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FOUNDATION EXAMINATION

Summer 2006

BUSINESS MANAGEMENT

**PAPER, SOLUTIONS
and
EXAMINERS REPORT**

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The Institute of Accounting Technicians in Ireland

Foundation Examination : Summer 2006

PAPER 3 : BUSINESS MANAGEMENT

Thursday 18th May 2006 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Answer FIVE questions 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 2006 Paper

Answer FIVE questions, including AT LEAST TWO from each Section

SECTION A

QUESTION 1

- (a) Explain Maslow's theory of needs. **10 Marks**
- (b) Describe *two* advantages and *two* disadvantages associated with matrix organisational structures. **6 Marks**
- (c) "Bureaucracy as a form of Management is dated and of little relevance today". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 2

- (a) Describe *four* stages in Tuckman's theory of group/team development. **10 Marks**
- (b) Describe *three* differences between strategic and operational planning. **6 Marks**
- (c) "Organisational conflict cannot be eliminated but it can be managed". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 3

- (a) Explain Lewin's three-step model of change management. **10 Marks**
- (b) Describe *three* steps that generally help make meetings more effective. **6 Marks**
- (c) "Organisation Charts do not necessarily portray the distribution of power within organisations". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 4

- (a) Describe *five* roles managers typically fulfil. **10 Marks**
- (b) Describe *three* non-financial controls frequently found in business organisations. **6 Marks**
- (c) "Organisations are essentially closed systems". 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 why process, physical evidence and people are three of the vital components in the delivery of a service. 10 Marks
- (b) Outline *three* differences between debentures and ordinary share capital as sources of finance available to organisations. 6 Marks
- (c) "Costs are the single most important factor in the pricing decision". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 6

- (a) Identify and describe *four* important areas of activity within the HR function. 10 Marks
- (b) Explain what is meant by the term "Total Quality Management:" 6 Marks
- (c) "Every product has a product lifecycle". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 7

- (a) Describe *four* attributes of good information. 10 Marks
- (b) Identify and explain *three* controls over IT development in an organisation. 6 Marks
- (c) "Strategy precedes structure". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 8

- (a) Describe *four* routes an entrepreneur may use to bring ideas to market. 10 Marks
- (b) Distinguish market penetration from market development. 6 Marks
- (c) "All business decisions have an ethical dimension". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**
-



The Institute of Accounting Technicians in Ireland

Foundation Examination : Summer 2006

SOLUTIONS TO PAPER 3

BUSINESS MANAGEMENT

Author : Mr Nathy Walsh, ACA

Solution to Question 1

Part A

Maslow's Need Hierarchy theory states that human motivation is dependent on the desire to satisfy various levels of needs and that the type of behaviour results from the particular need to be fulfilled at a given time. According to Maslow, five basic needs exist in a hierarchy from lower level deficiency needs to higher growth level needs, as follows;

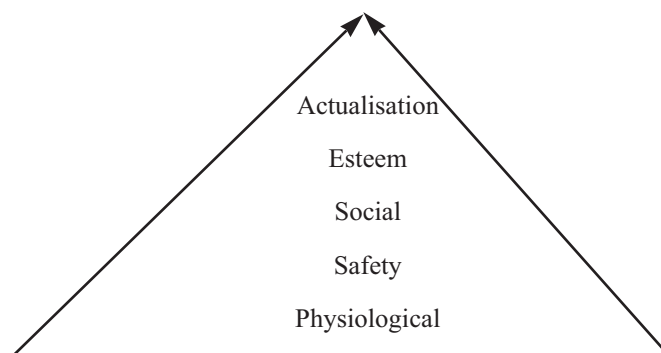
Physiological needs: These needs relate to the basic survival needs, which allow for continued existence, such as food, water and adequate shelter.

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

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

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

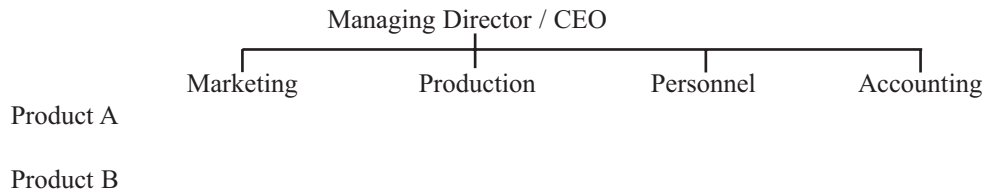
Self-actualisation needs: The final level in the hierarchy refers to the need for personal growth, and the development of one's full potential and capabilities. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled. The more they are satisfied the stronger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



Part B

The Matrix Approach

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



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

Naturally the approach looks well on paper but implementation in the real world may prove a little more problematic as individuals experience divided loyalties between individual bosses. In addition difficulties may be experienced co-ordinating tasks, clarifying objectives, priorities and responsibilities.

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 "Bureaucracy" 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.

Bureaucracy is frequently associated with "red tape". This should not take away from its usefulness in appropriate circumstances, in large organisations, where clarity and structure are required to co-ordinate activities in an equitable and effective manner.

Solution to Question 2

Part A

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

Forming

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

Storming

This is a stage of team development in which individual personalities and roles emerge, and potential for conflict or misunderstanding of individual roles becomes an issue.

At this stage a team may break into factions if not properly managed, and this has a serious effect on the overall cohesiveness of the group. At this stage a team leader must ensure healthy participation by all members, to ensure that ideas are proposed, disagreements are minimised, and conflicts are dealt with.

Norming

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

Performing

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

Adjourning

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

Part B

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 at this level is long term and strategic in nature.

Middle Management operate at the tactical level, in other words they translate strategic priorities 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 tasks and operations to be performed over the coming days and weeks

In summary we can say strategic and operational planning differs by level, scope, breadth and depth, degree of uncertainty, time span and degree of specificity.

Part C

Organisational conflict can take many forms; it may be active and overt, or passive and covert. It can occur at all levels for a wide range of reasons. It may relate to tasks, processes or relationships. It tends to be most pronounced when the organisation is undertaking changes in direction and services it provides.

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

The organisational universe is a highly politicised and moralised social space. It is and will always be a contested terrain, to a certain degree. It is highly unlikely that conflict will be eliminated; indeed it could be argued that a degree of constructive conflict is beneficial to the organisation.

Change is so pervasive in business today. A well-managed change process can reduce anxiety and help in securing the commitment of those who are most likely to be affected. This in turn is likely to reduce tensions and the likelihood of conflict.

Common to various change models is the recognition of the need for phased strategies to unlock the inertia of the *status quo*, usually involving research, feedback and adjustments; while monitoring the results of the change process.

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

There are no universal remedies to the resolution of conflict in organisations. Each case is unique and context dependent. Whilst particular approaches may be more conducive to certain settings than others, thereby facilitating better management of issues, there are no guarantees or panaceas that such conflict can be eliminated.

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

Meetings are vital for sharing information and making decisions, and managers who chair them must use everyone's talent and time efficiently. The following guidelines should be considered:

- Make sure the meeting is necessary, and cannot be achieved by a memo or a phone call.
- Set out a developed agenda, including items to be covered, and an indication of what will be expected of participants.
- Invite only those who need to attend, as having unnecessary participants can be counterproductive.
- Give the meeting your undivided attention and hold it away from possible interruption.
- Be prepared, and know the course you want to set in order to stimulate discussion. Reserve your own opinion until near the end of the meeting, as other participants may be unduly influenced by your comments.
- Encourage participants to contribute, but keep to the agenda and avoid pointless discussion.
- Conclude the meeting by summarising the discussion, and the possible action to be taken as a result of it and make out a set of minutes for distribution to participants.

Part C

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

The organisation chart depicts the formal authority structure of the organisation. It reflects the positional power of the various staff members. It is always interesting to ask staff members where "X" really is, as opposed to what the chart states. Many studies have shown that junior members of the staff in organisational chart terms may have far greater power than some of their superiors.

Depending on the nature of the networks and power structures in the organisation the informal organisation can present management with formidable challenges. It may in effect be a hidden hierarchy. It can stall and slow down their plans, it can act as a covert third force.

However it would be incorrect to presume this is always negative. In some instances the informal organisation may be presenting a picture of "lived experience" that is worthy of greater managerial attention.

Organisation charts reflect the distribution of authority but this does not always equate with the distribution of power in the organisation.

Solution to Question 4

Part A

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

Interpersonal Roles

Managers by their 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 monitoring role involves seeking, acquiring and interpreting information from a variety of sources on the direction and performance of the entity, whereas the disseminator and spokesperson roles refer to the transmission of information to others who require it.

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 B

A wide range of non-financial controls can be applied by business organisations. Three will be described in this answer;

- Functional Audits
- Quality Control
- Project Management and Control

Functional Audits

Functional Audits evaluate the effectiveness of procedures in the functional areas of the business, namely production, marketing and human resources. It is important that they be comprehensive, systematic, independent and periodic. They can be external or internal. External audits rely on information, which has been made public about competitor firms, and have as their objective the analysis of the performance of the industry as a whole, or the analysis of the competitor firms in question. Internal audits concentrate on the company's processes of resource management in the areas of sales, promotion, research, resource utilisation, production, and so on.

Quality Control

Quality control relates to the activities and techniques employed by the firm to achieve and maintain the quality of a product, process or service. It is essentially a monitoring activity but it is also concerned with finding and eliminating causes of poor quality.

Japanese firms introduced the concept of quality circles, groups of employees who get together to develop ideas for solving problems in the workplace such as how to improve quality, increase productivity, cut back on paperwork, reduce inventory costs, or introduce new production processes. More recently the International Standards Organisation (ISO) has introduced a set of quality standards organisations can choose to aspire to.

Increasingly trends have moved to building quality into the design of processes as opposed to inspecting it out.

Project Management & Control

There are a number of methods organisations may adopt to enhance the management of projects. A wide range of project management methodologies are available, the silver bullet.

Common to all these methodologies is clarity of purpose, aims and objectives. Effective project management draws on the range of management skills, formalised planning tools, measurement of progress, team-building, communication etc.

Two common techniques include Pert Analysis and Gantt charts. A PERT analysis of the tasks involved in completing a given project, estimates the time needed to complete each task, and identifies the minimum time needed to complete the whole project. Gantt charts are techniques for smoothing out the utilisation of manpower.

Part C

The systems theory considers the business as a system. 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 thoughts had focused on internal workings only, referred to as a closed system. However, organisations have to be seen as Open systems that interact with their environment. Their boundaries are permeable rather than impervious.

Businesses that do not consider the external environment are likely to experience entropy, the tendency to lose its ability to control their future and consequently run the risk that it will cease to operate. However, an organisation also needs to consider the subsystems within the business and the interdependencies and influences on each other. 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.

Solution to Question 5

Part A

Most organisations define their Consumer Benefits Package within the parameters of the 4P's, **Price**, **Product**, **Place** and **Promotion**. 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 these participants 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 the exterior of these establishments are 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.

Services are intangible: They are difficult to describe, to demonstrate to the buying public, or to illustrate in communications and promotional material. An organisation's reputation and that of its sales people are more essential to service marketing than to goods marketing.

Services are only of immediate or single use. Most services are purchased and consumed simultaneously. For example, an airline seat, a hotel room or a consultancy room cannot be inventoried or held in stock.

Services provide heterogeneous output. There can be a great deal of variability in the output of a services firm and even a single service employee. This arises, as it is more difficult to establish standards for output and even harder to ensure standards are being met each time the service is being delivered.

Services require simultaneous production and consumption. The consumer, such as a tourist listening to a tour guide, interacts with and participates in the service delivery system.

Part B

Ordinary share capital

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.

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, placing, 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.

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

Part C

The main issues to be analysed are how price is to be used as a competitive tool, what are the determinants of price and what pricing methods and tactics marketers can use.

Price is a critical factor of the marketing mix, that is, it is the only factor that produces revenue. Many firms base their pricing policy on cost factors alone, and do not take into account the dynamics of the market. In the market a service may be successful at a certain price but not at another.

There are many factors, which determine the price of a service:

- market structure
- economic conditions
- competitive conditions
- type of customer - disposable income bracket
- strategic objectives
- legal issues
- distribution channels

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 resources 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

Employee recruitment and selection

Employee recruitment is the process of obtaining a sufficient number of the right people at the right time to best meet the needs of the organisation. It involves finding, hiring and holding on to people who can satisfy the technical, educational and social needs of the organisation. Recruitment relies on a number of sources, including internal promotions, advertisements, employment agencies, management consultants, and so on. The process is comprised of a number of distinct stages

1. Manpower planning / Needs analysis
2. Job description - responsibilities defined
3. Attributes & aptitudes required
4. Conditions established - terms and conditions
5. Job advertisement drawn up
6. Advertised internally
7. Advertised externally
8. Short listing
9. Interview and other selection procedures
10. Offer made
11. If accepted unsuccessful candidates notified
12. Induction and training

Employee performance appraisal

Appraisal is carried out to assess the employee's performance. It is a task requiring some degree of managerial judgement and this places considerable responsibility on the managers involved. It is important that appraisal be objective. To this end someone from outside the organisation who is qualified in the particular area would be ideal, though this may not always be possible.

Performance appraisal should help

- identify employee strengths and weaknesses
- enable employees to improve their performance
- highlight training needs
- benefit the manpower planning process
- motivate employees
- encourage employees to think about their career paths

Systematic approaches tend to commence with the completion of an appropriate appraisal form by the manager of the employee concerned. This will be followed by an appraisal interview in which the manager discusses progress with the member of staff involved, based on the contents of the appraisal form. The result is some form of agreed action, either by the staff member alone, or jointly with his manager.

Training

Once training has been carried out, it must be evaluated. This evaluation may be undertaken at a number of levels ranging from the immediate to long term results.

Training centred evaluation aims to assess the inputs to training i.e. whether we are using the correct methods of training.

Reaction centred evaluation, which is probably the most widely used approach, seeks to obtain and assess the reactions of trainees to the learning experiences they have been put through.

Learning centred evaluation seeks to measure the degree of learning that has been achieved. This is usually undertaken by testing trainees following their training, as in a driving test for example.

Job related evaluation is aimed at assessing the degree of behaviour change, which has taken place on the job after returning from a period of training. It is a measure of learning, which has applied in the workplace.

Organisation changes can be brought about by training, and here the evaluation is linked to an organisation change programme

Part B

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

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

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

A number of key factors in TQM have emerged:

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

Part C

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 market 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.

Whilst the life cycle of products is uncertain, varying from months to decades, it is fair to conclude that on the whole products have a lifecycle.

Solution to Question 7

Part A

a) The attributes of good information

The attributes of good information maybe summarised as follows:

- (i)** Purpose / relevance
- (ii)** Accuracy
- (iii)** Completeness
- (iv)** Timeliness
- (v)** Conciseness
- (vi)** Suitably presented
- (vii)** Provide value

Each of these attributes is explained as follows: -

(i) Purpose / Relevance

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

(ii) Accuracy

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

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

(iii) Completeness

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

(iv) Timeliness

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

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

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

(v) Conciseness

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

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

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

(vi) Presentation / Media

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

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

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

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

(vii) Provide Value

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

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

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

- (a) What information is provided?
- (b) What is it used for?
- (c) Who uses it?
- (d) How often is it used?

- (e) Does the frequency of use match the frequency of provision?
- (f) What is achieved by using it?
- (g) What other relevant information is available which could be used instead

Part B

The impetus to develop or enhance a computerised information system arises because someone somewhere perceived a need or opportunity that can be satisfied by the introduction of modern information technology. (e.g. cost savings, improved information, e-commerce etc.)

Initial Scoping

It is important to "get the project off" in the right way. It would be a mistake to call in the consultants or systems analysts and provide a loose verbal indication of what is needed and let them get on with the job.

Whilst the analyst may be given a rough indication of the problem or the opportunity, it is most important that scope and objectives of the project are fully developed and understood before resources are committed to development.

Typically the specialist looks into the problem and the system within which it is located. The purpose is to come up with a written statement of what the specialist sees as the problems to which the project is addressed, its scope and objectives and some rough estimate of the costs and time schedule involved.

Feasibility Study

Once preliminary approval has been received a feasibility study should be undertaken to assess the merits and limitations of the proposal prior to allowing the project to go any further. It will address issues related to the economic, technical and organisational feasibility of the project.

Systems Acquisition

Many organisations today are relieved of the burden of designing and developing their own information systems, because of the wide availability of software packages, which address standard business requirements.

In such instances the analysts' job is to ensure that appropriate processes are in place and that the most effective package is obtained in light of the organisation's requirements. Detailed package selection procedures need to be applied in these instances, involving presentations, building of prototypes, checking of references and carefully monitoring of contracts and implementation plans. (user acceptance and training etc.)

In house / Contracted out development

For some organisations however standard packages do not provide the solution, because of their specialised needs. Such organisations have no option but to go for "custom-built" systems via in-house or contracted-out development processes. In either event stringent controls need to be applied over all stages of the systems development lifecycle.

Part C

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

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

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

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

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

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

Solution to Question 8

Part A

Routes to market

New Business Idea

This route is the greatest risk as it entails providing something unique to the market that hasn't been seen before. Consequently there are no other models to show that this is a proven business concept, unless you are bringing the idea in from abroad.

Existing Ideas

This is a popular way of starting a business, which typically reflects the work experience background of the entrepreneur himself. The primary benefit is that there are other businesses that have shown a market exists and that it can be served profitably. It is also easy to identify methods of operating and sources of supply

Franchising

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.

Buying a Business

Similar to franchising you are buying a business operation. However you will not have the benefit of ongoing support. Essentially the key question is does the owner want to sell? If it is a failing business, why is it that you can turn it around? If it is successful why does the owner want to sell? In addition trying to establish a value for the business may be difficult as it is not the same as the total value of the assets.

Part B

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. (e.g. TESCO's entering the Home Insurance market).

Part C

Ethical concerns permeate every aspect of business activity. Core ethical values such as honesty and justice help to determine when other people's 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.

In helping business to make informed decisions, business ethics is rather like management accounting. Of course, businesses can and do operate without management accounts. Small businesses often dispense with formal accounting systems altogether, and even large firms can survive in favourable circumstances ignorant of exactly how their costs arise, or which of their activities are profitable. That it is possible to operate blindly, however, this does not mean that it is sensible to do so. A business without management accounts suffers from a serious handicap: it lacks a fundamental management tool, as basic to directing business as a map is to navigation. Operating without such aids may be more adventurous, but it is unlikely to be as effective: it is easier to hit a target whose location and identity are known. Business ethics provides greater awareness of what is important in business activities, and can thus contribute to the long term well being of the entity and the stakeholders it serves.



EXAMINERS REPORT

BUSINESS MANAGEMENT

SUMMER 2006

General Comment

The overall performance of candidates was satisfactory in this the fourth year of the current syllabus. Results were comparable with the previous two sittings.

Question 1

- (a) A popular question with students demonstrating a thorough understanding of the different elements in Maslow's theory on the hierarchy of human needs and how they contribute to our understanding of motivation within organisational settings. A number of candidates highlighted its limitations as a need based theory of motivation contrasting it with other theories, such as, McClelland's etc.
- (b) Well answered in general. Many of the better candidates demonstrated a clear understanding of matrix structures and supplemented their answers with diagrams.
- (c) Answers were somewhat mixed. Many of the candidates demonstrated a clear understanding of the principles behind the concept. A number however referred only to the populist / stereotypical views of bureaucracy, and failed to acknowledge its indispensability in certain situations or how elements of the concept are prevalent in many large public and private sector organisations.

Question 2

- (a) This part on the stages in team / group development was well answered by the majority of candidates.
- (b) A good understanding of the distinction between strategic and operational planning was demonstrated by many candidates.
- (c) There was a tendency to emphasise the sources of conflict as opposed to the management of conflict in answers to this part of the question.

Question 3

- (a) Generally this part was well answered with almost all candidates correctly identifying and describing the three stages in Lewin's model of change management. In some cases candidates applied the model to recent changes in their workplaces or well-known public cases. A minority interpreted the question as describing the three levels of management in Anthony's model.
- (b) A very high standard was achieved in this part with many candidates drawing on their experience of actual meetings in their professional work to describe how they should be run effectively.
- (c) A lower standard was achieved in this part with many answers simply consisting of an organization chart (not required by the question) and little or no commentary or explanation.

Question 4

- (a) Overall, this was well answered. Some candidates mentioned both Fayol's and Mintzberg's theories, some gave detailed descriptions of one or the other or both. Many gave full descriptions of both theories and described all ten of Mintzberg's roles in detail. Other candidates mentioned no theories, just gave off the top of the head ideas about what managers do.
- (b) On the whole this was very poorly answered. Even those who gave good answers (on Internal Audits and Quality Control) struggled to find a third example, with only a tiny minority mentioning Project Management & Control.
- (c) Many candidates did not even attempt this. Those who did fell into two camps: those who obviously had a fair to good idea and those who had no clue at all.

Question 5

- (a) Answers were somewhat disappointing for these important elements of the service mix.
- (b) This was generally answered extremely well, with only a few exceptions. Many candidates listed off every possible difference between the two, while a minority were a bit confused about the detail, and a few either had no real idea or didn't attempt this part of the question at all.
- (c) Many candidates discussed the composition of costs (e.g. material costs, labour costs, overhead costs) rather than the proposition that they are the single most important factor in the pricing decision.

Question 6

- (a) Answers in general were excellent with almost all candidates correctly identifying and describing four important areas within the HR function. Some candidates missed out on marks by simply listing a point but not elaborating on it.
- (b) Answers were very good with a majority capturing the essence of TQM, the involvement of all members of the organization, commitment to continuous change and achieving zero defects. The most common error was to confuse it with good quality management as in having effective managers
- (c) Very high standard once again with almost all answers including a comprehensive description of the lifecycle accompanied with appropriate diagrams.

Question 7

- (a) Attributes of good information were well answered.
- (b) Many candidates addressed controls over IT rather than controls over IT development as required by the question.
- (c) Answers were variable with scope for commenting on the linkages between these two concepts.

Question 8

- (a) Answers varied significantly. Some candidates focused on tangential issues such as the characteristics of entrepreneurs etc.
- (b) Most candidates were fully aware of the distinction and supplemented their answers with appropriate examples.
- (c) Answers to this section varied widely with most candidates recognising the pervasive nature of ethical matters in organisational decision-making.

