FOUNDATION EXAMINATION

Autumn 2006

BUSINESS MANAGEMENT

PAPER, SOLUTIONS
and
EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

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This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2006

PAPER 3 : BUSINESS MANAGEMENT

Thursday 24th August 2006 - 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) Explain Hertzberg's two-factor theory of motivation.

10 Marks

(b) Describe what is meant by Management By Objectives (MBO) and explain why it is important.

6 Marks

(c) Outline *three* circumstances when group decision-making is preferred to individual decision-making.

4 Marks
Total 20 Marks

QUESTION 2

(a) Describe how levels of management differ in organisations.

10 Marks

(b) Explain the contribution of systems theory to the evolution of management thought.

6 Marks

(c) "People are mainly motivated by money". Do you agree? Give reasons in support of your answer.

4 Marks
Total 20 Marks

QUESTION 3

(a) Compare and contrast autocratic and democratic leadership styles.

10 Marks

(b) Describe what is meant by lateral communications.

6 Marks

(c) "Organisational structure has little relevance in today's Internet Age" Do you agree? Give reasons in support of your answer.

4 Marks
Total 20 Marks

QUESTION 4

(a) Describe *four* ways of overcoming resistance to change.

10 Marks

(b) Explain *three* characteristics of effective teams.

6 Marks

(c) "The contingency theory of management has little relevance in today's business environment" Do you agree? Give reasons in support of your answer.

4 Marks
Total 20 Marks

Answer AT LEAST TWO questions from this Section

SECTION B

QUESTION 5

(a) Explain how marketing strategy is likely to vary at each stage of the lifecycle of a typical product.

10 Marks

(b) Distinguish between product positioning and franchising.

6 Marks

(c) "Marketing is of little relevance to not-for-profit organisations" Do you agree? Give reasons in support of your answer.

4 Marks

Total 20 Marks

QUESTION 6

(a) Describe the role of the HR Manager in an organisation.

10 Marks

(b) Describe *two* forms of on-the-job and *two* forms of off-the-job training.

6 Marks

(c) Explain how you would monitor a firm's profitability and liquidity.

4 Marks

Total 20 Marks

QUESTION 7

(a) Describe *four* stages in the enterprise process.

10 Marks

(b) Describe *three* major risks in the implementation of IT systems.

6 Marks

(c) Explain what is meant by a finn's "purchasing mix"?

4 Marks

Total 20 Marks

QUESTION 8

(a) Describe *four* elements you would expect to find in a typical business plan.

10 Marks

(b) Describe *three* roles of a public relations manager in an organisation.

6 Marks

(c) Distinguish a utilitarian from a moral rights based approach to ethical decision making.

4 Marks

Total 20 Marks

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2006

SOLUTIONS TO PAPER 3

BUSINESS MANAGEMENT

Author : Mr Nathy Walsh, ACA

Solution to Question 1

Part (a)

Hertzberg's Two Factor theory focused on the factors affecting employees, which cause either extreme satisfaction or dissatisfaction in relation to their job, the organisational environment and the workplace. Hertzberg stated that satisfaction and dissatisfaction with work were dependent on two unrelated sets of issues. Those factors that could result in satisfaction were called motivators, and were related to job content issues such as the nature of the work, the responsibility and potential recognition involved, the career advancement possibilities and the self-growth potential. According to Hertzberg employees can be motivated by maximising satisfaction in terms of these criteria.

Those factors that result in dissatisfaction were called hygiene factors, and were related to job context issues such as company policy and administration, supervision, salary, relationships with superiors, peers and subordinates, status and security. Although these factors do not explicitly motivate people, if the organisation performs poorly with regard to them, extreme dissatisfaction will accrue.

Part (b)

Management By Objectives (MBO) is a mode of planning and organising that seeks to achieve a sense of common purpose and direction among the management of an organisation.

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.

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.

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)

Pooling of viewpoints from a variety of sources can provide penetrating insights into issues and result in higher quality decisions being made as a wider base of experience and skill is involved. It is particularly useful when creative decisions are required.

There is also a greater likelihood of decisions gaining acceptance when those affected by them are requested for their views at an early stage. It also means that less co-ordination and communication is required to implement a decision.

Group decision-making can become the norm rather than a need occassioned by specific problems, an organisational goal rather than a tool. It can become bureaucratic in a negative sense, slowing up decisions that need to be taken quickly, or acting as an obstacle in situations where managers are in a position to take decisions.

It may even be used in situations where it is irrelevant to the concerns of group members. Even when it is appropriate, there are several pitfalls. One or two members of a group may dominate, there may be conflict, and "group think" may predominate.

Solution to Question 2

Part (a)

There are three levels of management - top, middle and lower which equate to senior, middle and front line mangers.

Senior Management is concerned in the main with the strategic management, including the overall mission and direction of the organisation. Examples of strategic management are Chairpersons, Chief Executive Officers and Boards of Directors. They must formulate long-term goals and strategic decisions which will achieve these goals. Planning at this level is long term and strategic in nature.

Middle Management operate at the tactical level, in other words they translate strategic direction and organisational goals into achievable tactical objectives and activities. They are the link between the strategic level and the operational level. Examples of middle managers include Plant and Operations managers, Business Unit Managers etc. Planning at this level is focused at the individual unit level over the coming six to twelve months rather than the overall organisation over the next two to three years.

Front Line Management are responsible for directly supervising and managing employees involved in the day-to-day operation of the organisation, whether they are employed in production, marketing, finance or human resources. Planning at this level is likely to focus on the specific task over the coming days and weeks.

Part (b)

A system is essentially an assemblage of things interconnected; interdependent things that form a complex unity. These things may be physical, such as parts of an engine, or they may be biological, like components of the human body; or they may be theoretical, as in a set of concepts, principles, theory, and techniques in an area such as managing. All systems, except perhaps that of the universe, interact with, and are influenced by, their environments, although we define boundaries for th em so that we can see them and analyse them more clearly.

The use of systems theory and analysis in the physical and biological sciences has given rise to a considerable body of systems knowledge.

Systems theory has been found applicable to management. As a system the business will not only be affected by the activities of subsystems within the business (i.e. departments), but also events that are external to the business. Previously management thought had focused on internal workings only, referred to as a closed system. However, organisations can be seen as Open systems that interact with their environment.

Thus, when managers plan, they have no choice but to take in to account, such external variables, as markets, technology, social forces, laws and regulations.

Businesses that do not consider the external environment may experience entropy, the tendency to lose the ability to control their direction and consequently run the risk that they will cease to operate.

However, an organisation also needs to consider the subsystems within the business as they have an influence on each other. When they design an organisational environment for performance, they cannot help but be influenced by the behaviour patterns people bring to their jobs.

Systems also play an important part within the area of managing itself. There are planning systems, organisational systems, and control systems. And within these we can perceive many subsystems, such as, systems of delegation, network planning and budgeting.

Businesses that can co-ordinate activities of departments may achieve synergy, which means parts of a system are productive when working together rather than independently of each other.

The conscious study of, and emphasis on, systems have forced many managers and scholars to consider more perceptively the various interacting elements affecting management theory and practice.

Whilst systems theory and analysis has led to interesting approaches to the study of organisations, there are many who hold the view that human behaviour does not lend itself to such systematic analysis. They argue that it is difficult to generalise on the factors, desires, ideas, forces underlying human co-operation.

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 women 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 3

Part (a)

The two most common styles of leadership are:

Autocratic leadership

This style involves making decisions without consultation, and can result in a high level of power being exercised by management over the actions of subordinates (e.g. through the direct issuing of orders etc.). Major characteristics in this instance would include decisiveness, dominance, aggressiveness, self-assurance and initiative. This style is most effective in emergencies where absolute trust in the leadership of the organisation is required.

Autocratic leadership is most prevalent in the military forces. Invariably motivation comes from fear and punishment, and in some cases is a result of intimidation.

It typically involves the close supervision of subordinates with the leader issuing precise and detailed instructions on every task undertaken. Its advantages include speedy decision-making, ability to use rewards and sanctions to influence behaviour and clarity for employees on their roles.

It is an important form of leadership in situations that demand decisive action.

Democratic leadership

Working under democratic leadership employees are allowed to participate in the decision making process with managers. Progressive organisations have embraced this approach successfully. Managerial characteristics include flexibility, good communication skills, co-operation and openness.

It is a style of leadership that involves a considerable level of consultation between the leader and the group. It has the benefit of promoting ownership and a greater sense of identity with organisational endeavours. Rather than being passive receivers of instructions, employees are allowed the opportunity to more actively engage with charting organisational direction. They are given the opportunity to exercise a degree of autonomy, to influence events, to use their voice. It is felt that this approach enhances the organisation in a number of ways; it utilises workers skills and knowledge in solving problems, it broadens their responsibilities and makes work more interesting and empowers them to participate more actively in forward planning and decision-making. On the down side, it can slow up decision making, it assumes workers are interested and capable of working without close supervision. Finally it can lead to a sense of pseudo participation, where workers may feel they are involved in minor operational matters but excluded from the major strategic discussions.

Part (b)

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.

Four key areas in which lateral communication may be relevant include:

- Task co-ordination -

Department heads may often meet to discuss how each department is contributing to the overall objectives of the organisation, e.g. ensuring there is no conflict between Sales and Production personnel.

- Problem solving

Members of a department may meet to discuss how they will handle a threatened budget cut which impacts on their particular department or section.

- Information sharing

Members of one department / function in an organisation may meet with members of another department / function to explain some new information or results of a study.

- Conflict resolution

Members of a department may meet to discuss, the duplication of activities with some other departments.

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.

IT developments may necessitate the adoption of more flexible structures in response to shorter business / product life cycles. Likewise they may facilitate a flatening of organisational structures as communication possibilities improve. It is most unlikely that they render structure irrelevant, for without stucture where lies power and control, and without power and control, where lies order.

Solution to Question 4

Part (a)

There are many reasons for team conflict in organisations, some of which may arise for the following reasons :

Personality differences: A clash of personalities among team members can often create conflict. In many cases, the only action open to team leaders is to minimise the amount of interaction between these individuals at critical decision-making points.

Power and status differences: Where teams come together from various departments or from different levels of managerial status it may be the case that some individuals feel they have to exert their power and influence over other members in the team, and this can have a detrimental effect on performance.

Goal differences: Goal differences can be a source of conflict among teams created from various departments/ functions or between competing teams in one department.

Communication breakdown: When there is a breakdown in effective information sharing or communication or when the goals or objectives of the group are misunderstood or misinterpreted due to poor communication, conflict can arise.

Unclear boundaries or responsibilities: When job boundaries are unclear, there may be tension between group members.

Scarce resources: As financial and human resources are nearly always scarce in organisations, team conflict can arise among teams made up of members of various departments or functions who have an inherited loyalty to their original grouping.

Each organisation's set of circumstances are unique and do not necessarily lend themselves to standardised cook book solutions. However when dealing with situations of conflict managers tend to adopt five general styles that involve varying levels of assertion and co-operation:

Competing: This style is most effective during crises or when decisive action is required. It requires a very high level of assertiveness.

Avoiding: This is a neutral style which is most appropriate when the conflict issue is not a priority, when there is not adequate information available, or when there is no chance of immediate resolution of the problem.

Compromising: This involves an equal but moderate degree of assertiveness and cooperativeness. It is most useful when both sides of the conflict situation have valid arguments, when both sides have equal power or influence, or when a stopgap solution is required to reach the next phase of team performance.

Accommodating: This is a highly co-operative style where group harmony is vital, where one side of the conflict situation is cornered and realises they are wrong.

Collaborating: This involves an equal but high degree of both assertiveness and cooperativeness which enables both sides of the conflict situation to win or not to lose, or when both sides have valid and equally important concerns.

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).

Team cohesiveness can be related to the strength of the bond between members of the team. If the team is cohesive, then members are motivated to achieve the team's goals and are enthusiastic about working with other people in the team.

Factors that help establish cohesiveness include; levels of interaction, sharing of common goals, participation, size, feedback and rewards for achieving challenging goals.

Part (c)

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 5

Part (a)

Every product has a life cycle. Every product is introduced into the market, grows to maturity, and eventually declines. This life cycle could be as short as six weeks or six months, for a fad or a fashion. For other products, it may take many years to go through the product life cycle. The main stages of the product life cycle are as follows:

Introduction

The product is launched onto the market and is unknown. There is a lack of general market acceptance, and as a result sales and profits are very low. This makes the introduction stage most risky. The public must be informed about the product through the right promotional campaign. They may also be given incentives to try the product. Costs are high, due to the cost of both research and development and market research conducted prior to the product launch. Competition is low or non-existent.

Growth

As the product becomes known, and earns a reputation, sales will increase and consequently profits. Customer awareness is growing as the investment in promotion will still be quite high. Competitors will enter the market, attracted by the growth in sales, competition therefore emerges. The price of the product begins to drop as the company produces larger quantities.

Maturity

Sales reach their peak here. The product has now reached the main market. The marker is becoming saturated, due to the large amount of competing brands. Competition will therefore be intense. Only the strongest will survive, and the weak firms will be pushed out of the market. For the firms who are in a strong position, this stage is probably the most profitable. The manufacturer will try to keep his product at the mature stage as long as possible to avoid the decline stage. Thus the company will continually update their product (revamping). The firm may invest some of its profits in developing new products. At this stage the cost of the product has dropped as the company benefits from economies of scale in production.

Decline

Demand starts to fall as the product becomes obsolete. The management must face this fact. They have the choice of phasing out this product, or they can drop it immediately. Customers are aware of the product but disinterested. The competition now dominates. If the company has been developing new products all along then there will be new products to replace the decline product.

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.

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

Market positioning considers the perceptions of the consumer about the product or service, relative to other products and services in the market. The marketer seeks to position the product so that it is perceived to possess the key variables considered important by customers. Re-positioning involves moving the product away from its current position to a point that improves its market appeal. Lucozade is a product that was re-positioned from a drink for people who were feeling unwell to a sports drink.

A perceptual map may be used to identify key consumer criteria and where brands are positioned in relation to each other.

Branding may form part of the drive to re-position or reinforce an existing position in the market place.

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 getting in to business, as the entrepreneur 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.

Part (c)

Many not-for-profit organisations, such as charitable organisations and supporters of social causes are major users of marketing. One just has to think of Goal, the GAA and political parties to realise how influential marketing is as a practice.

The basic aim of marketing by such organisations is to obtain a desired response from a target market, such as, greater donations, greater participation or support etc.

The response could also be a change in values, a financial contribution or some other form of exchange. Not-for-profit organisations normally reinforce the rationale for their organisations existence, in broad terms, such as, serving perceived needs of vulnerable populations or serving the public good in some form or other.

Solution to Question 6

Part (a)

It has been stated on many occasions that an organisation's greatest asset are its people. Gone are the days of the Industrial Revolution when employees were considered human machines. If you do not have people on your side, and happy within their work environment, ultimately all aspects of the organisation will fail.

More and more, firms are focusing on how they can manage their human resource to ensure they meet their objectives.

The concept of HRM takes a wide view of human behaviour in organisations and embraces ideas such as organisation structure and culture, conflict and power within organisations, the mutuality of interest between workers, managers and owners and how strategy, organisation characteristics and performance are related.

HRM may be defined as the process of evaluating the human resource needs of the organisation, finding suitable people to meet those needs, and optimising these resources through incentives and job enrichment, in line with the objectives of the organisation.

There are many issues involved in Human resource management, including

- Employee recruitment and selection
- Employee induction, training and development
- Employee compensation
- Employee performance appraisal
- Employee scheduling
- Management training and promotion
- Personnel administration and
- Trade Union negotiations and industrial relations

Part (b)

On the job training

Many opportunities for development are to be found on the job, these include planned progression, job rotation, creation of "assistant to" positions, committees, coaching etc.

Off the job training

In addition to on-the-job training, there are many other approaches to developing employees. These programmes may be conducted within the company or offered externally by professional institutes. These include, conference programmes, University Management programmes and Readings.

Part (c)

A system of budgetary control is a useful way to monitor a firm's profitability and liquidity.

Budgetary control refers to the analysis, recording and reporting on the activities and financial well being of the organisation. It involves forecasting likely outcomes of plans in an attempt to control the future for the organisation. It is a bread and butter activity for the financial team, in that it ensures effective monitoring of current activities, and gives invaluable information about performance in relation to plans.

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. Due care and consideration is required in interpreting variances from budget to ensure managers are held accountable for all those matters that fall within their sphere of control.

The cash flow forecast may be used to determine if company borrowing is required or if surplus funds are likely to be available for re-investment. Comparing actual performance against forecasted profit and loss account projections allows management to monitor margins on a regular basis and to take appropriate corrective action before deviations become too serious.

Solution to Question 7

Part (a)

The enterprise process generally consists of six key phases

- Idea Origination
- Testing and Validating the feasibility of a particular idea (including selecting a route to market)
- Writing the business plan
- Resource Assembly and Market Entry
- Growing the business
- Expanding or exiting depending on the window of opportunity

Idea Generation

Business ideas and opportunities arise from a wide variety of sources and circumstances. For example, prior employment, collaboration, hobbies and social encounters etc.

Testing and Validating

This is a crucial phase, in that the entrepreneur weighs up the level of opportunity involved, and is clear about the skills necessary to see the venture through.

- Are people going to want the product? Will they buy it? Will it make a profit?
- What are the set up and opportunity costs? What is the downside risk?
- Will it give me greater independence, wealth, greater opportunities for self-expression?

The key areas to be validated are whether the venture team possesses a competitive advantage vis-à-vis existing or potential competitors. It will also look at the operational requirements in terms of production and marketing, the human resources required and the capital requirements of the venture.

Writing the Business Plan

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

Market Entry - resource assembly

When funding has been arranged it is then possible to consider ways for moving the project further. It will not happen over night and so it is vital that a realistic timeframe is established for market entry plans.

Issues to be dealt with include :

- Winning customers
- Finding suppliers and distributors
- Dealing with regulations
- Organising the right team and technology
- Searching for money
- Sustaining energy and commitment
- Sustaining your life style and personal relationships

Part (b)

Traditionally, the activities necessary to produce and deliver information systems have been characterised as a series of steps called the systems lifecycle. Steps in the life cycle include;

- Design, which consists of the definition of functions and relevant technologies
- Construction, entailing detailed design, programming and testing (alternatively the system can be purchased)
- Testing and implementation, involving the integration of the system into the organisation, the redesign of processes and any necessary reorganisation
- Operation, which consists of the execution of processes, and the continuous, training of staff to exploit the system
- Maintenance, the upgrade of technology, and the adaptation of the system to changing requirements.

The widespread use of IT in organisations presents a number of important challenges to management. Many organisations have made a very substantial investment in computer-based information systems and have become largely or completely dependent upon those systems. IT is very much a concern of all business managers.

IT must therefore be planned and managed strategically to ensure it serves the business appropriately and reliably.

IT may be structured in a number of different ways in a business - functionally specialised (typically falling under finance), centralised (elevated in the organisation and not controlled by any one department), under each department (each business unit will have its own IT resources).

Implementation involves extensive user-IT co-ordination as the transition is made from the predominantly technical, IT-driven task of construction to the user-driven management of the completed system. Whether the system is bought or made, the implementation phase is very much a joint effort. Extensive testing, which disrupts normal business operations, must be performed; likelwise as training is required, work procedures and communication patterns are likely to be disrupted.

It is essential to the realisation of the benefits of the new system that these changes are carefully managed. Consideration needs to be given to the viability of the project within the operational and organisational environment. Will the personnel be able to cope with operating the new technology? Is the organisational structure compatible with the proposed information system?

In addition to being involved at the user specification phase, many organisations institute formal procedures which specify that operating personnel must "sign-off" on a new system. The specific criteria for testing and approval are defined as part of the system design phase. This control mechanism distributes responsibility and authority for systems development and serves as an important quality control mechanism.

Part (c)

Purchasing is an important aspect of production. Purchasing costs represent a substantial part of the total cost of production. When buying products, the purchasing mix ought to be considered. It refers to the quantity, quality, price and delivery dimensions of the purchase arrangement.

Quantity

Insufficient stocks will cause costly production delays resulting in loss of sales, contracts, and profits. On the other hand, over-stocking will result in stock lying idle, and possibly, decaying, deteriorating, becoming obsolete and getting damaged. There is a need to balance the costs of insufficient stocks against holding too much stock.

Quality

The quality of the goods needs to be suitable for the manufacturing process and for customers needs. Inspection is vital to check that the supplier is fulfilling the order to the correct specification.

Price

The price should give the best value to the organisation, taking quality, delivery and urgency into account, though this may not always be the lowest price available.

Delivery

Reliable delivery is essential. Lead time must be taken into consideration, that is, the time it takes from when the order goes through to the supplier to the time the goods are actually delivered. In large organisations supply chain management will be crucial here.

Solution to Question 8

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:

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

Description

Business ideas and opportunities arise from a wide variety of sources and circumstances. For example, prior employment, collaboration, hobbies and social encounters etc. This section of the report should specify the contextual background to the proposal. It should contain details of the history of the parties involved and their track records in this field.

Market Analysis

Details of the actual and potential markets for the goods or services in question need to be provided.

The potential market is the set of consumers who profess a sufficient level of interest in a market offer. However consumer interest is not enough to define a market. Potential consumers must have enough income and must have access to the product offer.

The available market is the set of consumers who have interest, income and access to a particular offer. For some market offers the company or government may restrict sales (e.g. to anyone under 21 years of age). The eligible adults constitute the qualified available market.

The target market is the part of the qualified available market the company decides to pursue. (e.g. it may target a particular segment).

Key questions to be asked

1. What is the total volume that would be bought by the defined customer group in the defined geographical area, in a defined marketing environment (recession or boom) under a defined marketing programme (light or heavy promotion etc.)?

2. How expansive is the market segment likely to be over time?

3. How sensitive is it to marketing initiatives? What are current penetration rates?

4. Why do we think we could capture a significant share of this market over existing providers?

Marketing Plans

These plans would entail an analysis of how the organisation intends to position its offering in the market place. In particular how it intends to invoke the four components of the marketing mix to compete in an effective manner

Financial Plans

These would comprise detailed financial plans, demonstrating how it proposes to finance the proposal and the returns that are likely to arise over the life of the project. It would include projected cash flows analysis, profit and loss accounts and balance sheets.

Analysts will be conscious that projections themselves do not produce. It is the quality of the decision-making processes behind the projections that matters. Are the strategies and business models working in practice? Are the proposed products and services likely to meet customer's expectations and demands?

Overall performance is dependent on the implementation and control of many other variables in the organisation. Indeed accounting information may often hide important linkages between variables and overall organisation performance.

Whilst it is important to monitor financial progress through projections, astute managers know that a wide range of factors need to be managed on a day to day basis if the organisation is to deliver the products and services that generate the results.

Part (b)

Most firms, and particularly the large firms, have become very conscious of their image and how the public, at large, sees them. In an effort to have good public relations, some firms have separate public relations departments headed by a public relations manager or officer (PRO). There are also a number of independent professional public relations consultants and agencies that handle public relations for various firms.

Public relations can be distinguished from advertising in that it is not paid for by the firm benefiting from it. A firm may benefit from publicity received for their products in newspaper articles, TV and radio discussion programmes etc.

The main aim of a public relations department is to establish and maintain a good impression of a company in the minds of the public. A good public image is essential to success. To do this the organisation must evaluate public attitudes and develop policies and procedures consistent with the public interest, and take steps to earn public understanding and acceptance. Activities include media relations, event management, exhibitions and conferences, community relations, sponsorship of personalities or events and crisis management.

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 they 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).

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EXAMINERS REPORT

BUSINESS MANAGEMENT

AUTUMN 2006

General comment

Overall performance was good in this the fourth Autumn sitting of the new syllabus. However there was a noticeable fall in the standard of English on certain scripts, where candidates appeared to have a reasonably good grasp of the content but were struggling with the language, both grammatically and in terms of clarity of articulation and expression.

Question 1

This was a popular question and attempted by over 74% of candidates. Overall it was well answered

Part (a) A good proportion of candidates were able to describe Hertzberg's two-factor theory of motivation. A number appeared to confuse it with Mc Gregor's theory "X" and "Y". Whilst most candidates were able to explain it well, a number associated hygiene factors with cleanliness, whilst others struggled to explain clearly the relationship between both sets of factors.

Part (b) Very well answered with candidates demonstrating a clear understanding of why Management By Objectives (MBO) is important.

Part (c) Many candidates provided insightful answers to this part, clearly delineating circumstances in which group decision-making is likely to add value to the managerial process.

Question 2

Another popular question attempted by 77% of candidates.

Part (a) was very well answered by a large number of candidates.

Part (b) Answers to this part where disappointing. A large number confused it with scientific management and other concepts.

Part (c) Answers were varied to this part. A number of the better candidates used the opportunity to link their views with various theoretical perspectives on motivation, from Maslow, McClelland and Vroom.

Question 3

Part (a) well answered by a large number of candidates. A small number of candidates interchanged the two concepts.

Part (b) Answers were disappointing to this part. A number of candidates poured out everything they knew on communication but to little avail.

Part (c) Most candidates argued the issues in this part in a logical and coherent manner with the better candidates suggesting that the Internet may be leading to flatter structures but not eliminating the need for them.

Question 4

Part (a) Pleasantly surprised with the breadth and depth of answers in a number of instances.

Part (b) on the characteristics of effective teams was well answered.

In **Part (c)** as mentioned previously, a number of candidates confused the contingency theory of management with "developing contingency plans to cover various eventualities" (e.g. Plan B's)

Question 5

The most popular question on the paper.

Part (a) Most candidates did well in this part.

Part (b) Most candidates were strong on franchising but less so on product positioning.

Part (c) Answers were well developed drawing on various examples of charities to support their claims.

Question 6

Part (a) Most candidates did well here. Unfortunately there are still a few candidates who think the listing of one or two points is a complete answer.

Part (b) Answers were strong in this part, with examples being used as appropriate.

Part (c) For an accounting qualification answers were disappointing. I would have expected answers to include references to the monitoring of margins, budgetary control of expenses, cash forecasting as well as the monitoring of selected ratios, aged analysis listings etc.

Question 7

Sixteen percent of candidates attempted this question.

Part (a) Generally answers were good to this part

Part (b) A wide range of answers were given to this part. Again candidates must ensure they focus on the question asked.

Part (c) Answers to this part were disappointing with a large number of candidates referring to the four P's from a sales perspective.

Question 8

Part (a) Well answered.

Part (b) Answers were generally good, but a surprising number of candidates were hazy on the distinction between public relations and advertising.

Part (c) Generally well answered with most candidates demonstrating a solid understanding of ethics.