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SRI LANKA

Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2019

Questions and Suggested Answers
Subject No. (AA26)

BUSINESS MANAGEMENT AND STRATEGY (BMS)

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION
AA2 Level Examination - January 2019
(AA26) Business Management ans Strategy
SUGGESTED ANSWERS

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

Suggested Answers to Question 01:

Question No.	Answer	Reference
1.1	(4)	Chapter 1 - Introduction to Business Management
1.2	(4)	Chapter 1- Introduction to Business Management
1.3	(1)	Chapter 1- Introduction to Business Management
1.4	(4)	Chapter 1- Introduction to Business Management
1.5	(3)	Chapter 9 - Organizational Communication
1.6	True	Chapter 1 - Introduction to Business Management
1.7	True	Chapter 5 - Organizational Decision Making
1.8	False	Chapter 9 - Organizational Communication
1.9	True	Chapter 9 - Organizational Communication
1.10	False	Chapter 11- Organizational Culture and its influence on Organizations

(02 marks each, Total 20 marks)

End of Section A

Five (05) compulsory questions

(Total 25 marks)

Suggested Answers to Question 02:

Chapter 2 - Historical Perspectives of Management

2 Principles of Management by Henry Feyol

1	**Authority and Responsibility**	Authority is the right to give orders and the power to extract obedience. A manager has official authority because of position, as well as personal authority based on individual personality, intelligence and experience. The responsibility is the obligation of employees to perform assigned tasks. Therefore authority and responsibility should be consistent.
2	**Discipline**	Obedience and respect within an organization are essential. Good discipline requires managers to apply sanctions whenever violations become apparent.
3	**Unity of command**	An employee should receive orders from only one superior
4	**Unity of direction**	Organizational activities must have one central authority and one plan of action
5	**Subordination of individual interest to general interest**	The interests of one employee or group of employees are subordinate to the interests and goals of the organization. This is necessary to maintain unity to avoid friction among the employees.
6	**Remuneration of personnel**	Salaries – the price of services rendered by employees should be fair and provide satisfaction both to the employee and employer
7	**Centralization**	The objective of centralization is the best utilization of personnel. The degree of centralization varies according to the dynamics of each organization.
8	**Scalar chain**	A chain of authority exists from the highest organizational authority to the lowest ranks
9	**Order**	Organizational order for materials and personnel is essential. The right materials and the right employees are necessary for each organizational function and activity.
10	**Equity**	In organizations, equity is a combination of kindliness and justice. Both equity and equality of treatment should be considered when dealing with employees
11	**Stability of tenure of personnel**	To attain the maximum productivity of personnel, a stable work force is needed
12	**Initiative**	Thinking out a plan and ensuring its success is an extremely strong motivator. Zeal, energy and initiative are desired at all levels of the organizational ladder.
13	**Esprit de corps**	Teamwork is fundamentally important to an organization. Work teams and extensive face-to-face verbal communication encourages teamwork

(05 marks)

Suggested Answers to Question 03:

Chapter 3 - Contemporary Management Perspectives

1. In-house training of managers.
2. Consensual and decentralized decision-making.
3. Extensive use of quality control methods.
4. Carefully codified work standards.
5. Emphasis on creating harmonious relations among workers.
6. Lifetime employment and seniority-based compensation.

(05 marks)

Suggested Answers to Question 04:

Chapter 10 - Organizational Controlling

Steps of Controlling Process

1. **Establish standards to measure performance.**

   Within an organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities. Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criteria for judging the performance.

   Standards are generally classified into two:
   - Measurable or tangible standards - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   - Non-measurable or intangible standards - There are standards which cannot be measured monetarily.
     For example, performance of a manager, deviation of workers, attitudes of employees towards management etc. can be considered as intangible standards.

   Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. **Measure actual performance.**

   Most organizations prepare formal reports of performance measurements that managers review regularly. These measurements should be related to the standards set in the first step of the control process.

   Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Most of the time qualitative measurements relating to performances of managers are difficult to be measured.

   It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports

3. Compare performance with the standards.

This step compares actual activities to performance standards. Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- Extent of deviation and Cause of deviation.

Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. They have to find out those deviations which are critical and important for the business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon seriously. Therefore it is said, "If a manager controls everything, he ends up controlling nothing."

4. Take corrective actions.

When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step—take corrective action. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative.

Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here:
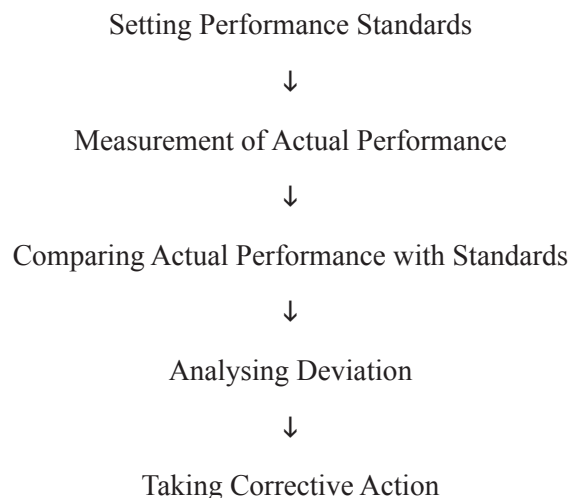- Taking corrective measures for deviations which have occurred; and
- After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets.

It is here the controlling process comes to an end. This step is an important step because it is only such steps which manager can take corrective actions over the deviations.

Finally managers should understand that these steps must be repeated periodically until the organizational goal is achieved.

(05 marks)

Alternative Answer

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Setting Performance Standards

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Measurement of Actual Performance

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Comparing Actual Performance with Standards

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Analysing Deviation

↓

Taking Corrective Action

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Suggested Answers to Question 05:

Chapter 11 - Organizational Culture and its influence on Organizations

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1) **Consistent communication**

The cultural principles of the entity must be communicated consistently by the leadership and demonstrated on a daily basis. Also, it is highly vital that the leaders are proactive and a role model. People are highly unlikely to willingly follow a leader who does give thought to the concern of his subordinates. Internal newsletters, business planning processes and company awards all needed to be structured around the principles which the company operates on the short, medium and a long term basis

2) **Celebrate success**

The primary factor to maintaining cultural momentum has been providing all employees with a line of sight on every success the company achieves. Success requires celebration throughout the organization, and it is the duty of the company management to acknowledge and appreciate the efforts of a given team or department responsible for the achievement of goals. A leader must have the good sense to make these successes about his people, not himself. Celebrating success drives the esprit de corps and a pride that enhances the quality of the work a company does and will stimulate the employees to work even harder with enhanced motivation.

3) **Be transparent**

Companies need to be transparent in their strategic planning and how they treat their employees. The more a company shares information, the more employees feel like a team and have a shared responsibility over the success of the company. This provides a sense of belonging and wellbeing. This transparency should even extend to lessons about the failures as they are the pillars of success. Leaders should talk about them and not cover them up.

4) **Respect everyone's contribution:**

Subordinates expect that the Leaders would be able to respond to their voice and opinion and accept their feedback and criticism. A good corporate culture also invests in the training and welfare of its staff and trusts what employees have to say. This rule of thumb must cascade from the most senior levels of the organization right down to the company mailroom. The contribution needs to be felt by the employees and this would as a result be respected positively.

5) **Continually benchmark the performance:**

Creating an excellent place to work cannot be done in a day, this should be done progressively. Every year you should enhance employee retention and satisfaction. There are different benchmarking methods; the company should be evaluated continuously for better performance. The company should have a crystal clear discussion about the outcomes to make developments.

(05 marks)

Suggested Answers to Question 06:

Chapter 13 - Corporate Governance and Corporate Social Responsibility

Criteria	Agency theory	Tewardship Theory
Behavior	Self-serving	Collective serving
Motivation	Economic needs, extrinsic	Growth, achievement, intrinsic
Social comparison	Other managers	Principle
Identification power	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, legal)	Personal (expert, referent)
Management philosophy	Control orientated	Involvement oriented
Time frame	Short-term	Long term
Objective	Cost control	Performance enhancement
Cultural differences	Individualism / high power distance	Collectivism/ low power distance

(05 marks)

(Total 25 marks)

End of Section B

Three (03) compulsory questions

(Total 30 marks)

Suggested Answers to Question 07:

Chapter 06 - Organizational Structure and Design

1. **Benefits of specialization:**

    In organizing, each work is divided into smaller jobs and one individual is assigned only one job according to his qualification. Such division of work leads to specialization.

2. **Clarity in working relationships:**

    Organizing function clearly defines the authority or power enjoyed by every individual. Everyone knows very clearly to whom he can give orders and from whom he has to receive orders. This also helps in the creation of managerial hierarchy.

3. **Optimum utilization of resources:**

    Organizing helps in proper usage of men, material and money. Jobs are properly assigned, so there is no confusion or duplication. This helps in minimizing the wastage of resources.

4. **Adaptation to change:**

    Organizing function helps in the creation of different departments and managerial hierarchy. This structure helps in adapting and adjusting to the activities in response to the changes in the external environment.

5. **Effective administration:**

    Organizing function provides a clear description of jobs, there is no confusion and duplication. Every individual knows his role and position very clearly. Thus, management becomes easy and this brings effectiveness in administration.

6. **Development of Personnel:**

    Through the organizing structure, mangers reduce their work load by assigning their routine jobs to their subordinates. This allows the manager to develop new methods and ways to perform the job. This also gives them the opportunity and time to innovate and thus help in strengthening the company's competitive position. Such delegation also develops the subordinate by giving them the ability to handle challenges and to realize their full potential.

7. **Expansion and growth:**

    With optimum utilization of resources, proper division of work and departmentalization, companies can easily meet the challenges and can expand their activities in a planned manner. They can easily add more job positions, departments, and even diversify their product lines. New geographical areas can also be added to increase sales and profits.

(6 marks)

(b)

| **Chapter 06 - Organizational Structure and Design** |

Advantages

- Better coordination and control
- Adaptable to dynamic environment
- Effective utilization of resources
- Sufficient time for top management with delegation of authority to project managers
- Excellence in inter disciplinary specialization
- Development of team work
- Improve skills of employees

Disadvantages

- Violation of unity of command
- Costly structure
- Problem of overspecialization
- Difficult to balance
- Feeling of insecurity
- Lack of coordination among separate functions

(4 marks)

(Total 10 marks)

Suggested Answers to Question 08:

(a)

| **Chapter 07 - Leadership** |

- **Directing Function**

  Leadership involves with the direction of followers in the groups. In this situation, leader should be a "visionary" leader and take necessary actions to direct his /her team to greatness

- **Communication Function**

  Leadership involves in communication function in which leader should effectively communicate important information to their followers. Therefore leader should be a good communicator

- **Motivational Function**

  Leadership involves with motivating team members. Therefore leader should be good motivator

- **Culture Building Function**

  As a function of leadership, leader should initiating to build appropriate culture within organizations. Therefore leader should be a role model to followers

- **Changing Function**

  Changing is a function of leadership. Therefore leader should be a change agent in the process of organizational change.

(6 marks)

(b)

> **Chapter 07 - Leadership**

Autocratic leaders:

Make decisions without consulting their teams. This style of leadership is considered appropriate when decisions need to be made quickly, when there's no need for input, and when team agreement isn't necessary for a successful outcome.

Democratic leaders:

Allow the team to provide input before making a decision, although the degree of input can vary from leader to leader. This style is important when team agreement matters, but it can be difficult to manage when there are lots of different perspectives and ideas.

(4 marks)

(Total 10 marks)

Suggested Answers to Question 09:

(a)

> **Chapter 08 - Motivation**

1) **Best utilization of resources: -** Motivation ensures best and efficient utilization of all types of resources. Utilization of resources is possible to their fullest extent if men are induced to contribute their efforts towards attaining organizational goals. Thus, people should be motivated to carry out the plans, policies and programmes laid down by the organization.

2) **Reduction in Labor Problems: -** All the members try to concentrate their efforts to achieve the objectives of the organization and carry out plans in accordance with the policies and programmes laid down by the organization if the management introduced motivational plans. It reduces labor problems like labor turnover, absenteeism, indiscipline, grievances, etc. because their real wages increase by the motivational plans.

3) **Sizeable increase in production and productivity: -** When motivated properly, people try to put efforts produce more, thus increasing their efficiency and as a result of this general production and productivity of the organization increase. They (motivated employees) use the methods, system and technology effectively in the best interest of the organization.

4) **Basis of cooperation: -** In a zeal to produce more the members work 'an s a team to pull the weight effectively, to get their loyalty to the group and the organization, to carry out properly the activities allocated and generally to play an efficient part in achieving the purpose which the organization has undertaken'. Thus, motivation is a basis of cooperation to get, the best result out of the efforts of human beings on the job.

5) **Improvement upon skill and knowledge:** - All the members will try to be efficient as much as possible and will try to improve upon the skill and knowledge to the progress of the organization which, in turn will provide the promised and more, ultimately enabling them to satisfy their needs - personal and social both.

6) **Reduction in resistance to change:** - New changes continue taking place in the organization. Normally workers are not prepared to accept any changes in normal routine. Where it becomes essential to bring in some changes because of the demand of time, employees can be made to accept such changes easily with the help of motivation.

(6 marks)

(b)

Chapter 08 - Motivation

(i) **Need for achievement.**

People with a higher need for achievement (nAch) aim to succeed and thus usually prevent both low-risk and high-risk circumstances. Achievers prevent low-risk circumstances because the easily accomplished success is not an authentic accomplishment. In high-risk tasks, achievers see the result as one of opportunity rather than one's own effort. High nAch people choose execute that has an average possibility of success, preferably a 50% opportunity. Achievers need regular reviews in order to observe the improvement of their success. They choose either to execute alone or with other high achievers.

(ii) **Need for affiliation.**

Those with a higher need for affiliation (nAff) need harmonious connections with other people and need to feel approved by other people. They usually comply with the standards of their execute team. High nAff people choose execute that provides significant individual connections. They execute well in client support and client connections circumstances.

(2x2=4 marks)
(Total 10 marks)

End of Section C

A compulsory question
(25 marks)

Suggested Answers to Question 10:

a)

Chapter 04 - Organizational Planning

(1) **Communication Barriers**

Verbal, Non-Verbal and written communication barriers lead for ineffective planning within the organizations. There are communicational gaps between the management and employer of Treats PLC. It affects for effective planning.

(2) **Fear**

Fear can be a barrier to effective planning. Employees of the Treats PLC do not like to move immediately to the computerized system. It may be fear for change. In effective planning fear should be removed from the employee when change is going to be introduced.

(3) **Insufficient Resources**

Treats PLC has a lack of competent employees to work in computerized environment.

(4) **Resistant to change**

It was stated that employees of the company are resistant to move all operations to the computerized system immediately. It is a barrier for effective planning.

(5) **Poor Leadership**

Poor Leadership could be identified as one of the barriers. This could be in terms of lack of necessary skills, talents and knowledge on business activities, and feeling of insecurity about the position. Poor leaders would not be able to collect required information for effective planning. Hence,poor leadership could be identified as a major barrier for effective planning.

(6) **Short sightedness**

Shortsighted behavior or lack of forethought can cause executive managers to stop in their tracks. For example,only focus on current projects rather than focusing on long term goals and future growth and profitablity.

(7) **Negativity**

Lack of positive thoughts,ideas and suggestions on future business ativities would be a barrier to effective planning.

(8) **Lack of Creativity**

Lack of creativity goes hand in hand with poor leadership. Employees feel that they cannot work properly and it affects effective planning.

(08 marks)

b)

Chapter 04 - Organizational Planning

- **Overcoming Uncertainty Barriers:**

  The Organization and Leaders should identify the strategic goal and facilitate it.

- **Overcoming Lack of or Limited Resource Barriers:**

  The Organization should identify the cause of the limited resources and select certain units within the company to carry out the planning process as opposed to the whole organization

- **Overcoming Lack of Standardization and Universal Communication Barriers:**

  All members of the organization should effectively communicate the goals and plans- it is important to commit to providing updates on a regular basis of how the process is going and what has been achieved.

- **Overcoming Motivation, Morale and Productivity Barriers:**

  Directors and Executive Managers of Organizations should make managers responsible for their outcome by allowing flexibility decision making and through employee reward and support behavior. Employees in decision making may help to reduce the resistance to change.

- **Provide Leadership:**

   Effective leadership will result in better implementation of the plan throughout the organization.

- **Manage the change process :**

  Effective change management is vital to effective implementations of plans.

(06 marks)

c)

Chapter 12 - Managing Change

1. **Education and communication** -

    In the education strategy, the management must educate the workforce as to why the changes are necessary. The change must be justified. The best way to achieve this is to clearly explain the benefits of the change to the company as well as to the workforce. Effective communication is also very important because rumours should not be allowed to circulate. Any change must be clearly communicated to all concerned at the earliest available opportunity.

2. **Participation and involvement -**

    In the participation strategy, the management must get the staff involved in the change process. If they are left out they begin to become suspicious. Therefore, management consults the staff and makes them stakeholders in the change process. Moreover, the staff may have good ideas which the management can use.

3. **Facilitation and support -**

In facilitation and support, techniques such as training, counselling are used to reduce fear and anxiety. Staff may lack confidence and they may feel they cannot work in a computerized environment. Training is designed to build up the confidence levels of staff.

4. **Negotiation and agreement -**

In negotiation strategy, the management will meet staff representatives to reach an agreement on critical issues. If an agreement is reached the staff will fully cooperate in implementation of the change.

5. **Manipulation and co-optation -**

Manipulation is an approach that relies on misleading information to the people resisting change. For example, the management might insist that the change may not lead to redundancy which may be untrue. Co-optation involves identifying key individuals resisting changes and buying them off by giving them positions of authority to help implement the changes.

6. **Explicit and implicit -**

Coercion Explicit and implicit and implicit coercion involves the use of force or the threat of force (intimidation) to enforce the implantation of change.

7. **Be upfornt with your people -**

As soon as the management is aware that change is afoot, they need to begin preparing the people in the company. One of the best ways to overcome resistance to change is to inform people about the change effort in advance.

8. **Keep the lines of communication open -**

Communicate often and regularly about the change within the company. Continually explain what the management want from the people within the business, and allow them to openly communicate their concerns, issues, fears, or perceived challenges related to the change.

9. **Be clear about the need for embracing the change -**

If people are showing resistance, speak openly and honestly to them about the issue. During a major company transformation it is not the time to "pussy foot around" and worry about further upsetting dissatisfied people. If you need them to embrace the change, it's important to communicate the importance to them and make sure that they understand the consequences to both themselves and to the company as a whole if they continue to resist.

10. **Allow accountability -**

We are all personally accountable for the manner in which we decide to handle change. It's important that each person understands that they are personally accountable for either stepping up or stepping out.

11. **Be Realistic -**

If people are putting up a lot of resistance to change, the likelihood is that this roadblock will always be there and hence, need to be realistic of the expectations of resistance.

d)

Chapter 14 - Strategic Intent of Organization

1. **Inbound Logistics** - involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.

2. **Operations** - are all the activities required to transform inputs into outputs (products and services).

3. **Outbound Logistics** - include all the activities required to collect, store, and distribute the output.

4. **Marketing and Sales** - activities inform buyers about products and services for inducing buyers to purchase them, and facilitate their purchase.

5. **Service** - includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

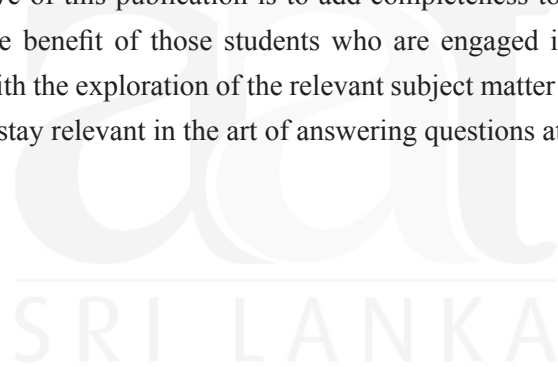*(08 marks)*

(Total 25 marks)

End of Section   D

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