

**iat**i

**NEW SYLLABUS**



**FOUNDATION EXAMINATION**

**SUMMER 2008**

**BUSINESS MANAGEMENT**

**PAPER, SOLUTIONS**

**and**

**EXAMINERS REPORT**

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

The solutions in this document are published by the Institute of Accounting Technicians in Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in Institute examinations.

Although they are published by the Institute, it should be noted that neither the Institute nor its Examination Committee necessarily endorses these solutions or agrees with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by the Institute.

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

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

This publication is copyright 2008 and may not be reproduced without the permission of the Institute.

© The Institute of Accounting Technicians in Ireland, 2008.

# NEW SYLLABUS

**The Institute of Accounting Technicians in Ireland**

**Foundation Examination : Summer 2008**

**PAPER 3 : BUSINESS MANAGEMENT**

Thursday 22<sup>nd</sup> May 2008 - 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 and should note that 1 mark equates to 1.65 minutes.

Answers should be illustrated with examples, where appropriate.

Question 1 begins next page.

SECTION A

QUESTION 1

- (a) Describe the expectancy theory of motivation. 10 Marks
- (b) Comment on its relevance in today's business environment, making reference to organisations with which you are familiar. 6 Marks
- (c) "Perceptions and attributions represent a significant challenge to effective communication and understanding in organisations". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 2

- (a) Describe *one* subrole within each of Mintzberg's broad groupings of managerial roles - interpersonal, informational and decisional. 10 Marks
- (b) Does Mintzberg's classification adequately capture the roles undertaken by managers in practice? Give reasons in support of your answer, drawing on roles undertaken by managers in organisations with which you are familiar. 6 Marks
- (c) Employees taking up managerial roles for the first time tend to encounter steep learning curves. Briefly outline *two* mistakes they frequently tend to make. 4 Marks
- Total 20 Marks**

QUESTION 3

- (a) Describe Lewin's *three* step theory of change management. 10 Marks
- (b) Your organisation, a large service industry based Irish Plc, is striving to reposition its service offerings. As part of this strategic initiative it recently embarked on a programme of change, which involves merging the operations of *two* of its existing divisions.
- Briefly explain how Lewin's approach to change management may assist in reducing the level of resistance that is likely to be encountered. 6 Marks
- (c) "Leadership styles can be matched to situations". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

QUESTION 4

- (a) Outline *four* stages of team development and briefly describe what happens at each stage. 10 Marks
- (b) You recently overheard a manager suggest that "Team norms can be both positive and negative". Explain how this might be the case. 6 Marks
- (c) "Control is something that should be exercised at the end of a process". Do you agree? Give reasons in support of your answer. 4 Marks
- Total 20 Marks**

SECTION B

QUESTION 5

- (a) "The product lifecycle concept helps interpret market and product dynamics and can be used for planning and controlling marketing effort".

Explain the stages of the product lifecycle drawing on products / brands of your choice and outline *three* criticisms associated with the use of the concept as a marketing tool.

**10 Marks**

- (b) A major US Insurance company is considering entering the Irish Insurance Market and is embarking on a SWOT analysis as part of its strategic evaluation of the proposed venture.

Explain what a SWOT analysis entails and why it might be important to the strategic evaluation of this proposal.

**6 Marks**

- (c) Explain any *two* elements of a marketing orientated organisation.

**4 Marks**

**Total 20 Marks**

QUESTION 6

- (a) The Human Resource Manager of a dynamic Irish Company has recently retired. The company, which has offices in Dublin, Belfast and Cork is unionised, and employs over 130 people of all ages, grades and ethnic backgrounds. In an effort to save costs the Managing Director is considering taking over the Human Resource Manager role himself in addition to his existing Managing Director responsibilities.

Write a report to the Managing Director explaining the role of the Human Resource Manager in an organisation, clearly identifying any concerns you might have with the current proposal for filling this position

**10 Marks**

- (b) You are working in the human resource section of an Irish based financial service organisation. The company was established 5 years ago, employs over 100 people and is considering introducing an employee performance appraisal system. You have been asked by your manager to prepare a short report outlining the following issues:

- (i) *Three* merits of an employee appraisal system.  
(ii) *Three* arguments against the introduction of such a system.  
(iii) *Three* factors to be taken into consideration in the design of such a system.

**6 Marks**

- (c) Explain what you understand by the term "Business Ethics".

**4 Marks**

**Total 20 Marks**

QUESTION 7

- (a) Your company, PEMBROKE Ltd, produces a range of central heating systems for sale to builders' merchants. As a result of increasing demand for the business's products, the directors have decided to expand production. The cost of acquiring new production plant and equipment will be significant and will need to be financed by long term finance.

Identify *two* long term sources of finance available to organisations to finance expansion of this nature, and describe their respective merits and limitations.

**10 Marks**

- (b) You work as an Accounting Technician in the hotel sector in Ireland. At a recent staff meeting it was suggested that "The future is uncertain and so budgets and projected financial statements will almost certainly prove to be inaccurate. It is therefore, a waste of time to prepare them."

Draft a short report to staff in response to this suggestion, clearly identifying *three* arguments *in favour* of producing a budget.

**6 Marks**

- (c) Explain what you understand by the term "Incremental Budgeting".

**4 Marks**

**Total 20 Marks**

QUESTION 8

- (a) Describe *four* Security Threats to Data and Data Networks and explain how they might be minimised.

**10 Marks**

- (b) You have been requested to join a steering group set up to undertake a feasibility study of an IT project in your organisation. Identify *three* broad criteria the steering group should consider in assessing the feasibility of the IT project. Give reasons for choosing these criteria.

**6 Marks**

- (c) "Corporate Strategy should be determined by Information Systems Strategy". Do you agree? Give reasons in support of your answer.

**4 Marks**

**Total 20 Marks**





# NEW SYLLABUS

**The Institute of Accounting Technicians in Ireland**

**Foundation Examination : Summer 2008**

**SOLUTIONS TO PAPER 3**

**BUSINESS MANAGEMENT**

**Author : Mr Nathy Walsh, ACA**

## **Solution to question 1(a)**

Expectancy theory holds that people make conscious choices about their motivation. The three factors that affect those choices are **valance**, **expectancy**, and **instrumentality**.

**Valance** is simply the attractiveness or desirability of various rewards or outcomes. Expectancy theory recognizes that the same reward or outcome, say, a promotion, will be highly attractive to some people, will be highly disliked by others, and will not make much difference one way or the other to still others.

Accordingly, when people are deciding how much effort to put forth, expectancy theory says that they will consider the valance of all possible rewards and outcomes that they can receive from their jobs. The greater the sum of those valences, each of which can be positive, negative, or neutral, the more effort people will choose to put forth on the job.

**Expectancy** is the perceived relationship between effort and performance. When expectancy is strong, employees believe that their hard work and effort will result in a good performance, so they work harder. By contrast, when expectancy is weak, employees figure that no matter what they do or how hard they work, they won't be able to perform their jobs successfully, so they don't work as hard.

**Instrumentality** is the perceived relationship between performance and rewards. When instrumentality is strong, employees believe that improved performance will lead to better and more rewards, so they choose to work harder. When instrumentality is weak, employees don't believe that better performance will result in more or better rewards, so they choose not to work as hard.

Expectancy theory holds that for people to be highly motivated, all three variables – valance, expectancy, and instrumentality - must be high. Thus, expectancy theory can be represented by the following simple equation

$$\text{Motivation} = \text{Valance} * \text{Expectancy} * \text{Instrumentality}$$

If any one of these variables declines overall motivation will decline too.

**Solution to question 1(b)**

Motivation is a complex concept. There are a variety of factors which influence the meanings people give to a situation and which prompt them to act in particular ways.

Similarly, there is no one universally accepted theory of motivation. Broadly speaking the theories, may be categorised into two groups, need and cognitive theories of motivation.

**Vroom's theory** falls into the latter category. It takes a rational individualistic perspective towards motivation. It assumes people make conscious decisions about the value of discharging their effort. It argues that clarity and belief in the effort, performance and reward relationships enhances motivation.

The model certainly has intuitive appeal and there is a body of evidence to suggest it has wide applicability in practice. For example, most bonus, piecework and performance related pay systems are based on the logic underlying expectancy theory.

The model like most theoretical frameworks does not necessarily hold for all people in all situations. People's valences vary from individual to individual, from culture to culture and there is a temporal dimension to motivation in that a person's valences themselves will vary at different stages of their lives.

The nature of the task environment also influences the appropriateness of the framework. The tangibility of the outputs impacts its adoption. (e.g. making sales is quite a tangible act and forms the basis for commissions, but taking care of the elderly is a completely different matter).

The system for measuring performance must also be fair and robust. The outcome / input ratio's must be seen to fair and applied in an equitable manner, otherwise the system risks losing credibility.

Overall, no one framework can be used to deal with the complexities of reality, but in appropriate conditions and circumstances, expectancy theory has a significant role to play in contributing to motivation in work environments.

**Solution to question 1(c)**

People experience stimuli through their own perceptual filters – the personality, psychology or experience based differences that influence them to ignore or pay attention to particular stimuli.

Perception creates communication problems for organizations because people exposed to the same communication and information can end up with completely different ideas and understandings. Two of the most common perception problems in organizations are selective perception and closure.

Selective perception is the tendency to notice and accept objects and information consistent with ones own values, beliefs, expectations while ignoring or screening out inconsistent information. Closure refers to our tendency to fill in gaps of missing information by assuming what we do not know is consistent with what we already know. Perception-based differences can also lead to differences in the attributions (internal or external) that managers and workers make in explaining workplace behaviour. In general, workers are more likely to explain behaviour from a defensive bias. (i.e. the situation). Managers on the other hand, tend to commit the fundamental attribution error, attributing problems to internal causes (i.e. the worker associated with the mistake).

Finally, this problem is compounded by a self serving bias that leads people to attribute successes to internal causes and failures to external causes. So, when workers receive negative feedback from managers, they may become defensive and emotional and not hear what their managers have to say. In short, perceptions and attributions represent a significant challenge to effective communication and understanding in organizations.

### Solution to question 2(a)

Henry Mintzberg suggested, that rather than look at the functions of the manager; it is more beneficial to view the key roles they play. He isolated ten roles common to most day to day work of managers, and grouped them under the following broad categories; **Interpersonal**, **Informational** and **Decisional**.

#### Roles of a broad Interpersonal Nature

Managers need to interact with individuals and teams. As “figureheads”, the managers handle ceremonial and symbolic activities for the organisation. As “liaison officers” they develop information sources both inside and outside the organisation. As “leaders” they provide direction to the organisation and build relationships with staff, instilling confidence and winning their support and commitment to formulated visions.

#### Roles of a broad Informational Nature

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

#### Roles of a broad Decisional Nature

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 role” 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.

### Solution question 2(b)

Does **Mintzberg’s theory** capture the roles played by management in practice?

There is no single right answer to this part of the question. However candidates would need to be able to critically comment on Mintzberg’s depiction of the roles fulfilled by managers.

They may argue for example how managers work is action orientated or driven. Managers cannot wait for revelations of the divine. They have to manage situations as they are faced with them. They have to strive to make a difference.

Arguments may be made in favour of Mintzberg’s topology, suggesting that it is more life like than traditional formulations, of planning, control and decision-making.

The complex nature of reality has also to be acknowledged, highlighting how roles are not static categorisations. But rather that they are fluid in nature; varying in importance by managerial level, industry, organisation size, competitive pressures, levels of uncertainty etc.

**Solution to question 2(c)**

Employees taking up managerial positions for the first time often rely excessively on formal authority. Common mistakes include being abrasive and intimidating; being cold, aloof and arrogant; being overly ambitious, over managing and betraying peoples trust

However, newly appointed managers learn after a short while that being a manager has little to do with “bossing” their subordinates. Research suggests they are surprised at the fast pace of their jobs, the heavy workload involved and that “helping” their subordinates maybe viewed as interference.

A year into the job, most see themselves not as doers, but as managers who get things done through others and that people management is the most important part of their job. By then many have abandoned their authoritarian approach for one based on communication, listening and positive reinforcement.

**Solution to question 3(a)**

**Lewin** suggests a successful change management project, involves three stages or phases

1. Unfreezing
2. Moving
3. Refreezing

**Unfreezing**

This 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 an effort to convince / persuade 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**

This phase 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.

Lewin’s three-step model has been subject to criticism, that it is not relevant to change in the nanosecond culture of today’s high tech environment. It has been criticised as too simplistic and mechanistic for a world where organisational change is a continuous and open-ended process. It has also been suggested it is only relevant to incremental and isolated change projects and not able to incorporate radical, transformational change.

**Solution to question 3(b)**

It is important to note that the depiction of the three-step model in textbooks is a highly reduced version of Lewin's overall work. A basic tool for the analysis of group life is the representation of the group and its setting as a "social field". According to Lewin what happens in a field depends upon the distribution of forces throughout the field. Any situation at any given time is not static but is subject to the interplay of these counter-veiling forces. Some forces seek to drive change to a more stable state, others seek to restrain change. – Like a river whose form and velocity are determined by the balance of those forces that tend to make the water flow faster, and the friction that tends to make the water flow more slowly – the cultural pattern of groups of people at given times are maintained by a balancing of counteracting forces.

Consideration of these factors prior to undergoing a change process, and indeed the management of these forces as the process is being implemented is crucial to success.

According to Kurt Lewin, managing organisational change is a basic process of unfreezing, change intervention, and refreezing. Unfreezing is getting the people affected by change to believe that the changes are needed. During the change intervention itself, workers and managers change their behaviour and work practices. Refreezing is supported by reinforcing the new changes so that they stick.

Given the choice between changing and not changing, most people would rather not change. Because resistance to change is natural and inevitable, managers need to unfreeze resistance to change to create successful change programmes. The following methods can be used to manage resistance to change; education, communication, participation, negotiation, top management support and coercion.

Knowing, what not to do maybe, just as important as knowing what to do when it comes to achieving successful organisational change. Two common errors tend to occur during the unfreezing phase. The first and potentially more serious error is not establishing a great enough sense of urgency. People will feel a greater sense of urgency if the leader in the company makes a public, candid assessment of the company's problems and weaknesses.

The second mistake is not creating a powerful enough coalition. Change often starts with one or two people but to build enough momentum to change an entire department, division or company, change has to be supported by a critical and growing group of people. It is recommended that key employees, managers, board members, customers and even union leaders be the members of a core change coalition which guides and support organisational change.

Four common errors tend to be made by managers during the change phase; lacking a vision for change, under-communicating, not removing obstacles to change and not systematically planning for short-term wins.

Lacking a vision for a change, is a significant error at this point.

A vision is a statement of the company's purpose or reason for existing. A vision for change makes clear where the company or department is headed and why the changes are occurring. Change efforts that lack vision tend to be confused, chaotic and contradictory. By contrast, change efforts guided by visions which are clear and easy to understand can be effectively explained in five minutes.

Under communicating the vision for change is another mistake in the change phase. Companies mistakenly hold just one meeting to announce the vision. The successful communication of the vision requires that top managers link everything the company does to the new vision and that they will "walk the talk" by behaving in ways consistent with the vision.

Thirdly, even companies that begin change with a clear vision sometimes make the mistake of not removing obstacles to the new vision. Many leave formidable barriers to change in place by failing to redesign jobs, pay plans, and technology to support the new way of doing things.

Another error at this stage is not systematically planning for and creating short term wins. Most people don't have the discipline and patience to wait two years to see if the new change effort works. Change is threatening and uncomfortable, so people need to see an immediate payoff if they are to continue to support it.

The last two errors that managers tend to make occur during the refreezing phase when attempts are made to support and reinforce changes so that they “stick”. Declaring victory too soon is a tempting mistake in the refreezing phase. Managers typically declare clear victory right after the first large-scale success in the change process. The last mistake that managers make is not anchoring changes in the Corporation’s culture. An organisation’s culture is the set of key values, beliefs and attitudes shared by organisational members that determines the “accepted way of doing things” in a company.

With the fast changing business environment of today, change management is more important than ever before.

**Solution to question 3(c)**

Fiedler suggests matching relationship orientated leadership styles and task orientated leadership styles to situation favourableness improves overall group performance. He argues that leader-member relations, task structure and position power give rise to different levels of situation favourableness. He suggests task orientated styles are most appropriate when situations are highly unfavourable or highly favourable. He further suggests that relationship orientated styles are likely to be suitable when situations are moderately favourable.

Fiedler defined situation favourableness as the degree to which a particular situation either permits or denies the leader the chance to influence the behaviour of group members. In a highly favourable situation, leaders find that their actions influence followers, but in highly unfavourable situations leaders have little or no success influencing the people they are trying to lead.

Three situational factors determine the favourability of a situation; leader member relations, task structure and position power. The most important situational factor is leader-member relations, which refers to how well followers respect, trust and like their leaders. When leader member relations are good, followers trust their leader, and there is a friendly work atmosphere. Task structure is the degree to which the requirements of a subordinates tasks are clearly specified. With highly structured tasks, employees have clear job responsibilities, goals and procedures. Position power is the degree to which leaders are able to hire, fire, reward and punish workers. The more influence leaders have over hiring, firing rewards and punishments, the greater their power.

In general, this theory suggests that leadership styles can be matched to situations. Empirical evidence would seem to provide some support for the theory, although it is still a generalization and each situation is unique and has to be dealt with on a case by case basis.

**Solution to question 4(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. (e.g. boundaries are clearly established). 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 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 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.

**Solution to question 4(b)**

Over time, teams develop norms, informally agreed-on standards, that regulate team behaviour. Norms are valuable because they let team members know what is expected of them. Studies indicate that norms are one of the most powerful influences on work behaviour. Team norms are often associated with positive outcomes, such as, stronger organisational commitment, more trust in management, and stronger job and organisational satisfaction. In general, effective work teams develop norms about the quality and timeliness of job performance, absenteeism, safety, and honest expression of ideas and opinions. The power of norms also comes from the fact that they regulate everyday behaviours that allows teams to function effectively.

Norms can also influence team behaviour in negative ways. For example, most people would agree that damaging organisational property; saying or doing something to hurt someone at work; intentionally doing one's work badly, incorrectly, or slowly; griping about co-workers; deliberately bending or breaking rules; or doing something to harm the company or boss are negative behaviours. Nonetheless, a study of workers from 34 teams in 20 different organisations found that teams with negative norms, strongly influenced their team members to engage in these negative behaviours. In fact, the longer individuals were members of a team with negative norms and the more frequently they interacted with their teammates, the more likely they were to perform negative behaviours.

**Solution to question 4(c)**

Feedback control is a mechanism for gathering information about performance deficiencies after they occur. This information is then used to correct or prevent performance deficiencies. Study after study has clearly shown that feedback improves both individual and organisational performance. In many instances, any feedback is better than no feedback.

Feed forward control is a mechanism for gathering information about performance deficiencies before they occur. In contrast to feed back and concurrent controls, which provide information on the basis of outcomes and results, feed forward control provides information about performance deficiencies by monitoring inputs not outputs. Thus, feed forward control seeks to prevent or minimise performance deficiencies before they happen.

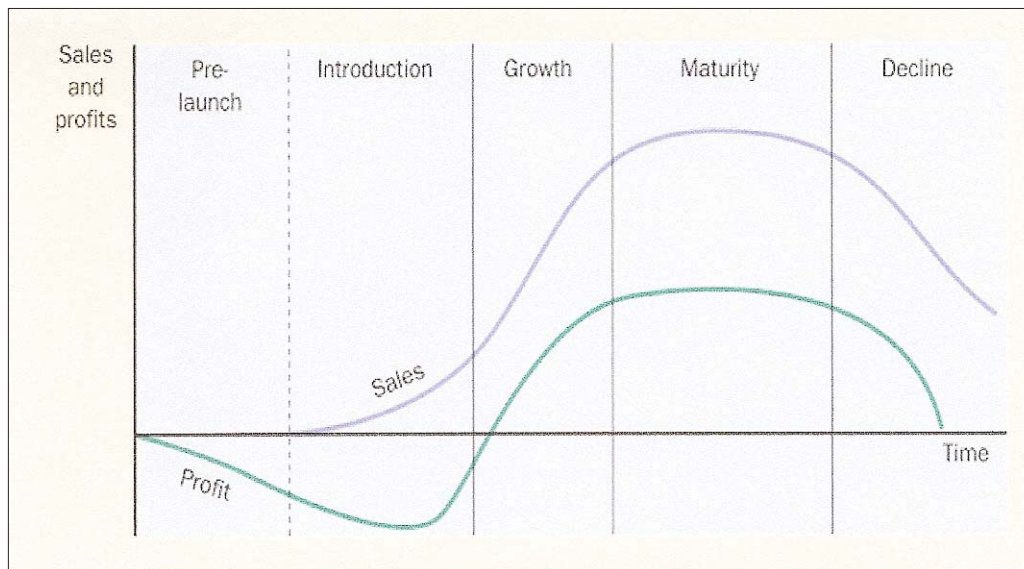
Both are important modes of control, one ex-post, the other ex-ante. Control, however has regulation costs and unanticipated consequences and mechanisms must be balanced to the needs and risks involved.

Control in any organization must be seen as an on-going requirement, that has to be attended to at all stages.

**Solution to question 5(a)**

A product is a physical good, service, idea, person, or place that is capable of offering tangible and intangible attributes that consumers find necessary or worthwhile to exchange money or some other unit for. Factors to take into consideration when managing the product element of the marketing mix can include size, features, quality, branding, benefits, packaging and presentation.

All products have a life cycle - this model includes four stages through which individual products develop over time and extends from introduction to obsolescence. The pre-launch stage (as seen in diagram below) refers to the marketing activities prior to the launch or commercialisation of the new product.



**Introduction**

- Low sales & high costs as the product is being introduced to the market
- Competition is limited
- Customer type is known as an innovator
- Core objective is to generate awareness among the target audience

**Growth**

- Rising sales, costs declining and profits being achieved
- Growing number of competitors entering the market
- Customer type is known as an early adopter
- Core objective is to increase demand in order to increase market share

**Maturity**

- Sales & profits reach their peak, cost per customer is low
- Competition is intense
- Customer type is known as middle majority
- Core objective is to maximize profit and maintain market share

**Decline**

- Sales & profits decline
- Number of competitors have reduced
- Customer type is known as a laggard
- Core objective is to milk the brand

**Criticisms of the Product Life Cycle**

The PLC concept helps interpret product and market dynamics and can be used for planning and control, although as a forecasting tool it is less useful. Some criticisms have been put forward:

- Duration of the PLC stages is unpredictable
- Difficult to tell which stage the product is in
- Not marketing orientated
- Misleading objective and strategy prescriptions
- PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow
- Not all products follow the classic PLC curve

**Solution to question 5(b)**

**SWOT Analysis**

This is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. The analysis can include

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
Competitive advantage? Resources, Assets, People? Experience, knowledge, data? Accreditations, qualifications? Philosophy, Values? Marketing – awareness, reach, distribution? Financial reserves? Cultural, attitudinal behaviours? Innovative aspects? Price, Value, Quality? Reputation? Location?	Lack of competitive strength? Reputation, presence & reach? Financials? Cash flow? Reliability of data? Staff Morale & staff turnover? Innovative aspects? Locations? Facilities? Marketing awareness?
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Market developments? Competitor’s vulnerabilities? Industry or lifestyle trends? Technology development or innovations? Global influences? New markets? New USP’s? Tactics – major contracts? Information & research? Partnerships, agencies & distribution? Niche target markets?	Political effects? Legislation effects? Environmental effects? IT developments? Competitor intentions? Market demand? New technologies? Sustaining internal capabilities? High staff turnover / loss of key staff? Sustainable financial backing? Economy – home & abroad? Changing consumer tastes/lifestyles?

SWOT analysis is likely to be critically important in the scenario presented in this question. The insurance market has become increasingly competitive in Ireland with a number of new entrants. New technology and legislation have changed the nature of the Insurance business in recent years. Customers are much more astute in selecting their insurance companies, many of whom compete across a wide range of areas. EU legislation has affected the market considerably in recent years. The mixed model health market is unique to Ireland and has its own equalization structure to which insurance companies must comply.

**Solution to question 5(c)**

Marketing orientated organisations generally exhibit the following attributes, they should;

1. Be customer Driven
2. Be centred on satisfying customer's needs
3. Have a competitive advantage (Duracell batteries – longer lasting)
4. Be capable of change (e.g. online banking/online ticket sales)
5. Be responsive to customers needs before, during and after the sale of a product
6. Be profit driven
7. Be responsive to society's well being (Ben & Jerry's ice cream)

**Solution to question 6(a)**

**TO:** Managing Director

**FROM:** Accounting Technician

**Date:** 22 May 2008

**Re: Role of a Human Resource Manager**

I have taken this opportunity to outline some of my views on the role of the HR function within our organisation. Firstly, I outline some of the roles undertaken by HR Managers in general and secondly, some of my concerns with the proposals for filling the position in our organisation.

**Role of the HR Manager**

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
- Pay and benefits
- Trade Union negotiations and industrial relations

Some of these specific roles are described in more detail below:

### **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 onto 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**

Assessing the work of employees is a key function in human resource management, and indeed a central aspect of all managerial work. The objective is to achieve and sustain high performance standards in an attempt to ensure organisational success and survival. It fulfils a number of important roles such as, providing feedback, identifying training needs, identifying people with the potential to take on wider responsibilities etc.

### **Training and development**

Helping employees become more effective in their jobs is one of the fundamentally important tasks in human resource management. 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.

### **Pay and benefits**

An organization's reward system is a powerful indicator of its commitment and approach to workforce management. The design and implementation of effective and equitable reward systems is a major managerial challenge.

The above comments are just a few observations on the broad nature of the HR function within organizations. I am particularly concerned with the proposal to treat this complex function as a part-time position. I outline below some of my reservations in this regard.

The proposal I suggest is short sighted. Whilst it may save on some costs, it sends out all the wrong signals and may indeed give rise to significant long term costs. It raises doubts about our commitment to our greatest asset. It seems to diminish the profile and priority we give to the role. (e.g. it is now a part-time / adjunct role). It fails to recognize the nature of the function. (e.g. are people really going to raise issues with the Managing Director?).

One really has to question the time commitment that will be required to fulfill this role. We employ a large number of staff, operate in two jurisdictions and work in a dynamic fast changing environment. Our staff comprise people of all ages and cultural backgrounds. The HR manager in our organization has a vast range of issues to deal with ranging from: health and safety, employee legislation, pensions, diversity, change management, pay negotiations, performance appraisal, equality etc.

I suggest that the role is more demanding than initially realized and ask that serious consideration be given to treating it as a full time position.

Yours sincerely

Joe Bloggs

### **Solution to question 6(b)**

Appraisal is carried 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.

#### **Merits**

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

#### **Limitations**

Performance appraisal may be seen as a time consuming paper exercise that contributes little to the organisation. It may be seen as a form filling exercise. An annual routine. Worse it may be seen as biased with evaluations being questioned and disputed. This may lead to accusations of favouritism etc. It may open old wounds and provide an opportunity for the continuation of old conflicts and disputes. Further if not properly handled it may be damaging to people and organisations.

#### **Design**

Some of the problems associated with appraisals can be avoided by accurately measuring job performance and effectively sharing performance feedback information with employees. One way to minimise rating errors is to use better appraisal measures, such as objective measures of performance or behavioural observation scales. Another is to increase the training to those involved.

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

One approach to overcoming the inherent inherent difficulties with sharing appraisal feedback information is to provide 360 degree feedback, in which feedback is obtained from four sources: the boss, subordinates, peers and co-workers, and the employees themselves.

Feedback tends to be more credible when it is heard from several sources. In all cases the system will have to be sensitive to the circumstances of each individual organisation. Traditional performance appraisal sessions could be more effective by separating developmental and administrative feedback and by basing feedback discussions on employee-self appraisals.

**Solution to 6(c)**

**Business Ethics**

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.

**Solution to question 7(a)**

**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 the 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 maybe 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.

**Preference Shares:**

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

**Hire Purchase:**

This is a medium to long term source of 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 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. The hiree can also claim 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 purchased under the hire purchase agreement provides the security required by the company advancing the money. 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 expensive form of finance.

**Leasing:**

This form of medium to long 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.

**Solution to question 7(b)**

**TO:** All Staff  
**FROM:** Accounting Technician  
**Date:** 22 May 2008  
**Re:** **The Role of Budgeting**

I have taken this opportunity to outline some of my views on the role of budgets in our organisation.

A budget is a financial or quantitative plan of operations prepared, negotiated and approved prior to a defined period of time. Budgets for organisations serve a number of objectives. They:

- aid the planning of operations
- coordinate the activities of the various parts of the organisation and ensure that the parts are in harmony with each other
- communicate plans to the managers of responsibility centres
- motivate managers to strive to achieve the organisational goals
- control activities
- evaluate the performance of managers.

Financial control of activities is vital to all organisations. Many smaller firms, for a variety of reasons, such as lack of expertise or over-trading, opt for informal rather than formal systems of control. This can be catastrophic for the small firm as the true performance or profitability cannot be gauged.

Budgetary control requires that realistic profit and loss and cash flow forecasts are prepared at the beginning of the period and that they be updated normally on a quarterly basis as the year progresses. Due care and consideration is required in interpreting variances from budget to ensure managers are held accountable for all those matters that fall within their sphere of control

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

Budgets are particularly important in our organization. Hotels are complex organizations to run. We need to know if we are making money in our various departments.(e.g. Food, banquets, special offers etc.). Budgets help us with planning and making decisions in relation to these events and activities. We need to be able to cost our service offerings. We need to be able to monitor and control our margins against expectations and to identify areas that are not performing as expected. The industry we operate in is competitive and uncertain, but this only increases the importance of budgets to our activities.

From the foregoing I trust you will see that budgets fulfill a number of important roles in our organization. If you have any queries, please do not hesitate to contact me.

Yours sincerely

Joe Bloggs

**Solution to question 7(c)**

An incremental approach to budgeting concentrates on the marginal change from one period to another. The current year's estimates of expenditure and income are used as the starting point for next year's budget. Obviously, new activities will be incorporated in the new budget but the main weakness of this approach is its failure to critically appraise the larger components of expenditure and to justify continued funding support. A counter argument could be put forward that a substantial part of the activities are mandatory or statutorily required and there is no merit in undertaking a costly justification of the expenditure.

**Solution to question 8(a)**

Computer security can be considered under two general headings 1) securing the physical assets (i.e. the machines and associated hardware) and 2) securing the data. Generally data is considered the most valuable asset, as it is the most difficult to replace and has the most potential value to competitors and fraudsters.

Anything that causes a loss of data or a corruption of data can be considered a security threat. There are two broad categories (i) intentional (where some one deliberately tries to harm your system or take your data) and (ii) unintentional (e.g. accidents).

**Intentional Threats**

There are many ways in which computer systems can be attacked, especially one that has access to the Internet. Some of the more common threats include:

- Hacking
- Viruses
- Worm
- Trojan
- Spyware
- Phishing
- Denial of service

**Unintentional Threats**

There are many threats that may occur to a system without any deliberate act. These include:

- User error
- Spillages
- Natural disasters
- Power cuts
- Fire

**Solution to question 8(b)**

Three broad criteria for undertaking feasibility studies include:

**Economic feasibility**

This involves assessing the economic case for the proposal. It encompasses an assessment of the tangible and intangible benefits and costs, and an evaluation of the justifications.

**Operational and Organisational feasibility**

This involves assessing whether the organization has the necessary skills and capabilities available to operate the system on a day to day basis. It involves assessing the degree of fit of the programme.

**Technical feasibility**

The main issue here is whether the organization is technically capable of developing and operating the system.

**Solution to question 8(c)**

The Information Systems strategy (IS) has been defined as the long-term directional plan for IS in an organisation. It is seen to be business led and demand driven, and is concerned with exploiting IT either to support business strategies or create new strategic options. An IS strategy therefore deals with the integration of an organisations 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 information 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 information 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.



# NEW SYLLABUS

## EXAMINERS REPORT

### BUSINESS MANAGEMENT

#### SUMMER 2008

##### General comment

The overall performance of candidates was satisfactory in this recent sitting. Results were comparable with the previous two sittings.

	Summer 2008	Summer 2007	Summer 2006
Number of candidates	1,278	1,419	1,256
% Obtaining 50 or more	73%	74%	66.2%
Average marks	54.19	57.59	51.9

Question	1	2	3	4	5	6	7	8
No. Attempting	813	868	840	1,000	1,098	727	537	371
Marks available	20	20	20	20	20	20	20	20
Average marks	10.59	12.17	13.58	10.24	10.66	10.11	10.58	10.36

##### Question 1

- (a) A relatively popular question with most 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) A large number of students drew on their own experience in reflecting on the relevance of the model. Many of the better candidates developed balanced judgments on the conditions and circumstances in which it is likely to have greatest relevance.
- (c) Answers were somewhat mixed. A large number of candidates associated it with barriers to communication and conflict in organizations.

##### Question 2

- (a) The standard was very high in this part, with almost all candidates correctly identifying Mintzberg's roles and describing the roles in detail.
- (b) The standard was more variable in this part with some candidates failing to provide convincing arguments for or against Mintzberg's theory in practice.

Many answers described the student's own manager in his/her place of employment and well known Irish business personalities.

- (c) Almost all candidates correctly identified at least one mistake frequently relying on personal experience to good effect in most instances

**Question 3**

- (a) Generally this part was well answered by all who attempted it. Lewin's theory was well understood with few fail grades in this section.
- (b) The application of the theory in practice was not as well developed / articulated by many candidates.
- (c) The weakest part of the question, with highly creative answers from a large number of candidates on the matching of leadership styles to situations.

**Question 4**

- (a) This was a popular question and undertaken by eighty percent of candidates.  
  
Generally very good answers were provided. whilst almost all students correctly identified the stages, some confused the different stages in the development of their answers.
- (b) Some excellent answers were provided to this part of the question. However, a number of candidates struggled to engage with the argument at an appropriate level of detail.
- (c) Answers were disappointing to this part with a number of candidates "sitting on the fence" or agreeing with the assertion but failing to provide reasons for doing so.

**Question 5**

- (a) Close to 100% of candidates could accurately describe all stages of the product cycle and provide a convincing example. Only a minority, however, provided precise criticisms of the life cycle.
- (b) Again a good standard was attained but a significant number did not demonstrate how generic SWOT analysis might apply to the scenario presented.
- (c) Answers were disappointing to this section with many candidates drawing widely from everything they knew about marketing (e.g. the marketing mix etc.).

**Question 6**

- (a) Answers were somewhat disappointing to this part, with a number of candidates providing a brief listing of HR roles (without description) and failing to engage with the scenario.
- (b) Answers to this part on performance appraisal were generally very good.
- (c) Answers to this part varied widely in breadth and depth.

**Question 7**

- (a) Answers were in general very good with most candidates providing comprehensive descriptions of relevant sources and their merits and limitations. A number of candidates continue to confuse short and long term sources of finance and one or two think equality in this context has something to do with equality.
- (b) Most candidates provided solid arguments in favour of producing a budget. A large number failed to relate their answers to the scenario, whilst a significant number failed to provide their answer in report format.
- (c) Answers were disappointing to this part.

**Solution to question 8**

- (a) Answers to this part were good with most candidates identifying relevant security threats.
- (b) A significant number of candidates clearly understood the central issues of concern in undertaking feasibility studies.
- (c) Answers to this section varied widely.

