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## FOUNDATION EXAMINATION

Summer 2007

**BUSINESS MANAGEMENT**

**PAPER, SOLUTIONS  
and  
EXAMINERS REPORT**

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

## **Foundation Examination : Summer 2007**

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

Thursday 24<sup>th</sup> May 2007 - 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.**

SECTION A

Answer FIVE questions, including AT LEAST TWO from each Section

QUESTION 1

- (a) Explain Vroom's expectancy theory of motivation and comment on its merits and limitations. **10 Marks**
- (b) Distinguish a functional organisational structure from a matrix organisational structure. **6 Marks**
- (c) "The distinction between the formal and the informal organisation has little relevance". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 2

- (a) Describe the "scientific management" theory of Fredrick Taylor and comment on its contribution to management as well as its limitations. **10 Marks**
- (b) Describe *four* key considerations in effective delegation. **6 Marks**
- (c) "The basic goals of all managers at all levels in all organisations are essentially the same". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 3

- (a) Describe *four* stages in team development. **10 Marks**
- (b) Describe *two* leadership styles and comment on their merits and limitations. **6 Marks**
- (c) "Group decision-making is always superior to individual decision-making". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

QUESTION 4

- (a) Communication flows in organisations in three directions. Describe the nature and importance of each flow. **10 Marks**
- (b) Distinguish between "change management" and "conflict management". **6 Marks**
- (c) "Norms are vital to organisational control but difficult to change". Do you agree? Give reasons in support of your answer. **4 Marks**
- Total 20 Marks**

SECTION B

Answer AT LEAST TWO questions from this Section

QUESTION 5

- (a) Briefly describe *five* of the seven factors which make up the service mix. 10 Marks
- (b) Distinguish between leasing and hire purchase transactions. 6 Marks
- (c) Explain what is meant by the term “Market Segmentation” 4 Marks
- Total 20 Marks**

QUESTION 6

- (a) Explain each of the following strategies in Ansoff’s product / market grid:
- (i) Market penetration strategy
  - (ii) Market development strategy
  - (iii) Product development strategy
  - (iv) Diversification
- 10 Marks
- (b) Explain what is meant by the term “Budgetary Control” and give two reasons why it is important in all organisations. 6 Marks
- (c) “Entrepreneurs have innate personal characteristics that distinguish them from other business people and managers”. Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 7

- (a) Describe *five* key controls you would expect to find in a small business IT environment. 10 Marks
- (b) Outline *two* advantages and two disadvantages of debt as a source of finance. 6 Marks
- (c) “The difficulties and time involved in conducting employee performance appraisal render the process ineffective”. Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 8

- (a) Describe *five* key considerations in effective staff selection. 10 Marks
- (b) Distinguish between “Buyer Behaviour Analysis” and “SWOT Analysis”. 6 Marks
- (c) “Business Ethics has a decreasing role to play in the modern business environment”. 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 2007**

### **SOLUTIONS TO PAPER 3**

### **BUSINESS MANAGEMENT**

**Author : Mr Nathy Walsh, ACA**

#### **Solution to Question 1**

##### **Part A**

This theory could also be called motivation by expectancy. It is based on the idea that we constantly create expectations about future events. If things seem reasonably likely and attractive, we know how to get there and we believe we can "make a difference" then this will motivate us to act to make this future come true.

Vroom suggests three factors interact psychologically to create this motivational force. He termed these Valence, Instrumentality and Expectancy.

**Valence** is the subjective value we place on the perceived outcome or reward (What's in it for me? - this could be extrinsic (money / status) or intrinsic (satisfaction at seeing a job well done) or a combination of either).

**Instrumentality** is the perceived performance-reward relationship, that is, the belief people hold about the likelihood of being rewarded if they achieve certain results (That the path is clear and unambiguous).

**Expectancy** is the perceived capability-performance relationship, that is, the belief people hold in their own abilities, (e.g. that with extra effort they can do what is required).

In short it suggests that motivation is a combination of the following beliefs that;

- effort will lead to results, results will lead to rewards and rewards will satisfy.

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

The relationship between one's behaviour and particularly desired outcomes is affected by individual factors such as personality, perception, motives, skills etc, and by organisational factors such as culture, structure, managerial style. (i.e. the context in which one is working).

Expectancy theory avoids attempts to isolate a definitive set of employee motives. Instead it adopts a process-orientated understanding of the complex concept of motivation. One that seeks to accommodate individual differences in terms of goals, motives and behaviours.

In summary it postulates that employee motivation is dependent on how the employees perceive the relationships between effort and performance, performance and rewards, and rewards and satisfaction.

Motivation is a complex concept. It is not available to examination under a microscope. It is a psychological process that is inferred from one context to another. It varies from individual to individual, and takes on different forms at different stages in people's lives.

Some people are high achievers, whilst others lack drive and commitment. Some are good at doing their best; others are good at doing as little as possible. Need based theories, such as, Maslow's, McClelland and Herzberg's, highlight the impact different forces have on peoples motivation. While Vroom's concept of "Valance" distinguishes intrinsic from extrinsic factors, it does not specify particular forces or attribute a likely order to their influence.

To successfully meet goals and objectives, management must understand the needs, perceptions and expectations that underlie employee behaviour and levels of motivation.

Money may be a strong need for certain people at certain stages of their lives. Studies have shown however that it is not the absolute sum of money, which motivates but rather the perceived equity or inequity associated with its relationship to other referents (e.g. actual / perceived comparative benchmarks). In such circumstances money may be a cause for dissatisfaction when absent, but not necessarily a motivator when monetary needs are satisfied.

While a variety of need and cognitive theories of motivation exist none provide universal answers that apply across all situations. Vroom's model compares satisfactorily with other theories, in terms of its predictive power and use value in certain circumstances and conditions.

## Part B

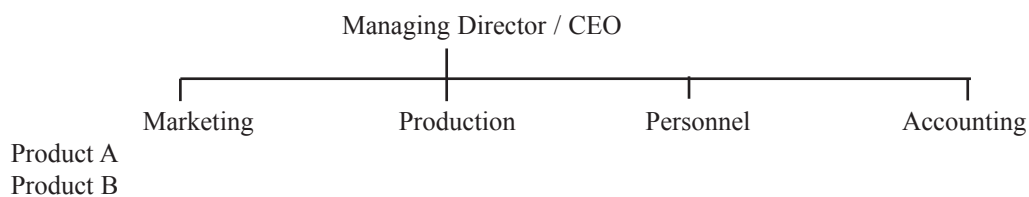
### Functional Structures

Functional structures are usually organised around the traditional functions of manufacturing, marketing, finance, engineering and personnel. They enable individuals and groups to concentrate their efforts on their specialist areas of expertise. They facilitate resource allocation, training and development of skills and provide a clear and simple basis for decision-making, communication and control.

They suffer from the potential disadvantage that employees may focus on departmental goals rather than organisational goals; and that this may lead to unnecessary competition and rivalry making it difficult to provide seamlessly joined up services etc.

### Matrix Structures

Functional and divisional chains of command are implemented simultaneously and overlay one another in the same department. Two chains of command exist and one employee may have to 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 its 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.

### **Solution to Part C**

Formal communication is comprised of three distinct types, namely downward communication, upward communication and horizontal communication.

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

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

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

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

Depending on the nature of the networks and power structures in the organisation the informal organisation can present management with formidable challenges. 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.

### **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

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.

**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**

Ever since people began forming groups to accomplish goals they could not achieve on their own, management has been essential to ensure the co-ordination of individual efforts.

Management thus applies to small and large organisations, to profit and not-for-profit enterprises, to manufacturing as well as service industries. Effective managing is the concern of the Corporate CEO, the hospital administrator, the government first-line manager, etc.

In all organisations managers must strive to establish an environment in which people can accomplish group goals with the least amount of time, money, materials and personal dissatisfaction, or where they can achieve as much as possible of a desirable goal with available resources.

**Solution to Question 3**

**Part A**

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

**Forming**

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

**Storming**

This is a stage of team development in which individual personalities and roles emerge, and the 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 appropriately.

**Norming**

This is the stage of team development when many of the conflicts that emerged during the earlier stages are resolved and team harmony and unity evolves. 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 roles should not be discarded. The team at this stage is highly coordinated 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 teams disbandment. The brief of the team has been met and is "put to bed". Various emotions prevail at this stage from complete satisfaction / elation to depression. The team leader is focused on task accomplishment and reward where appropriate.

## **Part B**

The two most common styles of leadership are:

### **Autocratic leadership**

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

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

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

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

### **Democratic leadership**

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

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

## **Part C**

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

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

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

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

#### **Solution to Question 4**

##### **Part A**

Formal communication is comprised of three distinct types, namely downward communication, upward communication and horizontal communication.

##### **Downward communication**

The most usual form of communication within an organisation is downward communication, referring to messages and information from top management downward through the organisation.

The most common media used for downward communication are speeches, e-mail, published reports and accounts, bulletin boards and newsletters.

The topics that top management will deal with include the following:

- The vision, goals and objectives of the organisation
- Procedures and Policies
- Specific Job Instructions
- Feedback on performance and attainment of objectives

The major problem that can be experienced with downward communication is that the message will not filter to all levels, or that the message can get misinterpreted through numerous reiterations.

##### **Upward Communication**

This is defined as the process of encouraging employees to share feelings and ideas with managers and/or employees at a higher level in the organisation. Employees are increasingly demanding and receiving more of a say in the direction of the organisation and their working environment.

A variety of options are available in terms of facilitating or improving upward communication:

- Formal grievance procedures
- Polls and opinion surveys
- Suggestion box systems
- Open door policies
- Informal meetings
- Task forces
- Exit / terminal interviews

### Horizontal Communication

This is defined as the diagonal or lateral exchange of messages among employees at the same level within an organisation, or between departments. Horizontal communication falls into one of three categories;

- Intra-department teams
- Inter-department teams
- Manager/ supervisor communication

### Part B

Conflict management and change management are interrelated but distinctive concepts.

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 or the 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.

The organisational universe is a highly politicised and moralised social space. It is and will always be a contested terrain. 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 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 panacea's that such conflict can be eliminated.

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

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

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

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

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

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

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

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

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

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

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

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

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

## Part 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:

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

Norms tend to develop slowly over time through

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

Norms are shared values and understandings that have been internalised by team members and are therefore important elements of self-control (e.g. attitudes to drink driving). However, they are only one element of organisational control. They are durable in nature and not amenable to alteration in the short term.

### **Solution to question 5**

#### **Part A**

Most organisations cannot 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 is 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.

#### **Product.**

Designing services of high quality and high-perceived value added to the consumer is a vital part of any business. Marketers must communicate with consumers and constantly adapt the services to changing market demands. Many factors have to be considered at the service level

- the range of services to satisfy the different segments of the market
- the intangibles as well as the tangibles consumers evaluate when buying a service
- differentiation - how to promote the distinguishing characteristics of the service that your organisation provides
- differences between consumer and industrial markets
- branding the bundles of benefits provided.

#### **Price.**

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.

### **Promotion**

This relates to all communications with markets and consumers, including promotional activity, selling and sales, and marketing research. The design of effective service, pricing and delivery strategies are redundant if the communication strategy is not well designed or the selling and sales strategy is not integrated.

The key issues to be addressed within Promotion and Communications are as follows:

- Promotion and promotion mix.
- The Marketing Communications Process.
- Marketing Research.

Promotion is defined as "an attempt by marketers to persuade others to participate in an exchange with them".

The promotional mix is the combination of tools marketers use to promote their services and is made up of the following:

- personal selling
- publicity
- public relations
- sales promotion
- advertising
- word of mouth.

### **Place**

Distribution and location are vital for many service firms, in particular retailing and restaurant concerns and financial services. Multinational chains of restaurants always ensure they are located in the High Street.

### **Part B**

#### **Hire Purchase:**

This is a widely used source of medium term finance, utilised mainly in the purchase of plant and equipment. The hire purchase company buys the asset and hires it to the intended purchaser. The purchaser, after a period of time, having made regular payments to the hire purchase company covering both the initial cost of the asset and interest charges thereon, acquires legal possession of the asset.

The hiree has the advantage of the use of the equipment while paying only a small initial amount and thus avoiding the large cash outlay that would be necessitated if he were to purchase the asset outright. This can prove to be a tremendous cash flow advantage to him. The hiree can also claim tax capital allowances on the cost of the plant and equipment purchased and further, can claim the interest portion of the repayments charged against taxable income.

The asset itself purchased under the hire purchase agreement provides the security required by the company advancing the money to purchase that asset. The hire purchase company itself must ensure that the life span of the asset is greater than the period over which the company is repaying the hire purchase loan advance.

Hire purchase is a relatively very expensive form of finance.

**Leasing:**

This form of medium term financing is cheaper than hire purchase financing, due basically to the fact that the leasing company receives the tax capital allowances on the asset and thus is able to pass on this saving in the form of lower rental charges. At the end of a leasing period, the equipment still remains the property of the leasing company. It may, however, be possible to negotiate a secondary lease period at substantially lower rental amounts or, alternatively to purchase outright the asset for a fixed sum at the end of the primary leasing period. A decision as to whether a company should finance its assets by means of leasing or a hire purchase arrangement should involve an exercise in evaluating and comparing the difference in cash outlays, the timing of cash outlays, and tax advantages or disadvantages in either case. The advantages of leasing are as follows:-

- (i) It leaves working capital free to be utilised more profitably in other areas of the company.
- (ii) It covers the company to a certain extent against the ravages of technical obsolescence. This is particularly important with equipment such as computers, etc.
- (iii) the total rental charges are deductible from taxable income.
- (iv) Leasing does not affect a company's borrowing base as the only security involved is the leased asset itself.

Leasing can also affect the apparent return a company is achieving on its fixed assets. Assets leased may not appear in the balance sheet of a company, whereas the income they generate is reflected in the profit and loss account. The Accountancy Bodies suggest in their Standards that leased assets should be shown in the balance sheet, together with the corresponding obligation to pay the leasing company being shown as a liability.

**Part C**

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

The criteria used to segment a market can include;

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

**Solution to Question 6**

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

## Part B

Budgetary control refers to the analysis, recording and reporting on the activities and financial well being of the organisation. It involves management in 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 overtrading 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 only for those matters that fall within their sphere of control.

## Part C

Business ideas and opportunities arise from a wide variety of sources and circumstances. For example, prior employment, collaboration, hobbies and social encounters etc. There is a tendency to idealise the entrepreneur, to reify his success as a personal trait rather than view it as a process. Typically involving the astute use of resources and opportunities. For example in the way the entrepreneur approaches the testing and validating of opportunities - how he or she weighs up the level of opportunity involved, how clear they are 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 will be the set up costs?
- The opportunity costs?
- The downside-risk?
- Will it give the desired comeback?
- Greater independence?
- Greater Wealth?
- Greater autonomy?

The key areas to be validated are whether the entrepreneur and his team possesses the necessary competitive advantage *vis-à-vis* existing or potential competitors. This will entail looking at the operational requirements in terms of production and marketing, human resources required and capital to fund the venture.

Whilst entrepreneurs tend to display vision, self-belief and a capacity to deal with risk and uncertainty, these characterisations should not overshadow other features of the phenomenon. Entrepreneurs can be of all ages, they can work in old and new organisations. They tend to target market segments where they can be leaders or strong challengers. They compete using high quality products and by providing superior service. They rely on teams to build their enterprises. They adopt a professional attitude to management. They carefully recruit, train and develop their employees.

**Solution to Question 7**

**Part A**

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, and effective input/ output checks and balances.

In addition to the foregoing issues such as the capacity of the computer hardware to meet workloads along with normal day to day matters such as processing capabilities, network management, file and database management and the effectiveness of general operational procedures.

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

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 the 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.

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.

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 a key control will be to ensure that appropriate processes are in place and that the most effective package is obtained in light of the organisations 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.)

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 B**

**Advantages**

- Normally loans advanced are secured on the assets of the company.
- Interest payable is allowable for tax purposes.
- Debenture holders have no right to interfere in the management of the company.

### Disadvantages

- Interest is required to be paid even if the company makes insufficient profits.
- Debentures may place restrictions on the company's future borrowing position.
- The company will normally pledge its fixed assets to the debenture holders as security.

### Part C

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.

Doing appraisals properly may be time consuming and occasionally disputes may arise over the judgements made or the processes adopted. However, if done properly they provide an excellent opportunity to build better relations and provide useful feedback.

### Solution to question 8

A variety of factors influence the selection decision. Before any criteria may be set, those involved need to have a clear understanding of the nature and purpose of the position to be filled. This entails developing answers to the following questions, what has to be done in this job? How is it done? What background, knowledge, attitudes and skills are required for a job of this nature?

In selecting candidates for a new position, I would consider the following factors:

1. **Previous experience;** Preferably candidates have a proven track record in a comparable environment. (e.g. direct experience in the areas in question in the same industry or the potential to progress quickly).
2. **Professional and academic qualifications:** Ideally they will possess qualifications appropriate to the role.
3. **Degree of fit;** Ideally they will achieve an appropriate match or fit with the environment and the job. (e.g. the candidate is not over qualified or currently earning a substantially higher salary etc.).
4. **Personal traits;** Ideally the candidate has appropriate personal and managerial characteristics. (e.g. evidence of honesty, commitment and integrity).
5. **Achievement;** Ideally the candidate has demonstrated achievement in work and other areas (e.g. has demonstrated evidence that he is a self starter, shown initiative, is a good finisher of work etc.)

## **Part B**

### **Buyer Behaviour Analysis**

Every business must have an understanding of the end consumer of their products. Each consumer goes through a decision-making process in terms of recognising a need, searching for information, evaluating alternative products, deciding on a purchase, and evaluating their purchase after the event. The firm has some influence through its marketing mix on various stages of this decision making process, but this influence is far outweighed by outside influences relating to the personality of the consumer and the way in which they purchase goods. The following psychological, socio-cultural and situational influences are all factors in the decision-making process.

- Psychological influences, such as perception, attitude, learning and motivation.
- Socio-cultural influences, such as reference groups, family, social class, culture.
- Situational influences, such as type of purchase, social surrounding, physical surrounding and previous experience.

### **SWOT Analysis**

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

- Defining current position and objectives: Is the organisation performing satisfactorily? Are there opportunities it should be pursuing or weaknesses it should be concerned about?
- External / Internal analysis: How will the organisation go about achieving its goals? What are the factors within and outside the organisation that might help or hinder its performance?
- Analysing gaps and matching capabilities: Does the organisation have the human and material resources to fulfil its objectives? Can it get them? Or are the objectives realistic?
- Once an appropriate SWOT analysis has been undertaken an organisation is in a position to devise strategies to counter threats and weaknesses and to capitalise on opportunities and strengths. This form of analysis of the current situation, allows organisations to determine the direction it should take? the resources it will need? And the tactics, or parameters it should operate within to achieve its objectives?

## **Part C**

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.

Expectations and demands for accountability have become more explicit in recent years resulting in an increase in the range and breadth of business compliance regulations and obligations. Whilst business ethics has always been important, it is increasingly being operationalised in a more explicit, prescriptive and obligatory fashion than heretofore. I would disagree with the contention that its role is decreasing.



# EXAMINERS REPORT

## BUSINESS MANAGEMENT

### SUMMER 2007

#### GENERAL COMMENT

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

	Summer 2007	Summer 2006	Summer 2005
<b>Number of candidates</b>	1,419	1,256	1,320
<b>% Obtaining 50 or more</b>	74%	66.2%	67%
<b>Average marks</b>	57.59	51.9	56.2

Question	1	2	3	4	5	6	7	8
<b>No. Attempting</b>	658	1,036	1,312	569	1,096	1,081	317	831
<b>Marks available</b>	20	20	20	20	20	20	20	20
<b>Average marks</b>	11.11	13.71	12.32	10.24	11.05	12.65	7.67	12.06

#### Question 1.

- (a) A popular question with students demonstrating a thorough understanding of the different elements in Vroom's theory of motivation. There were a number of excellent answers where students were fully aware of the interconnections between the different relationships in the model as well as its limitations relative to other theories.
- (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. A number of candidates associated the informal organisation with informality.

#### Question 2

- (a) Overall, this was well answered. However, many students gave good descriptions of the theory but did not identify the contributions or limitations.
- (b) On the whole the answers here were good without being brilliant. Many of them were extremely brief, sometimes just one or two words per point. Others went to the opposite extreme with pages of theory about management in general thrown in.
- (c) This was poorly answered generally. Only a small minority gave comprehensive answers. Most listed the roles of managers at three levels. A large number did not either agree or disagree with the quotation, many did but without giving reasons.

**Question 3**

- (a) Generally this part was well answered with almost all candidates correctly identifying and describing the stages in Tuckman's model of team development.
- (b) A clear understanding of leadership styles was evident in this part.
- (c) A solid understanding of decision-making was demonstrated, particularly with regard to individual decision-making.

**Question 4**

- (a) Very high standard. Most candidates correctly identified and described the three types of communication. A tiny minority misinterpreted the question and described the process of communication such as sender, transmission etc.
- (b) Excellent standard. Many candidates went as far as describing full models of both change and conflict management.
- (c) Most candidates correctly described the nature of norms and the difficulties inherent in changing them.

**Question 5**

- (a) Very well answered with many students obtaining maximum marks or close to that level by listing and describing the required five factors.
- (b) Again a very high standard but most candidates identified only one significant difference between leasing and hire purchase.
- (c) Very high standard with most candidates identifying the purpose and nature of segmentation.

**Question 6**

- (a) Answers in general were excellent with almost all candidates correctly describing the four strategies. Some over-relied on the product life cycle in developing their answers.
- (b) Answers were very good with a majority capturing the essence of budgetary control systems.
- (c) Answers were wide ranging with many demonstrating the commonalities and differences between both categories.

**Question 7**

- (a) A wide range of answers was provided to this part.
- (b) A clear understanding of debt as a source of finance was demonstrated.
- (c) Answers were variable with many candidates demonstrating a clear understanding of the challenges associated with this important task.

**Question 8**

- (a) A substantial number of candidates described recruitment rather than selection; a few described both. In general the answers were good. But, a surprisingly large number of people thought that age, sex, marital status, social background and even religion were valid considerations when selecting staff.
- (b) SWOT was generally described very well, with good examples. Buyer Behaviour Analysis was not so well handled, with many candidates not attempting this part of the question at all: they either knew it very well or not at all.
- (c) This was very poorly answered in general. A surprising number of candidates did not appear to understand what the word 'ethics' means: they seemed to think it was some kind of technology. A lot of answers started by agreeing and then went on to give reasons that supported disagreement, or *vice versa*, or they hedged their bets. Most candidates were fully aware of the distinction and supplemented their answers with appropriate examples.

