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**FOUNDATION EXAMINATION**

**Summer 2004**

**BUSINESS MANAGEMENT**

**PAPER, SOLUTIONS  
and  
EXAMINERS REPORT**

## **NOTES TO USERS ABOUT THESE SOLUTIONS**

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# **The Institute of Accounting Technicians in Ireland**

## **Foundation Examination : Summer 2004**

### **PAPER 3 : BUSINESS MANAGEMENT**

Thursday 20<sup>th</sup> May 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.**

**Business Management Summer 2004 Paper**

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

**SECTION A**

**QUESTION 1**

- (a) Describe Herzberg's two factor theory of motivation. **10 Marks**
- (b) Outline *two* advantages and *two* disadvantages associated with centralised organisational structures. **6 Marks**
- (c) Describe *three* characteristics of effective leaders. **4 Marks**
- Total 20 Marks**

**QUESTION 2**

- (a) Describe how the Human Relations Theory of Management differs from the Scientific Management Theory of F.W. Taylor. **10 Marks**
- (b) Describe *three* managerial roles. **6 Marks**
- (c) Does F.W. Taylor's theory of Scientific Management have any relevance today? **4 Marks**
- Total 20 Marks**

**QUESTION 3**

- (a) Explain Kurt Lewin's three step model of change management. **10 Marks**
- (b) Outline *three* factors to be considered when delegating work to an employee. **6 Marks**
- (c) Distinguish between strategic and operational control. **4 Marks**
- Total 20 Marks**

**QUESTION 4**

- (a) Describe *four* ways in which conflict in organisations may be managed. **10 Marks**
- (b) Distinguish between formal and self managed teams. **6 Marks**
- (c) Describe the role of norms in team development. **4 Marks**
- Total 20 Marks**

Answer AT LEAST TWO questions from this Section

SECTION B

QUESTION 5

- (a) Explain what is meant by the term product market strategy and outline how an organisation might develop such strategies. 10 Marks
- (b) Describe *three* factors that should be taken into consideration in setting the price for a product. 6 Marks
- (c) What role does a Public Relations Department play in an organisation? 4 Marks
- Total 20 Marks**

QUESTION 6

- (a) Describe the role of a Human Relations Manager in an organisation. 10 Marks
- (b) Describe *three* sources of long term finance available to organisations. 6 Marks
- (c) Explain how you would monitor a firm's profitability and liquidity. 4 Marks
- Total 20 Marks**

QUESTION 7

- (a) Describe *six* important duties of an IT manager in an organisation. 10 Marks
- (b) Outline *four* IT controls you would expect to find in a small business environment. 6 Marks
- (c) How has IT changed the role of the operational manager over the last 20 years? 4 Marks
- Total 20 Marks**

QUESTION 8

- (a) Describe *four* stages in the enterprise development cycle. 10 Marks
- (b) In the context of selling services, identify any two elements of the marketing mix specific to services. 6 Marks
- (c) Who should be responsible for ethics in an organisation? 4 Marks
- Total 20 Marks**





## **The Institute of Accounting Technicians in Ireland**

### **Foundation Examination : Summer 2004**

### **SOLUTIONS TO PAPER 3**

### **BUSINESS MANAGEMENT**

**Author : Mr Nathy Walsh, ACA**

#### **Solution to question 1**

##### **Part A**

Herzberg'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. Herzberg 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 Herzberg 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**

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)

##### **Advantages of centralisation**

1. Control and co-ordination by top management is easier to achieve and maintain
2. Employees have greater clarity on their goals and responsibilities and thereby creating the opportunity to focus and specialise in these specific areas
3. Provides greater stability and direction

**Solution to question 1 continued on next page**

**Solution to question 1 (Cont'd)**

**Disadvantages**

1. May stifle initiative
2. Line managers are burdened with routine decision-making
3. Organisation may be slow to adapt and respond to change

**Part C**

Leadership can be described as the capacity to achieve the objectives of the organisation, by showing what needs to be done and by showing how to do it. Therefore leadership can be broadly described as the management process of getting results through people and other resources, achieved through;

- Creating a vision for others to follow,
- Establishing values,
- Transforming the efficiency and effectiveness of the organisation,
- Organising and motivating employees by means of workgroups, teams and departments
- Organising resources in the most effective manner
- Resolving conflicts that may arise

The really effective Chief Executives are very effective managers, leaders and motivators.

**Solution to question 2**

**Part A**

Scientific Management was developed primarily in the USA at the start of the twentieth century. It emphasised the need for a scientific approach to determining management practices as the solution to improving productivity. Frederick Taylor has been called "the father of scientific management". Taylor emphasised that a more scientific and systematic approach to management was required. He focused on the management of work and workgroups in order to improve productivity, and this involved the precise measurement of the time each task took. The core aspects of his philosophy can be summed up as follows;

- The systematic collection of knowledge about the work process of managers,
- The reduction of workers discretion and control over what they do
- The laying down of standard procedures and times for carrying out each job

The Human relations school of thought arose out of the Hawthorn experiments which were held in Western Electric's Plant in Illinois. These involved tests designed to analyse the conditions under which productivity could be increased in line with Taylor's ideas. The researchers concluded that productivity seemed to go up regardless of the conditions under which staff worked. Their main finding, which became known as the Hawthorne effect, was the discovery that the workers involved in the experiment increased productivity simply because their needs were being catered for as part of an experiment.

They were consulted about their part in it, and made to feel special, a practice which became an integral part of the Human Relations perspective.

This humanistic perspective emphasised the need to understand human behaviour, human needs and attitudes in the work environment. The human relations movement stressed the need to satisfy employees' basic needs in order to increase productivity. It was of the opinion that effective control does not arise from an authoritarian approach. Real control comes from the workers themselves. If workers are basically happy and contented they will work better.

**Solution to question 2 continued on next page**

**Solution to question 2 (Cont'd)**

**Part B**

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

**Interpersonal Roles**

Managers by nature need to interact with individuals and teams. Hence the need for human skills. As a **Figurehead**, the manager handles ceremonial and symbolic activities for the organisation. The **Leader** role refers to relationships with staff such as managing motivation, communication and influence. The **Liaison** role refers to the development of information sources both inside and outside the organisation.

**Informational Roles**

Information is the lifeblood of organisations. A key role of the manager is to develop and maintain an information network. Managers may spend 75 per cent of the day communicating with others to maintain this network. The **Monitor** role relates to seeking / acquiring information from a variety of sources, whereas the **Disseminator** and **Spokesperson** roles refer to the transmission of information to others who require it. With the growing importance of staff in organisations, the informational role becomes much more important.

**Decisional Roles**

Managers need to balance competing interests and choose among alternatives. Through decisional roles, strategies are formulated and implemented. Both conceptual and human skills are important in this instance. The **Entrepreneur** role involves the initiation of change, thinking about the future and devising ways to deal with current and future problems. The **Disturbance Handler** role involves the resolution of conflicts between individuals and teams. The **Resource Allocator** involves making decisions on how to allocate resources to meet stated objectives. The **Negotiator** role refers to the formal negotiation and bargaining activity to attain outcomes for the manager's area of responsibility.

**Part C**

Scientific management has been criticised for treating workers as human machines, for not appreciating the social context of work and the personal needs of workers.

One cannot however ignore the contributions it made to modern management thought.

First, it identified the importance of selection and training. Second, it demonstrated the need for adequate monetary compensation of workers. Third, it focused attention on the need for a careful analysis of job content and to set down job procedures.

This perspective may seem inhuman and simplistic, but only with the benefit of hindsight. It did represent a quantum leap for management understanding at the time. An understanding that still has relevance today in various managerial contexts.

### **Solution to Question 3**

#### **Part A**

A successful change management project, Lewin argued, should involve three stages

1. Unfreezing
2. Moving
3. Refreezing

#### **Unfreezing**

Unfreezing involves reducing those forces maintaining the organisation's behaviour at its present level. It is argued that this requires some form of confrontation meeting or re-education process for those involved, possibly through team building or management development. In this process the problem to be solved is analysed, or data is presented to show that a serious problem exists, in order to convince relevant parties of the need for change.

#### **Moving**

Moving equates with the action element. Moving involves acting on the results of the first step, having analysed the present situation, identified alternatives and selected the most desirable state of affairs. This requires developing norms, behaviours, values and attitudes through changes in organisational structure and processes, so that those involved do not revert back to the old way of doing things.

#### **Refreezing**

Refreezing seeks to stabilise the organisation at a new state of equilibrium in order to ensure that the new ways of working are relatively safe from regression, using support mechanisms that positively reinforce the new ways of working, including organisational culture, norms, policies and practices.

#### **Part B**

Important considerations that should be taken into account when delegating work to employees include the following.

- Nature of the task - programmable / abstract
- Skills required for the job
- Time required for the job
- Resources required to do the job
- Previous experience with the individual

#### **Part C**

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

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 and control at this level is long term and strategic in nature. As such control is likely to be assessed in aggregate terms - success or otherwise of broad strategies adopted

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

**Solution to question 3 continued on next page**

**Solution to question 3 (Cont'd)**

resources. Planning and control at this level is likely to focus on the specific tasks to be completed over the coming days and weeks. Control at this level is likely to focus on meeting very specific measurable targets and in prompt and effective responses to emergencies and deviations as they arise.

**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 stop-gap 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.

**Solution to question 4 continued on next page**

**Solution to question 4 (Cont'd)**

**Part B**

Formal teams are created as part of the organisation's 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 from the different functions across the organisation. There may be a need for a team to have expertise in different areas rather than just specialist knowledge. For example, a course of study in accounting may require a course team that could provide expertise from the different academic departments of Accounting, Management, Law and IT.

**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". For example, a Special Purpose team may have been created before 2000 to control the impact of the Y2K "Millennium Bug". Typically these teams are not permanent and therefore are not part of a formal structure.

**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. Self-managed teams are therefore empowered with the responsibility for their area of work.

To enable a self managed team to be effective they should:

- Be given enough responsibility and autonomy to manage their activities properly
- Have sufficient knowledge, training and experience to be self-managing, otherwise this may lead to poor performance, poor decision-making and stress.
- Not have undue interference from outside the group. Senior managers must be able to let go of control and allow teams to manage themselves
- Have activities that are complex and challenging enough to merit autonomy and responsibility.

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

**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. Often 5 to 12 employees from the same department make up a problem solving team. Their role is to explore ways and means for improving the efficiency and effectiveness of their work.

**Solution to question 4 continued on next page**

**Solution to question 4 (Cont'd)**

**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. Therefore, teams can work toward common goals even though not located together, although an important element of team development is social interaction that can only develop from meeting in person.

**Part C**

Norms are acceptable standards of behaviour that are shared by team members. These are not written rules, but an informal shared understanding of how people in the team should behave. Team norms are important because they help maintain conformity. Team members generally conform with team norms, as they want to be accepted by the team. Therefore team norms set standards of behaviour that help reduce conflict and promote a more consistent way of doing things. This consistency allows for greater predictability in managing teams and their performance.

Norms may relate to:

- |                         |   |
|-------------------------|---|
| <i>Appearance</i>       | your physical appearance and the impression you give to others  |
| <i>Performance</i>      | the level of performance that is acceptable at work e.g. what constitutes a good days work?   |
| <i>Social matters</i>   | the social interaction in the team. e.g. do team members socialise or is socialising seen as a waste of time                              |
| <i>Resource matters</i> | the allocation of resources within the team, e.g. how is work distributed, who gets new training opportunities, new office equipment etc. |

Norms develop over time through

- |                             |  |
|-----------------------------|--|
| <i>Experience:</i>          | norms may develop as a result of previous experience   |
| <i>Direction:</i>           | from managers and team leaders who are in a position to influence how the team will act                                    |
| <i>Inherited Behaviour:</i> | arising from experience of working in other teams and the standards of behaviour that were adopted in those circumstances. |

## Solution to Question 5

### Part A

Product market strategies combine the strategic marketing objectives of the firm with the product element of the marketing mix.

In general four fundamental product market strategies are open to a firm, as follows:

- *Market penetration;* the strategy employed by a firm seeking to extend the market share of an existing product in an existing market. This is commonly the strategy of established brands.
- *Product development;* this strategy involves the introduction of new products into an existing market. The introduction of new brands of stout into the drinks market is an example.
- *Market development;* refers to the introduction of existing products into new markets. The marketing of Ballygowan in the UK would be an example of this strategy.
- *Diversification;* the introduction of wholly new or unrelated products into new markets, or the purchase of new firms in unrelated areas of business.

### Part B

Product pricing is influenced by a number of factors:

#### The costs of production

Costs set the floor price for a product. Costs include the cost of labour, raw materials and overheads. There is no way an organisation can sell products below cost and stay in business in the long run.

#### The customer

The customer determines the highest price that can be charged; this is referred to as the ceiling price.

Market research must be undertaken to find out what they will be willing to pay for products

#### The competition

The competition that exists in the marketplace determines the actual level at which the price will be set. If the customer sees an organisation's product or service as identical to the competition's product or service, he / she will be unwilling to pay a higher price. Higher prices can only be charged if additional benefits are offered to customers to justify the higher prices.

#### The organisations objectives

The objectives set by the organisation may also influence pricing policy. For example, to obtain a quick return on investment, a higher price may be charged in the early stages of the product life cycle. (Market skimming) If increased market share is the objective a lower price may be charged to penetrate the market (Market penetration)

#### Government regulations and controls

Governments may interfere in the pricing decisions if they feel the company is acting against the public interest, or abusing its market position (monopolies)

Solution to question 5 continued on next page

**Solution to question 5 (Cont'd)**

**Part C**

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 who 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.

**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**

**Equity**

Ordinary shareholders are members of the company holding voting rights. They own a share of the company's assets and a share of any profits earned after all prior claims have been met.

**Solution to question 6 continued on next page**

**Solution to question 6 (Cont'd)**

Ordinary shares or Equity, as they are termed, are a permanent source of finance. Ordinary shareholders provide seed capital to allow the business to develop and grow. There are no fixed repayment or interest charges to be paid in the case of equity. Equity also provides the owners with authority to influence policy and direction.

Equity may be raised through offers for sale, public issues, placings, tender or rights issues

Equity is generally regarded as an expensive source of finance when compared to loan finance, as the dividends to equity holders are not tax deductible like loan interest. Another disadvantage of equity is the potential change in balance of control between existing and new shareholders.

**Preference Shares:**

Preference shares have the right to a fixed dividend rate which is paid before anything can be distributed to ordinary shareholders. They may be cumulative or non-cumulative. With non-cumulative preference shares, when profits are poor and no preference dividend is paid in the year, the dividend is foregone forever. In the case of cumulative preference shares previously unpaid dividends can be recouped in future years. In order to make the preference shares more attractive, they may be entitled to some further participation in the profits over and above their fixed rate of dividend, after a certain rate of dividend has been paid to the ordinary shareholders. This type of preference share is called a participating preference share. Preference shares may also carry the right to priority with regard to repayment of capital in the event of a company being wound up. A company may issue redeemable preference shares which it can redeem at some future date. In setting the dividend rate applicable to preference shares attention should be given to current and anticipated future interest rates. Unlike interest payments, preference dividends are not allowable expenses for taxation purposes. For this reason they hold few attractions for the majority of companies and tend not to be used as a source of finance.

**Debentures:**

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

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

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

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

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

**Solution to question 6 Continued on next page**

**Solution to question 6 (Cont'd)**

**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 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)

Responsibilities of the IT manager will vary depending upon the structure of the IT department within the organisation but typically be responsible for providing significant input and leadership in the following areas

- development of an IS / IT strategy / direction appropriate to the needs of the organisation
- formulating appropriate systems strategies - which will address
  - a. new systems - to meet business needs
  - b. improvements to existing systems
  - c. replacement of systems
- developing appropriate policies to resource, finance, secure and control IT resources and services
- effective systems development
- efficient technical / user support services
- robust computer operations

**Solution to question 7 continued on next page**

**Solution to question 7 (Cont'd)**

**Part B**

One of the most important topics related to IT operations is how much security is necessary for protecting the site and how much actually exists. Perfect security is unattainable at any price, however different types and levels of security are appropriate for different types of organisation.

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

**Part C**

Developments in IT have significantly altered the work processes used by operational managers over the last 20 years.

Operational managers are in a position to analyse and obtain information at significantly greater levels of detail and at greater levels of sophistication and at substantially faster speeds than ever before.

While the monitoring role may be automated in highly mechanistic situations (automatic re-ordering systems) operational managers are still required to ensure systems are operating as planned.

The increased processing power may therefore have taken the drudgery out of much operational work but operational managers still play a vital role in the success of modern business organisations.

**Solution to Question 8**

**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-a-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.

**Solution to Question 8 continued on next page**

**Solution to Question 8 (Cont'd)**

**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 relationship

**Part B**

Most organisations can define their Consumer Benefits Package within the **4P** parameter. The Services Revolution has added three more **P**'s namely, **Participants**, **Physical evidence** and **Process**.

**Participants**

This refers to the people who actually deliver the service at the point of customer contact. In essence, the other **6P**'s only play a support role in a service environment. Whether it be on a one-to-one basis, over the phone, or via the Internet, the professionalism, politeness and credibility of the participant is critical. Participants in general require training in personal selling, human interaction skills and customer problem resolution.

**Physical Evidence**

This relates to how facilities are designed and managed. Take for example, a cinema, a supermarket or a fast food outlet. The design of the interior and exterior of these establishments is critical in the eyes of the consumer, as is the appearance and hygiene of the employees, the parking facilities whether it be in a rural or urban setting.

**Process**

This refers to the efficiency and effectiveness of the service process involved in delivering the product / service mix. Most successful service providers develop detailed standards of performance for the facility, the process, the equipment and the jobs that deliver the consumer benefits package.

**Solution to question 8 continued on next page**

**Solution to question 8 (Cont'd)**

**Part C**

Ethical concerns permeate every aspect of business activity. Core ethical values such as honesty and justice help to determine when other persons rights are being undermined by our actions. Whenever there is a choice to be made between values, or a better or worse way of doing anything, an ethical judgement is involved. Many judgements and decisions about goals, standards and priorities are ethical, or have an ethical aspect. Trust, dependability and the sense that the organisation is pursuing proper ends and is accountable for its actions are foundations for sound business relationships.

Management make a vast range of decisions, such as hiring and firing, choosing suppliers, setting prices, allocating resources, determining dividends, disciplining workers, planning schedules and awarding contracts. All these decisions involve ethical choices. Even the most trivial decisions, and ones which appear to be made on purely technical or economic grounds, typically have ethical aspects. It is not just in the fringe areas of "do-gooding" that ethical issues occur, but throughout all of the business.

The real thorny business ethics issues are those where there is a genuine disagreement about what is right. Views may diverge because of unfamiliarity with the issues, or from a lack of analysis. More frequently, however, serious ethical issues arise because business people are faced with apparently incompatible objectives. When, for example, employees are exhorted to improve quality, but are rewarded politically and financially for sacrificing quality to cut costs, they can face a genuine moral dilemma.

Many organisations specify a set of core corporate values as part of their mission statement. These corporate values state the ethical beliefs of the business and the benefit being that these should guide managers to act in accordance with these beliefs. For example, Mercedes Benz state that one of their Corporate Principles is to "Assume ecological responsibility".

Moreover a business may determine an Ethical Code that sets out the way that a company believes its employees should respond to situations that challenge their integrity or social responsibility. A code may include sections on:

- Personal integrity - e.g. corporate hospitality
- Corporate integrity - e.g. collusion with others in the industry
- Environmental responsibility - e.g. policy on minimising pollution
- Social responsibility - e.g. policy to sell products that offer genuine value

However, Corporate Values and Ethical Codes are often criticised as being good for public relations, but not followed through in practice. (e.g. Enron) Therefore, performing an audit of ethics in the business is essential to maintain the organisations credibility.

In short, ethics is primarily the responsibility of management, they set the tone and give the lead on ethics not just in terms of lip service but in the actions they undertake.



**EXAMINERS REPORT**

**BUSINESS MANAGEMENT**

**SUMMER 2004**

**GENERAL COMMENT**

The overall performance of candidates was satisfactory in this the second year of the new syllabus. Results were comparable with last year and those that pertained in 2001

**Question 1.**

This was a very popular question and was attempted by seventy percent of candidates. Overall it was well answered.

- (a) Many candidates displayed a detailed understanding of Herzberg's theory of motivation. Unfortunately a number of candidates confused it with Theory X and Theory Y. Whilst many candidates were quite strong on the hygiene factors a number were confused about the inter-relationship between the two sets of factors
- (b) This part of the question was well answered. There was a tendency to over emphasise the logistical / proximity advantages and disadvantages at the expense of issues such clarity of direction, control, accountability and autonomy etc.
- (c) Candidates in most cases were able to identify the characteristics of good leaders

**Question 2**

Generally there was a high standard of answering to this question.

- (a) Almost all candidates could correctly describe the theory developed by F W Taylor. The difficulty arose with the Human Relations school of thought. The typical error was not to describe the work of Elton Mayo *et al* but to describe in great detail, with the aid of the pyramid diagram, the motivation theory developed by Maslow. Despite this most candidates did obtain a significant number of marks for this section. Another significant feature was that most candidates, even those who successfully described the different theories, failed to describe the differences between the theories. Others failed to answer the question asked by the examiner.
- (b) The question was quite specific in that it required a description of the managerial roles. The majority of candidates correctly listed and described the roles. However a substantial minority confused this with the definition of management by Fayol or described Strategic, Tactical and Operational levels of management.
- (c) Well answered, most candidates were able to show how it is still relevant in many industries.

### Question 3

About 65-70% of candidates attempted this question.

- (a) Overall, this was answered to a high standard, with a good level of understanding demonstrated. There was occasional confusion about terminology, with freezing, unfreezing, defreezing, refreezing appearing randomly, although even then the process was usually described fairly accurately.
- (b) This was generally answered well, with some exceptions where one point was made and then repeated with slightly different wording. There was a minor trend towards dragging in theories on types of worker (X & Y), hierarchies of needs (Maslow), etc., obviously prepared answers that were not going to be wasted!
- (c) Although usually attempted, this was poorly answered for the most part, with quite a lot of waffle and wild guesswork.

### Question 4

- (a) In general, reasons for conflict rather than solutions were given. Somewhat disappointing.
- (b) Students could define both self managed and formal teams but, in general, did not distinguish between them or give relevant examples. Those that did scored best.
- (c) The vast majority of students gave forming, storming and norming as their answer. Few however discussed the actual role of norms.

### Question 5

75-80% of candidates attempted this question.

- (a) Answers to this part were somewhat disappointing with many students resorting to a listing of the 4P's rather than product market strategies
- (b) Overall this was very well answered with most candidates elaborating on the key issues involved
- (c) Generally well answered. A number of candidates were unclear of the role of public relations and confused it with market research or industrial relations.

### Question 6

Approximately 80-90% of candidates attempted this question

- (a) Generally answered well. Some candidates listed functions of the HRM but did not give any descriptions, while a small number gave the qualities required for the post.
- (b) Overall this was well answered, although in a minority of cases little or no description was given, just a list of; for example, mortgage, bank loan, debentures. The better candidates gave very comprehensive responses.
- (c) Answers somewhat disappointing. A number of candidates wrote about end-of-year procedures rather than current or ongoing monitoring procedures.

**Question 7**

This question was answered by 20% of candidates

- (a) This part was answered well.
- (b) Answers tended to be vague with only a small number of students mentioning relevant security issues.
- (c) Answers for the most part were good here

**Question 8**

- (a) Answers to this part were of a very high standard. Almost all answers contained very high quality descriptions of the process.
- (b) Answers were of a relatively low standard. Typical answer consisted of the 4Ps with no specific reference to provision of a service. Again failure to answer the question set by the examiner
- (c) Generally answers were of a high standard. Although some candidates suggested that it was the exclusive role of the HR department to ensure ethical standards were observed!

