



Accounting
Technicians
Ireland



1st Year Examination : Summer 2009

BUSINESS MANAGEMENT

**PAPER, SOLUTIONS
and
EXAMINER'S REPORT**

NOTES TO USERS ABOUT THESE SOLUTIONS

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

Although they are published by us, we do not necessarily endorse these solutions or agree 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 us.

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 2009 and may not be reproduced without permission of Accounting Technicians Ireland.

© Accounting Technicians Ireland, 2009.

1st Year Examination: Summer 2009

PAPER : BUSINESS MANAGEMENT

Wednesday 20th May 2009 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the required number of questions are answered, then only that 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 QUESTION 1 (Compulsory) in this Section

QUESTION 1 (Compulsory)

- (a) A colleague of yours is working in the commercial airline industry in Ireland. One of the speakers at a conference he attended recently suggested that Porter's Five Forces model is particularly suitable for analysing the structure of competition within an industry. He has requested that you prepare a short note on the matter for him.

Prepare a short briefing note for your colleague on the following matters:

- (i) Describe each of the *five* forces identified by Porter for analysing the intensity of competition in an industry. **10 Marks**
- (ii) Explain how Porter's Five Forces model might be used to analyse the structure of competition within the airline industry in Ireland. **10 Marks**

- (b) Explain briefly what is meant by the Trait Theory of leadership. **5 Marks**

Total 25 Marks

SECTION B

Answer any THREE of the six questions in this Section

QUESTION 2

A school friend of yours is thinking of opening a fitness centre. A colleague has recently brought her attention to the extended form of the marketing mix for services. She would like if you could prepare a short note on this topic.

Prepare a short briefing note for your friend on the following matters:

- (a) Explain the characteristics which distinguish services from products. **10 Marks**
- (b) Describe the *three* elements of the extended marketing mix for services. **10 Marks**
- (c) Comment on how the extended marketing mix for services is likely to be relevant to her business proposal. **5 Marks**

Total 25 Marks

QUESTION 3

You are a member of the management team of a progressive Irish quoted company in the food processing sector. Employees are paid according to a grading system that is based on years of service with the company. A number of employees have complained to management of the demotivating nature of this system, claiming it does not reward good performance. The Managing Director has recently learned of the Expectancy Theory of motivation (i.e. Vrooms) and has requested that you prepare a short report to the Board on it.

Prepare a short report for the Board in which you:

- (a) Describe the main elements of the Expectancy Theory of motivation. **10 Marks**

- (b) Comment on the relevance of the Expectancy Theory of motivation in today's business environment. **10 Marks**

- (c) Outline your views on the likely relevance of the Expectancy Theory of motivation to employees based in any *two* of the following departments of the company outlined in the above scenario:
 - (i) The Sales Department
 - (ii) The Production Department
 - (iii) The Administration Department

5 Marks
Total 25 Marks

QUESTION 4

- (a) "Recruitment is a vital element of the Human Resource function in both private and public sector organisations". Describe *two* stages of the Human Resources Planning function and two stages of the recruitment process. **10 Marks**

- (b) Groups are said to develop in typically *four* stages. Describe these stages and comment on the view that group development follows these patterns. **10 Marks**

- (c) Describe *briefly* what you understand by the term "Corporate Social Responsibility".

5 Marks
Total 25 Marks

QUESTION 5

- (a) You are working in the marketing department of a company that manufactures laptops. One of the speakers at a recent conference you attended with your manager stressed the importance of the Product Life Cycle (PLC) concept as a mechanism for interpreting product / market dynamics. Following the conference your manager requested that you prepare a report which provides:
 - (i) A *brief* description of the stages in the product life cycle (PLC) of a typical product. **10 Marks**

 - (ii) An outline of how the product life cycle concept (PLC) may be used as a marketing tool in the context of their organisation. **10 Marks**

- (b) Explain what is meant by the term "Branding" and identify any two benefits of branding.

5 Marks
Total 25 Marks

QUESTION 6

- (a) Broadly speaking IT systems may be acquired "off the shelf" or "custom built". Briefly describe the circumstances when each is likely to be the preferred approach to systems development / acquisition.
10 Marks
- (b) IT Systems and Data are exposed to threats, some of which are intentional and some unintentional. Give *three* examples of unintentional threats to IT Systems / Data and outline *two* steps that may be taken to minimise threats of this nature.
10 Marks
- (c) Describe *briefly* what is meant by the term "Contingency Planning" in an IT/IS context.

5 Marks
Total 25 Marks

QUESTION 7

- (a) Write an explanatory paragraph on any *two* of the following facets of financial management.
- (i) the role of financial management
 - (ii) stages in the budgeting process
 - (iii) responsibility centres
- 10 Marks**
- (b) Describe *two* long term sources of finance available to organisations.
10 Marks
- (c) Describe *one* merit and *one* limitation of the incremental approach to budgeting in organisations.

5 Marks
Total 25 Marks



1st Year Examination : Summer 2009

BUSINESS MANAGEMENT

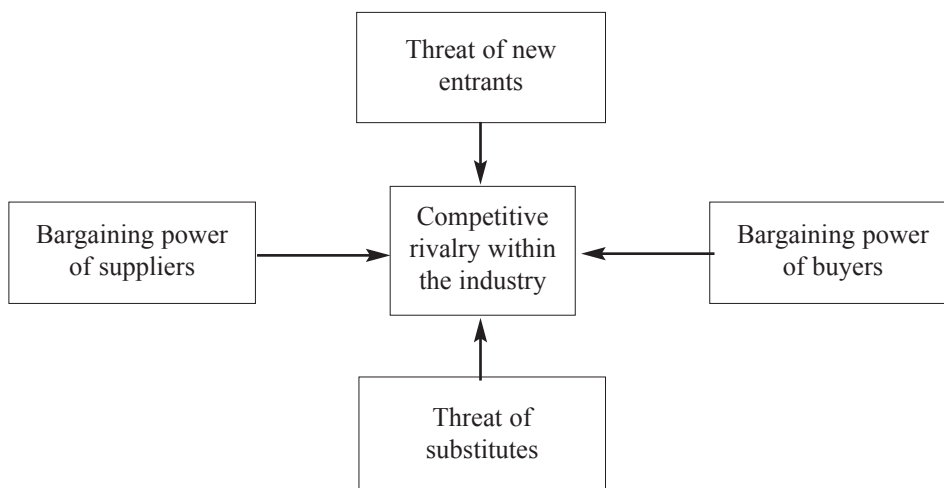
SOLUTIONS

Solution to question 1

Part A (i)

Porter identified five forces that assist the organisation in analysing the intensity of competition, profitability and attractiveness of an industry.

Understanding these forces gives managers the necessary insights to facilitate them to develop relevant strategies to be successful in their market. The five forces are:



Threat of new entrants

The more uncomplicated it is for new companies to enter the industry, the more aggressive the competition will be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

- Existing loyalty to major brands.
- Incentives for using a major brand.
- High fixed costs.
- Scarcity of resources.
- High cost of switching brands / companies.
- Government restrictions or legislation.

Power or Suppliers

This focuses on the amount of pressure suppliers can place on a business entity. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds considerable power. Reasons that suppliers might have this power include:

- Few suppliers of a particular product exist.
- No substitute products are available.
- Switching to another competitive product is costly.
- The product is very important to buyers.

Power of Buyers

This relates to the amount of pressure customers can place on a business. If one customer has a large enough purchasing power to affect a company's margins and volumes, then the customer holds considerable power. Reasons that customers might have this power include:

- Small number of buyers exist.
- These buyers purchase large volumes of the product.
- Switching to another competing product is simple.
- The product is not important to buyers; they can do without the product for a period of time.
- Customers are price sensitive.

Availability of substitutes

If the cost of switching to competitive products is low, then brand switching could be a serious threat. Factors that can affect the threat of substitutes include:

- if substitutes are similar, it can be viewed in the same light as a new entrant,
- if the substitutes are perceived to have the same benefits,
- if significant price differentials emerge, and
- if products are equally available and accessible.

Competitive rivalry

This depicts the intensity of competition between existing firms within an industry. Companies that are highly competitive generally earn low returns because the cost of competition is high. A highly competitive market may result from:

- Players within an industry that are similar in size; there is no dominant firm.
- Little differentiation between competitor's products and services.
- A mature industry with very little growth; companies can only grow by encouraging customers to switch from competitors.

From the foregoing we can see that the variables in the model are intuitively relevant to the nature of competition in most industries and therefore that the assertion in the question has validity.

Question 1 (a) (ii)

Porters five forces model maybe used to analyse the airline industry in Ireland.

Threat of new entrants

The industry is highly specialized, regulated and capital intensive. It is most unlikely new indigenous competitors will emerge from within the state. The threat of new entrants is mainly likely to come from overseas airlines. However with the downturn in the world economy and consequent fall off in passenger numbers this is unlikely in the short term. The short haul market is highly competitive and this is likely to act as a significant barrier to new entrants.

Threat of substitutes

Threats from substitutes arise at a number of levels. Ireland as an island nation can only be accessed by sea or air transport. Sea transport offers an alternative for nearby destinations (e.g. the UK and France) weather conditions permitting. Increased journey times are a deterrent, as indeed is price given the competitive nature of the market at present. Although sea transport offers flexibility in terms of luggage requirements, security checks and the use of ones own vehicle when abroad, etc.

Substitutes to air travel within Ireland have increased in recent years with the improvements in road networks, intercity bus links and rail services.

Buying power of suppliers

The major raw material resources are fuel, airplanes and labour. The price of oil has an immediate and direct impact on the competitors in this market. It is largely outside the control of airlines but may be managed to some extent via the use of forward contracts and options, etc. Airline manufacturers may have significant power in the market when the industry is buoyant. This may also extend to the market for spare parts and maintenance etc. landing rights may also be a major competitive factor. All airlines will be subject to agreements with employees about changes in work practices and terms and conditions of work. Some airlines may also be subject to a wider set of political obligations than others because of their historical role and ownership structure and are likely to be subject to greater political influence than others.

Buying Power of Customers.

The market is characterized by a very large number of small players / customers in most cases. Customer loyalty is low and switching costs are minimal. The price demand relationship is therefore highly price elastic. The advent of e-Commerce has facilitated greater price transparency and responsiveness to special deals, etc further increasing the bargaining power of customers.

Degree of rivalry

Competition is intense between the major players in the Irish market. The no frills marketing strategy of low cost airlines such as Ryanair and Easy Jet have contributed to significant reductions in airline prices. Every effort is being made by all airlines to reduce their transaction costs and overall cost bases. (e.g. online boarding passes, luggage fees, cabin attendants cleaning the airlines, etc.) Certain airlines seek to recoup some of their costs from the countries they fly to. The intensity of competition is likely to continue with the onset of the global recession.

Question 1 (b)

Trait theory is one way to describe who leaders are. Trait theory suggests that effective leaders possess a similar set of traits or characteristics. Traits are relatively stable characteristics, such as abilities, psychological motives, or consistent patterns of behaviour. Trait theory is also known as the 'great person' theory because early versions of the theory stated that leaders were born not made.

For some time it was thought that trait theory was wrong and that there are no consistent trait differences between leaders and non leaders, or between effective and ineffective leaders. However, more recent evidence shows that

successful leaders are not like other people, that successful leaders are indeed different from the rest of us. More specifically leaders are different from non leaders in the following traits; drive, the desire to lead, honesty / integrity, self-confidence, emotional stability, cognitive ability, and knowledge of the business.

Traits alone aren't enough for successful leadership, however, leaders who have these traits (or many of them) must also behave in ways that encourage people to achieve group or organizational goals. Two key leader behaviours are initiating structure, which improves subordinate performance, and consideration, which improves subordinate satisfaction. There is no 'best' combination of these behaviors. The 'best' leadership style depends on the situation.

For example, Fiedler assumes that leaders will be more effective when their leadership styles are matched to the proper situation. More specifically, 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 highly favourable situations, 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.

In general, the relationship-orientated leaders, are better leaders under moderately favourable conditions, while task-orientated leaders are better leaders in highly favourable and highly unfavourable situations.

Traits alone are not enough for successful leadership but people who have the appropriate traits must strive to ensure they use them productively in encouraging people to strive to achieve overall organizational goals.

Question 2 (a)

Intangibility

Services are intangible: Unlike physical products they cannot be seen, tasted, felt, heard or touched before they are bought. Services are difficult to describe, to demonstrate to the buying public, or to illustrate in communications and promotional material. An organisation's reputation and that of its sales people are more essential to service marketing than to goods marketing. Many factors influence the experience of a service. To reduce uncertainty buyers will look for signs or evidence of service quality. They will draw inferences about quality, place, equipment, communication material, symbols and the prices they see.

Inseparability

Services are purchased and consumed simultaneously. Buyer provider interaction is a special feature of services marketing. Services cannot be separated from their providers. Customers participate in and affect the transaction. It is a once off experience. The impressions created cannot be inspected like the products at the end of an assembly line.

Perishability

Services cannot be stored or inventoried. The perishability of services is generally not a problem when demand is steady. When demand fluctuates service firms may experience problems. It is difficult to synchronise supply and demand.

Heterogeneity / Variability

Because they depend on who provides them and when and where they are provided services are highly variable. Many services cannot be provided by machines and therefore the human factor is of great importance in the delivery of service quality.

There can be a great deal of variability in the output of a services organisation. This arises, as it is more difficult to establish standards for output and even harder to ensure standards are being met each time the service is being delivered. Employees reactions to customers may vary with their levels of tiredness and fatigue.

Question 2 (b)

Most organisations define their Consumer Benefits Package within the parameters of the 4P's, price, product, place and promotion. The Services Revolution has added three more P's namely, participants, physical evidence and process.

Participants

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

Physical Evidence

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

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.

Question 2 (c)

Many factors influence the experience of the services provided by a fitness centre. The nature of the services, the range of equipment and services on offer, prices, location, availability / access at different times etc will all be critical. But many other factors covered by the extended marketing mix also come into play. (e.g. participants, physical evidence and process). How friendly, knowledgeable, efficient and helpful are the instructors and receptionists? What is the decor like? What is the music like? What are the changing facilities like? Does everything work? The standard of the service experience?

Question 3 (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 some 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.

Question 3 (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 is like most theoretical frameworks in that it 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 provides a clear basis for reward via sales 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 be 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.

Question 3 (c)

Vroom's theory works best where there is a clear link between inputs and outputs, when employees can easily perceive the linkages between the various elements of the model. Particularly the linkages between effort and performance and performance and reward. These linkages are likely to be most visible in the production department. (e.g. it should be possible to make the connections visible). In this regard it should be possible to establish a system of rewards that is tangible and robust. Whilst the perceived linkages in the area of sales are less clear and cannot be guaranteed, expectancy theory still has a significant role to play in the form of commissions etc. In the administration section expectancy theory is less likely to have the opportunity for deployment.

Question 4 (a)

Stages in the human resource planning function

a. Demand analysis

This involves gauging the quality, quantity and composition of human resources needed to meet the objectives of the organisation. It is based on an understanding of the organisation's strategy and its implications for the workforce. The firm will need to forecast demand by:

- Assessing the future human resource needs.
- Evaluating the kind of employees that will be needed.
- Assessing how many within each category will be needed.

b. Supply analysis

This is the estimation of the quality and quantity of available labour. The firm should assess the internal and external labour market. Planned and unplanned losses need to be considered as the environment is dynamic / changeable. In addition external factors such as the nature of competition for labour, education, population trends and government policies should also be considered.

c. Estimating Deficits / Surpluses

In the case of employee shortfalls there are several ways that firms can meet this deficit:

- Automate some functions and jobs.
- Move operations overseas to a country with a large labour pool.
- Utilise part-time or temporary workers.
- Outsource the jobs - hire another company to provide the service to your firm rather than hire your own employees to handle the job(s).

d. Prepare an action plan

An action plan should be developed to cover recruitment, selection, training and development and promotions within the organisation.

The recruitment process

Employee recruitment is the process of obtaining a sufficient number of the right people at the right time to best meet the needs of the organisation. It involves finding, hiring and holding on to people who can satisfy the technical, educational and social needs of the organisation. Recruitment relies on a number of sources, including internal promotions, advertisements, employment agencies, management consultants, and so on. Following on from the needs analysis phase of the HR planning function, a number of discrete stages can be identified in the recruitment process:

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

A short description of a number of the stages is set out below.

Job Description

This involves specifying the job and what the job demands in terms of employee behaviour. It is a statement of the main tasks of the job. It is clearly an important aspect of the background stage of recruitment, because the ideal individual is derived from the contents of the job description. If an inaccurate job description is prepared, then the individual characteristics subsequently specified may also be inaccurate or inappropriate.

Attribute and Aptitudes required

This phase details the skills, qualification, knowledge and experience the individual should possess in order to best match the job. It may involve distinguishing between those characteristics considered essential and those considered desirable. Among the things it might take account of are:

- attainments, education / qualifications / experience,
- general intelligence,
- special aptitudes,
- interests,
- motivation,
- adjustment.

Advertising

The task now becomes one of attracting a pool of potential candidates. In considering possible sources of labour, we must consider internal and external sources. Internal sources may come from transfers or promotions. Potential external sources include colleges, Institute's of Technology, Universities, employment agencies and management consultancies and executive search agencies.

Each of these sources should be evaluated, particularly with respect to their suitability to yield the right candidate, and the costs involved.

Selection

The selection process effectively begins when application forms / CV's are received. Selection tools available to organisations range from the more traditional methods of interviews and references, through to the more sophisticated techniques, such as biographical data, aptitude tests and psychological tests.

Interview

The interview is widely held to be the most commonly used selection technique. Often described as a conversation with a purpose, it may take a number of different forms. The three most common types are one-to-one interviews, panel interviews and group interviews / assessment.

Question 4 (b)

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.

A team in an organisational context can be defined as a unit of two or more people who interact and co-ordinate activity to meet a particular organisational objective. It is important to note that a team is not a collection of talented individuals. They must share a collective vision, responsibility and entrepreneurship.

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

Managing team cohesiveness and effectiveness is an important Organisational phenomenon that brings together many aspects of management, from effective organisational structure to employee motivation, from management control to participative management. The focus on teams stems from the need for organisations to be flexible and responsive to customer requirements in an increasingly competitive business environment, while at the same time ensuring that management and staff work together to meet these changing needs.

Over the last number of decades there has been a fundamental movement away from a hierarchical and adversarial management culture to one based on co-operative relationships in order to achieve a strong customer orientation, improved operation processes and an acceptance of the need for continuous improvement.

The effectiveness of a work team is highly dependent on the organisation in question, in terms of existing structure, changes in external business environment, the underlying culture, past, present and future strategy, and the reward/control systems within which teamwork is to be established.

Whilst many teams exhibit or evolve through the stages as outlined by Tuckman it must be recognised that many factors influence team development and it is by no means a foregone conclusion that teams will necessarily follow this pattern.

Question 4 (c)

Corporate Social Responsibility (CSR) refers to the voluntary actions that businesses may undertake over and above compliance with the minimum legal requirements to address both its competitive interests and the interests of the wider community. It can be characterised as the concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders on a voluntary basis.

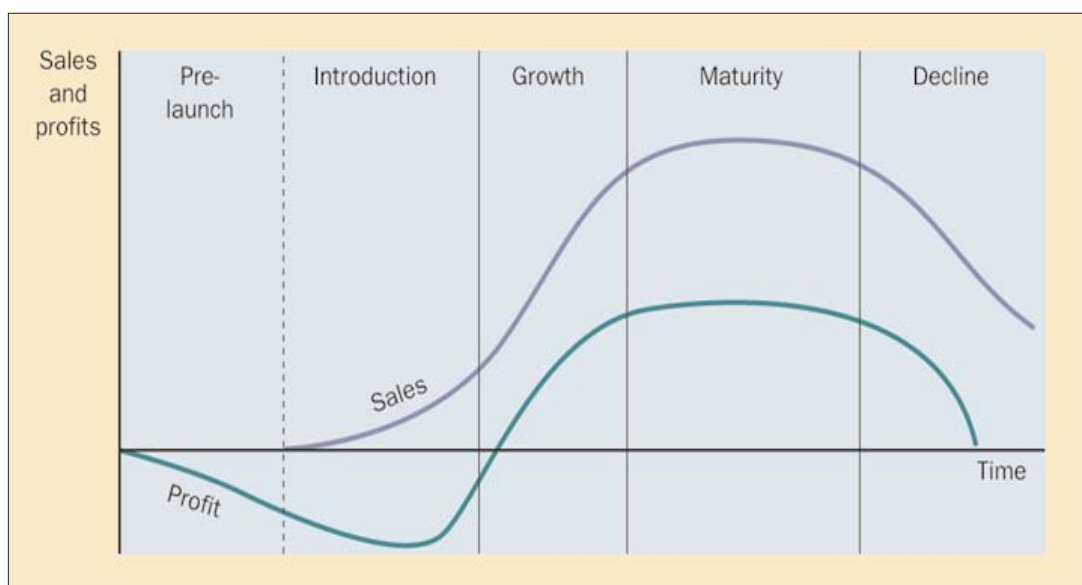
A firm’s obligation to its public is seen to extend beyond the legal responsibility to comply with legislation. Instead firms voluntarily take further steps to improve the quality of life for employees and their families as well as interventions that contribute to the development of the local community and society at large.

Firms should engage in CSR to ensure they gain social acceptance through ethically responsible behaviour. Not engaging sufficiently with CSR is not only potentially damaging to the firm’s reputation but also to the sustainability of long term growth and development.

Question 5 (a) (i)

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 exploit the brand.

Question 5 (a) (ii)

The PLC concept helps interpret product and market dynamics and can be used for planning and control.

Not all products follow the product lifecycle. Some products are introduced and die off quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

Whilst the exact shape and length of a product's lifecycle may not be known in advance, the company's task is to recognise the lifecycle pattern of its offerings and to devise appropriate marketing strategies for its portfolio.

In the case of a manufacturer of laptops the PLC is likely to be particularly relevant. It ought to allow the company to adopt different marketing and pricing strategies at the different stages of the life cycle of its products.

In the introduction stage the company is likely to be able to capitalise on the price inelasticity of the early adopters of its offerings. At the growth stage it is likely to pursue intensive marketing initiatives to try to enable it to obtain a sizeable share of the market.

Later in the mature phase competition is likely to be intense and economies of scale will be called for if the company is to match the competition's offerings. At the final stage the company will have to consider its options to exploit the brand whilst pursuing an aggressive innovation strategy to bring out new products.

Some of the common criticisms of the concept apply in this case as well:

1. Not marketing orientated.
2. Misleading objective and strategy prescriptions.
3. PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow.
4. Duration of the PLC stages is unpredictable.
5. Difficult to tell which stage the product is in.
6. follow the classic PLC curve.

Question 5 (b)

A brand is defined as a name, symbol or design that identifies the goods or services of one seller and distinguishes them from those of competitors. Think of the strength and importance to the firm of brand names such as Ballygowan, Heinz, Coca-Cola, Guinness and Microsoft.

It can be a letter, a word, a group of words or a symbol. (e.g. Nike). A product manager co-ordinates all the efforts for a particular product (or product line) or brand. An important part of the brand image of a product is the packaging that is utilised.

Branding

- Makes goods easily identifiable and gives them a distinctive appearance.
- If the quality of goods is maintained, it gives the consumer reassurance that they know what they are buying.
- It facilitates advertising and promotion and new product development.

Question 6 (a)

The decision to build or buy IT systems involves a number of considerations.

The package option is feasible only when the application software required is of a "standard" variety - the kind of common system likely to be required by a large number of companies.

In the case of specialised systems uniquely required by a single organisation, a package will not be available and the development of a custom-built system becomes the only option.

Packages are available immediately to use whereas custom-built systems may take months or years to develop. Packages are generally well established and are proven products, whereas custom-built systems must be extensively tested and inevitably have 'teething problems' when implemented.

Packages come complete with full documentation (user guides etc.) whereas such information must be specially prepared for each custom-built system.

Packages are generally the result of considerable investment of time, money and professional expertise by package developers.

Training and support can be obtained from the package supplier rather than having to be provided from internal resources.

The better packages undergo continuous enhancement and improvement by their developers and the purchaser has access to a sequence of "upgrades" over the life of the package.

Question 6 (b)

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 someone deliberately tries to harm your system or take your data) and
- (ii) unintentional (e.g. accidents)

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

Every medium sized organization is exposed to IS threats. The magnitude of the threats vary depending on the range, use and spread of the organisation's IT activities. These threats are real and appropriate steps need to be put in place to minimize the company's exposure. These include appropriate user protocols, backup procedures, training, guidance manuals, supervision and audits.

Question 6 (c)

Contingency planning (also called "Disaster Recovery Planning" and sometimes "Business Continuity Planning") focuses on plans for the restoration of communication and computing services after they have been disrupted (e.g. after a fire or major security breach).

These plans are necessary as we recognize that no security system is going to be 100% fool proof. A UPS system, for example, is an Uninterruptible Power Supply that acts as a backup should there be a power cut. Essentially a very large battery, the UPS would have a certain amount of power and should provide enough time to properly power-down the system so that data is not lost. Other elements of a contingency plan would include:

- The importance of proper back ups.
- Alternate work spaces (or "hot sites", with spare IT equipment).
- Contact lines (phone numbers, e-mail lists, etc.).
- A proper and well practiced evacuation plan.

Question 7 (a) (i)

Financial Management must not be confused with accounting. Financial management is a management activity whereas accounting is a service activity. As a service activity, accounting processes and interprets information either to those inside an organisation (management accounting) or outside an organisation (financial accounting). In contrast financial management, as its name suggests, deals with the management of an organisation's finances.

Financial Managers are part of the decision-making system within organisations. In the general decision/control context the information processed by financial managers includes:

- the cost of raising funds,
- current exchange rates,
- short-term interest rates on money markets,
- information on new investment opportunities,
- internal and external financial reports.

From the foregoing information the Financial Manager will produce:

- information about the interest rates at which the organisation will lend or borrow money,
- advice on raising funds (whether by equity, new long-term debt, short-term debt, re-investment of internally generated funds or some combination of the foregoing),
- advice on risk management techniques,
- forecasts about future cash needs of the organisation,
- forecasts of economic aggregates and interpretations of their effects on the organisation,
- internal management accounts,
- external financial reports.

You will see from the above that many of the demands on Financial Managers require economic analysis (e.g. interest rates, exchange rates, forecasts of economic aggregates and risk analysis).

Apart from the general decision/control context which we have just considered, the Financial Manager particularly will be concerned with:

- cash receipts from customers and cash payments to creditors,
- interest or dividends received on investments and dividends paid to shareholders,
- inflows of debt or equity capital and outflows of interest payments to banks and debt-holders,
- compliance with professional and statutory regulations for reporting.

The Financial Manager, in discharging the foregoing functions, increasingly needs to take account of the international environment. This is due to the following factors:

- capital markets around the world are increasingly tied together. Multinational corporations may trade on stock exchanges in several countries. Also, due to improved communications around the world there is 24-hour trading,
- funds are increasingly internationally mobile,
- multinational corporations move funds within themselves but across national boundaries,
- opportunities for investments on a global basis.

Question 7 (a) (ii)

Stages in the Budgeting Process - The important stages are:

- communication of details of budget policy and guidelines to the people responsible for the preparation of budgets,
- initial preparation of various budgets,
- negotiation of budgets with superiors,
- co-ordination and review of budgets,
- final acceptance of budgets,
- ongoing review of budgets.

Question 7 (a) (iii)

Responsibility centres are cost centres which are associated with and under the control and responsibility of designated individuals and managers in the organisation. It is usual for a responsibility centre to incorporate two or more cost centres. The designation of responsibility centres is an important element in overall management control and, for example, individual managers in organisations must control their own area of operations. However, the controllability of costs by managers is an area which causes problems when reviewing performance.

In any organisation, the calculation of direct costs should not present too many difficulties. The correct establishment and ascertainment of the overhead costs or indirect costs attributable to services or product does present problems. It requires clear and transparent procedures so that managers who are responsible for service provision understand and accept these overheads as relevant costs.

Question 7 (b)

Ordinary Shares

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 Of 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 unlike loan interest are not tax deductible. Another disadvantage of equity is the potential for change in the balance of control between existing and new shareholders.

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 deductions for taxation purposes. For this reason they hold few attractions for the majority of companies and tend not to be used as a source of finance.

Debentures:

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

Debentures may be redeemable or irredeemable. Redeemable debentures 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.

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.



1st Year Examination : Summer 2009

BUSINESS MANAGEMENT

EXAMINER'S REPORT

General Comment

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

	Summer 2009	Summer 2008	Summer 2007
Number of candidates	1,405	1,278	1,419
% Obtaining 50 or more	72%	73%	74%
Average marks	55.61	54.19	57.59

Question	1	2	3	4	5	6	7
No. Attempting	1,326	719	532	664	1,011	698	524
Marks available	25	25	25	25	25	25	25
Average marks	13	14.7	12.8	14.6	15.9	15.7	13.1

Question 1

- (a) The vast majority of candidates were comfortable describing Porters five forces model. A small number were unprepared and resorted to elaborate guesswork drawing on the marketing mix or SWOT analysis etc. In general the standard of answers was good.
- (b) Most candidates were able to demonstrate how the model could be used to analyse the intensity of competition in the airline industry in Ireland. A good number of candidates offered sound reasons to back their assertions as to the strength of the different forces in the scenario in question.
- (c) Most candidates showed a good understanding of the trait theory of leadership.

Question 2

- (a) A high standard of answering was demonstrated by the vast majority of candidates to this part of the question on the distinguishing characteristics of services.
- (b) A slightly lower standard to this part on the extended marketing mix for services with quite a few candidates incorrectly presenting the standard marketing mix as their answer.
- (c) Generally well answered with very sensible suggestions for the person opening the fitness centre.

Question 3

- (a) Only a third of candidates attempted this question which was surprising.

Further only a small minority presented it in report format. Descriptions were of an average standard with little or no linkage to the scenario.

- (b) Answers on the relevance of the theory in today's business environment were light.
- (c) The weakest part of the question with very few candidates teasing out the issues surrounding the applicability of the theory across different departments.

Question 4

- (a) Surprisingly this question was attempted by only 50% of candidates. The distinction between Human Resources Planning function and the recruitment process caused a number of candidates difficulty. Some candidates listed out up to a dozen stages in recruitment without going into detail on any of them. Answers on recruitment were much better than those on planning.
- (b) Answers to this part of the question were of a very high standard.
- (c) While answers varied significantly generally they were of a high standard.

Question 5

- (a) A very popular question. Almost all candidates could accurately describe all stages of the product cycle.
- (b) Answers to this part were of a slightly lower standard with candidates finding it more challenging to explain how the PLC may be used as a marketing tool in the scenario presented.
- (c) Answers to this part on branding were of a good standard.

Question 6

- (a) Answers to this question on "off the shelf" and "custom built" approaches to systems development were well answered.
- (b) There was some element of misreading the question in this part. with some candidates providing descriptions of intentional threats etc.
- (c) Answers overall to this part were of a high standard.

Question 7

- (a) Part (i) was well answered but there was scope for some candidates to refer to the wider roles of financial management. Part (ii) answers were of a high standard. A number of students confused the stages of the budgeting process with types of budgets. Part (iii) was very well answered.
- (b) Almost all students could describe two long term sources of finance in great detail.
- (c) Answers were generally of a high standard.