# Business Management

1st Year Examination

**Autumn 2009**

**Paper, Solutions & Examiner's Report**

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# Accounting Technicians Ireland

(Formerly The Institute of Accounting Technicians in Ireland)

## 1ˢᵗ Year Examination:  Autumn 2009

## Paper : BUSINESS MANAGEMENT

Wednesday 19th August 2009 - 9.30 a.m. to 12.30 p.m.

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**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 on page 2 overleaf.**

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**SECTION A**

**Answer QUESTION 1 (COMPULSORY) in this Section**

**QUESTION 1** *(Compulsory)*

You have been promoted to the management team of a progressive Irish company that manufactures thermostats that can be used in a range of kitchen appliances. The company is successfully positioned in Ireland and is contemplating expansion overseas. The Managing Director is interested in developing a strategic plan for the company and has requested that you prepare a short report to the Board on it.

Prepare a short report for the Board addressing the following:

**(a)** Outline *briefly* the main elements of a strategic plan.

**10 Marks**

**(b)** Explain what is meant by "PEST analysis" and comment on its relevance to the formulation of strategy.

**10 Marks**

**(c)** Outline why "PEST analysis" might be a useful exercise for this company to undertake.

**5 Marks**

**Total 25 Marks**

**SECTION B**

**Answer any THREE of the six questions in this Section**

**QUESTION 2**

**(a)** An old school friend of yours who runs a business has recently heard of the "scientific management" theory of Fredrick Taylor. He would like to learn more about it and asked if you could prepare a short report on this topic.

Prepare a *short* report for your friend on the following matters:

(i) Describe the "scientific management" theory of Fredrick Taylor.

**10 Marks**

(ii) Critically appraise its relevance to the modern business environment.

**10 Marks**

**(b)** Control systems in organisations should exhibit a number of characteristics. Describe *two* of these characteristics.

**5 Marks**

**Total 25 Marks**

**QUESTION 3**

**(a)** You are working in the hotel industry in Ireland. At a recent meeting it was suggested that as the business is largely transitory, consumer buyer behaviour has little relevance. Being new to the management team you did not respond. The next day having given the comment more thought you decided to prepare a report on the issue.

Prepare a *short* report for your management team on the following matters:

(i)   Describe the *five* stages of the decision making process a consumer normally goes through when purchasing products / services.

**10 Marks**

(ii)  Set out your views on the comments made in relation to consumer buying behaviour having little relevance (in the scenario presented above).

**10 Marks**

**(b)** Explain what is meant by a market-penetration pricing policy.

 **5 Marks**
Total **25** Marks

**QUESTION 4**

**(a)**   "Relativity" is important in most exchanges but particularly in the treatment of employees. Describe Adam's equity theory of motivation and comment on its relevance to organisations operating in the private sector in Ireland.

**10 Marks**

**(b)**   *Briefly* describe four elements of Kotter's eight stage process of change management.

**10 Marks**

**(c)**   Describe *briefly* what you understand by "360-Degree feedback" performance appraisal systems.

 **5 Marks**
Total **25** Marks

## QUESTION 5

**(a)**  You are working in the marketing department of a company that manufactures solar panels for use by domestic and commercial users. The product is gaining recognition as a means for saving electricity costs and protecting the environment. One of the speakers at a recent conference you attended stressed the importance of Market Targeting strategies. Following the conference your manager requested that you prepare a report providing:

A *brief* description of each of the following market targeting strategies:

(i)   Undifferentiated Marketing
(ii)  Differentiated Marketing
(iii) Concentrated Marketing

**10 Marks**

**(b)**   Distinguish between market segmentation and market positioning.

**10 Marks**

**(c)**  Explain what is meant by the term "Marketing Research", illustrating in particular in your answer, the     distinction between primary and secondary marketing research.

**5 Marks**
**Total 25 Marks**

## QUESTION 6

**(a)**  Development of IT systems is frequently problematic. Describe *three* risks associated with the development of IT systems and one step you would take to minimise each of these risks.

**10 Marks**

**(b)**  "IT/IS systems are frequently referred to as a major strategic resource of organisations".   Do you agree? Give reasons in support of your answer.

**10 Marks**

**(c)**  Distinguish between transaction processing systems and decision support systems.

**5 Marks**
**Total 25 Marks**

## QUESTION 7

**(a)**  Explain the role of the Financial Manager in an organisation.

**10 Marks**

**(b)**  With the downturn in the economy budgeting has become increasingly important. Distinguish between Capital and Revenue budgets, giving *one* reason why *each* is particularly important in these challenging times.

**10 Marks**

**(c)**  Explain what is meant by the term "factoring of debtors".

**5 Marks**
**Total 25 Marks**

# 1st Year Examination: Autumn 2009

# Business Management

# Solutions

**SECTION A**

**(COMPULSORY QUESTION)**

## Question 1 (a)

Strategic planning is the process of determining the major goals of the organisation, and of crafting the appropriate strategies for obtaining and using resources to achieve those goals. Senior management generally initiates it, but lower levels of management will be involved in information gathering and decision-making. The final product of this process is a Long Range (Strategic) Plan, which will stretch 3 to 5 years into the future.

Typically there are five stages in developing a strategic plan

- Developing a concept of the business and forming a vision of where the organisation needs to be headed, or giving it a mission.

- Translating the mission into specific long-range and short-range performance objectives.

- Crafting a strategy that fits the organisation's situation and that should produce the targeted performance.

- Implementing and executing the chosen strategy efficiently and effectively

- Evaluating performance and making adjustments to the objectives or strategy, or their implementation, in the light of changing conditions or new opportunities.

## Question 1 (b)

PEST analysis is a technique for analyzing the macro environment of an organization under the following headings – political and legal, economic, socio-cultural and technological environments.

Analysis of the Political and Legal environment involves considering the impact of changes in Taxation requirements, Safety regulations, Consumer protection legislation, Parties in Government, EU Developments etc.

Consideration of the levels of demand within the economy, interest rates, foreign exchange rates, grants, inflation etc. are indicative of the economic variables to be monitored and considered.

The Socio-Cultural environment encompasses issues of a demographic nature, such as, changes in the structure of the population – age, gender, income distribution, emigration etc.; and issues of a cultural nature, such as, language, customs, religion etc.

The Technological environment includes consideration of the threats and opportunities arising from IT and scientific developments in various areas.

PEST analysis is an important part of the environmental scanning process which feds in to strategy formulation.

### Question 1 (c)

Each organisation faces a variety of threats, which may be categorised as unique or industry wide, as internal or external etc. Threats may also be ranked in terms of significance and by likelihood of occurrence.
Once an appropriate PEST analysis has been undertaken an organisation is in a position to devise strategies to counter threats and weaknesses and to capitalise on opportunities and strengths. This form of analysis of the current situation, allows organisations to determine the direction it should it take? the resources it will need? And the tactics, or parameters it should operate within to achieve its objectives?

What is the demand for thermostats, how is it influenced by PEST variables in the markets of interest. How are positioned relative to competitors in these markets. What strategies are likely to work? Is it desirable and possible for us to pursue specific strategies?

## SECTION B

## (ANSWER ANY THREE QUESTIONS IN THIS SECTION)

**Question 2 (a) (i)**

Scientific Management was developed primarily in the USA at the start of the twentieth century. It emphasised the need for a scientific approach to determining management practices as the solution to improving productivity. Frederick Taylor has been called "the father of scientific management". Taylor emphasised that a more scientific and systematic approach to management was required. He focused on the management of work and workgroups in order to improve productivity, and this involved the precise measurement of the time each task took. The core aspects of his philosophy can be summed up as follows;

- The systematic collection of knowledge about the work process of managers,
- The reduction of workers discretion and control over what they do
- The laying down of standard procedures and times for carrying out each job

According to Taylor managers should follow four scientific management principles. First, study each element of work to determine the 'one best way' to do it. Second, scientifically select, train, teach and develop workers to reach their full potential. Third, cooperate with employees to ensure implementation of the scientific principles. Fourth, divide the work and responsibility equally between managers and workers. Above all, Taylor felt these principles could be used to align managers and employees by determining a 'fair days work,' what an average worker could produce at a reasonable pace, and a 'fair day's pay,' what managers should pay workers for that effort. Taylor felt that incentives were the best way to align management and employees.

**Question 2 (a) (ii)**

Scientific management has been criticised for treating workers as human machines, for not appreciating the social context of work and the personal needs of workers.

One cannot however ignore the contributions it made to modern management thought.

First, it identified the importance of selection and training. Second, it demonstrated the need for adequate monetary compensation of workers. Third, it focused attention on the need for a careful analysis of job content and to set down job procedures.

This perspective may seem inhuman and simplistic, but only with the benefit of hindsight. It did represent a quantum leap for management understanding at the time. An understanding that still has relevance today in various managerial contexts.

**Question 2 (b)**

The objective of control is to ensure that activities are completed in ways that lead to the accomplishment of organizational goals. It is the process of ensuring the effective and efficient attainment of organizational goals.
All management levels are involved in some form of organizational control.

The generic control process is anchored around – setting performance standards, measuring and comparing performance and taking corrective action.

Effective control systems tend to have the following characteristics – strategic placement, reasonable criteria, flexibility, economy, timeliness, emphasis on exception, accuracy of reporting, understandability and a strong focus on corrective action.

**Question 3 (a) (i)**

**To: Managing Director**

**From: Joe Bloggs**

**Re: Consumer Buying Process**

**Date : 19 May 20XX**


I am pleased to take this opportunity to elaborate on the concept of consumer behaviour.

Every business must have an understanding of the end consumer of their products. Each consumer goes through a decision-making process in terms of recognising a need, searching for information, evaluating alternative products, deciding on a purchase, and evaluating their purchase after the event. The firm has some influence through its marketing mix on various stages of this decision making process, but this influence is far outweighed by outside influences relating to the personality of the consumer and the way in which they purchase goods. The following psychological, socio-cultural and situational influences are all factors in the decision-making process

- Psychological influences, such as perception, attitude, learning and motivation
- Socio-cultural influences, such as reference groups, family, social class, culture
- Situational influences, such as type of purchase, social surrounding, physical surrounding and previous experience

**Stages**

The consumer decision making process identifies five stages through which consumers move when making decisions.

1. Problem / Need Recognition

   This stage emerges within a consumer senses a gap between his/ her actual and desired state. It may be stimulated by internal or external factors or events.

2. Search Behaviour / Search for Information

   This refers to the actions taken to identify and obtain information to solve a common problem. It will be influenced by internal memories or experiences and relevant external information on the matter (e.g. commercial sources, personal networks etc.)

3. Evaluation of alternatives

   During this phase people compare options and choose between brands on the basis of price, location, reliability and other features.

4. The Consumer Choice Process / Purchase

   Having chosen a brand the consumer then makes other decisions on issues such as quantity, timing, payment method etc.


5. Post Purchase Evaluation

   Consumer satisfaction is the overall attitude consumers have towards a good or service after they have acquired and used it. Outcomes may be grouped

   - it will have met their expectations and they will be satisfied
   - it will have exceeded their expectations and they will be delighted
   - it falls short of their expectations and they will be dissatisfied.

The above are some preliminary observations on the concept of buyer behviour in organizations. If you would like to discuss them further, please so not hesitate to contact me


**Question 3 (a) (ii)**

Students would be expected to indicate how the decision making process relates to the use oft eh services of hotels. Each of the stages should be explored and related to the context. (e.g. How problem and need recognition emerges, what search behaviour is likely to be undertaken, what features are likely to come into play in the evaluation, what criteria will influence choice and what sort of post evaluation activity is likely to be undertaken).


**Question 3 (b)**

Market penetration pricing is a strategy employed by a firm seeking to extend its market share. Certain conditions favour its use.

- Elastic demand
- The offering is not unique
- No distinct price-market segments
- Volume is critical to the business strategy

**Question 4 (a)**

Equity theory says that people will be motivated at work, where they perceive that they are being treated fairly.  In particular, equity theory stresses the importance of perceptions.  So, regardless of the actual level of rewards people receive.  They must also perceive that, relative to others, they are being treated fairly.

The basic components of equity theory are inputs, outcomes, and referents.  Inputs are the contributions the employees make to the organisation. According to the equity theory process, employees compare their outcomes, the rewards they receive from the organisation, to their inputs and their contributions to the organisation.  This comparison of outcomes to inputs is called the outcome /input ratio.  When people perceive that their outcome /input ratio is different from their referents ratio, they conclude that they have been treated inequitably or unfairly.

People who perceive that they have been under-rewarded try to restore equity by decreasing or withholding their inputs. Another method of restoring equity is to rationalise or distort inputs or outcomes.  Instead of decreasing inputs or increasing outcomes, employees may restore equity by making mental or emotional adjustments to their outcome / input ratios or to the outcome /input ratios of their referents. It is likely that these people would still be angry or frustrated with their position even though they have rationalised it.  (e.g., I still have a job).

Managers can use equity theory to motivate workers by looking for and correcting major inequities, reducing employees' inputs, and emphasising procedural as well as distributive justice.

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.

Adam's theory falls into the latter category. It takes an egalitarian perspective towards motivation. It argues that the system for measuring performance must 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 loosing credibility.

It assumes people make conscious decisions about the equality of their treatment with regard to others in discharging their effort. It argues that it is the equality and robustness of the system which links effort to performance and rewards that is fundamental to motivation.

The model certainly has intuitive and practical appeal and there is a body of evidence to suggest that relativity is vital to motivation.

The model like most theoretical frameworks does not necessarily hold for all people in all situations. People's needs vary from individual to individual, from culture to culture and there is a temporal dimension to motivation in that different needs will assume varying degrees of importance at different stages of peoples lives.

The nature of the task environment also influences the appropriateness of the framework. T tangibility of the outputs and the ability to design systems that achieve equality impacts its relevance. If a robust system cannot be developed management may take the view that the level of potential friction out weights the potential benefits.

Overall, no one theory of motivation covers all of the complexities of reality, but in appropriate conditions and circumstances, equity theory has a significant part to play in the way motivation systems are designed and implemented in work environments.

**Question 4 (b)**

Change is so pervasive in business today that a whole new branch of management theory has evolved, concerned with the management of change. Theorists of change management have used different strands of thinking in the social sciences concerned with how individuals and organisations react to change.

They have developed many models of organisational change, among them Action Research, LEWINS 3 Step Planned Change Models, Kotter's (Eight Stage) Change Process model etc. Common to most is the recognition of the need for phased strategies to unlock the inertia of the status quo, usually involving research, feedback and adjustments; most models also emphasise the need for continuous monitoring of the results of the change process.

There may be resistance to change from organisations or individuals. Individuals may feel their working habits are being disrupted or that they are not being adequately compensated etc. Areas of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on.

A well managed change process should include a strategic picture of its aims, a coherent set of phases, the maximum involvement of those most closely affected, an emphasis on securing the commitment of everyone involved and perhaps a change in the behaviour of employees and in the culture of the organisation.

Kotter developed a framework which has been embraced by many as an accurate representation of the steps needed to effect major change within an organisation.

Deforst a hardened status quo
1. Establish a sense of urgency
2. Create the guiding coalition
3. Develop a vision and strategy
4. Communicate the change vision

Introduce new practices

5    Empower a broad base of people to take action
6    Generate short term wins
7    Consolidate gains and produce ever more change

Ground the changes in the culture, and making them stick
8    Institutionalise new approaches in the corporate culture

The steps are not equally important according to Kotter, therefore a leader should not spend equal amounts of time, effort and resources on each.

The first stage is very important as people must understand that there is a problem that needs to be solved, or an opportunity that is important to seize. They should also be encouraged that change will be beneficial to them.

The second stage of the process reveals that it as a highly political approach in that it involves a number of people working together to accomplish an objective.

The final stage is what Kotter describes as a process of leading, not managing change. Managerial approaches focuses on clearly defining objectives, making detailed plans, setting timetables, assigning responsibilities, and monitoring progress via supervision. In contrast, leadership approaches focus on energising other people to take action.

## Question 4 (c)

Appraisal is carried to assess the employee's performance. It is a task requiring some degree of managerial judgement and this places considerable responsibility on the managers involved. It is important that appraisal be objective.

Performance appraisal should help

- identify employee strengths and weaknesses
- enable employees to improve their performance
- highlight training needs
- benefit the manpower planning process
- motivate employees
- encourage employees to think about their career paths

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

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

Systematic approaches tend to commence with the completion of an appropriate appraisal form by the manager of the employee concerned. This will be followed by an appraisal interview in which the manager discusses progress with the member of staff involved, based on the contents of the appraisal form. The result is some form of agreed action, either by the staff member alone or jointly with his manager
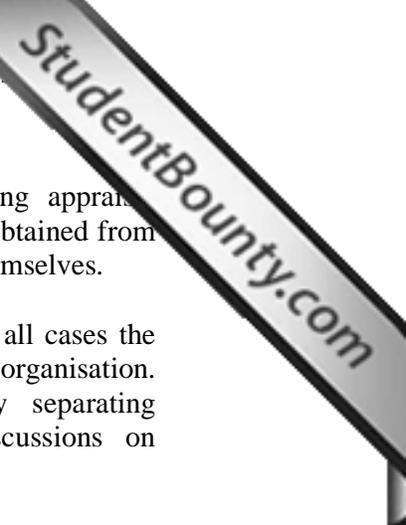
One approach to overcoming the inherent inherent difficulties with sharing apprai.. feedback information is to provide 360 degree feedback, in which feedback is obtained from four sources: the boss, subordinates, peers and coworkers, and the employees themselves.

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

**Question 5 (a) (i)**

Market targeting follows market segmentation. It involves evaluating the various segments identified during the segmentation process and deciding how many and which segments it can serve best.

Undifferentiated Marketing

This is a full market coverage strategy, in which the firm serves all customer groups with products they might need. It is a market coverage strategy in which the firm decides to ignore market segment differences and goes after the market one can offer. It relies on mass distribution and advertising and it may provide cost efficiencies.

Differentiated Marketing

This is a market coverage strategy in which the firm decides to target several market segments and designs a separate marketing mix for each. By offering product variations and marketing, the company hopes for higher sales and a stronger position in a market segment.

Concentrated Marketing

This is a market coverage strategy in which a firm goes after a large share of one or a few submarkets. It pursues a niche market strategy.

**Question 5 (a) (ii)**

A number of factors influence the choice of market targeting strategy a firm may select. These include:

1. Resource availability – when as firms resources are limited, concentrated marketing makes the most sense. In the scenario presented we would need to clarify the resources available to the firm for marketing and production.
2. Product variability – undifferentiated marketing is most suited for uniform products. In the context presented we would need to explore for differentiating the product
3. Product lifecycle – the stage the product is at in terms of its lifecycle will influence the strategy adopted. In this case, solar panels are at the early stage and considerable marketing effort will be required to promote their acceptance / adoption
4. Competitor's strategies – the strategies adopted by our major competitors will influence our approach.

These are just some of the considerations that will influence the choice of market targeting strategy adopted by the firm

**Question 5 (b)**

Packaging has more than a protective function. It is a vital part of the marketing process. It is used to evoke positive associations and stimulate interest in the company's products. It is used to many ways to market the product – to differentiate the product, to stress distinctive features, to offer special deals / prizes / competitions. Package design is allow used to support the brand image the company is trying to develop. Countless examples of the use of packaging for marketing exist in areas of toys, perfumes, dietary products, yellow pack offers, etc. to mention a few.

Overall I certainly disagree with the assertion that packaging is simply a means for protecting an organisation's product.

**Question 6 (a)**

Projects fail for a variety of reasons; unproven technologies, changing client specifications, politics and poor project management – over optimism, over promotion of technical staff, poor planning and poor control.

IT projects are particularly prone to the above weaknesses. In many cases user requirements may be unclear or poorly defined, the technology may be new, it may not interact with existing systems and it may be costly to amend at a later stage.

While project success is to a large extent influenced by people management (the team members selected and the development of group cohesiveness etc.) it is still one facet of the project manager's responsibilities. Ultimately the objective of project management is a successful project, that is, that the project has been completed at the specified level of quality, on time and within budget.

A wide range of resources and skills are drawn on to ensure that all the work that was specified has been done and all the deliverables have in fact been delivered. Traditionally, the activities necessary to produce and deliver information systems have been characterised as a series of steps called the systems lifecycle. Steps in the life cycle include;

- Design, which consists of the definition of functions and relevant technologies
- Construction, entailing detailed design, programming and testing (alternatively the system can be purchased)
- Testing and implementation, involving the integration of the system into the organisation, the redesign of processes and any necessary reorganisation
- Operation, which consists of the execution of processes, and the continuous, training of staff to exploit the system,
- Maintenance, the upgrade of technology, and the adaptation of the system to changing requirements

## Design

The object of the design step is to produce a specification of the information service required. This includes identification of the users, the initial tasks to be implemented, and the type of service and support to be provided. Traditionally, the process initiated by either a user request or a joint IT department / user proposal based on the IT plan.

Design normally begins with a feasibility analysis that provides a high level snap shot of the potential costs and benefits of the proposed system and the technical / organisational feasibility of the project.

If the results of the analysis are favourable an explicit decision is made to proceed, this is followed by substantive collaborative work by a team of users, IT professionals, and experts to develop a working approach to, and set of specifications for the design.

## Construction

MIS is a highly specialised activity that combines both art and logic. Systems construction involves selecting appropriate computer equipment and creating/ buying the specific computer programs that are needed to meet system requirements. Even the best designs require numerous interdependent decisions. Large project teams must co-ordinate closely to ensure that the system components will work together flawlessly.

## Testing and Implementation

Implementation involves extensive User-IT co-ordination as the transition is made from the predominantly technical, IT-driven task of construction to the user-driven management of the completed system. Whether the system is bought or made, the implementation phase is very much a joint effort. Extensive testing, which disrupts normal business operations, must be performed; training is required, work procedures and communication patterns likewise are affected.

It is essential to the realisation of the benefits of the new system that these changes are carefully managed.

## Operations

In many systems formal procedures are in place that specify that operating personnel must "sign-off" on a new system. The specific criteria for testing and approval are defined as part of the system design phase. This control mechanism distributes responsibility and authority for systems development and serves as an important quality-control mechanism.

After the system is built and installed, measures must be developed to assess actual service delivery, and its cost effectiveness and quality. While many believe "post-implementation audits" are inadequate for all systems projects. In recent times increasing attention is being focused on the lack of control of end-user developed systems.

**Question 6 (b)**

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

IS strategy is formulated at the level of business where specific user needs can be delineated. The systems strategy identifies what applications should be developed, and what resources should be deployed.

The key to formulating the systems strategy is an assessment of the information needs that can be satisfied by formal information systems.

It is important to realise that information systems strategy will have to address not j
requirements for new systems, but will also be concerned with managing the life cycle
development of the systems already in use. The information systems strategy will therefore
have to address;

a) new systems – to meet new business needs or opportunities
b) improvements to existing systems – enhancements to those already in use
c) replacement systems – systems to replace live systems that have become obsolete.

Senior management must assess the quality of IT Operations, and depending on how critical
it is to the overall strategic mission of the firm they must be involved in determining its
structure and service quality standards


**Question 6 (c)**

Transaction processing systems (TPS) are information systems which exist to support the day
to day, or week to week, processing and recording of routine business transactions such as
Orders, Despatch Notes and Invoices. (e.g. cash registers, atm's , sales order processing
systems etc.). Transaction processing systems are primarily used by operational managers.
However as TPS store the pool of information in databases which may be accessed and
manipulated in a manner which provides meaningful insights that guide management
decision-making, they may be used indirectly by all levels of management.


They are generally designed to work with high volumes on a "real time" basis. (e.g. online
cinema seat sales, or on line airline ticket sales). They form the backbone of the entities
information processing systems and need to be fully secure and functional at all times.

**Decision support systems** are complex systems used to help managers make non-routine
decisions. They generally consist of a "model" based on past experience. Users can then use
expected data (e.g. projected sales for next year), to generate estimates for other factors (e.g.
projected profits, etc.)

DSS's use various types of analysis, like  "what if" (i.e. change in one element of the model
and see what happens to the result), and "sensitivity" (i.e. make small changes to one element
and see what happens to another element). A spreadsheet model can be used as a simple but
effective Decision Support System.

## Question 7 (a)

*Cash is the lifeblood of any organisation whether in the not for profit or private sector. Decisions made and activities planned are meaningless without the necessary finance to carry them through. The finance function is concerned with not only ensuring the adequate supply of funds for organisational activities but also reporting the results and putting in place procedures to evaluate and examine performance over periods. Indeed the various elements of the finance function are specialist areas in themselves.*

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.

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

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

Monitoring profitability and liquidity in these difficult times is a particularly important function of the financial manager. In this regard he / she will be responsible for preparing cash flow forecasts to determine if company borrowing is required or if surplus funds are likely to be available for re-investment. Comparing actual performance against forecasted

profit and loss account projections allows them to monitor margins on a regular basis and take appropriate corrective action before deviations become too serious.

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

## Question 7 (b)

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

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

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.

*Revenue and Capital Budgets*

Organisations prepare both revenue and capital budgets for specific periods. Revenue expenditure is expenditure upon items whose value is used up immediately or during the year.

Capital expenditure is expenditure incurred on the acquisition of some object of lasting value to the organisation, usually described as an asset. This asset will contribute value to the organisation over a period of years.

## Question 7 (c)

Factoring of debtors

Debtors factoring is a policy adopted by some companies for acquiring cash on the strength of their debtors' balances at a date earlier than credit terms would normally indicate. In conjunction with providing cash advances some factoring agencies offer sideline services

such as accounting, book keeping and insurance against debt default. There are two main
types of factoring

-   Confidential invoice factoring
-   Sales ledger factoring

Confidential Invoice Factoring

Under this method of factoring, the buyer of goods is unaware of any third party being
involved. The client forwards a copy of all sales invoices to be factored. The factorer in turn
advances monies on the strength on these invoices. This form of factoring requires the
company itself to collect the debts and forward the cash, when collected to the factorer.

Sales Ledger Factoring

Under this method of factoring, the factorer becomes responsible for credit control and debt
collection. If required, for an additional premium, the factorer will accept the risks involved
pertaining to debt default.

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# 1<sup>st</sup> Year Examination: Autumn 2009

# Business Management

# Examiner's Report

GENERAL COMMENT

Overall performance was satisfactory in this autumn sitting.

|                          | Autumn 2009 | Autumn 2008 | Autumn 2007 |
|--------------------------|-------------|-------------|-------------|
| Number of candidates     | 223         | 192         | 251         |
| % obtaining 50 or more   | 62%         | 72%         | 59%         |
| Average marks            | 50          | 52          | 50          |

| Question          | 1     | 2     | 3     | 4     | 5    | 6     | 7     |
|-------------------|-------|-------|-------|-------|------|-------|-------|
| No. Attempting    | 220   | 158   | 113   | 72    | 100  | 153   | 104   |
| Marks available   | 25    | 25    | 25    | 25    | 25   | 25    | 25    |
| Average marks     | 13.14 | 12.78 | 12.76 | 10.11 | 14.1 | 12.87 | 13.89 |

**Question 1**

This was a compulsory question and attempted by practically all candidates. Overall it was well answered

Part (a) Answers to this part were mixed.  A number of answers were incomplete. Others remained at a high level of abstraction and failed to show any sense of understanding of the elements involved in the process.

Part (b) Very well answered with most candidates demonstrating a solid understanding of the concept of PEST analysis and its relevance

Part (c) Answers in general were good but a number of students failed to apply their knowledge to the scenario presented.

**Question 2**

This question was a popular question.

Part (a) was well answered by the majority of candidates. Students demonstrated a good understanding of Taylor's theory of Scientific Management.

Part (b) was surprisingly well answered with most students providing good arguments and examples in support of their position on its relevance.

Part (c) Answers to this part were a little disappointing. In a number of cases students provided examples of controls or categories of controls as opposed to the characteristics of a control system.

**Question 3**

Part (a) was very well answered by the majority of students. Some other students were clearly at sea on this question and gave quite detailed examples of their own decision making process.

Part (b) was again well answered. The majority of candidates were able to relate the concept to the scenario presented.

Part (c) Answers to this part were a little disappointing.

**Question 4**

Part (a) was generally well answered. A small number of students confused equity theory with expectancy theory.

Part (b) on Kotter's eight stage process of change management was surprisingly well answered.

**Part (c) Answers to this part were good.**

**Question 5**

A popular question

Part (a) on market targeting strategies was very quite well answered by the majority of candidates.

Part (b) was surprisingly well answered by the majority of candidates.

Part (c) was very well answered

**Question 6**

Part (a) Answers were quite good but a number of candidates failed to focus specifically on the risks associated with the development of IT systems.

Part (b) Answers to this part were mixed with a number of candidates struggling to focus specifically on the strategic relevance of IT / IS systems.

Part (c) Most candidates were able to demonstrate a good understanding of transaction processing systems but they were less comfortable dealing with decision support systems.

**Question 7**

Part (a) Well developed by most candidates

Part (b) A good understanding of the distinction was made by the majority of candidates.

Part (c) Surprising well answered with the majority of candidates displaying a clear understanding of the concept.