



**Association of Accounting Technicians of Sri Lanka**

**AA2 Examination – July 2019**

**Suggested Answers**

**Subject No : (AA26)**

**BUSINESS MANAGEMENT AND STRATEGY  
(BMS)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA  
AA3 Examination – July 2019  
(AA26) Business Management & Strategy  
SUGGESTED ANSWERS

Ten (10) compulsory questions  
(Total 20 marks)

**SECTION - A**

*Suggested Answers to Question 01:*

- 1.1 (2)
- 1.2 (4)
- 1.3 (3)
- 1.4 (2)
- 1.5 (1)
- 1.6 False
- 1.7 True
- 1.8 True
- 1.9 True
- 1.10 False



*(02 marks each, Total 20 marks)*

*End of Section A*

*Suggested Answers to Question 02:*

Chapter 1- Introduction to Business Management

**Levels of Managers**

1. **Lower Level Managers** are responsible for the daily supervision of non-managerial employees, clerical staff and executives .They are selected by the middle-level management. **Eg: Supervisors, Foreman**
2. **Middle Level Managers** supervise first-line managers. They also work with first-line managers to identify new ways and means of organizational goals and objectives. Very often, the suggestions and recommendations that they make to top management can dramatically increase organizational performance and finally resulting in improved revenue. **Eg: Branch Managers, Departmental Heads**
3. **Top Level Managers** are responsible for the performance of all departments of the organization and therefore the responsibility lies across the departments. The top managers are ultimately responsible for the success or failure of the organization, and they will be asked explanation for any unsuccessful implementations within the organization. **Eg: Chief Executive Officer, Board of Directors, Managing Director, General Manager**

(05 marks)

*Suggested Answers to Question 03:*

(a) **Characteristics of Bureaucracy**

Chapter 2- Historical Perspectives of Management

- (a) Specialization
- (b) Hierarchy
- (c) Rules
- (d) Impersonality
- (e) Appointed Officials
- (f) Career Officials
- (g) Full-time officials
- (h) Public/Private Division

(03 marks)

(b)

**Challenges faced in bureaucracy**

- It leads to red tape and paperwork.
- Little involvement in staff
- Lack of motivation
- No recognition for informal relationship
- Rigid rules and regulations disturb to the operational efficiently
- Slow communication
- Slow response to change

(02 marks)  
(Total 05 marks)

***Suggested Answers to Question 04:***

**Chapter 4- Organizational Planning**

Environmental scanning simply means that planners must be aware of critical contingencies facing their organization in terms of economic conditions, their competitors and their customers; planners must then attempt to forecast future conditions.

1. Environmental scanning is necessary because there are rapid changes taking place in the environment that has a great impact on the working of the business firm. Analysis of the business environment helps to identify strength weakness, opportunities and threats.
2. To understand the environmental scanning, it is important to identify the business and how it can affect the environment business around. “Environmental Scanning is a process of gathering, analyzing, and disseminating information for tactical or strategic purposes.
3. The PEST Analysis describes a framework of macro environmental factors that are important for strategic management. It is a useful strategic tool for understanding market growth or decline, business position, opportunities and direction for the possibly required actions.
4. SWOT analyses and PEST analysis show how the prevailing internal and external factors affect the new idea of entering into production.

(05 marks)

### ***Suggested Answers to Question 05:***

<b>Chapter 5- Organizational Decision Making</b>
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1. Decision making occurs after the planning stage in the management process. It allows actions to be taken based on the business objectives decided during the planning. Therefore, decision-making helps in facilitating the entire management process. In fact, decision-making is a particular type of planning. A decision is a type of plan involving commitment to resources for achieving specific objective.
2. Decision-making is important when carrying out other functions of the management such as organizing, staffing, coordinating and communicating.
3. Decision-making is continuous. All managers at all levels of the hierarchy are required to make decisions regarding the responsibilities assigned to them. Continuous decision making facilitates follow-up actions.
4. Decision-making enables an organization to deal with new problems and challenges. Unforeseen changes in the external business environment may lead to new challenges. Thus, proper decisions are necessary to overcome the challenge effectively.
5. Decision-making is a critical task. Managers need to be making effective and quick decisions while at the same time ensuring that they are making the right decisions. The right decision leads the organization to success while the wrong one leads to instability and loss.

*(05 marks)*

### ***Suggested Answers to Question 06:***

<b>Chapter 12- Managing Change</b>
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#### **1. Planned Change**

Organizational change is carefully planned after doing an analysis of the environment. Plans are constructed on the assumption that organizations operate in a stable or predictable environments. (Which may be case at the present time.)

#### **2. Emergent Change**

The planned approach is challenged as inappropriate to modern business operating is often chaotic environments. The emergent approach is based on a more recent view whereby

change is seen as continuous, unpredictable and open ended, a process of the constant adjustment to the environment. Emergent approaches assume that organizations operate in unstable and/or unpredictable environments over which they exercise very little control.

### **3. Incremental Change**

Incremental change has often comprised changes in response to trends in the environment such as sales growth or more commonly technological improvements. It is a small modification made toward an end outcome. In a business atmosphere, making a step by step change to the way that things are done generally does not considerably endanger present energy components or modify present techniques.

### **4. Step change**

Step change involves a situation where the trend line for a particular factor stops becoming smooth and there is a significant and unexpected jump in direction upwards or downwards. Step change is impossible or at least difficult to spot in advance.

### **5. Transformational change**

Here radical change is involved and the organization acts in a way that is currently outside or its existing paradigm. Clearly this involves a huge cultural shift for the change to be successfully brought out.

*(05 marks)*

**End of Section B**

***Suggested Answers to Question 07:***

**Chapter 02-Historical Perspectives of Management**

(a)

**Criticisms of behavioral approach**

- (a) Too much dependency on human factor.
- (b) Controlling issues.
- (c) Complex behaviors cause confusions.
- (d) Less productivity due to high social interactions.
- (e) Do not consider the organization as a system.
- (f) Informal organization dominate lead to management problems.

*(05 marks)*

(b)

**Techniques used in quantitative approach**

- Mathematical Forecasting
- Linear programming
- Inventory modeling
- Network modeling
- Queuing theory
- Simulations

*(05 marks)*  
*(Total 10 marks)*

***Suggested Answers to Question 08:***

**Chapter 06-Organizational Structure and Design**

(a)

**Relationship between authority and responsibility**

Authority is the legal right of person or superior to command his subordinates while responsibility is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates in which orders and

instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding from subordinates.

*Eg: The marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the Chief Executive Officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.*

(04 marks)

(b)

#### **Obstacles/Barriers on the part of Manager/Superior/Delegator to effective delegation**

**(1) Unwillingness of the manager to delegate authority**

Some superiors / Managers tend to think that they can do the job better when they themselves handle the job. The attitude that “I can do it better myself” on the part of superior acts as an obstacle to delegation. Some managers (superiors) who are autocratic and power worshippers feel that delegation will lead to reduction of their influence in the Organization.

**(2) Fear of competition**

A manager may feel that if he has a competent subordinate and if he delegates authority to the subordinate, quite likely he will outshine him. Fear of subordinate's excellence may come in the way of delegation.

**(3) Lack of confidence in subordinates**

A manager may hesitate to delegate authority, if he feels that his subordinate is not competent to deal with the problem and take decisions. Even fear of losing control over the subordinates acts as an obstacle to delegation. In addition, fear of being exposed due to personal shortcomings may act as an obstacle in the process of delegation.



**(4) Lack of ability to direct.**

Sometimes, a manager may experience difficulty in directing the efforts of his subordinates because of his inability to identify and communicate the essential features of his long –range plans and programs.

**(5) Absence of controls that warn of coming troubles**

An organization might not have developed the controlling techniques to know in advance the serious problems lying ahead. It may happen due to concentration of power in the hands of few people. As a result manager may resist delegation.

**(6) Conservative and Cautious Temperament of the Manager**

If a manager has a conservative and over-cautious approach, there will be psychological barrier in the way of delegation. A manager avoids delegation as he feels that something may go wrong even when the instructions given are clear and the subordinates are reliable.

**(7) Desire to dominate subordinates**

Managers (Superiors) normally, have a desire to dominate the subordinates functioning under their control. They feel that their domination will reduce if the powers are delegated to subordinates. They also feel that their domination will reduce if the powers are delegated to subordinates. They also feel that due to delegation, the subordinates will know their managerial deficiencies. In order to maintain their superior status and in order to dominate the subordinates, they avoid delegation itself.

**Obstacles / Barriers on the part of subordinates (Why subordinates resist delegation?)**

**(1) Too much dependence on the manager for decisions**

Some subordinates avoid responsibility even when the superior/ manager is prepared to delegate the authority. They want the manager to tackle problems and take the decisions. A subordinate who is not confident about his performance/ability will certainly try to shirk responsibility even though his superior is prepared to delegate functions and authority.

**(2) Fear of Criticism**

Subordinates express unwillingness to accept delegated authority because of the fear of criticism in the case of mistakes. They fear that they may be criticized by others if they commit mistakes. Such subordinates have the following feeling in their mind, “Why should I stick my neck out for my boss?.”

**(3) Lack of Information**

A subordinate may hesitate to accept a new assignment, when he knows that necessary information to perform the job is not likely to be made available to him. He is reluctant to accept delegated functions and authority as he feels that he will not be able to perform well due to inadequate information available.

**(4) Absence of positive incentives**

Positive incentives like recognition of work and rewards go a long way in building up the morale of subordinates. In the absence of such incentives in the form of recognition, appreciation or monetary benefit, a subordinate may not be prepared to accept delegation of authority.

**(5) Absence of Self Confidence**

A subordinate may lack self-confidence about his ability to take quick and correct decisions. He may not like to accept new challenging functions as he lacks self-confidence. Thus lack of confidence on the part of subordinates is one obstacle which comes in the way of delegation of authority.

**(6) Difficulty in decision-making**

A subordinate may not have the skill and the expertise to take quick and correct decisions. He prefers to go to his superior (boss) and ask for his guidance or opinion. Such psychology acts as a cause for non-acceptance of delegation. A subordinate avoids delegation due to such mental tension or inferiority complex.

**(7) Poor superior subordinate relations**

Absence of cordial relations in between the superior and the subordinates hampers the process of delegation of authority. The attitude of the superior towards subordinate may not be friendly but hostile. There may be undue interference in the work assigned to the subordinate. Even the good work of subordinate may not be appreciated by the superior. Such situation creates unfavorable attitude of subordinate towards delegation. He avoids delegation as and when offered.

**(8) Undue interference by superior**

A superior should not interfere in the duties delegated to the subordinate. He may offer guidance as when asked for some superiors interfere in the work of his subordinate and try to control him often and again. In the absence of legitimate freedom the subordinate becomes uneasy and prefers to remain away from the process of delegation.

**(9) Fear of being exposed**

Some subordinates may have inferiority complex. They feel that they have limited capacity to accept the challenges which are bound to come out to delegation. They feel that their inability to deal with new problems will be exposed due to delegation. This fear acts as an obstacle to delegation.

(06 marks)  
(Total 10 marks)

***Suggested Answers to Question 09:***

(a)

**Chapter 14-Strategic intent of organizations**

**Main Levels of Organizational Strategies**

**(1) Corporate Strategy**

Their corporate strategy must demonstrate the advantages of remaining active in only one industry while evaluate business opportunities in areas with complementary activities. With a goal of optimizing company operations, profitability and growth, the corporate strategy must compare the return of a continuing investment in the single business with the acquisition or starting up of complementary businesses.

**(2) Business Strategy**

The business strategy of a single –business company is similar to that of a business unit of a diversified company except that the business strategy must support corporate strategic initiatives aimed at the single business. The business strategy sets goals for performance, evaluates the actions of competitors and specifies actions the company must take to maintain its competitive advantages.

**(3) Marketing Functional Strategy**

In companies that are marketing oriented, the marketing strategy on a functional level influences the other functions and their strategies. A typical marketing strategy is to determine customer needs in an area where the company has a natural competitive advantage. Such advantages might be in location, facilities, reputation or staffing. Once the marketing strategy has identified the kind of product customers want, it passes the information to operations to design and produce such a product at the required cost.

**(4) Other functional strategies**

The non-marketing functional strategies must support the marketing strategy that, in turn, is a component of the overall business strategy. In a single business company, those strategies are tightly focused on one industry, but they must also deliver data that allows the corporate strategy to examine possible diversification.

*(06 marks)*

**(b)**

**Characteristics of a good strategy**

**(1) Novelty**

The strategy should be a result of impressiveness and creativity. It should consist of a new/novel area which were not methods before. Strategy should consist of a novel/creative part into to create it exclusive and distinguish from opponents.

**(2) Secretly Devised**

Strategy should include some private factor in it which should be only known to the control of the company. The key factor of the strategy will always keep the opponents interested about the procedure. When creating the procedure it is regarded to be a private action where the control group has to keep the company tricks and shouldn't expose.

**(3) Intelligent**

Strategy should be designed in a brilliant and intelligent way. If the strategy is not able to acquire this attribute it will not be an approach as only the intelligent techniques will be to accomplish preferred goals.

**(4) Deceptive**

Strategy should include a feature of the misleading and should be able to mislead the focus on market in an ethical manner. When integrating the misleading factor the care should be attracted not to go beyond the boundaries and mislead people in illegal way.

**(5) Cost Effective**

The strategy should be able to break even and restore the investment/ cost suffered. In other terms, advantages obtained by the company by performing the procedure has to be greater than the price suffered in performing the strategy.

*(04 marks)*  
*(Total 10 marks)*

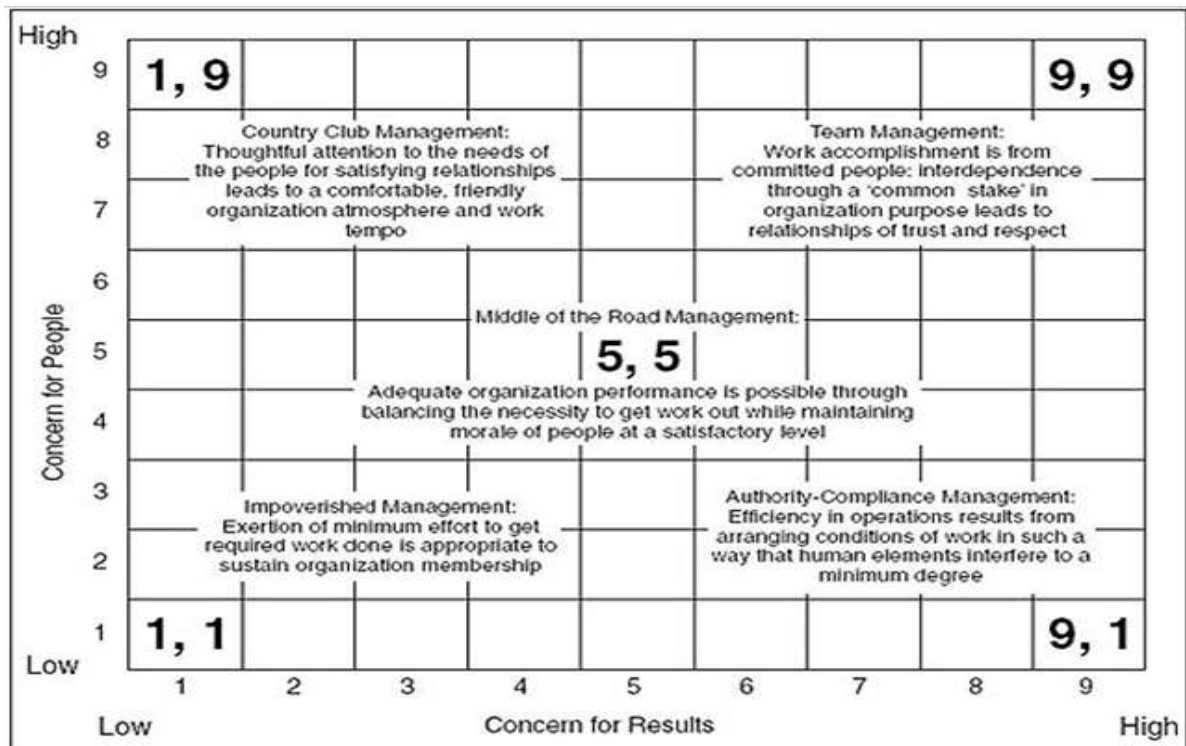


*End of Section C*

*Suggested Answers to Question 10:*

**Chapter 07-Leadership**

(a)



According to the given scenario Mr.M.Silva focuses on both their employees' need and performances and success of the organization. Therefore his leadership style is matched with team management style of the managerial grid. Mr.M Silva encourages his employees to think creatively in developing business as well as to share knowledge. He believes that motivated workforce will always bring positive contribution to the company.

Alternative answer

**Democratic Leader**

Allow the team to provide input before making decision Mr.M.Silva always encourages his employees to share knowledge .If any of the employees needs to meet him, he or she can approach him via the social media at any time.

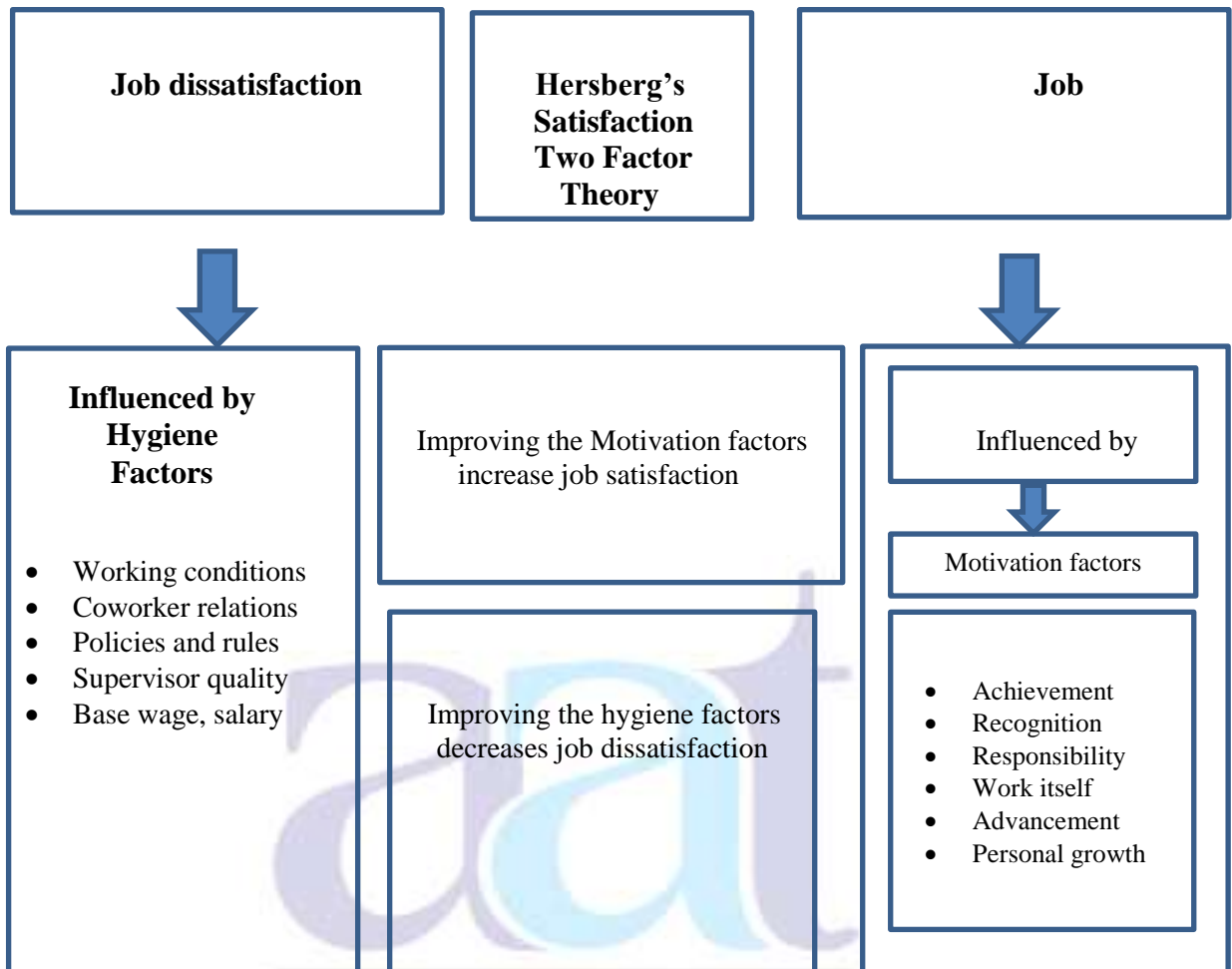
(05 marks)

(b)

<b>Basis</b>	<b>Manager</b>	<b>Leader</b>
<b>Origin</b>	A person becomes a manager by virtue of his position.	A person becomes a leader on basis of his personal qualities.
<b>Formal Rights</b>	Manager has got formal rights in an organization because of his status.	Rights are not available to a leader.
<b>Members</b>	The members are known as subordinates.	The members are known as followers.
<b>Functions</b>	A manager performs all five functions of management.	Leader influences people to work willingly for group objectives.
<b>Respect</b>	A manager are expecting the respect.	A leaders are naturally receiving the respect.
<b>Stability</b>	It is more stable.	Leadership is temporary.
<b>Accountability</b>	Manager is accountable for self and subordinates behavior and performance.	Leaders have no well-defined accountability.
<b>Concern</b>	A manager's concern is organizational goals.	A leader's concern is group goals and member's satisfaction.
<b>Future focus</b>	Managers are short sighted	Leaders are far-sighted
<b>Attitude towards change</b>	Managers tend to in Status-quo	Leaders are Innovative
<b>Influencing mode</b>	Managers influence on subordinates by using punishment	Leaders influence on their followers by offering rewards

(08 marks)

(C)



(08 marks)

(d) Actions to introduce to create an effective corporate culture

- Consistent Communication
- Celebrate Success
- Be Transparent
- Respect everyone's contribution
- Continually benchmark the performance

(04 marks)  
(Total 25 marks)

**End of Section D**



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