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SRI LANKA

Association of Accounting Technicians of Sri Lanka

July 2015 Examination - AA3 Level

Questions and Suggested Answers
(AA33)

BUSINESS MANAGEMENT AND STRATEGY (BMS)

AA3 Level Examination - July 2015
(33) Business Management ans Strategy

SUGGESTED ANSWERS

SECTION – A

Answers to ALL questions are expected.

Suggested Answers to Question One:

(Note : Only the relationship of the concepts is sufficient as the answer for the question . The detailed explanations of the concepts have been included for information of the students.)

Efficiency is the degree to which limited resources are optimally utilized. According to peter F Drucker it is "doing things right"

Effectiveness is the degree to which the predetermined objectives are achieved as planned. According to Peter F Drucker it is "doing the right thing"

Productivity is the relationship between the output generated by a production or service system and the input provided to create this output. It can be shown as a ratio.

> **Productivity   =   Output/inputs**

Efficiency is always measured as the relationship between the resources allocated or available for the performance of the particular task and the resources actually used. Accordingly it can be expressed as an equation.

> **Efficiency   =   (Resources used/Resources allocated) 100**

Efficiency is directly related to the concept of productivity as the "resources used" or "inputs" is one variable i.e. denominator of the productivity equation. Hence, an increase in efficiency i.e decreases in resources used can cause in improvement of productivity & vice-versa

Effectiveness is the degree to which the predetermined objectives are achieved as planned.it can be measured as follows.

> **Effectiveness   =   (Achievement of the objectives/Planned objectives) 100**

Effectiveness is directly related to the concept of productivity as effectiveness explains the degree to which the objectives are achieved i.e. output of the organization. Note that "output" is the numerator of the productivity equation. Hence, an increase in effectiveness can improve the productivity & vice-versa

Suggested Answers to Question Two:

i)   The complexity of individual behavior makes prediction of that behavior difficult.

Behavioral approach in management tries to predict human behavior. However it is very difficult to predict since individual behavior is more complex.

ii)   Too much of emphasis and dependence on the human factor

This emphasis the human factor in organizational context however this ignore importance of other factors like technology in achieving success.

iii) Over participation cause control problems

This makes it difficult to control the behavior of employees.

iv)   Less productivity due to high social interactions and informal relations

Employees do not concentrate much on productivity when they work together.

v)   Informal organizations dominate lead to management problems

Informal groups in the organization can create problems to management.

vi)   Do not consider the organization as a system

Employees failed to look at the holistic view when they are making decisions.

Suggested Answers to Question Three:

Traits approach to leadership assumed that some basic traits or set of traits existed that differentiated leaders from non-leaders. If those traits could be defined, potential leaders could be identified. Leadership traits might include intelligence, assertiveness, above-average height, good vocabulary, attractiveness, self-confidence, and similar attributes.

This view assumes that leaders are born, not made. This view can be applied to achieve the success of the organization. Organizations can identify employees who have leadership traits and can be groomed to become future leaders of the organization. When they become leaders, they will be able to achieve organizational objectives.

Suggested Answers to Question Four:

Delegation is the process managers use to transfer authority and responsibility to positions below them in the hierarchy.

Delegation is required due to the following reasons.

-    **Top Managers lack time and energy**

Top managers have so many tasks to be performed. Therefore they need to delegate it.

- **Complexity of rules and new techniques means specialists are needed.**

  Rules and new techniques are complex to understand therefore specialists are required to do it

- **Training for middle and lower level managers**

  When delegation is done foe lower level, they can learn the task and can become specialist. Later they can take better decisions when go up in the organizational hierarchy.

- **Diversified business activities**

  There are so many business activities performed by business organization therefore delegation is required to perform diversified business activities.

- **Operations are dispersed among different geographical areas**

  Organizations do business in wider geographical areas. For example: branches therefore delegation is required

- **Speed up decision-making**

  When delegation is applied, decision can be made quickly
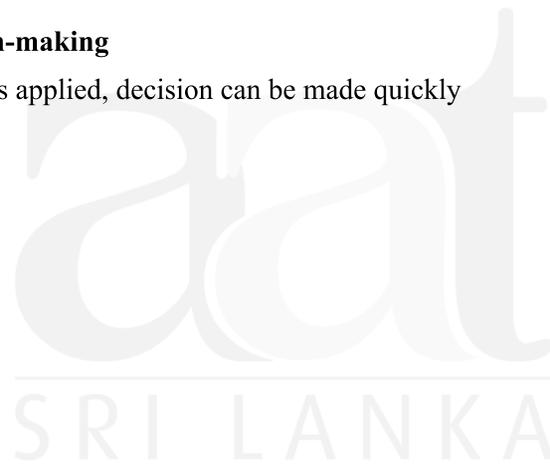
End of Section A

Answers to ALL three compulsory questions are expected.

Suggested Answers to Question Five:

Following barriers can be identified relating to planning;

i) **Inappropriate goals**

If goals are unattainable or if they place too much emphasis on either quantitative or qualitative measures of success it becomes inappropriate.

ii) **Improper Reward System**

Improper reward system acts as a barrier to goal setting and planning.

iii) **Dynamic and complex environment**

The nature of an organizational environment is also a barrier to effective goal setting and planning. Rapid change, technological innovation, and intense competition can all increase the difficulty of an organization's accurately assessing future opportunities and threats.

iv) **Reluctance to establish goals**

Another barrier to effective planning is some managers' reluctance to establish goals for their units of responsibilities. The reason for this reluctance may be lack of confidence or fear of failure.

v) **Resistance to change**

Planning essentially involves changing something about the organization. People tend to resist change.

vi) **Constraints**

Common constraints include lack of resources, government restrictions, and strong competition.

Following strategies can be implemented to overcome barriers.

i) **Understand the purposes of Goals and planning**

Managers want to recognize the basic purpose of planning. Adjustments and exceptions are to be expected as time passes.

ii) **Communication and participation**

Although goals and plans may be initiated at high levels in the organization, they must also be communicated to others in the organization.at the same time, employees ideas should be taken into account when planning work is done.

iii) **Consistency, Revision and updating**

Goals should be consistent across the organization and up & down the organization. Goals should be revises and updated according to environment changes.

iv) **Effective reward systems**

In General, People should be rewarded both for establishing effective goals and plans and for successfully achieving them.

Suggested Answers to Question Six:

Four types of communication skills that should be developed by managers.

1.   Formal Communication:

Managers should develop task-related communication which follows the chain of command. This is very important in managing the staff while communicating the goals and objectives they need to achieve within the organisational context.

2.   Informal Communication:

Communication which is used to serve the self-interest of the members of the organisation and not controlled by management is also important for a manager. He/She should possess this skill in order to know the interest of the employees who are reporting to his/her.

3.   Vertical Communication:

Any communication that moves up or down the chain of command could be identified as vertical communication. This is important because flow of communication within the chain of command should be focused, clear and direct in order to avoid any ambiguous situations.

4.   Horizontal/Lateral Communication:

Communication between all the departments of an organisation could be referred to as horizontal communication. This is needed to save time and facilitates coordination between departments in order to conduct business activities.

How managers can develop these communication skills:-

1.   Be a good listener and be mindful while communicating.

Managers need to listen to the messages they receive in a proper manner. Additionally, they need to be consious in communicating with all the parties within the organisation.

2.   Through Education

The managers could follow proper academic / professional courses on professional communication.

3.   Additionally, managers participate in training courses, workshops and career development programmes which are directed towards developing communication skills.

4.   Choose the right communication channel

Managers could develop communication skills by using appropriate communication channels to transmit the messages. The modes should be selected based on the target audience of cummunication. The selection of correct channel of cummunication is a skill which managers should develop.

5.   Correcting and minimizing errors already occured.

The managers should carry out a self evaluation and identify the wrong communications done in the past and should not repeat them.

6.   Follow up communication

Once a message has been transmitted, until managers get the desired outcomes, they should follow up the communication process.

Suggested Answers to Question Seven:

Controlling is a systematic effort to set performance standards with planning objectives, to design information feedback systems to compare actual performance with these predetermined standards to determine whether there are any deviations and to measure their significance, and to make any action required to assure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.

There are four main steps associated with controlling. It can be shown as follows.

Establish Criteria & Standards	→	Measure Actual Performance	→	Compare performance with Standards	→	Take Corrective actions
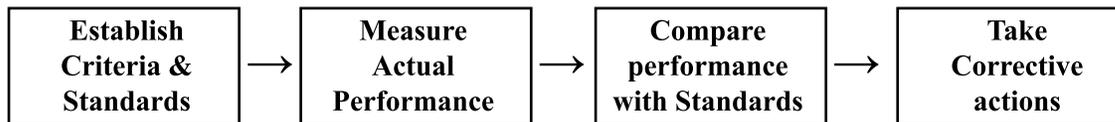
i)   **Establish standards and methods for measuring performance**

Performance targets can be identified for future performance. This can easily be done by establishing Key performance indicators (KPIs) by covering whole organization.

ii) **Measure Actual performance**

At pre-defined interval actual performance can be measured.

e.g.: Once in a month

iii) **Compare actual results against standards**

Actual result can be compared with expected result (Standards).Variance can be identified. Reasons for variance can be identified.

iv) **Take corrective actions where required**

Corrective actions can be done against variances. Normally when there is adverse variance, corrective actions are implemented to avoid repeating same variance in future.

End of Section B

Suggested Answers to Question Eight:

a) **There are four different cultures introduced by Charles Handy.**

1. Power Culture-Power is concentrated at the 'center' of the organization, and is held by one individual or a small group of senior managers. There are few formal rules for the organization, and very little bureaucracy

2. Role Culture-In an organization with a role culture, authority for decision making is delegated to individuals who have particular roles or positions within the organization.

3. Task Culture-In a task culture, project teams are formed to solve particular problems

4. Person Culture-In a person culture, individuals believe them-selves to be superior to the organization. The organization exists to serve their interests.

ABC ltd is having a Task Culture due to following reasons.

-   ABC ltd has only a few rules and regulations and supervision is loose because management believes that their employees are hardworking and trustworthy.

-   Management is highly concerned about the high productivity; therefore they believe that high productivity could be achieved only by treating its people in the right manner.

-   job activities are designed around work teams and team members are encouraged to interact with each other across functions and authority levels

-   Promotions and other valuable rewards go to employees who make the greatest contributions to the organization

b) Organizational culture comprises the 'basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic taken-for-granted fashion an organization's view of itself and its environment.

Strategy is the direction & scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets & to fulfill stakeholder expectations.

For a strategy within an organization to develop and be implemented successfully, it must fully align with the organizational culture. Thus, initiatives and goals must be established within an organization to support and establish an organizational culture that embraces the organization's strategy over time. Otherwise required success cannot be achieved when strategy is not in line with culture resistance come.

Especially when there is a strong culture and strategy is aligned with this culture, strategy can successfully be implemented.

c) The drive within an individual to satisfy his or her unsatisfied needs could be named as motivation. When it applies to the organizational context it could be defined as "willingness of an employee to exert a high level of effort to perform an organizational work". The ABC Ltd could use motivation as a managerial factor in conducting its business activities.

First of all, ABC could identify the needs and wants of its employees. In doing so they could use the process of motivation. Motivation directly relates to human motives or needs. If the needs of employees are not satisfied then, physical and psychological tension is created within the employees. As a result, a drive will be created and employees will be physically and psychologically forced to do what is necessary to fulfill the need. The process could be presented as;

Unsatisfied needs	⇒	Tension	⇒	Drive	⇒	Need fulfilled	⇒	Satisfaction
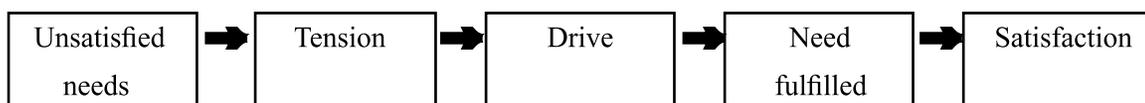
Due to the fact that, unsatisfied need creates tension. To relieve this tension employee exerts effort. The greater the tension, the higher the level of effort. Based on this, managers of ABC Ltd can achieve the objectives by identifying the rewards valued by employees and linking those rewards to job performance.
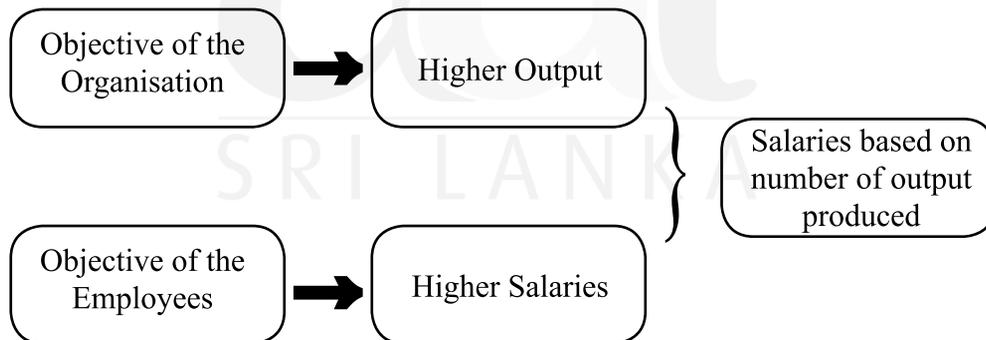
Suggested Answers to Question Nine:

a) There are three types of change that are considered when initiating change process in an organisation.

1. Structural change
2. Technological change
3. People change

Structural Change

The changes made to the current structure of the organisation could be named as structural change. For example flat structure.

Technological Change

The changes in use of technology are another type of change. This could be a completely new technology to the current system of operations or an upgrade to the existing system.

For example, converting Pearson PLC current printed publishing into internet based publishing via internet by downloading a file.

People Change

Changes in people are one of the most important changes, which needs to be carefully monitored and implemented. For example appointing new employees / positions.

Note : Two alternative suggested answers are provided for part (b) as b(i) and b(ii).

b) i) Mr. Peter can apply the following methods to overcome resistance to change :-

1. **Education & communication**

   Resistance can be reduced through communicating with employees to help them see the logic of a change. This tactic basically assumes that the source of resistance lies in misinformation or poor communication: If employees receive the full facts and get any misunderstandings cleared up, resistance will subside. Communication can be achieved through one-on-one discussions, memos, group presentations, or reports.

2. **Participation & Involvement**

   It's difficult for individuals to resist a change decision in which they participated. Prior to making a change, those opposed can be brought into the decision process. Assuming that the participants have the expertise to make a meaningful contribution, their involvement can reduce resistance, obtain commitment, and increase the quality of the change decision. However, against these advantages are the negatives: potential for a poor solution and great time consumption.

3. **Facilitation & Support**

   Change agents can offer a range of supportive efforts to reduce resistance. When employee fear and anxiety are high, employee counseling and therapy, new-skills training, or a short paid leave of absence may facilitate adjustment. The drawback of this tactic is that, as with the others, it is time-consuming. Additionally, it is expensive, and its implementation offers no assurance of success.

4. **Negotiation & Agreement**

   Another way for the change agent to deal with potential resistance to change is to exchange something of value for a lessening of the resistance. For instance, if the resistance is centered in a few powerful individuals, a specific reward package can be negotiated that will meet their individual needs. Negotiation as a tactic may be necessary when resistance comes from

a powerful source. Yet one cannot ignore its potentially high costs. Additionally, there is the risk that, once a change agent negotiates with one party to avoid resistance, he or she is open to the possibility of being blackmailed by other individuals in positions of power.

5. **Manipulation & Co-optation**

Manipulation refers to covert influence attempts. Twisting and distorting facts to make them appear more attractive, withholding undesirable information, and creating false rumors to get employees to accept a change are all examples of manipulation. If corporate management threatens to close down a particular manufacturing plant if that plant's employees fail to accept an across-the-board pay cut, and if the threat is actually untrue, management is using manipulation.

6. **Implicit and Explicit Coercion**

Last on the list of tactics is coercion; that is, the application of direct threats or force upon the resisters. If the corporate management mentioned in the previous discussion really is determined to close a manufacturing plant if employees don't acquiesce to a pay cut, then coercion would be the label attached to its change tactic. Other examples of coercion are threats of transfer, loss of promotions, negative performance evaluations, and a poor letter of recommendation. The advantages and drawbacks of coercion are approximately the same as those mentioned for manipulation and cooptation.

(b) ii) The alternative answer, below is also acceptable.

1. **Understand the source(s) of resistance**

First of all Mr. Peter could identify sources of resistance to change. Then the resistence to change could be addressed in an effective manner. Some of the most common issues observed include: anger over real or preceived loss of power and control, discomfort with doing things differently, resentment over increased workload, fear of job loss, and generalized anxiety about the unknown. Once the sources have been identified Mr. Peter could address them accordingly.

2. **Be honest about the challenge and the path ahead.**

Mr. Peter should give the actual facts and information about the situation the company is facing. Then employees are aware of the situation and they respect and accept the existing situation even if they different thoughts about the change. After that, provide them with a path for moving through the change that they can buy into, and they will be more likely to cooperate.

3. **Build confidence**

The managing director could build confidence on the change process and especially employees job security and positions. Additionally, Mr. Peter could provide examples from the industry and from its own company in order to build confidence with its team.

The more employees can see how their individual and group contributions are making a difference, the more in control they will feel and the more committed they will be to changes.

4. **Communicate frequently - and credibly**

   During periods of uncertainty especially within organisations employees need information. In such situations miscommunication could occur. This is the same for Pearson PLC. Therefore, it is the responsibility of the managing director to provide relevant information frequently and credibly in order to prevent miscommunication and resistance to change. Additionally, when conducting communication process, Mr. Peter could use suitable channel of communication. In doing so both new technologically driven communication methods and old communication methods need to be used based on the necessity and target audience of communication.

c) Following are the key stakeholders of Pearson Company.

i) **Management -** Management is responsible for planning and directing the work of a group of individuals, monitoring their work, and taking corrective action when necessary in order to achieve organizational objectives.

   Different management group may have different expectations from the company, and may have differing amounts of influence on decision-making. For Example, Senior Management are more powerful & influential than Junior Managers.

ii) **Employees -** Individuals, who work part-time or full-time under a contract of employment, whether oral or written, express or implied, and have recognized rights and duties,. They have different expectations from the company such as Higher Salary, Job Security & Job Satisfaction.

   They can influence in many ways to Pearson company.
   • They may take industrial actions such as employee strike
   • They may resist efforts by senior management to introduce change and new work practices.
   • They may refuse to re-locate to a new location for the business
   • They may resign
   • They may work inefficiently and resist management efforts to improve productivity
   • Participation by employees in decision-making-In some organizations management may encourage participation in decision-making. This action has a positive influence.

iii) **Shareholders -** Equity shareholders are the company's legal owners. There may be a dominant majority shareholder and several minority shareholders. Alternatively, shares may be widely held by a large number of investors.
   Shareholders can influence the company in many ways.
   • A majority shareholders has the power to dismiss the directors from the board

- Shareholders have the right to make certain decisions for the company, such as approve a major takeover or a new issue of shares, and approve the re-election of directors.

    iv)   **Customers -** Customers buy the products or services of the company; have expectations of the benefits and value that the company should provide.

They can influence the company by taking buying decision. If they are not happy with the company they may not avoid buying company products.

    v)   The group of people with the authority to govern a country. Although government is not directly involved in a company's business, it has expectations about how companies should behave. Government is able to influence what a company does by means of laws or regulations that the company must obey

They can influence Pearson in following ways.

- May introduce new laws and regulations
- May take action for breach of regulations
- May change rates of taxation applied to printing industry.

Suggested Answers to Question Ten:

a)   The direction & scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets & to fulfill stakeholder expectations is identified as a strategy.

Competitive advantage is what enables a business organization to thrive. It is the objective of strategy. It is the combination of elements in the business model which enables a business to better satisfy the needs in its environment, earning economic rents in the process.

A firm has a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

b)   According to the Ansoff's Matrix, there are four corporate strategies that can be used by an organization to expand the business.

Market Penetration - This strategy is less risky compared to others as it controls several other prevailing resources and capabilities. In a rising market, merely preserving market share will result in growth, and there chances might occur to upsurge market share if opponents reach capacity limits. However, a limit is that as a market reaches the saturation level another strategy is necessary to grow further.

This strategy is ideal when there are some opportunities in the existing market to grow.

Market development - This is search for additional market segments or geographical areas. If the company's capabilities do match, developing a new market for the same product is a good example of this strategy. Since this involves in meeting new market, new competitors, new

potential customer base, etc. this strategy is riskier than the market penetration strategy.

This strategy is appropriate when existing market is not having enough opportunities to grow and there are opportunities in new market for existing product.

Product development - This is to develop a new product to the existing customers. This is more successful if the company capability meets specific customer satisfaction than merely a product development. This is also riskier than the market penetration strategy as it involves a totally new product.

When there are new customer's needs to fulfill & company is capable of covering that through new product, this strategy is appropriate.

Diversification - This is the riskiest strategy out of all four options. This necessitates product and market development and could be beyond the key competencies of the company. Therefore, this is also referred as the "suicide cell" in this model.

Nevertheless, diversification could be a sensible selection when high risk is compensated by higher returns. In addition, this allows the potential to be a leader/enter into an attractive industry as well as reduces the overall business portfolio risk.

c)   Generally social responsibility of business organizations can be defined as the obligation of an organization to solve its problems and take actions that enhance best interest of both society and the business. Social responsibility can be performed at individual level (Individual Social Responsibility) or at organizational level (Corporate Social Responsibility).

The concept that organizations willingly be responsible for the impact they have on society is also implied by CSR. Researchers have found that to be very competitive C5R is very important. In terms of cost savings, human resource management, risk management, customer relationships, innovation capacity, access to capital and etc. CSR is an advantage.

The demand for companies to be socially responsible has increased. Therefore, employees, investors and consumers are seen to be using their supremacy to penalize businesses who are not socially responsible. When stakeholders like public, media, customers and investors realize that a certain company is practicing unacceptable corporate citizenship activities, they would refuse/ boycott products or services of such companies, decline to invest in the company shares, or voice against the company in public or to private relations.

The beneficent reasons for businesses to become involved in responsible business practices include:

- Increased Leverage and Influence: businesses can serve in leadership positions as "first movers" to change or affect government policies. Businesses engaged in CSR also tend to take the lead in regulatory and financial reform.

- Market and Product Expansion: businesses can discover and enter new markets by changing the way they market and to whom they market.

- Improving Access to Finance: Financial institutes are willing to give loans and investors willing to invest in good corporate citizens

- Attracting and Retaining Employees: Employees are willing to work in reputed and socially responsible organizations.
- Enhanced Reputation and Protection of Brand Identity: businesses can increase their reputation and image, potentially increasing profit, by appealing to consumers who increasingly want to buy from firms that care about sustainable development.
- Enhancing Operational Effectiveness: Socially responsible organizations may increase operational effectiveness by developing innovative solutions for sustainability.
- Reduction of Risks and Costs: Businesses that engage and invest in their communities enjoy lower production and transportation costs and a lower risk profile associated with production and local and global reputation.
- Enhanced Government Relations: Possible to align with government rules and regulations and involve with the social services which should be provided by the government authorities.
- Developing a Local Skills Base: Possible to develop the skills of employees.
- Increased Local Expertise and Access to Local Networks: Possible to develop relationship with business communities.

End of Section C