



Association of Accounting Technicians of Sri Lanka

July 2016 Examination - AA2 Level

**Questions and Suggested Answers
(AA26)**

**BUSINESS MANAGEMENT AND STRATEGY
(BMS)**

Association of Accounting Technicians of Sri Lanka
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

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

AA2 Level Examination - July 2016
(26) Business Management and Strategy

SUGGESTED ANSWERS

SECTION – A

Ten (10) compulsory questions
(Total 20 marks)

Suggested Answers to Question One:

Question No.	Answer
1.1	3
1.2	1
1.3	4
1.4	2
1.5	4
1.6	Quantitative approach
1.7	Strategy
1.8	Legitimate power
1.9	Accountability
1.10	Diversification Strategy

(20 marks)

End of Section A

Five (05) compulsory questions
(Total 25 marks)

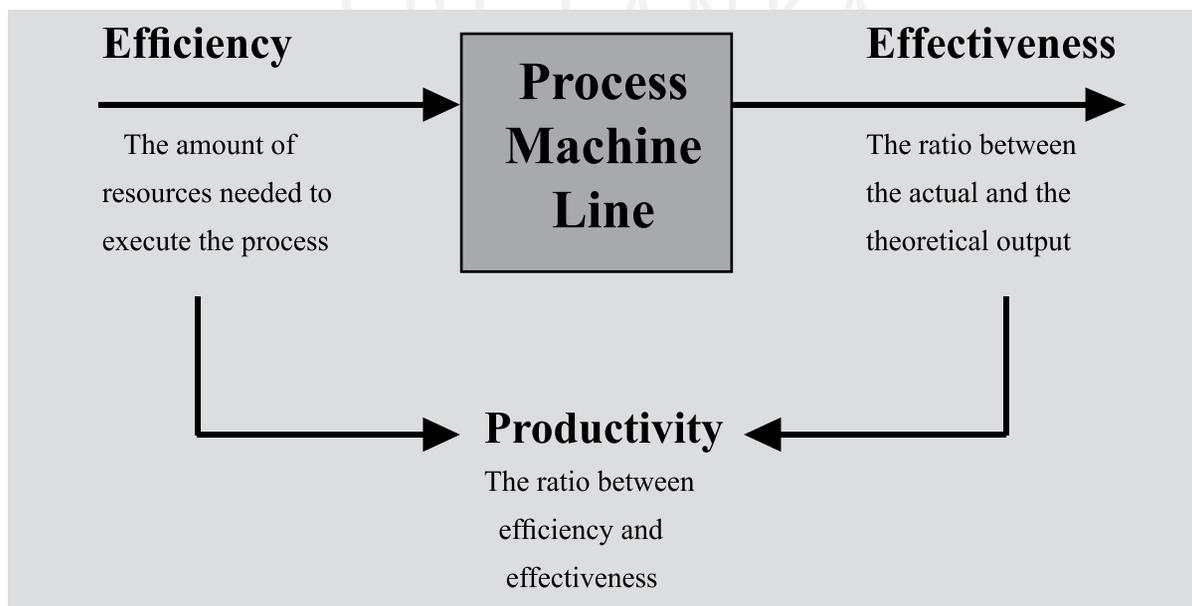
Suggested Answers to Question Two:

Efficiency is measured by the amount of resources that are used in performing a task/production. Time, money, and energy are necessary to obtain certain results. And the Effectiveness is measured by the ability of producing a desired result. Thus, productivity is measurement of how well the inputs are converted into outputs.

Productivity refers to the relationship between the output of goods and services and the input of resources used in the production process. It is a measurement of how well the inputs are converted in to outputs. Productivity is a result of a combination of efficiency and effectiveness. An organization has to be efficient as well as effective at the same time in order to be productive. There has to be equal emphasis on both efficiency and effectiveness. Being concerned about efficiency along will lead to the organization giving less importance to the value created by the activity for the customers.

When a company has higher efficiency and effectiveness those will lead to higher productivity. Accordingly higher output (higher effectiveness) facilitates by less input (higher efficiency) will increase the productivity.

The following figure shows the link between efficiency and effectiveness of operations process and how it relates to the productivity.



(05 marks)

Suggested Answers to Question Three:

- Unwillingness of managers to delegate authority
- Fear of competition
- Lack of confidence in subordinates
- Lack of ability to direct
- Absence of controls that warn of probable problems in advance
- Conservative and cautious temperament of the manager
- Desire to dominate subordinates

(05 marks)

Suggested Answers to Question Four:

Importance of communication in an organization:

1. Communication promotes motivation by informing and clarifying the employees about the task to be done, the manner they are performing the task and how to improve their performance if it is not up to the standard.
2. Communication is a source of information to the organizational members for decision making process as it helps identifying and assessing alternative course of actions.
3. Communication also plays a crucial role in altering individual's attitudes and in changing individual's behaviour, i.e., a well informed individual will have better attitude than a less-informed individual. Organizational magazines, journals, meetings and various other forms of oral and written communication help in moulding employee's attitudes.
4. Communication also assists in controlling process. It helps controlling organizational member's behaviour in various ways. There are various levels of hierarchy and certain principles and guidelines that employees must follow in an organization. They must comply with organizational policies, perform their job role efficiently and communicate any work problem and grievance to their superiors. Thus, communication helps in controlling function of management.
5. Define goals and expectations - Managers need to deliver clear, achievable goals to both teams and individuals, outlining exactly what is required on any given project and ensuring that all staff are aware of the objectives of the project, the department and the organization as a whole.
6. Communication also allows in interacting. In today's life the only existence of another persons encourage interaction. It is also said that one cannot endure without interaction.

7. As previously mentioned, interaction also helps in managing procedure. It allows managing business member's behaviour in various ways. There are various levels of structure and certain concepts and recommendations that workers must follow in a company. They must adhere to business guidelines, execute their job part effectively and connect any work problem and complaint to their superiors. Thus, interaction allows in managing operations and control.

(05 marks)

Suggested Answers to Question Five:

- Increased leverage and influence
- Market & product expansion
- Enhanced reputation and protection of brand identity
- Reduction of risks and costs
- Enhanced government relations
- Developing a local skills base
- Increased local expertise and access to local networks
- Understanding the wider impact of your business can present opportunities to develop new products and services
- Develop and enhance relationships with all stakeholders.
- Increased brand loyalty
- Increased brand awareness
- Increased brand value
- Enhances relationships with clients and increases customer retention

(05 marks)

Suggested Answers to Question Six:

Figure 1: Porter's Generic Value Chain



-
- Inbound logistics**
- Involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.
 - Activities by which inputs are gathered and stored for processing outputs or operations.
 - Processes related to procurement, storing and distributing inputs internally in an organization.
- Operations**
- Operations represent all the processes that are implemented by an organization to convert/transform inputs into outputs.
- For example: If the Garment Z which produces garments for the international market carries out cutting, sewing, washing, ironing to produce output that are ready to be sold or shipped, the underlined processes are operations that transform inputs into outputs.
- Outbound logistics**
- All the activities required to collect, store, and distribute the outputs.
 - Processes/activities that are designed to deliver outputs to customers such as collection processes and distribution processes / systems.
- Marketing & sales**
- Activities that inform buyers about products or services for persuading buyers to purchase them, and facilitate their purchase.
 - Decision of 4 or 7 Ps
 - Activities that increase the product awareness and promotes the purchasing / final action in the buying decision process.
 - Preparation of strategies to sell the break-even-quantity.
- Service**
- Activities required to keep the product or service working effectively for the buyer after it is sold and delivered.
 - After sale services that comes with value addition.

(05 marks)

End of Section B

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Seven:

- (a) The management approach of ABC Foods can be identified to be the classical approach of management as it reflects a number of different characteristics that are found in classical management approach specially a bureaucracy. Those characteristics are as follows.
- Obvious emphasis on written rules and regulations. (Representative bureaucracy / Formal rules and regulations)
 - Emphasis on clear assignment of duties and responsibilities for each job (Division of labor)
 - Emphasis on clear organizational hierarchy (Authority hierarchy/Scalar chain)
 - Emphasis on all the factors that make a bureaucracy (According to Webber)

Too much emphasis on some basic design dimensions (Standardization, and formalization).

(b) **Advantages of Bureaucratic Management Approach;**

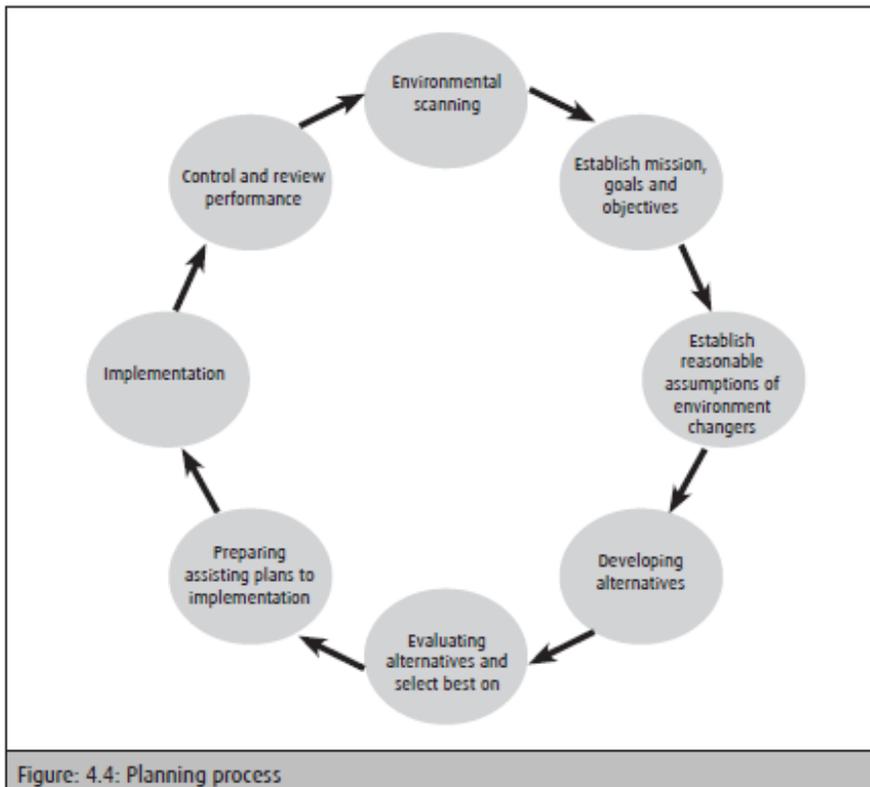
1. As employees behave in a consistent manner due to the set rules and procedures, management becomes easy.
2. There is clear assignment of duties and responsibilities for each job; thus leads to clarity in job roles.
3. The human resources are utilized in the most optimum way as recruitment and promotion are solely based on expertise and merit.
4. Division of labour leads to specialization and thereby improved performance.
5. The continuity of work is not affected due to the leaving of an employee as he is soon replaced.
6. A structure of form is created by specifying the duties and responsibilities and reporting relationships within a command hierarchy. Structure sets the pace and framework for the functioning of the organization.
7. A measure of objectivity is ensured by prescribing in advance the criteria for decision making in routine situations.
8. The rules, regulations, specialization, structure and training enhances predictability and thereby ensure stability in the organization. Conformity to rules and roles in the structural framework bring about order to cope with complexity.
9. Emphasis on qualifications and technical competence make the organization more democratic. Officials are guided by the prescribed rules, policies and practices rather than by patronage or other privileged treatment.

Disadvantages of Bureaucratic Management Approach;

1. It leads to red tape adherence to official rules and formalities and paperwork.
2. The strict adherence to rules and procedures limit the initiative and learning of employees. The employees are not treated in the best way thus, they may not have any attachment or sense of belongingness towards the organization.
3. As an employee gets used to monotonous work, they may develop resistance towards change and may not be flexible and adaptive.
4. Rigidity : Rules and regulations in a bureaucracy are often rigid and inflexible. Rigid compliance with rules and regulations discourages initiative and creativity. It may also provide the cover to avoid responsibility for failures.
5. Goal Displacement : Rules framed to achieve organizational objectives at each level become an end to themselves. When individuals at lower levels pursue personal objectives, the overall objectives of the organization may be neglected.
6. Impersonality : A bureaucratic organization stresses a mechanical way of doing things. Organizational rules and regulations are given priority over an individual's needs and emotions.
7. Compartmentalization of Activities : Jobs are divided into categories, which restrict people from performing tasks that they are capable of performing. It also encourages preservation of jobs even when they become redundant.
8. Empire Building : People in bureaucracy tend to use their positions and resources to perpetuate self-interests. Every superior tries to increase the number of his subordinates as if this number is considered a symbol of power and prestige.
9. Red Tape : Bureaucratic procedures involve inordinate delays and frustration in the performance of tasks.
10. Slow decision making.
11. Difficult to adopt to changing environment.

(Total 10 marks)

Suggested Answers to Question Eight:



(a)

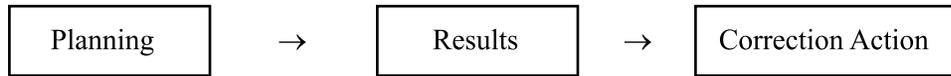
- 1 Environmental scanning
- ↓
- 2 Establishing mission, goals and objectives
- ↓
- 3 Establish reasonable assumptions of environment changes
- ↓
- 4 Developing alternatives
- ↓
- 5 Evaluating alternatives and select the best one
- ↓
- 6 Preparing assisting plans to implementation
- ↓
- 7 Implementation
- ↓
- 8 Control and review performance

(b)

Planning and controlling are closely related functions even though they are two separate functions of management. Because without the basis of planning activities controlling become baseless and without controlling, planning becomes a meaningless exercise.

Relationship between planning and controlling according to Billy Goetz

- Planning precedes controlling and controlling succeeds planning.
- Planning and controlling are inseparable functions of management
- Activities are put on rails by planning and they are kept at the right place through controlling.
- The process of planning and controlling works on Systems Approach which is as follows:



- Planning and controlling reinforce each other. Each drives the other function of management.
- Planning and controlling functions always co-exist or have to exist together as one function depends on the other. The Controlling function compares actual performance with the planned performance and if there is no planned performance then the manager or supervisor who is in charge of controlling does not know whether the actual performance is on track.

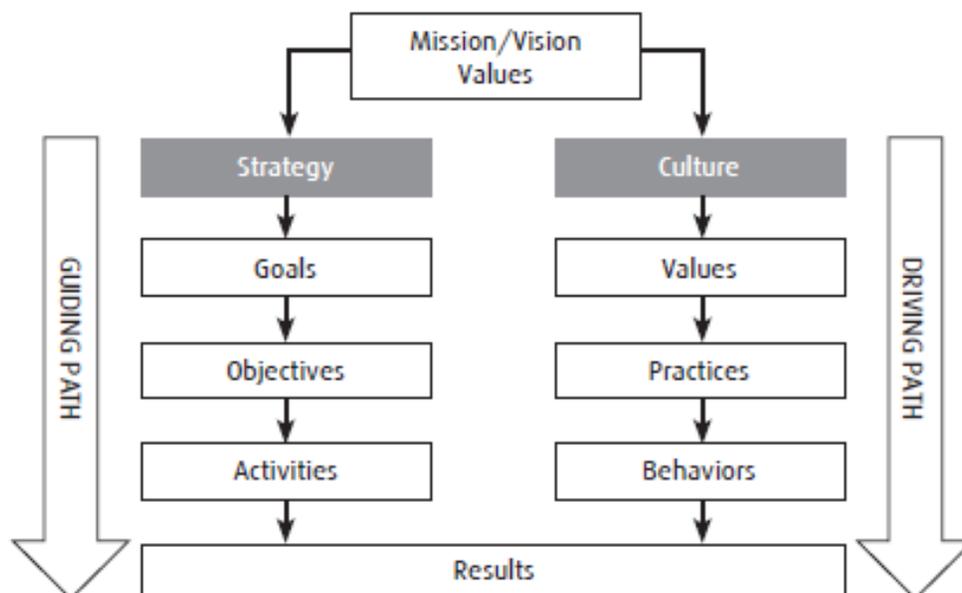
(Total 10 marks)

Suggested Answers to Question Nine:



- (a) Symbols
Power structures
Organizational structures
Control systems
Stories
Rituals and routines

- (b) Strategy is the plan of action designed to achieve a long run or overall aim. The culture should be shaped to go in line with the strategies. So the overall aim is met effectively.
1. Strategy drives focus and direction while culture is the emotional, organic habitat in which a company's strategy lives or dies.
 2. Strategy is just 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.
 3. Strategy is about intent and ingenuity and culture determines and measures desire, engagement and execution.
 4. Strategy lays down the rules for playing the game and culture fuels the spirit for how the game will be played.
 5. Strategy is imperative for differentiation, but a vibrant culture delivers the strategic advantage.
 6. Culture is built or eroded every day. How you climb the hill and whether it's painful, fun, positive or negative defines the journey. When culture embraces strategy, execution is scalable, repeatable and sustainable.
 7. Culture is a clear competitive advantage. Culture must be monitored to understand the health and engagement of your organization. Organizational culture and strategy are often part of major contributing factors to how far a business will go.
 8. If a company has a culture of strong work ethics, this can lead to increase in productivity that can be leveraged to a corporate strategy.



(Total 10 marks)

End of Section C

**A compulsory question
(25 marks)**

Suggested Answers to Question Ten:

(a)



Follow Up : After implementing the decision, the management consultancy firm must do follow up. So, **Mr. Dissanayake** should review how far he has changed his leadership style.

(b) (i) Based on Lewin's Leadership Styles; Mr. Dissanayake's leadership style could be identified as an Autocratic leadership style.

Reasons for identifications:

1. He makes decisions without consulting their team members, even if their input would be useful.
2. Mr. Dissanayake personally handles all business operations.
3. Mr. Dissanayake only thinks on production targets do not allow workers to take leave when required.
4. Mr. Dissanayake decides all salaries and allowances.
5. The turnover rate is high in the company.
6. Difficult to find experienced factory workers who worked for more than 3 years.
7. Employees personal issues are considered as not important.

Alternative Answer:

According to the management grid by Robert Blake and Jane Mouton (1960s), **Mr. Dissanayake** seems to be adopting the authority compliance style of leadership. **Mr. Dissanayake** is more involved about production targets and has less concern for individuals. The needs of the employees are not taken care of and he considers that efficiency can outcome only through proper systems in the company and removal of individuals wherever possible. Such a design can definitely increase the outcome of company in short run but due to the tight guidelines and techniques high labour turnover is unavoidable.

- (ii) **Mr. Dissanayake** can adopt “Democratic leadership style”. **Democratic leader** makes the final decisions, but they include team members in the decision-making process. They encourage creativity and people are often highly engaged in projects and decisions. As a result, team members tend to have high job satisfaction and high productivity. This is not always an effective style to use, though, when you need to make a quick decision.

Alternative Answer:

According to the managerial grid Team Management can be recommended as best leadership style. In this style leader is described as great individuals and process concentrate leaders. The leader seems that power dedication, believe in, and regard are the key components in developing a group atmosphere which will instantly outcome in great worker fulfillment and manufacturing.

(iii)

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.

Motivation

- A leader shows to be playing an inspiration part in the concern’s working. He encourages the workers with financial and non-economic benefits and thereby gets the execution from the workers.

Providing guidance

- A leader has not only to 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.

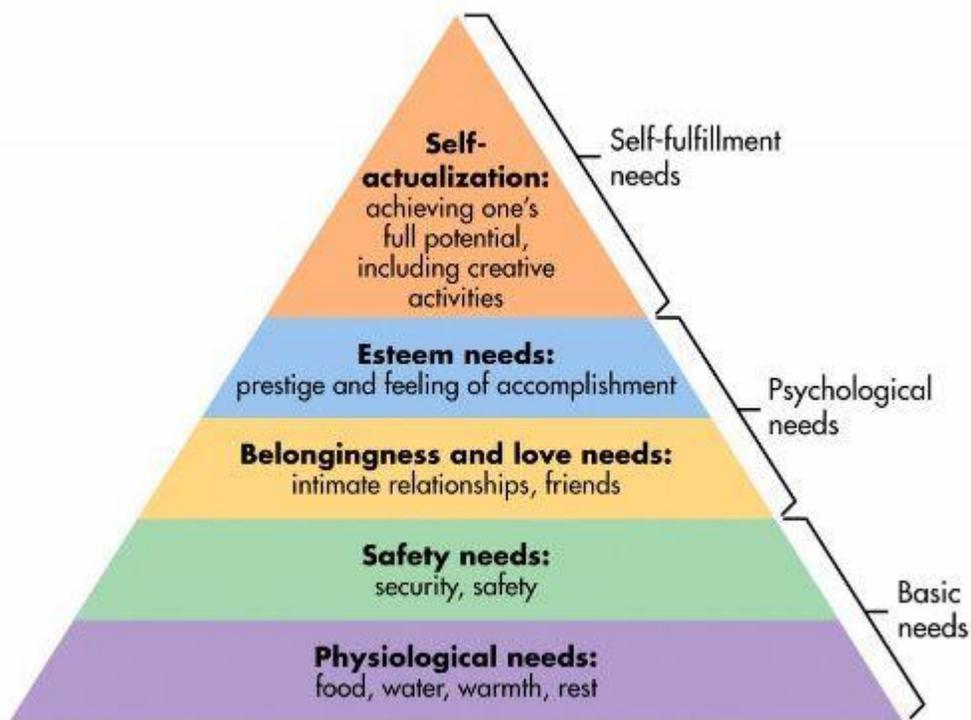
Creating confidence

- 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.

-
- Building morale** – Morale signifies willing co-operation of the workers towards their execution, developing their confidence and succeeding 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.
- Builds execute environment** – Management is getting things done by 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.
- 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.
- (c) Maslow assumes that within every human being there exists a hierarchy of five needs. They are;
1. **Physiological Needs** - Need for the survival including hunger, thirst, shelter, sex and other bodily needs. Swisstech could offer competitive salaries. This gives people the means to acquire the basic needs for living.
 2. **Safety Needs** - Needs for protect from physical and psychological environment including job security and protection from physical and emotional harm. Swisstech could value the safety of all employees. The company can committed to providing a safe and healthy work environment to prevent accidents. This helps employees to choose the best option for a healthy work-life balance.
 3. **Social Needs** - Needs for develop and maintain relationship with others including affection, a sense of belonging, acceptance and friendship etc.. These are associated with a feeling of belonging. This provides informal opportunities for employees to receive and request information on any part of the business. This helps strengthen teams and enhances workers' sense of belonging.
 4. **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. Swisstech can recognise that all employees should feel that they contribute to the achievements of the business. Feedback from appraisals helps to assess how far individuals contribute to the company's values. They include values such as being

positive, seeing the best in people and recognizing diversity. The company could positively recognize and reward staff achievements.

5. **Self-actualization Needs** - Needs for continues personal development or the drive to become what one is capable of becoming; includes growth, achieving one's potential and self-fulfillment etc.. Swisstech could provide employees with the opportunity to take on challenging and stimulating responsibilities. For example, the business provides the opportunity for individuals to take ownership of projects. This enables them to develop and improve.



(Total 25 marks)

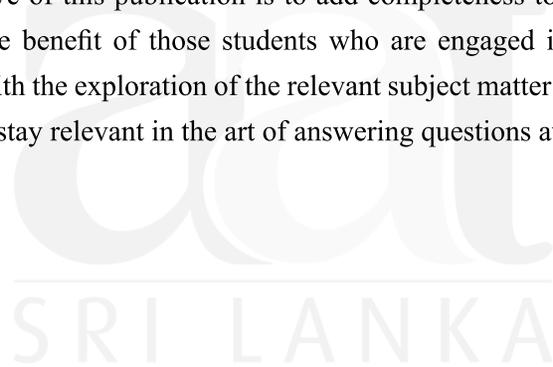
End of Section D

Notice :

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The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



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