



Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2020

**Suggested Answers
(AA26)**

**BUSINESS MANAGEMENT AND STRATEGY
(BMS)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION

AA2 Examination - January 2020
(AA26) Business Management and Strategy

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

Suggested Answers to Question One:

Question No.	Answer
1.1	(4)
1.2	(3)
1.3	(2)
1.4	(3)
1.5	(3)
1.6	False
1.7	True
1.8	False
1.9	True
1.10	True

(02 marks each, Total 20 marks)

End of Section A

Five (05) compulsory questions
(Total 25 marks)

Suggested Answers to Question Two:

Chapter 9 - Organizational Communication

(a) Advantages of effective communication in an organization

1. To maintain Effective Stake holder relationship
2. For effective problem solving
3. For efficient decision making
4. To enhance professional image
5. To increase Productivity via motivation, etc.
6. To Enhance organizational Transparency, trust, confidence
7. Smooth functioning of a company

(03 marks)

(b) Barriers to effective communication

1. Language Barriers

Language and linguistic capability may act as a hurdle to interaction. However, even when interacting in the same language, which used in a concept may act as a hurdle if it is not completely recognized by the receiver(s). For example, a concept that has a lot of professional terminology and abbreviations will not be recognized by a recipient who does not have that knowledge.

2. Psychological Barriers

The psychological condition of the communicators will impact how the concept is sent, obtained and recognized. Stress management is an essential individual expertise that impacts our social connections. Emotional overtone like rage is another way of psychological hurdle to interaction, when we are upset it is simple to say factors that we may later repent and also to misunderstand what others are saying.

More usually people with low self-esteem may be less confident and therefore may not experience safe interacting - they may experience shy about saying how they really experience or study adverse sub-texts into information they listen to.

3. Physiological Barriers

There are various mental and psychological issues that may be barriers to effective communication. Some people have stage fear, speech disorder, depression etc.

4. Physical Barriers

Physical barrier to communication is geographical distance between the sender and

receiver(s). Communication is generally easier over smaller ranges as more interaction programs are available and less technological innovation is required. Although today's technological innovation often provides to reduce the effect of physical limitations, the pros and cons of each interaction route should be recognized so that an appropriate route can be used to get over the physical limitations.

5. **Systematic Barriers**

Systematic barriers to communication may be available in components and companies where there are ineffective or unsuitable computer and interaction programs, or where there is a deficiency of knowledge of the positions and obligations for interaction. In such companies, individuals may be uncertain of their part in the communication process and therefore not know what is predicted by them.

6. **Attitudinal Barriers**

Attitudinal barriers are actions or views that prevent people from interacting successfully. Attitudinal barriers to communication may result from character disputes, poor management, and level of potential to deal with change or a lack of inspiration. Efficient devices of information should attempt to get over employees' attitudinal limitations to accomplish effective communication.

7. **Demographic barriers**

In addition to above barriers, differences of demographic characteristics between sender and receiver become barriers for communication. Some examples are given below;

- Cultural differences
- Difference backgrounds
- Sex differences
- Age differences
- Educational differences
- Status differences
- Race differences
- Difference race
- Religious differences

8. **Technological Barriers**

The technology is developing past and as a result it becomes difficult to keep up with the newest development. Sometimes the technological advance may become a barrier. In addition to this cost of technology is sometimes very high.

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 3 - Contemporary Management Perspectives

Components of a system as per the system theory

1. **Inputs** - these are what enters the system. These include 7Ms.
 - a. **Materials** - these include the raw materials used in the production process

-
- b. Man - this denotes the labor that is employed in the production process
 - c. Machinery - this includes the capital equipment utilized
 - d. Money - this refers to the capital amount invested in the production process
 - e. Methods - these refer to the various procedures and techniques used
 - f. Market - this refers to the market available for the organization's products and services.
 - g. Minutes - Limited time available to managers
2. **Transformation process** - the organization converts inputs into outputs using production methods.
 3. **Outputs** - inputs are transformed into the organizations products and services
 4. **Feedback**- at the end of the operations of the system feedback information on the system is provided so that performance can be evaluated and corrective actions taken.
 5. **Environment** - Surrounding of the organization within which the organization operates.

(05 marks)

Suggested Answers to Question Four:

Chapter 12 - Managing Change

Reasons for to resistance to change by employees

1. **Lack of understanding of the nature of the change and /or the reasons for it.**
Employees might mistakenly think that the reason behind introduction of IT is to reduce staff numbers, whereas the real reason may be to improve quality.
2. **Individuals believing the results of the change threaten their own personal interests**
Salesmen will resist the introduction of e-marketing as it might make redundant of sales force.
3. **Differing assessments of the costs and benefits of the change to the organization**
The management might assess the benefits of internet marketing to be greater than the cost whereas the staff many have a different view. They might feel that internet marketing may not be feasible in the long-run.
4. **Lack of trust in those initiating the change and their motives.**
The workers may never trust change initiated by the management because they are biased against the management.
5. Some individuals have a low tolerance for personal change and are, therefore, particularly likely to resist. In part, this low tolerance may be a function of personality.
6. Resistance by members of work groups or informal groups, as opposed to isolated individuals, is likely to pose even more problems for the management of change. Group resistance may be generated by the fact that the proposed changes violate important group norms, or indeed the continued existence of the group. That is if the changes are threatening the group's existence, it will be strongly resisted.

8. Break up of relationships
Two people working in a team may develop strong links. If the change breaks up this relationship it could lead to resistance.
9. The change was introduced without consulting the workforce.

(05 marks)

Suggested Answers to Question Five:

Chapter 11 - Organizational Culture and its influence on Organizations

Elements of the cultural web

1. Stories
2. Symbols
3. Rituals and Routines
4. Organizational Structure
5. Control Structures
6. Power Structures

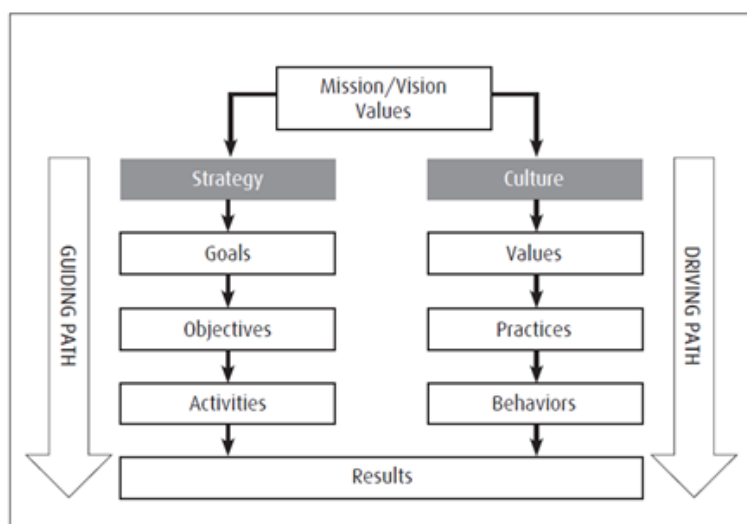
(05 marks)

Suggested Answers to Question Six:

Chapter 11 - Organizational Culture and its Influence on Organizations

The relationship between culture and strategy

Strategy is the plan of action designed to achieve a long-term or overall aim. The culture should be shaped to go in line with the strategies so that the overall aim is met effectively. The following figure shows the relationship between strategy and culture. Culture is the driving path to meet the results while the strategy is the guiding path.



Strategy drives focus and direction while culture is the emotional, organic habitat in which a company's strategy lives or dies.

Strategy is the headline on the company's story, culture needs a clearly understood common language to embrace and tell the story that includes mission, vision, values, and clear expectations.

Strategy lays down the rules for playing the game, and culture fuels the spirit for how the game will be played. Strategy is imperative for differentiation, but a vibrant culture delivers the strategic advantage. Culture is built or eroded every day. How you climb the ladder up and whether it's painful, fun, positive, or negative defines the journey. When culture embraces strategy, execution is scalable, repeatable, and sustainable.

Culture is a clear competitive advantage. Culture must be monitored to understand the health and engage Organizational culture and strategy are often part of the major contributing factors to how far a business will go. They also determine whether a business will last the distance. In a competitive market, an organization shapes its corporate structure in such a manner as to enable it come up with the best competitive strategy. As such, if the company has a culture of strong work ethics, this can lead to increase the productivity that can be leveraged to a corporate strategy.

If the company has a culture of strong work ethics, this can lead to increase in productivity that can be leveraged to a corporate strategy.

(05 marks)

End of Section B

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Seven:

(a)

Chapter 6 - Organizational Structure and Design

Steps of Organizing Process

1. Identification and division of work:

The organizing function begins with division of work into smaller units. Each such unit is called a job. One individual is assigned only one job according to his capabilities and qualifications. This leads to systematic working and specialization.

2. Departmentalization:

Once the work is divided into smaller manageable units, related jobs are grouped together and put under one department. This grouping process is called departmentalization. The most common ways of departmentalization are functional departmentalization and divisional departmentalization.

3. Assignment of duties:

Once departments are formed, each department is put under the charge of an individual. The work must be assigned to those who are best suited for it.

4. Establishing reporting relationships:

After assigning the duties, all individuals must also be assigned matching authority. This assignment of authority and responsibility results in the creation of authority - responsibility relationship between superior and subordinate. With this, a managerial hierarchy is created (chain of command) where everyone knows who he has to take orders from and to whom he is accountable to.

(06 marks)

(b)

Chapter 6 - Organizational Structure and Design

Benefits of a good organizational structure

1. It allows correlation and coordination among human, physical resources and enables the business to achieve its goals.
2. It ensures a smooth flow of communication and better control over the operations.
3. It provides the framework within which an organization functions while coordinating the responsibilities of individuals and departments.

4. It makes people accountable and sense of belonging or satisfaction of working in groups. Since the authority and the extent of exercise of such authority is known, it develops a sense of independence among employees.
5. It eliminates overlapping and duplication of work. Since a good organizational structure requires that the duties are clearly defined and assigned such duplication of work is eliminated.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Eight:

(a)

Chapter 8 - Motivation

Maslow's Needs Hierarchy Theory

Maslow hypothesized that within every human being there exists a hierarchy of five needs. There are,

- Physiological needs** – Need for the survival (Biological requirements) including hunger, thirst, shelter, sex and other bodily needs
- Safety needs** – Needs for protect from physical and psychological environment Including job security and protection from physical and emotional harm
- Social needs** – Needs for develop and maintain relationship with others Including affection, a sense of belonging, acceptance, and friendship etc.
- Esteem needs** – Needs for maintain status and prestige Including internal factors such as self-respect, autonomy, and achievement and external factors such as status, recognition and attention
- Self-actualization need** – Needs for continuous personal development. This means achieving one's potential, and self-fulfillment etc.



As each of these needs becomes substantially satisfied, the next need becomes dominant. As per the figure given above, the individual moves up the hierarchy. From the standpoint of motivation, Maslow's theory would say that, although no need is ever fully gratified, a substantially satisfied need no longer motivates. Even though Maslow's theory is providing guidelines to managers for developing motivational strategy, it has some limitation as well. Some limitations are,

1. The Theory is lacking about the motivators of extrinsically driven individuals
2. Difficult for manager to identify the need level for employees
3. The Most Powerful unsatisfied Need provides the most motivation
4. The theory is not empirically supported
5. Basic Needs may not need to be satisfied to acknowledge higher needs

(06 marks)

(b) Signs which indicate that employees are motivated

1. **Work Habits**

Generally self-motivated employees volunteer to give more time to a project, with no compensation or being asked. Such employees would suggest ideas faster or give extras, such as drink, food, or decorations at business conferences or parties. Self-motivation also shows when a person is busily working at the desk with high focus, or speaking to work associates on the phone often to resolve matters.

2. **Attitude**

An encouraging, positive, helpful attitude with smiles is the most obvious sign of self-motivation at businesses. Self-motivation also indicates a high level of physical energy. Nevertheless, do not mark down the attitudes of individuals who are not as noticeably optimistic since they are more silent, may be they are concentrating on their work more.

3. **Teamwork**

Self-motivation indicators can be easily seen when project teams work united in a company gathering or in every step of a project day-to-day. Those who willingly help others without being asked clearly exhibit self-motivation. They are easy to get along with, quick to offer their ideas and are more willing to take extra responsibilities for a project to ease the burdens on their supervisors or co-workers.

4. **Results**

Self-motivated workers are more likely to be accurate, quality oriented, punctual, efficient and productive when producing results.

5. **Acceptance of changes**

highly motivated employees willingly accept changes of the company. They understand and accept that change is essential for company growth

(04 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

Chapter 07 - Leadership

Reasons for why leadership is important for an organization

1. **Initiates action** - Initiator is a person who begins the execution by interacting the policies and plans to the workers from where the execution actually begins.
2. **Motivation** - A leader shows to be playing an inspiration part when doing work. He encourages the workers with financial and non-economic benefits and thereby gets the execution from the workers.
3. **Providing guidance** - A leader has to not only manage but also play a directing part for the workers. Assistance here means training the workers the way they have to perform their work efficiently and effectively.
4. **Creating confidence** - Confidence is an essential aspect which can be carried out through showing the execute initiatives to the workers, describing to them clearly their part and giving them recommendations to get the objectives successfully. It is also essential to hear the workers with regards to their problems and issues.
5. **Building morale** - Morale signifies willing co-operation of the workers towards their execution, developing their confidence and successful their trust. A leader can be a morale enhancer by achieving full co-operation so that they execute to the best of their capabilities as they execute to accomplish objectives.
6. **Builds execute environment** - Management is getting things done from people. An efficient workplace allows in sound and constant growth. Therefore, human relations should be kept into mind by a leader. He should have individual connections with workers and should listen to their issues and fix them. He should treat workers on relief terms.
7. **Co-ordination** - Co-ordination can be carried out through fixing individual passions with business objectives. This synchronization can be carried out through proper and effective co-ordination which should be the primary purpose of a leader.

(6 marks)

(b) Sources of power available for a leader

1. Legitimate Power

Legitimate power is also known as positional power. It's based on the position an individual holds in an company's hierarchy. Some leaders are not managers in organizations. Therefore they don't have the legitimate power. Nevertheless they impact on supporters by using other power sources.

2. Expert power

Knowledge is power. Professional power is based on having information or expertise in a particular area. Such individuals are greatly regarded by companies for their problem solving skills. Those who have expert power perform critical projects and are therefore considered essential. The views, ideas and choices of individuals with expert power are held in high respect

by other workers and hence significantly impact their activities. Ownership of expert power is normally a stepping-stone to other sources of power such as legitimate power.

3. **Referent Power**

Referent power is based on the social relationships that an individual cultivates with other individuals in a company. People possess referent energy when others respect and like them. Referent power occurs from charm, as the charming individual impacts others via the appreciation, respect and trust. Referent power is also based on individual relationships that an individual has with key individuals in the company's structure, such as the CEO. It's the understanding of the individual relationships that she has that produces her power over others.

4. **Coercive Power**

Coercive power is based on an individual's capability to impact others via risks, punitive measures or penalties. A younger worker may work late to meet a due date to avoid disciplinary action from his manager. Coercive power is, therefore, an individual's capability to punish, fire or reprimand another worker. Coercive power helps control the behavior of workers by guaranteeing that they follow the company's policies and standards.

5. **Reward Power**

Reward power occurs from the capability of an individual to impact the allowance of rewards in a company. These rewards include wage amounts, positive assessments and promotions. In a company, individuals who use compensate power tend to impact the activities of other workers. Reward power, if used well, significantly encourages workers. But if it's applied through favoritism, compensate power can significantly demoralize workers and reduce their outcome.

(04 marks)

(Total 10 marks)

End of Section C

**A compulsory question
(25 marks)**

Suggested Answers to Question Ten:

Chapter 5 - Organizational Decision Making

(a) How environment could impact the operations of Supiri (Pvt) Ltd

(1) Strengths

Profitable business organization

Island wide outlets

Open door culture and promote as a learning organization

Smooth running of operations would ensure by the organizational culture

(2) Weaknesses

Most of the decisions are taken by Managing Director

High Turnover of management level staff

(3) Opportunities

Expand the business to South Region

Tax concessions are given by government

(4) Threats

Facing a difficulty to find required raw material and laboures

overnment regulations are very strict in some south region countries

Dairy business is very competitive

(08 marks)

Chapter 05 - Organizational Decision Making

(b) Why effective decision making is important for Supiri (Pvt) Ltd

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. Further, decision-making is important when carrying out other functions of the management such as organizing, staffing, coordinating and communicating.

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2. 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.
 3. 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.
 4. 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.
 5. Effective decision making will save time and the resources can be utilized effectively.
 6. Decision making is a significant tool to motivate employees in an organization since its result will provide an overall framework for operations and guidelines to the operating level staff.

(06 marks)

(c) **Advantages of group decision making**

- Help to combine individual strengths of the group members and hence has a set of varied skill sets applied in the decision-making process.
- It always means enhanced collective understanding of the course of action to be taken after the decision is taken.
- A group decision gains greater group commitment since everyone has his/her share in the decision-making process.

(02 marks)

(d)

Chapter 10 - Organizational Controlling

Benefits to Supiri (Pvt) Ltd. having a good controlling process

1. **Helps in achieving organizational goals:**

When the plans are made in the organization these are directed towards achievement of organizational goals and the controlling function ensures that all the activities in the organization take place according to plan and if there is any deviation, timely action is taken to bring back the activities on the path of planning. When all the activities are going according to plan then automatically these will direct towards achievement of organizational goal.

2. **Judging accuracy of standards:**

Through strategic controlling we can easily judge whether the standard or target set are accurate or not. An accurate control system revises standards from time to time to match them with environmental changes.

3. **Making efficient use of resources:**

Control guides the organization and keeps it on the right track. Each activity is performed according to predetermined standards. As a result there is most and effective use of resources.

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4. **Improving employee motivation:**
An effective control system communicates the goals and standards of appraisal for employees to subordinates well in advance. A good control system also guides employees to come out from their problems. As a result it helps to motivate the employees to give better performance.
 5. **Ensures order and discipline:**
Control creates an atmosphere of order and discipline in the organization. An effective controlling system keeps the subordinates under check and makes sure they perform their functions efficiently. Sharp control can detect dishonesty and fraud of employees. Strict control brings more order and discipline in work environment.
 6. **Facilitate coordination in action:**
Controlling makes sure that proper direction is taken and that various factors are maintained properly. All the departments are controlled according to predetermined standards which are well coordinated with one another. Control provides unity of direction.
 7. **Controlling helps in improving the performance of the employees:**
Controlling insists on continuous inspection on the employees and control helps in creating an atmosphere of order and discipline. Under controlling function it is make sure that employees are aware of their duties and responsibilities very clearly. They must know clearly the standards against which their performance will be judged. These standards help the employees to work efficiently.

(06 marks)

(e)

Chapter 13 - Corporate Governance and Corporate Social Responsibility

Ways how Supiri (Pvt) Ltd. can create an ethical climate.

- Organizations should implement written codes, policies and guidelines to be practices by all equally
- Distribution of policies to all employees, not just the management
- Reinforcement through communication, including videotapes, articles, posters and public talks by company executives
- Additional training towards application of policies to daily working
- Sources of information and advice such as ombudspersons and hotlines
- Monitoring and enforcement via an ethics committee

(03 marks)

(Total 25 marks)

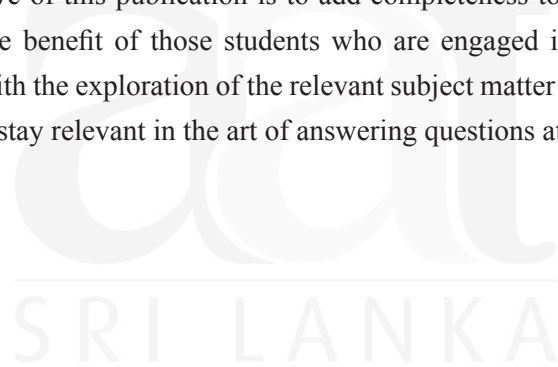
End of Section D

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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