive the project is seen as acceptable. It is generally regarded as a robust method of investment appraisal. It provides a value of what the project will produce in today's money terms.

Internal rate of return – the discount rate generated by the project

It expresses the value of the project in percentage terms. It is sometimes referred to as the implicit rate of return arising the project. It is the discount rate that gives an NPV of zero (that equates the PV of inflows with the PV of outflows). This % return can then be compared with a desired rate of return or % returns generated by other investment opportunities.

Payback – the length of time it takes to recover the initial investment

It is time based. It refers to the number of years it takes for the initial investment to be repaid from the resulting cashflows that the project generates. It suffers a number of limitations and is seen as a crude measure of risk.

PART C

A debenture is a written acknowledgement of indebtedness by a company. Interest is paid at a fixed rate, normally at half- yearly intervals. Debentures are not part of the share capital of a company and debenture holders are not members of the company. A debenture holder is a creditor of the company. His interest is a debt of the company, payable irrespective of whether there are profits or not.

Debentures may be redeemable or irredeemable. Redeemable debentures maybe an appropriate source of finance where a company's needs are temporary. Redeemable debentures must be redeemed by a fixed date or within a given time period. Irredeemable debentures are repayable only in the event of some specified contingency, such as the winding-up of a company or default in the payment of interest.

Debentures may be secured or unsecured. Most debentures are secured by a charge on the assets of the company. This charge may be fixed or floating. In the case of a fixed charge, the security relates specifically to a particular asset or group of assets. The company is not permitted to dispose of the asset or assets without providing equivalent security, or without the prior approval of the debenture holders.

The terms of the debenture and the rights and responsibilities of the parties involved are set out in the Debenture Trust Deed. Matters outlined in this deed must be complied with by the company. The Debenture Trust Deed will contain, amongst others, the following:-

- (1) restrictions on additional lending
- (2) matters pertaining to the disposal of assets on which the loan is secured
- (3) insurance relating to the property on which the loan is secured
- (4) provisions relating to the retention of title deeds of properties on which the loan is secured

1st Examination: Autumn 2010

Business Management

Examiner's Report

GENERAL COMMENT

Overall performance was satisfactory in this autumn sitting.

	Autumn 2010	Autumn 2009	Autumn 2008
Number of candidates	303	223	192
% obtaining 50 or more	74%	62%	72%
Average marks	51	50	52

Question	1	2	3	4	5	6	7
No. Attempting	298	111	213	185	163	139	72
Marks available	25	25	25	25	25	25	25
Average marks	14.38	12.65	12.69	12.26	14.4	12.5	9.35

Question 1

This was a compulsory question and attempted by practically all candidates. Overall it was well answered

Part (a) Answers to this part were very good with most candidates supporting their answers with examples and graphs. A small number of candidates simply did not know the model. Some answers were also a little formulaic.

Part (b) Very well answered with most candidates providing interesting examples, situating their place on the PLC and supporting this PLC positioning with good reasoned arguments. A good number of candidates were also able to critique the model as a marketing tool. Unfortunately a number of candidates did not attempt this subsection of Part B.

Part (c) Answers in general were mixed.

Question 2

Part (a) was well answered by the majority of candidates. Some students confused process theories with content theories.

Part (b) was well answered with most students providing good descriptions of the theories.

Part (c) Answers to this part were a little disappointing. Some candidates simply described different types of organisational structure without engaging with the requirement of the question.

Question 3

A very popular question.

Part (a) was very well answered by the majority of students. Almost all candidates were able to accurately label the forces. The descriptions of the forces varied in depth and breadth with the better candidates providing full answers supported with examples.

Part (b) was again well answered. A number of candidates confused distribution strategies with market targeting.

Part (c) Answers to this part were generally good.

Question 4

Part (a) was very well answered. A small number of candidates clearly had not heard of Mintzberg.

Part (b) Answers to this part were varied but generally good

Part (c) Answers to this part were generally good. A number of candidates failed to notice that they were to explain the acronym in the context of setting objectives.

Question 5

Part (a) on media vehicles was very well answered by the majority of candidates.

Part (b) was surprisingly well answered.

Part (c) was disappointing.

Question 6

Part (a) Answers were good

Part (b) Answers to this part were mixed with a number of candidates struggling to focus specifically on the strategic relevance of IT / IS systems in generating competitive advantage for organisations.

Part (c) was very well answered by the majority of candidates.

Question 7

Part (a) Answers were mixed. Some were very well developed, others were superficial.

Part (b) A significant number of candidates did not understand capital investment appraisal and proceeded to describe different forms of share capital.

Part (c) Whilst some excellent descriptions were provided it is disappointing to see students confusing debentures with share capital.