Association of Accounting Technicians of Sri Lanka

July 2018 Examination - AA2 Level

Questions and Suggested Answers
(AA26)

BUSINESS MANAGEMENT AND STRATEGY (BMS)

AA2 Level Examination - July 2018
(AA26) Business Management ans 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	2
1.3	4
1.4	3
1.5	2
1.6	False
1.7	True
1.8	False
1.9	False
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:

Technical Skills : These refers to skills and knowledge specific to the job that are necessary for the specific tasks to be performed in an excellent manner. Technical skills are necessary to achieve or understand the specific kind of work done in an organization. These skills are most important to lower level managers as they are involved in monitoring and directing groups that produce the organization's goods and services. These managers spend much of their time training their subordinates and answering questions about work-related problems.

Human Skills : These refer to the ability to work together with other individuals, both in groups or individually. Human skills are necessary to all levels of managers as all managers are involved in dealing with individuals. Managers spend considerable time interacting with people both inside and outside the organization. They need interpersonal skills, the ability to communicate with, to understand and motivate both individuals and groups. As a manager climbs the organizational ladder, he or she must be able to get along with subordinates, peers and those at higher levels of the organization. Because of the different roles that managers must fulfill, a manager must also be able to work with suppliers, customers, investors and other organizations as well.

Conceptual Skills : These refer to the skills to think, understand and make correct decisions during complex situations. Conceptual skills depend on the manager's ability to think in depth. These skills are most important to top level managers as they have to understand the organization as a whole and to make complicated decisions to adapt to environmental changes. Top level managers need the mental capacity to understand the overall workings of the organization and its environment to grasp and understand how all the parts of the organization fit together and to view the organization in a holistic manner.

(05 marks)

Suggested Answers to Question Three:

Characteristics of an objective:

    S   **-** Specific

    M **-** Measurable

    A   **-** Achievable

    R   **-** Realistic

    T   **-** Time Frame / Time Bound   *(05 marks)*

Suggested Answers to Question Four:

1. **Effective management:**

   By delegation, managers pass their routine work to their subordinates. So, they get more time to concentrate on more important matters. This will help them to excel in new areas and be more efficient and effective.

2. **Employee development:**

   In the process of management, the work is passed on to the employees. This gives them opportunity to use their talents and increases their experience. It makes them better leaders and decision makers. Thus delegation helps in preparing better future managers.

3. **Motivation of employees:**

   When a superior passes on the responsibility to his subordinate, it is not merely sharing work but also sharing trust. This develops a feeling of belongingness and commitment for the subordinate. It improves his confidence and he feels encouraged to improve his performance.

4. **Facilitation of growth:**

   While passing on a responsibility and authority, managers have to take care of the qualification and capability of the employee. This division of work and specialization provides a ready work force to take the leading position in a new venture and thus help in the expansion of the enterprise.

5. **Basis of management hierarchy:**

   Delegation establishes authority responsibility relationships between employees. The degree and flow of authority determines who is to report to whom. It also decises the power enjoyed by each job position in the organization.

6. **Better co-ordination:**

   Authority, responsibility and accountability help to define the powers, duties and answerability related to various job positions in an organization. This helps to avoid overlapping and duplication of efforts and thus helps in maintaining coordination amongst departments and functions of management.

(05 marks)

Suggested Answers to Question Five:

Factors to be considered in selecting a suitable media for an effective communication:

i. Cost
ii. Speed
iii. Nature of the message
iv. Nature of the receiver / recipient
v. Importance of the feedback
vi. Scale of the task
vii. Accuracy

(05 marks)

Suggested Answers to Question Six:

Organization Structure:

This includes both the structure defined by the organizational chart and the unwritten lines of power and influence that indicate whose contributions are most valued. Organizational structure defines how activities such as task allocation, coordination and supervision are directed towards the achievement of organizational aims.

Stories:

The past events and people talked about inside and outside the company. Who and what the company chooses to immortalize says a great deal about what it values and perceives as great behaviour.

(05 marks)

End of Section B

Three (03) compulsory questions

(Total 30 marks)

Suggested Answers to Question Seven:

(a)   **Difference between Traditional (Western) Management Style and Japanese Management Style:**

	Traditional (Western) Management Style	Japanese Management Style
1	Based on capitalism / targets	Based on friendship / companysm
2	Purpose is to maximize the profit	Purpose is to maximize the value-added
3	Growing company	Grow with the company
4	Focus on shareholders' satisfaction	Focus on customers' satisfaction
5	Priority given to the office	Priority given to the workplace / field
6	Top-down approach	Bottom-up approach
7	System oriented	Human oriented
8	Innovative approach	Kaizen approach
9	Theory by specialist	Practice by all people
10	Result oriented	Process oriented
11	Sophisticated technology	Simple technology
12	Optimization	Continuous challenge

(04 marks)

(b)   **Contemporary management challenges:**

1.   **Globalization** :

Businesses are operating across the world. So, Managers are confronting many challenges and opportunities due to increasing competition.

2.   **Demand for high quality products and services:**

Today quality has become a threshold requirement. Consumers are more keen on thee quality of the products they consume.

3.   **Increasing workforce diversity and differing cultures:**

Today, workforce diversity has been increased in terms of age, gender, race etc... Managing such a diverse workforce is a big challenge for managers as different people are having different needs, wants, values and behaviours which may lead to several issues in the organization.

4.   **Continuous change in the technology:**

Today technology changes very fast. Organizations are being continuously introduced to new technologies such as internet, digital, Nano technology, virtual reality etc... These developments bring many challenges and opportunities for the organizations.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Eight:

a) **Importance of strategy for an organization:**

Strategy is important get the awareness about the organization and the industry. Especially, to understand internal capabilities and external opportunities & threats, resource base, competition, competitive position and for the purpose of industry foresight strategy formulation process is important. Also, for the development for a business, in a dynamic environment organizations must learn from its environment and adopt to such changing circumstances by formulating right strategies. For the purpose of environmental adoption strategies are important. Further, To provide a correct vision and the timely right direction for the whole organization, strategies are important.

1. *Understanding your company and industry:*

   Strategy allows organizations to develop a clearer understanding of their own organization and what's required for them to succeed. It helps organizations understand their core capabilities, identify and address weaknesses and mitigate risks. It can help organizations better design themselves so that they are focusing on the right things that are the most likely to deliver the best performance, productivity and profit, both now and in the future.

2. *Gworing in a changing world:*

   Understanding what is taking place within the external environment is important to prepare a strategy that will ensure long-term profit and growth. Understanding changes that are taking place in your industry or with your market place is important.

3. *Creating a vision and direction for the whole organization:*

   All organizations and their staff need to understand their purpose, their destination and the course they're taking to get there. A company without a strategy is like akin to sending their staff into the desert and leaving them to follow mirages in search of water. Without a destination and focus in mind your staff will wander aimlessly from one activity to the other never knowing what to focus on or how to prioritize.

(06 marks)

b) **Strategic alternatives in Ansoff Matrix:**

i. **Product Development** - This is development of a new product to the existing customers. This is more successful if the company is capable to meet specific customer satisfaction than merely a product development. This is also riskier than the market penetration strategy as it involves a totally new product.

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

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

industry as well as reduces the overall business portfolio risk. However, firm can adapt to diversification in two aspects such as related or unrelated diversification.

- ► Horizontal or related diversification - Strategy of adding related or similar product / service lines to existing core business, either thorugh acquisition of competitors or through internal development of new products / services.

- ► Conglomerate or unrelated diversification (Vertical integration) - Introducing new business which are not related to the existing business. Conglomerate diversification is more risky strategy than related diversification.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

a) **Parameters for a successful change:**

- • **Requirement for the change** - Any change has to be done for a correct purpose; not just for the sake of doing something new. So, proper identification of the need/s for a change is a key success factor

- • **Adoption** - Degree to which the parties (internal and external stakeholders), policies, procedures affected from the change is adopted to the change is a success factor of a change.

- • **Resources** - Change is not automatic. To design, plan and implement a change organizations need time, energy and many other resources. Hence, degree to which necessary resources are provided at the right time to drive the change also a key factor of success.

(06 marks)

b) **Internal stakeholders of an organization:**

Shareholders/owners, Managers, Employees

- • **Shareholders/owners** - They influence through investment decisions and management decisions. They are the major part of 'key players' in a business.

- • **Managers** - They influence through management decisions, allocation of resources, commanding on employees and controlling the business operations.

- • **Employees** - They influence by implementing the decisions taken by the management and directly involving in day-to-day operations of the business.

(02 marks)

End of Section C

A compulsory question
(25 marks)

Suggested Answers to Question Ten:

a) According to the given text, the founding member of **Priyantha Holdings Ltd., Mr. Priyantha** adopts the transformational leadership style, whereas the newly appointed Group CEO of the company, **Mr. Austin** adopts Transactional Leadership Style.

Transformational and transactional leadership are opposites when it comes to the underlying theories of management. Transactional leadership styles are more concerned with maintaining the normal flow of operations. Transactional leaders use disciplinary power and an array of incentives to motivate employees to perform at their best. The term "transactional" refers to the fact that this type of leader essentially motivates subordinates by exchanging rewards for performance. A transformational leader goes beyond managing day-to-day operations and crafts strategies for taking his company, department or work team to the next level of performance and success. Transformational leadership styles focus on team-building, motivation and collaboration with employees at different levels of an organization to accomplish change for the better. Transformational leaders set goals and incentives to push their subordinates to higher performance levels, while providing opportunities for personal and professional growth for each employee. Those differences can be summarized into following table.

Transactional Leadership	Transformational Leadership
Leaders are aware of the link between the effort and reward.	Leaders arouse emotions in their followers which motivates them to act beyond the framework of what may be described as exchange relations.
Leadership is responsive and its basic orientation is dealing with present issues.	Leadership is proactive and forms new expectations in followers.
Leaders rely on standard forms of inducement, reward, punishment and sanction to control followers.	Leaders are distinguished by their capacity to inspire and provide individualized consideration, intellectual stimulation and idealized influence to their followers.
Leaders motivate followers by setting goals and promising rewards for desired performance.	Leaders create learning opportunities for their followers and stimulate followers to solve problems.
Leadership depends on the leader's power to reinforce subordinates for their successful completion of the bargain.	Leaders motivate followers to work for goals that go beyond self-interest.

(08 marks)

b) **Motivational theories to be considered:**

This organization can use two factor theory to motivate employees at work. According to the theory first the organization must use **hygiene factor** including financial factors to eradicate the dissatisfaction of employees. Next stage should be the use of **motivators** such as opportunities for career progression, appreciation, feedback and many other intrinsic factors.

Similarly, the organization can use **ERG theory** as well. According to the ERG theory, there are three types of needs to be fulfilled to motivate people. They are:

- **Existence Needs** - desire for physiological and material well-being.
- **Relatedness Needs** - desire for satisfying interpersonal relationships.
- **Growth Needs** - desire for continued personal growth and development.

So, managers can focus on unfulfilled needs of the employees and initiate a program through which those can be filled.
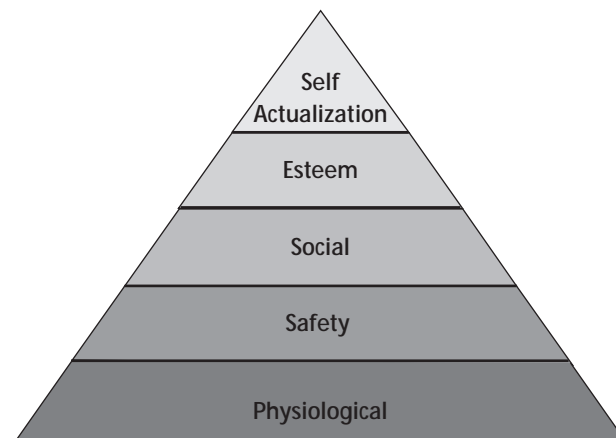
Further, according to the facts given in the case employees perceive that because of the new rewards policy they are under rewarded. So, there is a possibility to use the **'equity theory'** as well.

Equity theory illustrates if the employee is under rewarded, there are possible options available to motivate them. They are:
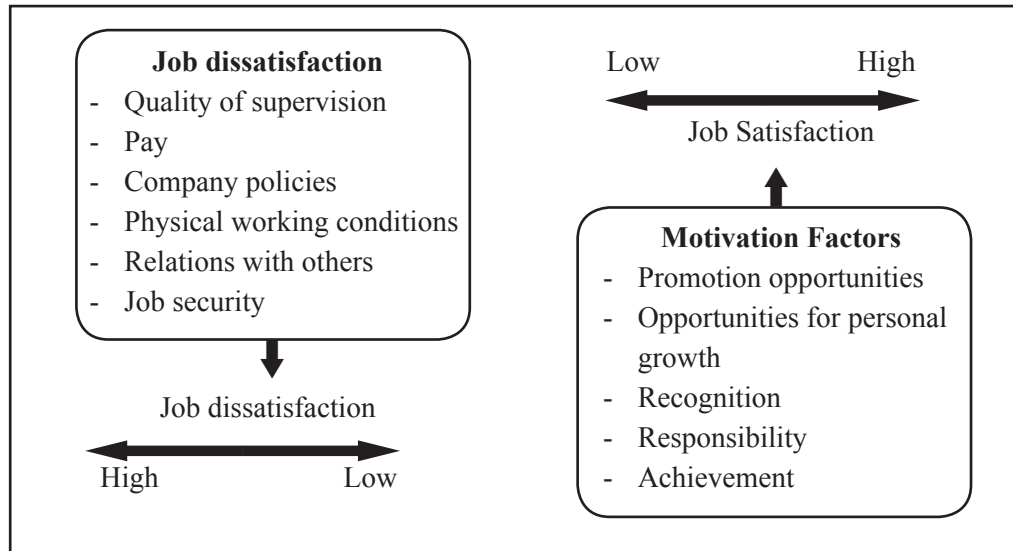
- Manager can increase outcomes/pay/incentives
- Change the attitudes
- Change the benchmark with whom employee compares

Establishing the equity at work also a technique in motivating employees according to the **'equity theory'**.
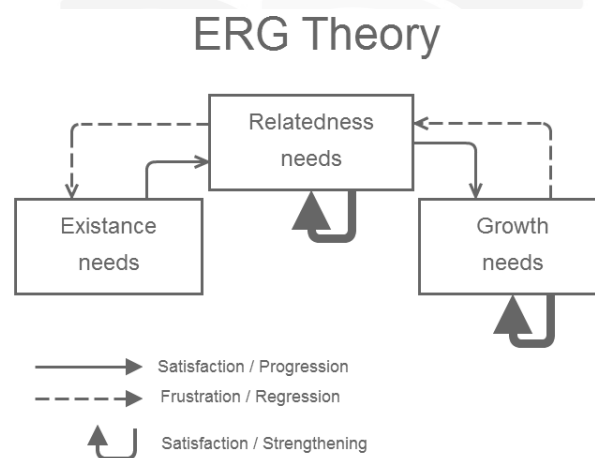
1. **Hierarchy of needs theory**

2. Two Factor Theory:

Job dissatisfaction
- Quality of supervision
- Pay
- Company policies
- Physical working conditions
- Relations with others
- Job security

Job dissatisfaction

High   ←————→   Low

Low   ←————→   High

Job Satisfaction

Motivation Factors
- Promotion opportunities
- Opportunities for personal growth
- Recognition
- Responsibility
- Achievement

3. ERG Theory:

ERG Theory

Relatedness needs

Existance needs

Growth needs

→ Satisfaction / Progression

- - - → Frustration / Regression

Satisfaction / Strengthening

4. McClelland's Acquire Needs Theory:

McClelland's concept sometimes is generally known as the 3 need theory or as the learned needs concept. It consists of:

i.   Need for achievement

ii.   Affiliation

iii.   Power

(12 marks)

c) **Importance of the organizational culture:**

- **Culture creates the unity** in the organization. It gives a unite direction of different parties irrespective of their diversity.

- Further, **culture creates the loyalty** of employees. Employees actually experience the culture are loyal to the culture.

- Very importantly, culture is a **very powerful source of competitive advantage**. Especially, to attract suitable employees from the external labor market, and retain them culture is a powerful source.

- Similarly, **culture creates the identity** of the organization. It distinguishes one organization from another. Organization can use the cultural identity to position the brand of the organization and its products.

- **Culture provides direction** to the organization. It sets certain guidelines and direction to the employees. Each member realizes what his roles and responsibilities are and how to achieve tasks prior to establish deadlines.
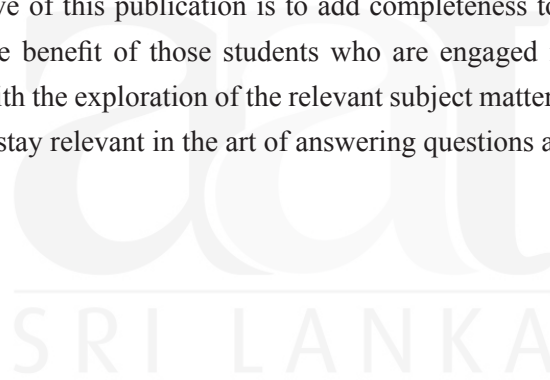
(05 marks)

(Total 25 marks)

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