



## ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

### AA2 EXAMINATION - JANUARY 2016

#### (AA26) BUSINESS MANAGEMENT AND STRATEGY

• **Instructions to candidates** (Please Read Carefully):

(1) **Time Allowed:** *Reading : 15 minutes*

*Writing : 03 hours.*

31-01-2016

Afternoon

[1.45 – 5.00]

No. of Pages : 07

No. of Questions : 10

(2) **All questions should be answered.**

(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**

(4) **State clearly assumptions made by you, if any.**

(5) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

(6) **100 Marks.**

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#### SECTION A

##### Objective Test Questions (OTQs)

Twelve (12) compulsory questions

(Total 20 marks)

###### Question 01

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** Which one of the following is **not** a role under the interpersonal category of management according to Mintzberg's categorization?

(1) Figurehead.

(2) Leader.

(3) Spokesperson.

(4) Liaison.

(02 marks)

**1.2** Which one of the following is **not** a basic principle of scientific management introduced by Fredrick Taylor?

(1) The scientific education and development of the worker.

(2) The scientific selection of workers, so that each worker would be given responsibility for the task for which he or she is best suited.

(3) Teamwork is fundamentally important to an organization.

(4) Initiate, friendly cooperation between management and labour.

(02 marks)

- 1.3** Which one of the following is **not** a criticism of Behavioural Approach?
- (1) Too much of emphasis and dependence on the human factor.
  - (2) One best way of performing a particular job may not always exist.
  - (3) Complex behaviour of workers confuses managers.
  - (4) Less productivity due to high social interactions and informal relations. (02 marks)
- 1.4** "When the separate subsystems coordinate and operate as one system, they become more efficient and productive than if they were to operate alone". This is known as:
- |                    |                         |
|--------------------|-------------------------|
| (1) Open system.   | (2) Entropy.            |
| (3) Closed system. | (4) Synergy. (02 marks) |
- 1.5** Of the following, which is **not** a feature of Red Ocean Strategy?
- (1) Compete in existing market space.
  - (2) Exploit existing demand.
  - (3) Break the trade-off between value and cost.
  - (4) Beat the competition. (02 marks)

*State whether each of the following statements from No. 1.6 to 1.8 is TRUE or FALSE. Write the selected answer (True/False) in your answer booklet with the number assigned to the question.*

- 1.6** A policy highlights series of actions or steps in order to accomplish a particular task. (01 mark)
- 1.7** The first step of the planning process is environmental scanning. (01 mark)
- 1.8** Lack of coordination among separate functions is a disadvantage of matrix organizational structure. (01 mark)

*Select the most suitable words from those given within brackets to fill in the blanks of question No. 1.9 and 1.10. Write the selected words in your answer booklet with the number assigned to the question.*

- 1.9** ..... (A programmed decision / A non-programmed decision) is a decision that a manager has made many times before. (01 mark)
- 1.10** ..... (Technical skills / Conceptual skills) refer to the skills to think, understand and make decisions during complex situations. (01 mark)

*Write short answers to question No. 1.11 and 1.12 in your answer booklet with the number assigned to the question.*

- 1.11** State the two(02) types of plans under operational planning. (02 marks)
- 1.12** State three(03) benefits of effective organizing process. (03 marks)

## **SECTION B**

Five (05) compulsory questions

(Total 25 marks)

### **Question 02**

Managers at different levels of management require combination of different skills to perform their duties at the optimum level:

**Explain** the different managerial skill combinations required by different levels of management.  
(05 marks)

### **Question 03**

“Planning is the process of establishing goals and suitable courses of action for achieving those goals”.

**State** five(05) benefits of planning for an organization in an ever changing business environment.  
(05 marks)

### **Question 04**

“Managers are responsible for analyzing and understanding the contingency factors that affect organizational structure and then to frame a structure to fit those contingency factors”.

**Explain** three(03) contingency factors that should be considered by managers in designing an appropriate organizational structure for their organizations.  
(05 marks)

### **Question 05**

“Controlling is the process of ensuring that actual activities conform to planned activities”.

**State** five(05) characteristics of controlling.  
(05 marks)

## Question 06

Competitive advantage is essential for today's business success. According to Michael Porter, there are two(02) main sources of competitive advantage.

- (a) **State** what competitive advantage is. (01 mark)
- (b) **Explain** the two(02) sources of competitive advantage as discussed by Michael Porter. (04 marks)  
(Total 05 marks)

*End of Section B*

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

## Question 07

"Japanese Management style emphasizes the need for information flow from the bottom to the top of the organization. Further, this management style places emphasis on continuous improvement in quality, consensus decision making and accurate inventory systems".

**You are required to:**

- (a) **State** four(04) key practices associated with Japanese Management style. (04 marks)
- (b) **Discuss** the applicability of Japanese management practices in improving the productivity of Sri Lankan organizations. (06 marks)  
(Total 10 marks)

## Question 08

**ABC Manufacturing (Pvt) Ltd.** is a family owned company engaged in the business of manufacturing of garments. It was established in mid-2005 as a small scale business with 25 employees and today it runs with more than 500 employees in different capacities. With the rapid growth of the company over the last 10 years, the Board of Directors (BOD) has decided to convert the company into a Public Quoted Company by issuing shares to general public. They have decided to hold 51% of the share capital with the family and to offer rest of the shares to investors. As the consultant of the company, you have been requested to advise the Chairman about the composition of the BOD based on the theories of corporate governance.

**You are required to:**

- (a) **Discuss** the possible composition of the Board of Directors based on Agency theory and Stewardship theory. (06 marks)
- (b) **State** four(04) communication methods available to top management for inviting investors to subscribe for shares. (04 marks)  
(Total 10 marks)

### **Question 09**

Organisational culture is a collection of beliefs, expectations and values shared by an organisation's members, transmitted from one generation of employees to another. It is the set of assumptions which guide collective behaviour of people in the organisation. Hence, the culture of any organization has a strong relationship with its employees' behavior and performance.

**You are required to:**

- (a) **Explain** the importance of developing a specific culture to an organization. (06 marks)
- (b) **State** the four(04) layers of organizational culture introduced by Johnson and Scholes. (04 marks)  
(Total 10 marks)

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*End of Section C*

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## **SECTION D**

A compulsory question

(25 marks)

### **Question 10**

**Nastas (Pvt) Ltd.** is a leading distribution company operating in Sri Lanka with a large distribution channel. Mainly it operates three (3) product categories such as fast moving consumer goods (FMCG), confectionary products and bakery items. The sole ownership of the company lies with **Mr. Fernando** who is the founder of **Nastas (Pvt) Ltd.** in early 80's. **Nastas (Pvt) Ltd.** imports most of the items and store all those in the warehouse which is located in Peliyagoda. The company has its own vehicle fleet for the distribution activities and well trained sales staff to cater all three (3) product divisions. The Senior Managers of the company enjoy fringe benefits above the industry standards and most of the Senior Managers have worked for the company for more than fifteen years.

Being the owner and the Managing Director of the company, **Mr. Fernando** by himself selects all the foreign suppliers and decides the pricing structure for all product categories within Sri Lankan operations. As a well-established brand name in Sri Lanka, “**Nastas**” have been enjoying a continuous growth in terms of sales and distribution of all its product categories. Most of the times **Mr. Fernando** interferes on the key strategic decisions of the company and he insists top management to execute his personal views relating to operational as well as strategic level issues. Further, **Mr. Fernando** is not willing to reveal his pricing strategy even for his subordinates because he believes that it will be a valuable information for his direct competitors. Also he tries to maintain rigid HR policies within the company to maintain employees' discipline and most of the times employees of the company are not granted leave as they wish. Though it is necessary to determine the salary increments of the functional level employees based on their year-end performance appraisals, it has not been happened for the last three (3) years and all the salary increments have been decided by **Mr. Fernando** and the HR Department acts upon his advice. The sales targets of the respective sales teams were given by **Mr. Fernando**. When those targets were not reached to 80%, the commissions and the other allowances of the team leaders of the sales staff used to be held up.

With all the above influences, the functional (non-executive) employees of the company got demotivated and have negatively affected the growth of the company. During last three years, employee turnover of the company has increased drastically and due to that the costs of the employee talent development, training and recruitment had gone up considerably.

After realization of these drawbacks, **Mr. Fernando** had recruited a Management Consultant to assist him in overcoming these problems. The consultant had analyzed the current situation and suggested few drastic changes to regain the previous status which the company previously enjoyed.

Based on the above information,

**You are required to,**

- (a) **Assess** the leadership style of **Mr. Fernando** based on any appropriate leadership model. (09 marks)
- (b) **Discuss** how you are going to motivate the employees of **Nastas (Pvt) Ltd.** as the Management Consultant using any of the theories of Motivation. (09 marks)
- (c) **Explain** **Mr. Fernando** on how the Kurt Lewin's model could be applied in changing the prevailing organizational culture of **Nastas (Pvt) Ltd.** (07 marks)  
(Total 25 marks)

## **ACTION VERB CHECK LIST**

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
	<b>Record</b>	Enter relevant entries in detail.
	<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.