



Association of Accounting Technicians of Sri Lanka

January 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

A publication of the Education and Training Division

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

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

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Twelve (12 compulsory questions)

(Total 20 marks)

Suggested Answers to Question One:

Question No.	Answer
1.1	3
1.2	3
1.3	2
1.4	4
1.5	3
1.6	False
1.7	True
1.8	True
1.9	A programmed decision
1.10	Conceptual skills

1.11 Two Types of Plans

1. Single Use Plan –Programs, Projects, Budget
2. Standing Plan-Policy, Procedure, Rules & regulations

1.12: Three (03) benefits of effective organizing process.

1. Benefits of specialization
2. Clarity in working relationships
3. Optimum utilization of resources
4. It directs to achieve desired goals and objectives
5. Effective administration
6. Development of personnel
7. Expansion and growth

End of Section A

Five (05) compulsory questions.
(Total 25 marks)

Suggested Answers to Question Two:

There are different managerial levels existing in organizations, as top level managers, middle level managers and lower level managers. They possess different types of skills based on the level they operate in.

Managers at different levels of management

- Top Level Managers** : This refers to the top one or two hierarchical levels in the organization structure. Managers at these levels have responsibilities for the total organizational performance covering multiple business activities.
- Middle Level Managers** : These are the managers between the top and lower level management. They generally do not have the responsibility for more than one type of business activity and even within that may be responsible for only a segment of the total work in the organization.
- Lower Level Managers** : They are at the lowest one or two levels of management hierarchy. They are the people responsible for directly supervising the work of operational staff and form a link between them and the management.

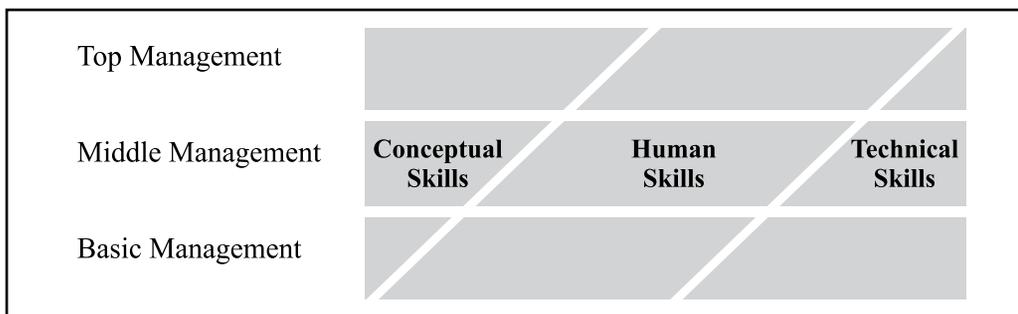
Managerial Skill Combinations

Conceptual Skills are most important at top levels of management. Managers at top levels must use conceptual skills to see the organization as a whole, to understand the relationships among various subunits, and to visualize how the organization fits into its broader environment.

Human Skills are equally important at all levels of management, because all managers must deal directly with people.

Technical Skills tend to be more important for lower level managers. This is because lower level managers typically manage employees who use tools and techniques to produce the organization’s products and services.

This can be further explained using the diagram below;



Suggested Answers to Question Three:

Benefits of planning.

1. Planning Provides Direction.
2. Planning minimized uncertainties.
3. Planning facilitates co-ordination.
4. Planning helps decision making.
5. Planning improves employee's morale.
6. Planning helps in achieving economies.
7. Planning facilitates controlling.
8. Planning provides competitive edge.
9. Planning encourages innovations.

Suggested Answers to Question Four:

- (i) **Strategy:** Logically structure follows strategy because organizational structures are built to achieve objectives by implementing the strategies. When strategy changes, structures must change. At the corporate level, strategies are formulated based on the company's mission and strategic goals or objectives.
- (ii) **Environment:** Environment has an impact on decision making - specifically the difficulty of making decisions in an uncertain or unpredictable environment. Similarly, the stability and predictability of the environment have a direct bearing on the ability of the organization to function effectively. An unstable environment that changes rapidly and is less predictable has two requirements: The organization must be able to adapt to change, for which it needs to be flexible and responsive, the organization needs greater coordination among departments.
- (iii) **Size of the organization:** The number of employees working in an organization indicates its size. It is observed that large organizations differ structurally from small ones in terms of division of labor, rules and regulations, performance appraisal and budgeting procedures.
- (iv) **Age of the organization:** With age; an organization incorporates standardized systems, procedures and regulations. Like people, organizations evolve through stage of life cycle - birth, youth, midlife and maturity. In the birth stage, the organization created by the entrepreneur is informal, with no rules and regulations. Decision making is centralized with the owner and tasks are not specialized. In the youth stage, the organization is growing - it expands and hires more employees. It incorporates division of labor and formal rules and policies. Decision making is still with the owner although it is shared by few persons close to the owner. In the midlife stage, the company has become quite large. It now has extensive sets of rules, regulations, policies and systems to

guide the employees. Control systems are used, professionals are hired, tasks are decentralized and authority is delegated to functional departments. In the maturity stage, rules, regulations, specialized staffs, budgets, a refined division of labor and control systems are in place.

- (v) **Technology:** Some kind of technology is used to convert the resources into outputs in every organization. Technology includes the knowledge, machinery, work procedures, and materials that convert the inputs into outputs. The technology used to manufacture the products decides the kind of the organization for the production system.
- (vi) **Past experience and pattern of ownership:** The history of the organization and whether the owners are directly involved in the business will have an impact on the organization structure. Most of the one owner companies are end to the centralized structure and reporting relationships are decided by one person.

Suggested Answers to Question Five:

- (1) **Controlling is an Essential Function of Every Manager:**

The controlling is a universal role of management as it is done in all non-business and business organizations. Controlling is also performed at all the levels of management. It is every manager's duty to assure that the actual performance of the organization is in line with the plans and targets
- (2) **Controlling is a Fundamental Management Function:**

Planning, staffing, directing, organizing and controlling all are management functions. However, controlling is considered the most important as if we eliminate it all the other functions become meaningless.
- (3) **Controlling is a Continuous Activity:**

Controlling is needed at all times continuously. It should not be done only once or done with long breaks. Under controlling, the progress has to be assessed continuously.
- (4) **Controlling is related to results**

As the progress performance is assessed based on the results and appropriate actions are taken accordingly. Controlling is a process related to results.
- (5) **Controlling is forward-looking**

Controlling at all levels looks to the future so that a follow up can be made at any time necessary.
- (6) **Controlling is both at the beginning and end of the process of management.**

The need of control is felt both at the beginning and end of the process of management.
- (7) **Controlling is related with planning**

Controlling and Planning are two attached roles of management. Lacking in planning makes controlling meaningless and planning is useless without controlling. Planning presupposes controlling and controlling succeeds planning.

(8) **Controlling is a dynamic process**

Since controlling requires taking reviewed methods, changes have to be made wherever possible.

Suggested Answers to Question Six:

- (a) **A competitive advantage** is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. This may allow to generate greater sales or margins and / or retain more customers than its competitors.
- (b) There are three options identified by Michael Porter to achieve competitive advantage for an organization.
- i) **Cost leadership** — in this strategy the company establishes itself as the lowest cost producer in the particular market. How the company attains cost advantages differ and depend on the structure of the considered market. This includes proprietary technology, economies of scale, preferential access to raw materials and etc. A low cost producer finds and exploits all sources of cost advantage and sustains overall cost leadership, then the company will be an above average performer in its industry.
 - ii) **Differentiation** — A company need to be innovative and unique in this strategy. It chooses one or more characteristics that many buyers identify as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.
 - iii) **Focus** — This is to focus on a narrow competitive scope within an industry. The company chooses a section or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two sub parts. One option is to focus to be a cost advantage in its target segment, while the second option is to focus on seeking greater differentiation in its target segment.

End of Section B

Three (03) compulsory questions.
(Total 30 marks)

Suggested Answers to Question Seven:

- a) i) In-house training of managers
ii) Collective decision-making
iii) Extensive use of quality control methods
iv) Carefully codified work standards
v) Emphasis on creating harmonious relations among workers
vi) Lifetime employment and seniority-based compensation
- (b) SriLankan organizations have used Japanese Management Practices to improve the productivity. Following are some of techniques used by them
- Just in time Inventory Management System
 - Total Quality Management (TQM)
 - Kaizen
 - Lean Manufacturing
 - s (Seiri, Seiton, Season, Seiketsu, Shitsuke)

MAS holding is a good example for company who has used Japanese Management Practices to achieve success. MAS has adopted 5S & Lean Manufacturing concept to increase productivity. BOC is another example who has used 5S concept to improve productivity.

Suggested Answers to Question Eight:

- (a) Agency theory argues that top management is interesting to increase their own welfare than the stake holders' welfare and is not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. Therefore inside directors are developing strategies such as acquisition and take over, diversifying business and taking in risk business etc; in order to they become powerful in the organizations as well as to increase their benefits. They will not consider price decline of the share market. Therefore agency theory emphasis on that BOD should consist of more outside directors than inside.

On the other hand, Stewardship theory suggests that executives tend to be more motivated to act in the best interest of the corporation than in their own self-interest. They are having good knowledge and expertise of the business and there is no any conflict of the interest. Inside directors are trying to satisfy higher order need such as achievement and recognition other than financial reward and security. Therefore, more inside directors should be appointed to the BOD.

It is recommended to appoint equal board members from inside & outside the organization to fulfill the requirement of both Agency theory & Stewardship theory.

- (b) Following methods can be used to invite investors to subscribe shares
- Publish advertisements in newspapers
 - Publish detail on website
 - Awareness on Radio
 - Awareness on Television (TV)
 - Publish an advertisement on business Magazine.
 - Social networks - Information hotlines

Suggested Answers to Question Nine:

(a) **Culture promotes unity**

A shared organizational culture helps to unite employees of different demographics. Many employees within an organization come from different backgrounds, families and traditions and have their own cultures. Having a shared culture at the workplace gives them a sense of unity and understanding towards one another, promoting better communication and less conflict. In addition, a shared organizational culture promotes equality by ensuring no employee is neglected at the workplace and that each is treated equally.

Loyalty towards the organization

Organizational culture helps to keep employees motivated and loyal to the management of the organization. If employees view themselves as part of their organization's culture, they are more eager to contribute to the entity's success. They feel a higher sense of accomplishment for being a part of an organization they care about and work harder without having to be coerced.

Competition

Healthy competition among employees is one of the results of a shared organizational culture. Employees will strive to perform at their best to earn recognition and appreciation from their superiors. This in turn increases the quality of their work, which helps the organization prosper and flourish.

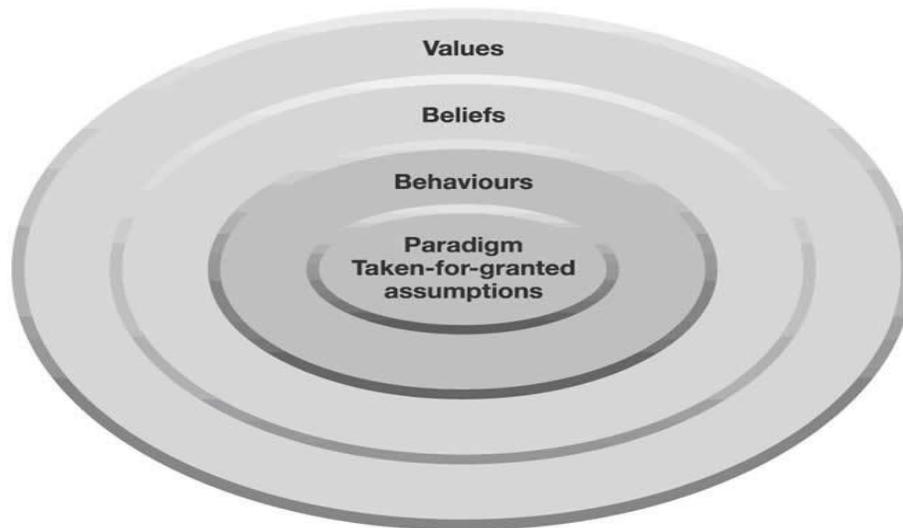
Focus on correct direction

Guidelines contribute to organizational culture. They provide employees with a sense of direction and expectations that keep employees on task. Each employee understands what his roles and responsibilities are and how to accomplish tasks prior to established deadlines.

Culture promotes identity

An organization's culture defines its identity. An entity's way of doing business is perceived by both the individuals who comprise the organization as well as its clients and customers, and it is determined by its culture. The values and beliefs of an organization contribute to the brand image by which it becomes known and respected.

(b)



- i) **Values** - Values are shared principles, standards, and goals.
- ii) **Beliefs** - Assumptions and convictions that are held to be true, by an individual or a group, regarding concepts, events, people, and things.
- iii) **Behaviors** - behaviors are ways that organizations operate in day-to-day matters.
- iv) **Paradigm** - Paradigm is a combination of common assumptions practices and embraced in an organization.

End of Section C

A compulsory question.
(25 marks)

Suggested Answers to Question Ten:

- (a) This can be analyzed according to leadership styles introduced by University of Iowa. Accordingly they have identified three leadership styles.
- i. Autocratic leaders: Make decisions without consulting their teams.
 - ii. Democratic leaders: Allow the team to provide input before making a decision, although the degree of input can vary from leader to leader.
 - iii. Laissez-faire leaders: These leaders don't interfere; they allow people within the team to make many of the decisions.

According to information given, leadership style of Mr. Fernando is Autocratic style due to following reasons.

- Mr. Fernando by himself selects all the foreign suppliers and decides the pricing structure for all product categories within Sri Lankan operations.
 - 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.
 - 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.
 - Mr. Fernando 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.
 - 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.
- (b) I am going to adapt two factor theory of Fredrick Herzberg to motivate employees of Nastas (Pvt) Ltd. According to this theory there are two factors which lead to Job dissatisfaction and dissatisfaction.

Hygiene factors- These relate to conditions at work, such as working conditions, job security, inter-personal relations at work, supervision, company policies and pay. Hygiene factors cause dissatisfaction in the individual if the individual's needs are not met. They do not motivate the individual to perform better.

Motivator factors- These satisfy the need for fulfillment at work, and include factors such as challenging work, career advancement (or the prospects of it), a sense of Achievement, recognition from bosses and colleagues, responsibility, and pay.

This theory can be applied in following ways to Nastas (pvt) Ltd.

- Factors that have led to make employees dissatisfied should be identified first. According to facts given, following are some examples for that.
 - i. Strict supervision adopted by Mr. Fernando
 - ii. Low pay available for employees.
 - iii. Strict company policies adopted by the company.

- secondly, these dissatisfies should be corrected. Following are some methods which can be applied to eliminate dissatisfaction.
 - i. Provide pay rise to employees
 - ii. Apply relax HR Policies
e.g.: Strict leave policy should be relaxed.

This ultimately may help to remove employee dissatisfaction of employee.

- thirdly, Employees can be motivated through application of motivational factors.
This can be done in following ways.
 - i. Employee participation can be encouraged in decision-making
Employee can provide an opportunity to involve in decision making process.
e.g.: involvement in pricing decisions for product categories
 - ii. Employee should be given promotional opportunities
e.g.: Clear policy should be implemented to decide promotions of the employees.
 - iii. Employees should be given opportunities for personal growth.
 - iv. Employees should be recognized for their works.

(c) The Kurt Lewin Change Management Model

This three stage theory of change is commonly referred to as Unfreeze, Change, Freeze (or Refreeze)

Stage 1 : Unfreezing

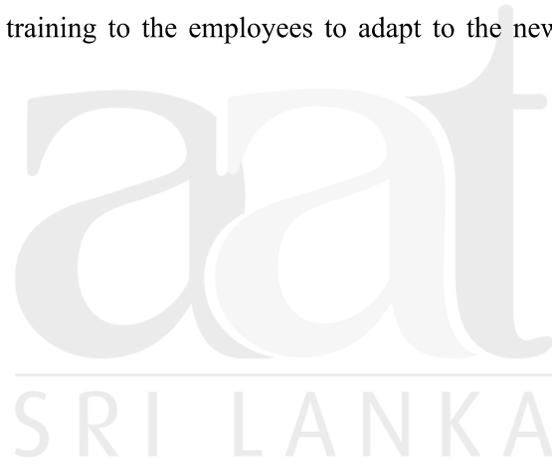
The Unfreezing stage is probably one of the most important stages to understand the change need at Nastas. This stage is about getting ready to change. It involves getting to a point of understanding that change is necessary and getting ready to move away from our current comfort zone. In this stage of change, involves preparing the organization to accept that change is necessary, which involves break down the existing status quo before you can build up a new way of operating. In this stage, consultant can convince Mr. Fernando regarding the importance of changing the present culture of the company and emphasize the danger of not changing it.

Stage 2 : Change or Transition

Kurt Lewin was aware that change is not an event, but rather a process. He called that process a transition. Transition is the inner movement or journey we make in reaction to a change. This second stage occurs as we make the changes that are needed. People are 'unfrozen' and moving towards a new way of being. Therefore, consultant can continuously communicate with employees and empowering employees to make decisions.

Stage 3 : Freezing (or Refreezing)

Kurt Lewin refers to this stage as freezing although a lot of people refer to it as 'refreezing'. As the name suggests this stage is about establishing stability once the changes have been made. The changes are accepted and become the new norm. People form new relationships and become comfortable with their routines. This can take time. Therefore in this stage, Mr. Fernando should provide support and training to the employees to adapt to the new system and if possible to celebrate success.



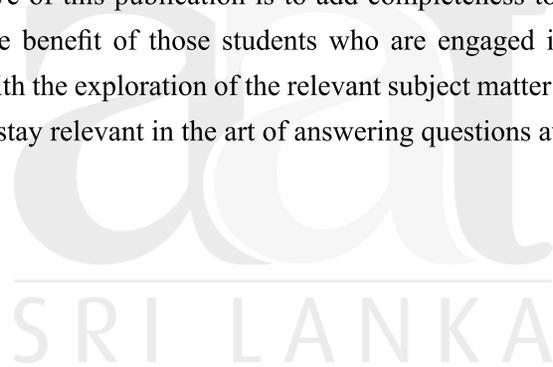
End of Section D

Notice :

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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

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.



© 2014 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)