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FOUNDATION EXAMINATION

Autumn 2004

BUSINESS MANAGEMENT

**PAPER, SOLUTIONS
and
EXAMINERS REPORT**

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The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2004

PAPER 3 : BUSINESS MANAGEMENT

Thursday 26th August 2004 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Answer FIVE questions, including AT LEAST TWO from each Section.

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.

Answers should be illustrated with examples, where appropriate.

Question 1 begins next page.

Answer FIVE questions, including AT LEAST TWO from each Section

SECTION A

QUESTION 1

- (a) Outline Vroom's expectancy theory of motivation. 10 Marks
- (b) Describe *three* barriers to communication in organisations. 6 Marks
- (c) "Money is the main motivating factor for employees" Do you agree?
Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 2

- (a) Describe the contingency theory of management. 10 Marks
- (b) What is meant by teamwork and why is it important? 6 Marks
- (c) "Highly centralised organisational structures are superior to decentralised structures".
Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 3

- (a) Outline *four* stages in group development. 10 Marks
- (b) In the context of strategic planning what is meant by SWOT analysis. 6 Marks
- (c) Explain what is meant by the informal organisation and why is it important. 4 Marks
- Total 20 Marks**

QUESTION 4

- (a) Describe *three* key elements of the control cycle 10 Marks
- (b) Outline *two* advantages and *two* disadvantages associated with Management By Objectives (MBO). 6 Marks
- (c) "*Change cannot be managed*". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

Business Management Autumn 2004 Paper

Answer FIVE questions, including AT LEAST TWO from each Section

SECTION B

QUESTION 5

- (a) Describe what is meant by market segmentation and outline *four* ways in which it may be undertaken. **10 Marks**
- (b) What is meant by the term "Product Branding" and why is it important? **6 Marks**
- (c) Describe *two* pricing strategies and suggest when *each* are appropriate. **4 Marks**
- Total 20 Marks**

QUESTION 6

- (a) Outline the information that would normally be included in a typical business plan. **10 Marks**
- (b) What is meant by the term "Total Quality Management" (TQM)? **6 Marks**
- (c) "Entrepreneurs have unique leadership skills". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 7

- (a) Distinguish between the following Information System (IS) roles - systems development, technical and user support, and computer operations. **10 Marks**
- (b) Describe *four* qualities or characteristics associated with "good information". **6 Marks**
- (c) Explain what is meant by an IS strategy. **4 Marks**
- Total 20 Marks**

QUESTION 8

- (a) Describe *three* approaches to international business and outline *one* advantage and *one* disadvantage associated with each approach. **10 Marks**
- (b) Describe *two* short-term sources of finance. **6 Marks**
- (c) Distinguish between a utilitarian model of ethics and a rights based model of ethics. **4 Marks**
- Total 20 Marks**





The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2004

SOLUTIONS TO PAPER 3

BUSINESS MANAGEMENT

Author : Mr Nathy Walsh, ACA

Solution to Question 1

Part (a)

This theory hypothesises that employee motivation is determined by:

- A persons perceptions and beliefs regarding the relationship between their behaviour and the outcome of their behaviour (Expectancy) and,
- The personal satisfaction or dissatisfaction which the person expects to experience as a result of obtaining these outcomes (Valency)

According to the theory there are two broad classes of outcomes associated with job performance. Intrinsic outcomes are attained or experienced by a person simply as a result of performing the job effectively. In general they are self administered, and are experienced as feelings of personal accomplishment, competence, personal satisfaction, and so on. Extrinsic outcomes are outcomes that are administered to the person by the organisation such as pay, promotions, verbal praise, and so on.

Part (b)

Barriers to communication

- Insufficient opportunities created to allow for communications
- Infrequent meetings arranged
- Organisation structure / culture may hinder rather than help good communications
- Lack of tolerance to diversity
- Mistrust
- Poor listening skills
- Information overload

Solution to Question 1 (Cont'd)

Part (c)

All organisations display different levels of motivation and ability. Some people are more willing than others to exert high levels of effort to perform their jobs effectively. Some are high achievers, others lack drive and commitment. Some are doing their best, others are doing as little as possible and lack motivation. Individuals are complex as are groups. They are affected and motivated by the environment, both internal and external to the organisation.

In order to successfully meet goals and objectives, management must understand the needs, perceptions and expectations of employees that underlie their behaviour and their level of motivation.

Three basic questions can be asked about employees

- What primarily motivates them?
- What determines the intensity of the motivation?
- What causes motivation to diminish or cease?

A variety of need and cognitive theories of motivation exist but none provide universal answers that apply across all situations.

Money may be a strong need for certain people at certain stages of their lives. Studies have shown however that it is not the absolute sum of money which motivates but rather the perceived equity or inequity of associated relativity. In such circumstances money may be viewed as a matter which causes dissatisfaction when absent but one that does not necessarily motivate when at a satisfactory level. This suggests "man or woman does not live by bread alone except when there is no bread".

Motivation is a complex concept which overall does not lend itself to simplistic generalisations although these may have a degree of truth in certain instances at certain times

Solution to Question 2

Part (a)

A shortcoming of most traditional perspectives on management is that they assume a universalistic approach. This assumes that the solutions they put forward were applicable for all organisational types, regardless of size, type, industry or profit orientation. Conversely, the case study approach assumes that all business situations are entirely unique, and that models cannot be converted. The contingency theory of management is a body of managerial theory which merges both approaches.

The theory emphasises that there are certain patterns, contingencies and variables which exist in most business situations, and an analysis of these contingencies will assist managers in understanding what will or will not work in their particular situation. It examines the total situation in which the organisation finds itself, in its complexity and contingency.

According to contingency theory, the structure and operation of an organisation is dependent on the situational variables it faces, including the environment, technology and scale. In this theory, organisations are not viewed as closed systems; they are open and dependent on flows of personnel and resources from inside and outside.

The factors analysed in contingency theory are as follows:

- The rate of change and complexity of the external environment
- The types of technology, tasks and resources used by the organisation
- The internal strengths and weaknesses of the organisation
- The values, skills and attitudes of the workforce.

Solution to Question 2 (Cont'd)

Part (b)

Managing team effectiveness is emerging as an important organisational tool that brings together many aspects of management, from effective organisational structure to employee motivation, from management control to participative management. The focus on teams stems from the need for organisations to be flexible and responsive to customer requirements in an increasingly competitive business environment, while at the same time ensuring that management and staff work together to meet these changing needs.

Over the last number of decades there has been a fundamental movement away from a hierarchical and adversarial management culture to one based on co-operative relationships in order to achieve strong customer orientation, improved operation processes and an acceptance of the need for continuous improvement.

A team in an organisational context can be defined as a unit of two or more people who interact and co-ordinate activity to meet a particular organisational objective. It is important to note that a team is not a collection of talented individuals. They must share a collective vision, responsibility and entrepreneurship.

The effectiveness of a work team is highly dependent on the organisation in question, in terms of existing structure, changes in external business environment, the underlying culture, past, present and future strategy, and the reward / control systems within which teamwork is to be established.

The day-to-day activities of an organisation require different types of teams. In general teams are created either to fit into the existing organisational structure (formal teams) or to increase participative management or employee involvement (self managed teams).

Formal teams are created as part of the organisations formal structure and may be created to serve a variety of purposes

Vertical teams

These teams refer to a manager and subordinates in a department of an organisation. Typically these teams benefit from being specialists in a particular functional area of the organisation, for example, a marketing department may have a team that concentrates solely on marketing communications.

Horizontal teams

Also known as cross-functional teams as they are represented by members of the functions across the organisation. There may be a need for a team to have expertise in different areas rather than just specialist knowledge.

Special Purpose Teams

This is a team that is formed to manage events that do not occur frequently and may be deemed as special or "once-off".

Committee

This form of team deals with activities that are regular and would therefore be a permanent feature in the organisation. They are often made up of members from different departments to deal with concerns that affect the whole organisation such as health and safety and quality.

Self Managed Teams

Self-managed teams are those which manage themselves and as such take responsibilities that their former supervisors once held. Consequently, self-managed teams result in flatter organisational structures as levels of supervision are removed and provide for better verbal communication.

Two types of self-managed team are a Problem Solving and a Virtual Team

Solution to Question 2 (Part b) (Cont'd)

Problem Solving Team

A quality circle would be an example of a Problem Solving Team. The team in this instance works together to improve the quality of production.

Virtual Team

Teams identified above usually meet face to face, however, with developments in technology team members can be at great distances from one another, but still work together through the use of e-mail and video conferencing.

Part (c)

The purpose of an organisational structure is to organise resources to accomplish organisational goals. Elements of structure such as chain of command, centralisation and decentralisation, formal authority, teams and co-ordination devices fit together to form an overall structural approach. In some organisations, the formal, vertical hierarchy is emphasised as the way to achieve organisational goals (e.g. Army).

An organisation structure with specialised tasks, strict hierarchy, centralised decision making and many levels of management is said to fall into the "tall" category.

In other organisations, decision-making is decentralised, cross-functional teams are implemented, and employees are given greater freedom to pursue tasks as they see fit. In this type of organisation communication is horizontal and is facilitated through the use of task forces and teams. In this form of structure there are fewer layers of management and the organisation is said to fall into the "flat" category.

How does an organisation decide on whether to use a mechanistic (tight) or an organic (loose) structure? 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)

Group / Team development is not random, but evolves over definitive stages. The five generic stages of development are forming, storming, norming, performing and adjourning.

Forming

This stage of team development is characterised by initial orientation and acquaintance. The team is formally introduced and given its task or brief. Team members are "testing the water" to understand what exactly is required from them, what the other team members are like etc. The first steps in "jockeying for position" emerge at this stage. The team leader should focus on the facilitation of social interaction and the clear statement of objectives and roles / requirements.

Solution to Question 3 Part (a) (Cont'd)

Storming

This is a stage of team development in which individual personalities and roles emerge, and potential for conflict or misunderstanding of individual roles becomes an issue. At this stage a team may break into factions if not properly managed, and this has a serious effect on the overall cohesiveness of the group. At this stage a team leader must ensure healthy participation by all members, to ensure that ideas are proposed, disagreements are minimised, and conflicts are dealt with.

Norming

This is the stage of team development when a lot of the conflicts developed during the earlier storming stage are resolved and team harmony and unity emerges. A team leader at this stage should focus on the team rather than individual performance and assist in the clarification of team roles, norms and values if any confusion or conflict still exists.

Performing

The focus moves from the assurance of team cohesion towards problem-solving and the accomplishment of the task at hand, although the socio-emotional role should not be discarded. The team at this stage is highly co-ordinated and focused on their individual roles. Team leader activity is heavily focused on the facilitation of high performance.

Adjourning

The stage of team development in which members prepare for the team's disbandment. The brief of the team has been met and is "put to bed". Various emotions prevail at this stage from complete satisfaction / elation to depression. The team leader is focused on task accomplishment and reward where appropriate.

Part (b)

Strategic planning is the process of determining the major goals of the organisation, and of crafting the appropriate strategies for obtaining and using resources to achieve those goals. Senior management generally initiates it, but lower levels of management will be involved in information gathering and decision-making. The final product of this process is a Long Range (Strategic) Plan, which will stretch 3 to 5 years into the future.

Typically there are five stages in developing a strategic plan:

- Developing a concept of the business and forming a vision of where the organisation needs to be headed, or giving it a mission.
- Translating the mission into specific long-range and short-range performance objectives.
- Crafting a strategy that fits the organisation's situation and that should produce the targeted performance.
- Implementing and executing the chosen strategy efficiently and effectively.
- Evaluating performance and making adjustments to the objectives or strategy, or their implementation, in the light of changing conditions or new opportunities.

SWOT analysis is an important part of strategic planning and involves addressing the following issues:

- Defining current position and objectives: Is the organisation performing satisfactorily? Are there opportunities it should be pursuing or weaknesses it should be concerned about?
- External / Internal analysis: How will the organisation go about achieving its goals? What are the factors within and outside the organisation that might help or hinder its performance?
- Analysing gaps and matching capabilities: Does the organisation have the human and material resources to fulfil its objectives? Can it get them? Or are the objectives realistic?

Solution to Question 3 Part (b) (Cont'd)

- Once an appropriate SWOT analysis has been undertaken an organisation is in a position to devise strategies to counter threats and weaknesses and to capitalise on opportunities and strengths. This form of analysis of the current situation, allows organisations to determine the direction it should take, the resources it will need and the tactics, or parameters it should operate within to achieve its objectives.

Part (c)

Apart from the formal types of communication channels, informal communications exist within an organisation, which can have both negative and positive effects on communication and organisational effectiveness. The key informal channels are referred to as the "grapevine", which is defined as the unofficial communication system.

Chester Bernard identified four distinct functions of informal communication. These are:

1. To communicate intangible facts, opinions, suggestions and suspicions
2. To minimise excessive cliques within an organisation arising from too great a divergence of interests and views
3. To promote self discipline of the group
4. To develop important personal influences in the group

Lateral communication is essential in the corporate planning process if the efforts of all sections and departments in the business are to be successfully co-ordinated in order to achieve the objectives of the organisation.

Lack of horizontal (or lateral) communication, whether informal or formal, can lead to divisions in the management structure, poor co-ordination and excessive rivalry between departments, all ultimately detrimental to the effectiveness of the organisation.

Solution to Question 4

Part (a)

Organisational control is defined as the systematic process through which managers regulate organisational activities to make them consistent with the expectations established in plans, targets and standards of performance. To effectively control an organisation, managers and workers must plan and set performance standards, implement an information system that will provide knowledge of actual performance, and take action to correct deviations from standard.

In a perfect world management planning would take care of all contingencies. Once set in place a plan would not need to be monitored or adjusted. The real world is rarely as accommodating. It is important therefore to compare the actual performance of organisations with their pre-determined standards in order to see if and where goals are not being met, and to take corrective action where necessary. As a result managers are alerted to problems before they become critical.

Controlling is similar to planning in that the following questions are asked; Where are we now? Where do we want to go? How do we get there? The controlling process however takes place after planning action has been taken, and it provides feedback to staff, enabling corrective adjustments to be made to plans. From a controlling perspective plans and standards have to be attainable.

The careful design of a management control system can ensure that all employees, work teams, functional departments and strategic business units are meeting, with minimum deviation, the objectives and targets of the organisation. In general there are three steps involved in designing such control systems.

Solution to Question 4 Part (a) (Cont'd)

1. Setting performance standards
2. Monitoring and recording actual performance, and comparing results against plans and standards
3. Taking corrective action where necessary

Setting Performance Standards

Standards set out the minimum performance requirements, in terms of product or service quantity or quality to meet the organisational objectives.

Performance Measurement

Data concerning performance can come from written reports, or oral reports from supervisors. When examining performance results, managers usually concentrate only on significant deviations that lie outside the upper or lower limit of a performance range that has been established.

Corrective Action

Once a significant deviation from a performance standard has been identified, corrective action can be taken by managers to change procedures, specialists or operators. Effective action at this stage is vital to the overall control process.

Part (b)

Benefits

It forces managers to think of planning for results, rather than merely planning activities or work.

It forces managers to clarify organisational roles and structures. Companies that have effectively embarked on MBO programmes have often discovered deficiencies in their organisation structure.

Improves morale and motivation of the managers involved, as managers are involved in the setting of the targets for themselves.

Results in the development of effective controls and once established it is possible to assess the performance of staff against these verifiable goals.

Weaknesses

Failure to devote enough time to teach the philosophy of MBO. Some businesses expect too much too quickly and do not realise that it will take a significant investment in time and experience, over a number of years, before MBO will work properly.

Unenthusiastic top management. Top management must be totally committed if MBO is to succeed, otherwise the system will begin to crumble and will become clogged with paperwork.

Difficulty of setting goals for all managers, as truly verifiable goals are difficult to establish in all circumstances

Setting unrealistic targets, which will never be achieved, results in manager frustration.

Part (c)

Change is so pervasive in business today that a whole new branch of management theory has evolved, concerned with the management of change. Different strands of thinking in the social sciences, concerned with the problem of how individuals and organisations react to or initiate change have been drawn on by theorists of change management.

Solution to Question 4 Part (c) (Cont'd)

Theories vary according to whether they focus on individual reactions to change, on the possibility of bringing about change through the development of team working, or on the organisation in its entirety.

There are many models of organisational change, among them Action Research, 3 Step and Phases of Planned Change Models. Common to all of them is the recognition of the need for phased strategies to unlock the inertia of the status quo, usually involving research, feedback and adjustments; but some emphasise the need for continuous monitoring of the results of the change process more than others.

There may be resistance to change from organisations or individuals. Individuals may feel their working habits are being disrupted or that they are not being adequately compensated etc. Areas of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on.

A well managed change process should include a strategic picture of its aims, a coherent set of phases, the maximum involvement of those most closely affected, an emphasis on securing the commitment of everyone involved and perhaps a change in the behaviour of employees and in the culture of the organisation.

Organisations of the future are likely to be conducive to the flow of information and strategy from the bottom up as well as vice versa, and they may well be able to cope and even thrive on continuous change.

Solution to Question 5

Part (a)

Market segmentation consists of breaking the total market into segments that share common properties, such as the common wants of consumers, or their purchasing power, geographical location, or buying attitudes or practices. The ultimate degree of marketing is customised marketing where sellers design a separate product for individual buyers. Airline manufacturers such as Boeing customise products. However for smaller businesses it is not profitable to customise products at the individual level, so manufacturers identify classes of buyers who differ in their broad requirements or marketing responses.

The criteria used to segment a market can include;

- Age range - 18 to 30
- Gender - male or female
- Location - urban, rural, national or international
- Family life cycle - single, married no children, married young children, etc.
- Socio-economic status - professional, managerial, skilled workers, unskilled etc.

Part (b)

A brand is defined as a name, symbol or design that identifies the goods or services of one seller and distinguishes them from those of competitors. Think of the strength and importance to the firm of brand names such as Ballygowan, Heinz, Coca-Cola, Guinness and Microsoft.

It can be a letter, a word, a group of words or a symbol. (e.g. Nike). A product manager co-ordinates all the efforts for a particular product (or product line) or brand. An important part of the brand image of a product is the packaging that is utilised.

Solution to Question 5 Part (b) (Cont'd)

Branding

- Makes goods easily identifiable and gives them a distinctive appearance
- If the quality of goods is maintained, it gives the consumer reassurance that they know what they are buying
- Facilitates advertising and promotion and new product development

Part (c)

Price is a critical factor in the marketing mix in that it is the only factor that produces revenue. Used properly, price can represent a major competitive tool in the overall marketing strategy.

Depending on a firm's marketing objectives there are several different strategies that may be adopted.

Price Skimming

Set prices at a high price in the initial stages of the launch of a new technology e.g. DVD's.

Price Penetration

Set prices at a very competitive level to increase market share e.g. Ryanair.

Price Bundling

Grouping two or more products which are offered at a price lower than the sum of the prices of the individual products e.g. Package holiday tours.

Solution to Question 6

Part (a)

The purpose of writing the business plan is to show how the business is to be set up and managed. It is written with potential investors or lending agencies in mind. It will usually contain information such as:

- Description
- Market analysis
- Marketing plan
- HR plan
- Operating and financial plan
- Details of experience of management team
- Ownership structure

Part (b)

The key to competitiveness in the marketplace for any firm is the gaining of a reputation for quality, reliability and value for money. Once a bad reputation is acquired it is very difficult to lose it.

Total Quality Management (TQM) calls for continuous rather than radical improvement on the overall business transformation process, that is coupling the skills and inputs of the firm to create outputs that satisfy customers needs and wants in a progressively more effective manner. The key factors in total quality management relate primarily to International quality standardisation, quality assurance, waste identification and elimination, and product and process development.

Solution to Question 6 Part (b) (Cont'd)

Total quality management has been defined as "the total composite product and service characteristics of Marketing, Engineering, Manufacturing and Maintenance through which the product and service in use will meet the expectations of the user"

A number of key factors in TQM have emerged:

- ISO standards
- Quality Control and Assurance
- Product and Process Development

Part (c)

Much research has been undertaken to identify the basic characteristics and personality traits of entrepreneurs. Care must be taken not to pigeonhole entrepreneurs, as many myths and expectations have arisen. In general, entrepreneurs come from all walks of life, they might be teachers, engineers, business students, homemakers, and so on. They are usually self-confident, sure of their goals and of how to achieve them. They are self-nurturing, and capable of overcoming disappointments. They are usually action-orientated, with high energy levels and with a capacity to work with uncertain situations.

It is important to separate the myths from reality. For example success is based on the basic principles of sound business logic - teamwork, professional approach to management, competing in target markets on the basis of high quality products and superior service, strong reliance on people that are carefully recruited, trained and developed.

Solution to Question 7

Part (a)

The internal structure of IT Departments vary from organisation to organisation, but certain common features will be found. In particular, the following functions will tend to be common to most organisations. They will normally be managed separately within the IT structure.

Systems Development

This function is tasked with designing, developing or acquiring application systems for user departments. Staff in this function comprise; Systems Analysts, Programmers or System Engineers.

Technical / User Support

This function provides problem solving assistance to business users in relation to technology and / or applications being used. Staff working in this function are usually known as Support Technicians or Support Consultants. It is vital to have support available to address issues promptly, otherwise user confidence in IT systems may be quickly eroded.

Computer Operations

This function manages and operates computer facilities for the benefit of business units. It is usually found only in larger organisations with large computer centres holding mainframe or mid-range computer installations.

The usual job titles involved are: Computer Operator, Shift Leader etc.

Solution to Question 7 (Cont'd)

Part (b)

The attributes of good information

The attributes of good information maybe summarised as follows:

- (a) Purpose / relevance
- (b) Accuracy
- (c) Completeness
- (d) Timeliness
- (e) Conciseness
- (f) Suitably presented
- (g) Provide value

Each of these attributes is explained as follows:

(a) Purpose / Relevance

Information must have a purpose. That purpose might be immediate or in the future. The information should therefore be suitable for the purpose for which it is intended. In other words it must be relevant to its purpose.

(b) Accuracy

Information should be free of errors and of bias. Errors can occur for many reasons and therefore information systems feature various controls designed to ensure accuracy as far as possible. It should be noted that the degree of accuracy required in information is relative to its intended use.

- Supervisory Management may need information which is accurate to the nearest penny, e.g. Bank Reconciliation Totals.
- Middle Management may be satisfied with figures rounded to the nearest 1,000.
- Top Management may require only figures rounded to the nearest 100,000 or even 1,000,000.

(c) Completeness

Information should be complete for the intended purpose and not lacking in any essential or useful aspect. For example, a Stock Re-order List should include not just the name or number of products needing to be re-ordered but also the re-order quantity, supplier name, etc.

(d) Timeliness

Much information leads to action and must therefore be made available in time to influence that action. For example, a Sales Forecast for the month of June might be needed before the end of April so that production schedules can be adjusted in time.

In a typical company structure, information moves up several levels in the hierarchy before decisions are made. Decisions are then communicated down through the various levels before action is taken. This dual movement through the structure can cause delay.

Information provided too frequently can be wasteful - for decisions which are made monthly, weekly reports are not essential.

(d) Conciseness

Information should be as concise as possible with non-material details excluded. The degree of detail provided should be commensurate with the needs of the recipient.

Solution to Question 7 (Part (b) (Cont'd)

Senior managers typically require information in a highly condensed or summarised form, whereas lower levels of management will need increasing degrees of detail.

A common way in which unnecessary detail in information is avoided is reporting by exception. Under this approach, reports focus exclusively on those items or events which are deemed to be exceptional. This assumes that suitable rules or standards can be set to define what is normal and consequently, what is exceptional. Once this is done, management attention can be focused on those situations which fall outside the bounds of normality.

(e) Presentation / Media

The presentation of information (i.e. how it appears to the recipient) and the medium on which it is presented must be designed to suit the recipient. The following are the main options:

Medium	Method of Presentation
Paper	Forms
Screen Display	Lists
Verbal	Pictures
Magnetic	Graphs
	Tables
	Files
	Narrative

The ability of the recipient to understand and absorb the information is the critical factor. Information for the general public for example, might need to be presented more simply and with greater explanation than information for internal management.

In general, information which is presented pictorially or graphically is more readily assimilated than information in textual or tabular form.

(g) Provide Value

Information has no value in itself; its value derives from the value of the change in decision behaviour caused by the information being available minus the cost of producing that information.

For information to have value, it must lead to a decision to take action which results in reducing costs, eliminating losses, increasing sales, compliance with accountability requirements, better utilisation of resources, etc.

An assessment of value may be reached by asking the following questions:

- a) What information is provided?
- b) What is it used for?
- c) Who uses it?
- d) How often is it used?
- e) Does the frequency of use match the frequency of provision?
- f) What is achieved by using it?
- g) What other relevant information is available which could be used instead?

Part (c)

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 organisation's information requirements and information systems planning, with its long term overall goals.

Solution to Question 7 (Part c) (Cont'd)

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 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 systems strategy will therefore have to address;

- 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.

Solution to Question 8

Part (a)

There are four fundamental approaches to conducting international business

1. Importing and exporting
2. Franchising and licensing
3. Joint ventures
4. Foreign subsidiary

Importing and Exporting

This is the lowest risk option and most simple. Capital investment is minimal and if the activity is unsuccessful, it is much easier dissolved. Importing is very low risk as the importer does not have to be concerned about the foreign market. Exporters may allow a foreign distributor to sell the products for them.

Franchising & Licensing

A franchise is an arrangement whereby a franchisee is permitted by the franchiser to sell or distribute trademarked goods or services. Examples would include McDonalds and Benetton retail outlets. Franchises are often seen as the simplest way of setting up in business, as the franchisee can draw on the expertise, support and financial assistance of an existing business. Every aspect of the business is written into the franchise agreement, in order to ensure the products or services offered remain recognisably those of the franchiser. There is therefore little room to manoeuvre for the franchisee in terms of making the business distinctive. In addition, the cost of securing a well-known franchise can be very high, and royalty payments based on sales can be exacting.

Licensing is similar to franchising in that a business entering into a licensing agreement allows a foreign business the right to manufacture and distribute their products in a foreign country or region.

Joint Venture

A joint venture is an alliance of two or more businesses that create a new business whereby they agree joint ownership and operation. The level of involvement and risk is high as the joint venture typically involves investment in a production facility abroad. However, a joint venture may be chosen if:

- Funds are limited as it is cheaper than forming a subsidiary.
- You require market knowledge or other expertise from a partner.
- The foreign Government will not allow wholly owned foreign subsidiaries (e.g. China)

Solution to Question 8 Part (a) (Cont'd)

Foreign Subsidiary

This is where production and sales operations are established in a foreign country without any other foreign business involvement. These operations are often referred to as multi-nationals as they may have operations located in several countries. The benefit of this approach is the complete control over the business and that all of the profits from its success are kept. However, operating a subsidiary has the greatest level of involvement and risk. Consequently, organisations adopting this strategy usually have substantial resources, experience of international business, knowledge of the local market and culture, and a competitive product offering or service.

Part (b)

Bank Borrowings

Commercial banks extend short term facilities mainly in the form of overdraft arrangements. Generally commercial banks reserve the right to cancel overdraft facilities at short notice. In practice it is probably not to the banks advantage to pursue this policy to the letter, as they might needlessly force the borrower into financial difficulties.

Utilising bank facilities in a proper manner will ensure the maintenance of a flexible and comparatively cheap source of finance. Bank borrowings are flexible in that interest is only payable on the amount outstanding and not on a fixed advanced sum as is the case with the borrowings from other financial institutions. Bank borrowings are also comparatively cheaper than long term loans due to the fact that the risk involved is smaller given that the lending period is shorter.

The security required by banks differs depending on the risks involved. They might require personal guarantees in the case of a private company or, alternatively, floating or fixed charges on the assets of the company, or indeed, both.

Bank lending rates are normally set one to two percent above the bank rate. Bank lending rates can therefore fluctuate upwards or downwards during the period in which the monies are advanced. This can be an advantage or a disadvantage depending on the direction of the change when compared to other forms of advances made by financial institutions at fixed interest rates.

Trade Credit Taken

Those companies experiencing difficulties in acquiring bank borrowing facilities will, if possible, take greater credit by delaying payments to the suppliers of their goods and services. However, this is not to say that companies can use this form of finance regardlessly. There are certain costs involved. Normally companies supplying goods will offer a discount for prompt settlement of invoices, e.g. 1% if settlement is made within one month of the date of the invoice of the goods. 1% per month is equal to a cost of 13.7% p.a. In periods of low interest rates this form of finance is the most expensive. In times of low interest rates there is more incentive to settle accounts with creditors within the credit period allotted.

A company can only use this source of finance to a certain degree as misuse of credit facilities offered, in the long run, may result in suppliers refusing to supply the goods or services required. This can be a critical factor with companies that rely heavily on a limited number of suppliers.

Solution to Question 8 *(Cont'd)*

Part (c)

Under a utilitarian model an ethical decision is one that produces the greatest good for the greatest number of stakeholders. Therefore, a manager would consider the impact of a decision on each stakeholder group and attempt to choose a course of action that would maximise the benefits and minimise the costs overall. Therefore this represents a logical / benefits analysis approach that appeals to managers. However, the difficulty is trying to appreciate the value of the decision to each stakeholder group.

A rights based approach proposes that certain rights should be protected, such as freedom of choice, privacy, health and safety, freedom of speech, etc. Therefore any decision that violates these is unethical. The difficulty with this approach is deciding the importance of stakeholder rights, whose rights takes priority (rights of individual or rights of the business).



EXAMINERS REPORT

BUSINESS MANAGEMENT

AUTUMN 2004

General Comment

The overall performance of candidates was satisfactory in this the second Autumn sitting of the new syllabus.

Question 1

This question was attempted by a high proportion of candidates. Overall **Parts (b) and (c)** were well answered.

Part (a) A high proportion of candidates did not demonstrate an understanding of Vroom's expectancy theory of motivation.

Part (b) Most students demonstrated a sound understanding of the main barriers to effective communication in organisations.

Part (c) This part was generally well answered with students bringing in concepts from other theories of motivation to support their views.

Question 2

This was also a popular question. Again **parts (b) and (c)** were well answered.

Part (a) A large proportion of candidates did not demonstrate a clear understanding of contingency theory.

Part (b) This question on teamwork was well answered.

Part (c) Sound understandings of the main concepts in relation to organisational structure were demonstrated in the answers to this part of the question.

Question 3

Part (a) Very well answered, with most students comprehensively covering the stages in group development.

Part (b) Answers were good with most candidates demonstrating a full understanding of the role of SWOT analysis in strategic planning.

Part (c) A high proportion of the answers to this part confused the informal organisation with decentralised organisation structures.

Question 4

Part (a) In general answered quite well with no obvious misinterpretation of the question.

Part (b) Most who answered this knew what Management by Objectives entails and were able to relay relevant advantages and disadvantages associated with the technique.

Part (c) Mostly answered well with candidates again bringing other concepts and theories to support their views.

Question 5

80% of candidates attempted this question.

Part (a) Overall well answered but a surprising number of candidates confused the concept of market segmentation with the 4 P's of marketing.

Part (b) This part was very well answered by most candidates.

Part (c) Many candidates had a good grasp of the pricing strategies organisations adopt.

Question 6

The most popular question on the paper

Part (a) Most candidates demonstrated a clear understanding of the contents of a typical business plan.

Part (b) Most candidates were able to clearly explain the concept of TQM.

Part (c) The standard and quality of answers to this section varied widely.

Question 7

This question was answered by 25% of candidates.

Part (a) A good proportion of candidates gave excellent answers, distinguishing clearly the different roles involved.

Part (b) Answers to this section of the question were good.

Part (c) Generally answers to this section were disappointing.

Question 8

Part (a) Surprisingly well answered in a number of cases.

Part (b) Mostly on the button although a surprising number of candidates mentioned long term sources such as debentures and share capital.

Part (c) Generally well answered with most candidates scoring on the rights based model of ethics.

