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# **Business Management**

1<sup>st</sup> Year Examination

**August 2012**

**Paper, Solutions & Examiner's Report**



### NOTES TO USERS ABOUT THESE SOLUTIONS

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There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

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**Accounting Technicians Ireland**  
**1<sup>st</sup> Year Examination: Autumn 2012**  
**Paper: BUSINESS MANAGEMENT**

Wednesday 22<sup>nd</sup> August 2012 – 9.30 a.m. to 12.30 p.m.

**INSTRUCTIONS TO CANDIDATES**

**Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the required number of questions is answered, then only that number, in the order filed, will be corrected.**

**Candidates should allocate their time carefully.**

**Answers should be illustrated with examples, where appropriate.**

**Question 1 begins on page 2 overleaf.**

**SECTION A****Answer QUESTION 1 (Compulsory) in this Section****QUESTION 1 (Compulsory)**

- (a) A colleague of yours is working in the Brewing industry in Ireland. One of the speakers at a conference he attended recently suggested that Porter's Five Forces model is particularly suitable for analysing the structure of competition within an industry. He requested that you prepare a short note on the matter for him.

Prepare a short briefing note for your colleague on the following matters:

- (i) Describe each of the five forces identified by Porter for analysing the intensity of competition in an industry.

**10 Marks**

- (ii) Explain how Porter's five forces model might be used to analyse the structure of competition within the brewing industry in Ireland.

**10 Marks**

- (b) What is meant by the term "Direct Marketing"? Why is it important?

**5 Marks****Total 25 Marks****SECTION B****Answer any THREE of the six questions in this Section****QUESTION 2**

"Conceptually the change process starts with awareness for the need for change"

- (a) Identify and describe four macro-environmental factors driving the need for change at present, giving reasons in support of each.

**10 Marks**

- (b) Identify and explain four common sources of employee resistance to change and explain how these may be overcome.

**10 Marks**

- (c) "Leadership styles should be matched to situations" Do you agree? Give reasons in support of your answer.

**5 Marks****Total 25 Marks**

**QUESTION 3**

- (a) Distinguish the “new product development” process from a “product’s lifecycle”.  
**10 Marks**
- (b) Briefly describe the four elements of the Marketing Mix for products and comment on their relevance to marketing strategy.  
**10 Marks**
- (c) Distinguish between relationship marketing and transaction marketing.  
**5 Marks**
- Total 25 Marks**

**QUESTION 4**

- (a) Compare and contrast Maslow’s Hierarchy Theory of Needs with Alderfer’s ERG theory of motivation and comment on their relevance in today’s business environment.  
**10 Marks**
- (b) Describe four stages in the process of recruitment of a new employee.  
**10 Marks**
- (c) Describe two limitations of planning as a managerial function.  
**5 Marks**
- Total 25 Marks**

**QUESTION 5**

You are a marketing assistant in a well established national newspaper. Your Manager has recently heard of the PESTLE model and has requested you to explain how the “PESTLE” model may be used as a framework to identify the major changes that have taken place in this market in Ireland in recent years.

**You are required to:**

- (a) Prepare a short briefing note for your manager on the following matters:
- (i) Describe each element of the “PESTLE” model.  
**10 Marks**
- (ii) Using the “PESTLE” model identify four major macro-environmental influences that have had a major influence on the newspaper market in Ireland over the last five years, giving reasons in support of your answer.  
**10 Marks**
- (b) Explain what is meant by “Corporate Social Responsibility”? Why is it important?  
**5 Marks**
- Total 25 Marks**

**QUESTION 6**

**(a)** Describe each of the following types of information system, giving examples where appropriate.

- (i) Transaction Processing Systems
- (ii) Management Information Systems
- (iii) Decision Support Systems

**10 Marks**

**(b)** Briefly describe four steps in the Systems Development Life Cycle (SDLC).

**10 Marks**

**(c)** Explain how “Risk Mitigation” may be used in Information Systems security.

**5 Marks****Total 25 Marks****QUESTION 7**

**(a)** Describe three methods of capital investment appraisal.

**10 Marks**

**(b)** Explain how you would monitor the profitability and liquidity of an organisation.

**10 Marks**

**(c)** Explain what is meant by the “factoring” of debtors?

**5 Marks****Total 25 Marks**

# 1st Year Examination: August 2012

## Business Management

### Suggested Solutions

**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### SOLUTIONS TO QUESTION 1 (COMPULSORY)

##### PART A

(i)

Porter identified five forces that assist organisations in analysing the intensity of competition, profitability and attractiveness of an industry.

An understanding of these forces increases a managers insight into the nature and dynamics of the market place thereby facilitating the development of appropriate business and marketing strategies. The five forces are:

##### **Threat of new entrants**

There a strong relationship between barriers to entry and competition within an industry. The less complicated it is to enter an industry, the more aggressive the competition will be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

- Existing loyalty to major brands
- Incentives for using a major brand
- High fixed costs
- Scarcity of resources
- High cost of switching brands / companies
- Government restrictions or legislation

### **Bargaining Power of Suppliers**

This reflects the pressure suppliers can place on a business entity. If one supplier is large enough to affect a company's margins and purchasing volumes, then that supplier is in a position to exert considerable power. The bargaining power of suppliers is likely to increase where:

- Few suppliers of a particular product exist
- No substitute products are available
- Switching to another competitive product is costly
- The product is very important to buyers
- The supplying industry has a higher profitability than the buying industry

### **Bargaining Power of Buyers**

This reflects the pressure customers can place on a business. If a customer is able to make a significant impact on a company's margins and sales volumes, then that customer is in a position to exert considerable power. The bargaining power of customers is likely to increase where:

- A small number of buyers exist
- Buyers purchase large volumes of the product
- Switching to another competing product is simple
- The product is not important to buyers; they can do without the product for a period of time
- Customers are price sensitive

### **Availability of substitutes**

If the cost of switching to competitive products is low, then brand switching or switching to substitutes could be a serious threat. The threat of substitutes is likely to increase where:

- substitutes are perceived to have the same benefits
- substitutes are similar and can be viewed in the same light as a new entrant
- if significant price differentials emerge between substitutes and
- if products are equally available and accessible



**Competitive rivalry**

This depicts the intensity of competition between existing firms within an industry. Companies that are highly competitive generally earn low returns because the cost of competition is high. A highly competitive market may result from:

- Players within an industry that are similar in size; there is no dominant firm
- Little differentiation between competitor's products and services
- A mature industry with very little growth; companies can only grow by encouraging customers to switch from competitors.

| Marks Awarded                                  |
|--|
| 1.5 marks per force                            |
| 2.5 marks for overall quality and presentation |

**PART A (ii)**

Candidates were expected to explain how the model may be used to analyse the structure of competition in the sector.

**Barriers to entry / Threat of new entrants**

The industry is dominated by a small number of very large players. There are a number of barriers to entry such as legislative regulations (e.g. health and safety, promoting responsible drinking etc.) set up costs and customer loyalty. Brand loyalty, whilst strong in the case of certain brands, is naturally weaker as a result of the recession. Any new entrant would require considerable purchasing power to compete with the major players who currently dominate the market. (e.g. micro breweries would find it difficult to achieve the economies of scale of the larger breweries).

**Bargaining Power of buyers**

The market is characterized by a very large number of small customers and a number of large buyers. (e.g. supermarkets and off-license chains). Customer loyalty and tastes as mentioned above are quite variable. Some consumers remain very loyal to their brands while many other consumers are keen to try newer brands. Switching costs are minimal and with the onset of the recession customers have become more discerning and cost conscious. As a result brand loyalty is probably quite low at present and the price demand relationship is probably quite price elastic.

### **Bargaining Power of suppliers**

The sector is characterised by a large number of small suppliers. Produce availability is weather dependent and prices are influenced by global markets (wheat, oats and hops etc.) In many cases suppliers would not be in a hugely strong bargaining position relative to the large brewing companies. Bargaining power of suppliers of other resources varies with market structure (e.g. oil, electricity etc.).

### **Threat of substitutes**

Substitutes come in a number of forms. Huge growth has taken place in the range of products on offer within the brewing sector (alternative beers, foreign brands, home brewing kits) and in related drink areas (wine, alco-pops, non alcoholic drinks etc.)

Switching costs are negligible and with the continuation of the recession the threat from substitutes is high. However, these threats are generally countered by sponsorship arrangements and massive advertising campaigns designed by large brewerries to protect the recognition and position of their brands in the market place. (e.g. connecting brand images with life style options etc.)

### **Competitive rivalry**

Competitive rivalry is fairly intense between the major players in the Irish market at present. The intensity of competition is likely to deepen with the continuation of the global recession. Breweries are dealing with large commercial customers who are under pressure to offer competitive loss leaders.

Micro brewing is limited mainly to niche markets but is growing and exerting influence. Large breweries are likely to fend off such competition through strategic alliances with overseas breweries.

With quality levels between mainstream brands largely undifferentiated, price competition is likely to remain intensive.

| <b>Marks Awarded</b>                          |
|---|
| 2 marks per influence (of each force) – max 4 |
| 2 marks for overall quality and presentation  |

## **PART B**

Direct marketing can be described as the attempted sale of goods and services via direct contact with the prospective consumer. It usually requires an immediate response from the consumer, which differentiates it from other forms of communication. Direct marketing is often associated with mail order but there are many other direct marketing vehicles that can be selected by marketers. They include:

|                          |                       |
|--------------------------|-----------------------|
| ✓ Televised infomercials | ✓ Telemarketing       |
| ✓ Door-to-door selling   | ✓ Mobile marketing    |
| ✓ Newspaper inserts      | ✓ Catalogue marketing |

Direct marketing has grown considerably in recent years. A major contributor to this growth has been developments in technology. The use of sophisticated database technology has allowed marketers to closely align their communications to suit consumer's needs and wants. For example, the information captured by loyalty cards can in turn be used to produce personalised catalogues – this tactic is used by most major retail stores. Other reasons for the growth of direct marketing include:

|                                  |   |
|----------------------------------|---|
| ✓ Database technology            | ✓ Media fragmentation (i.e. there are a lot more media channels for consumers to choose from today) |
| ✓ Analytical software            |   |
| ✓ The creation of consumer lists |   |

Financial institutions such as retail and commercial banks, insurance companies and investment houses typically use direct marketing. This is essential as it allows them to customise their financial offerings per consumer – taking into account each consumer's financial situation. Marketing literature in this regard can be personalised and made attractive to the consumer's individual preferences.

| Marks Awarded  |
|--|
| 3 marks for quality of explanation<br>2 marks for relevance / importance |

**SOLUTIONS TO QUESTION 2****PART A**

There are many reasons driving organizational change. Some are more subtle than others and in many cases they are often hard to predict.

|                       |   |
|-----------------------|---|
| Changing economies    | Changes in domestic and international markets can inhibit operations greatly. We just have to think of the impact of the property bubble, the credit crunch and oil prices on businesses here at present.   |
| Changes in technology | Changes in innovative ways of doing jobs have a major impact on organizational processes and structures. Just think of the impact of the Internet on interactions with customers in banks and the move to shared services in large organizations. |
| Changing laws         | Changes in Government laws and policies affect businesses in dramatic ways. e.g. European Union directives on workers' rights, smoking ban, packaging, procurement etc.   |
| Changing competition  | Changes in competition occurs in a number of ways for example via globalisation – the increasing presence of large foreign retail chains in Ireland or through privatization of public services etc.  |

**Marks Awarded**

2 marks per factor – max 4

2 marks for overall quality and presentation

**PART B**

Resistance to change can take many forms; it may be active and overt, or passive and covert. It can occur at all levels for a wide range of reasons. It may relate to tasks, processes or relationships. It tends to be most pronounced when the organisation is undertaking changes in direction and / or in the services / products it provides.

There may be resistance to change from individuals or groups within the organisation. Individuals may feel their working habits are being disrupted or that they are not being adequately briefed, involved or compensated etc. Likewise sections of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on. Employees may resist change therefore for a number of reasons ranging from self-interest, fear, group pressure and / or inertia.

Self interest – employees typically resist a change they believe will take away something of value to them. (e.g. economic issues, status or autonomy). They seek to preserve these items of value for their own reasons and agendas and may therefore become resistant to change.

Fear – uncertainty is one of the outcomes of change. This can lead to a fear of failure associated with learning new ways. The psychological security associated with tried and tested ways is removed leading to perceived loss of predictability associated with new roles, responsibilities, position in the new organisational order, financial fears, redundancy fears etc.

Group pressure – pressure to resist change may come from peers. It may take on a collective dimension when people share a common sense of unease or fate or sense of collective injury. These perceptions of the reality surrounding the change process must be taken into account when effecting change.

Inertia – this captures the type of resistance associated with a reluctance to give up traditional ways of doing things. Individuals may feel their working habits are being disrupted or that they are not being adequately compensated etc. Areas of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on.

There are many strategies that management may employ to overcome resistance to change. Much depends on the type of change that is being initiated and the timeline in which it is to be achieved.

Lewin suggests that “any situation” at any time is not static but is subject to the interplay of a series of countervailing forces. He suggested that managing the change process involves three stages – unfreezing, changing and re-freezing.

Kotter likewise argued that certain stages were critical to change management. He suggested firstly that a climate for change must be created. This means increasing the urgency of the need for change, building teams to address the change and creating a long-term strategic vision of where the change is likely to take the firm and its employees. This stage is critical as it is here where resistance to change occurs.

Secondly, management must engage and enable employees and foster commitment to change. This is often seen as a highly political approach in that it involves a number of people working together to accomplish an objective. Kotter's advice is to form a guiding coalition to direct the change process. He refers to it as a coalition because he believes various stakeholders should be included in the change process.

The final stage is what Kotter describes as a process for leading, not managing, change. This is about grounding the changes in the company culture and sustaining those changes for the long term. Kotter suggests that leadership, as opposed to management, is the way to implement such changes effectively.

Overall we can see that various strategies may be employed to overcome resistance to change, some of which may be summarised as follows:

- ✓ Avoid surprises
- ✓ Promote understanding
- ✓ Promote positivity
- ✓ Change incrementally
- ✓ Use coercion
- ✓ Educate staff
- ✓ Communicate regularly
- ✓ Promote participation
- ✓ Support staff through process
- ✓ Negotiate and seek co-operation

| Marks Awarded   |
|---|
| 2 marks per source (1 – identification 1 - explanation) – max 4 |
| 2 marks for how they may be overcome                            |

**PART C**

Fiedler suggests matching relationship orientated leadership styles and task orientated leadership styles to situation favourableness improves overall group performance. He argues that leader-member relations, task structure and position power give rise to different levels of situation favourableness. He suggests task orientated styles are most appropriate when situations are highly unfavourable or highly favourable. He further suggests that relationship orientated styles are likely to be suitable when situations are moderately favourable.

Fiedler defined situation favourableness as the degree to which a particular situation either permits or denies the leader the chance to influence the behaviour of group members. In highly favourable situations, leaders find their actions influence followers, but in highly unfavourable situations leaders have little or no success influencing the people they are trying to lead.

Three situational factors determine the favourability of a situation; leader member relations, task structure and position power. The most important situational factor is leader-member relations, which refers to how well followers respect, trust and like their leaders. When leader member relations are good, followers trust their leader, and there is a friendly work atmosphere. Task structure is the degree to which the requirements of a subordinate's tasks are clearly specified. With highly structured tasks, employees have clear job responsibilities, goals and procedures. Position power is the degree to which leaders are able to hire, fire, reward and punish workers. The more influence leaders have over hiring, firing rewards and punishments, the greater their power.

In general, this theory suggests that leadership styles can be matched to situations. Empirical evidence would seem to provide some support for the theory, although it is still a generalization and each situation is unique and has to be dealt with on a case by case basis.

| <b>Marks Awarded</b>  |
|---|
| 1 mark for conclusion (Conclusion offered)  |
| 2 marks for reasons (1mark each)  |
| 2 marks the overall quality of the answer (Engagement with theme / Conclusion well supported) |

**SOLUTIONS TO QUESTION 3****PART A**

New product development is the term used to describe the complete process of bringing a new product or service to the market place. It is suggested that it consists of seven sequential steps

**1 Idea generation**

This is a process of brain storming whereby companies generate new product / service ideas and possibilities

**2. Screening of ideas**

This involves assessing whether the new ideas match organisational objectives / resources

**3. Concept testing**

This is a process whereby an organisation seeks potential buyers responses to a new product idea.

**4. Business analysis**

This involves an evaluation of a product idea to determine its potential impact on sales, costs or profits

**5. Product development**

This is the process whereby the company determines the technical and financial feasibility of the product / service proposal

**6. Test Marketing**

This involves the introduction of the product on a test basis in geographic areas chosen to represent the intended market for the product.

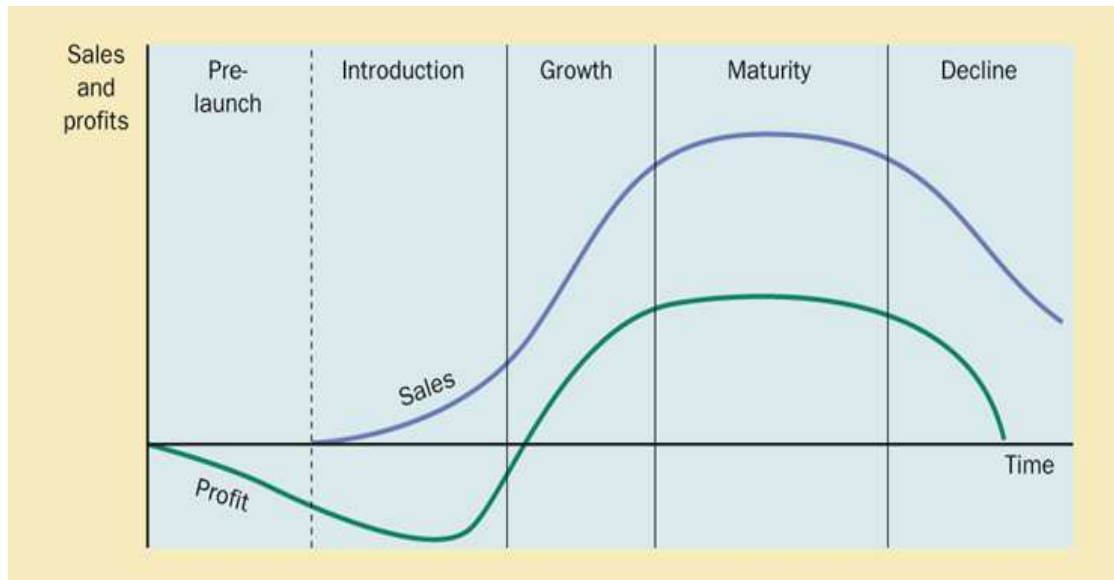
**7. Commercialisation**

The process of refining and implementing plans for the full scale manufacturing and selling of the new product.



## The Product Life Cycle

All products have a life cycle - this model includes four stages through which individual products develop over time and extends from introduction to obsolescence. The pre-launch stage (as seen in diagram below) refers to the marketing activities prior to the launch or commercialisation of the new product.



### Introduction

- Low sales & high costs as the product is being introduced to the market
- Competition is limited
- Customer type is known as an innovator
- Core objective is to generate awareness among the target audience

### Growth

- Rising sales, costs declining and profits being achieved
- Growing number of competitors entering the market
- Customer type is known as an early adopter
- Core objective is to increase demand in order to increase market share

### Maturity

- Sales & profits reach their peak, cost per customer is low
- Competition is intense
- Customer type is known as middle majority
- Core objective is to maximize profit and maintain market share

**Decline**

- Sales & profits decline
- Number of competitors have reduced
- Customer type is known as a laggard
- Core objective is to exploit the brand

| Marks Awarded   |
|---|
| 5 marks – quality of description of new product development process |
| 5 marks – quality of description of product life cycle              |

**PART B**

Kotler (2007) defines the marketing mix as ‘the set of controllable tactical marketing tools - product, price, place and promotion - that the firm blends to produce the response it wants in the target market’. It is important to be familiar with the elements associated with each one of the marketing mix variables.

The 4Ps of the marketing mix are product, price, place and promotion. The marketing mix may be viewed as “the strategic combination of product decisions with decisions regarding packaging, pricing, distribution, credit, branding, service, complaint handling and other marketing activities”.

**The first P to be analysed is Product.** Designing products of high quality and high-perceived value added to the consumer is a vital part of any business. Marketers must communicate with consumers and constantly adapt the product to changing market demands. Rather than ask consumers how they wanted computer applications to be designed some engineers would tend to ask their fellow employees what they thought the customer wanted. (Next bench syndrome).

Many factors have to be considered at the product level

- the range of products to satisfy the different segments of the market
- the intangibles as well as the tangibles consumers evaluate when buying a product
- Product differentiation – how to promote the product’s distinguishing characteristics
- differences between consumer and industrial markets
- branding

**The second P to be analysed is Price.** The main issues to be analysed are how price is to be used as a competitive tool, what are the determinants of price and what pricing methods and tactics marketers can use.

Price is a critical factor of the marketing mix, that is, it is the only factor that produces revenue. Many firms base their pricing policy on cost factors alone, and do not take into account the dynamics of the market. In the market a product may be successful at a certain price but not at another.

There are many factors, which determine the price of a product

- market structure
- economic conditions
- competitive conditions
- type of product – perishable or long lasting
- type of customer – disposable income bracket
- strategic objectives
- legal issues
- distribution channels

**The third P of the marketing mix to be analysed is Promotion**, which relates to all communications with markets and consumers, including promotional activity, selling and sales, and marketing research. The design of effective products, pricing and distribution strategies are redundant if the communication strategy is not well designed or the selling and sales strategy is not integrated.

The key issues to be addressed within Promotion and Communications are as follows:

- Promotion and promotion mix
- The Marketing Communications Process
- Marketing Research

Promotion is defined as “an attempt by marketers to persuade others to participate in an exchange with them”. The promotional mix is the combination of tools marketers use to promote their products and services and is made up of the following

- personal selling
- publicity
- public relations
- sales promotion
- advertising
- word of mouth

**The final P to be analysed is Place, or distribution.** Critical to the marketing process is the ability to physically get the product from where it was produced to a place where the customer can purchase, view or consume it most conveniently.

This involves setting up the most appropriate distribution channels, modes of transport, storage facilities and the management of a network of relationships with wholesalers and retailers.

The key issues in distribution from a marketing perspective are

- utility and marketing intermediaries
- physical distribution and logistics

- channels of distribution
- 

| Marks Awarded  |
|--|
| 2 marks per element (1 - description , 1 importance) - max 4 |
| 2 marks for overall quality and presentation                 |

**PART C**

Relationship marketing is a customer-centric strategy with the goal of maximising profitability, revenue and customer satisfaction. It involves building and maintaining profitable customer relationships by delivering enhanced customer value and satisfaction. Customers perceive “value” when they evaluate the difference between all the benefits and all the costs of a marketing offer. Customer satisfaction depends on the products’ perceived performance relative to a buyer’s expectations. The key is to match customer expectations with company performance.

In this regard companies should strive to institute customer loyalty and retention programmes in order to build relationships. These include:

1. Offering financial benefits, such as frequency programmes which can include air-miles, loyalty cards or money off vouchers
2. Offering social benefits, such as club marketing programmes
3. Offering structural ties such as offering free printers with computers or free CD’s with newspapers

Transactional marketing delivers the rational and functional basic components of value delivery. This type of marketing generates passive, transitory, and reactive relationships with the customer and tends to be short term in nature.

The characteristics of each approach may be summarised below:

| Characteristic                   | Transactional Marketing | Relationship Marketing |
|----------------------------------|-------------------------|------------------------|
| 1. Time orientation              | Short Term              | Long Term              |
| 2. Organisational goal           | Make the Sale           | Retain the Customer    |
| 3. Customer Service Priority     | Relatively low          | Key Component          |
| 4. Customer Contact              | Low to moderate         | Frequent               |
| 5. Degree of Customer Commitment | Low                     | High                   |

|                                |                           |                         |
|--------------------------------|---------------------------|-------------------------|
| 6. Buyer – Seller Interactions | Conflict & Manipulation   | Co-operation & Trust    |
| 7. Source of Quality           | Primarily from Production | Company-wide commitment |

| Marks Awarded  |
|--|
| 2 marks – quality of description of each (max 4 marks) |
| 1 mark for overall quality and presentation            |

## SOLUTION TO QUESTION 4

### PART A

Maslow's Need Hierarchy theory states that human motivation is dependent on the desire to satisfy various levels of needs and that the type of behaviour results from the nature of the particular need to be fulfilled at a given time. According to Maslow, five basic needs exist in a hierarchy from lower level deficiency needs to higher growth level needs. The five basic needs are;

**Physiological needs:** These needs relate to the basic survival needs which allow for continued existence, such as food, water and adequate shelter.

**Safety needs:** These needs relate to physical and psychological safety from external threats to our well being, such as the need for security and protection. These needs take effect when physiological needs have been met.

**Social needs:** This level of need relates to the need for company and companionship, and for a sense of personal belonging. These needs for personal contact and interaction with other people are triggered once physiological and safety needs have been met.

**Esteem needs:** This is the first level of growth needs, which relates to the need for a sense of self-esteem and a feeling of personal self-worth. They become salient once the first three levels of deficiency needs have been satisfied.

**Self-actualisation needs:** The final level in the hierarchy refers to the need for personal growth, and the development of one's full potential and capabilities. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled. The more they are satisfied the stronger the needs become.

| <i>Benefits of Model</i>   | <i>Limitations of Maslow</i>   |
|--|--|
| <ul style="list-style-type: none"> <li>• Model allows managers to identify the motivations of employees.</li> <li>• Allows for classification of biogenic versus hedonic needs - i.e. separate physical and emotional motivations.</li> <li>• Self-actualisation concept can be applied in workplace scenarios through career and personal development.</li> </ul> | <ul style="list-style-type: none"> <li>• The model is too simplistic and generalised.</li> <li>• The model looks at basic needs and doesn't consider many other facets of human experience (i.e. aesthetics).</li> <li>• Model does not consider culture.</li> <li>• One may satisfy a higher level before a lower level (i.e. experience achievement before love).</li> </ul> |

Alderfer's ERG theory of motivation builds on the work of Maslow. It proposes that needs are not necessarily hierarchical in the strict Maslow sense. ERG positions its elements as simultaneous needs and is arguably more accurate. Needs are seen to be concurrent rather than layered. Existence refers to the physiological and safety needs (levels 1 and 2 of Maslow). Relatedness refers to social and esteem needs and Growth refers to internal esteem and self actualisation needs.

It simplifies Maslow's theory. On the other hand it may be seen as overly simplistic. Motivation is a complex concept. There are a variety of factors which influence the meanings people give to a situation and which prompt them to act in particular ways.

Similarly, there is no one universally accepted theory of motivation. Broadly speaking the theories, may be categorised into two groups; content and process theories of motivation. Both of the above theories fall into the first category. They assume needs are the most important determinant of an individual's level of motivation. Process theories seek to establish not only what people want from their work situations, but how they believe they can achieve it and what influences the process. These theories focus on the dynamic of how people decide what motivates them. (e.g. their beliefs in the equity of the process and its capacity to deliver on the expectancies that it generates).

Both of these theories, like most theoretical frameworks, do not necessarily hold for all people in all situations. People's needs vary from individual to individual, from culture to culture and there is a temporal dimension to motivation in that different needs will assume varying degrees of importance at different stages of peoples lives. No one theory of motivation covers all of the complexities of reality, but in appropriate conditions and circumstances, and in the present climate in particular, both of these theories have a significant part to play in the way motivation is conceptualised and understood.

| <b>Marks Awarded</b>                             |
|--|
| 4 marks – quality of description of each (max 8) |
| 2 marks - importance                             |



**PART B**

Employee recruitment is the process of obtaining a sufficient number of the right people at the right time to best meet the needs of the organisation. It involves finding, hiring and holding onto people who can satisfy the technical, educational and social needs of the organisation. Recruitment relies on a number of sources, including internal promotions, advertisements, employment agencies, management consultants, and so on. The process is comprised of a number of distinct stages

1. Manpower planning / Needs analysis
2. Job description – responsibilities defined
3. Attributes & aptitudes required
4. Conditions established – terms and conditions
5. Job advertisement drawn up
6. Advertised internally
7. Advertised externally
8. Short listing
9. Interview and other selection procedures
10. Offer made
11. If accepted unsuccessful candidates notified
12. Induction and training

A short description of a selection of stages is set out below.

**Need Analysis**

This stage of the process is concerned with estimating the quantity and quality of human resources required to meet the objectives of the organisation. It is based on a thorough understanding of organisations strategy and its implications for the workforce, planned technological changes, a detailed inventory of employee characteristics (age, sex, marital status, tenure, skill level, qualifications, promotion potential and performance levels) and attrition rate.

**Job Description**

This involves specifying the job and what the job demands in terms of employee behaviour. It is a statement of the main tasks of the job. It is clearly an important aspect of the background stage of recruitment, because the ideal individual is derived from the contents of the job description. If an inaccurate job description is prepared, then the individual characteristics subsequently specified may also be inaccurate or inappropriate.

### Attribute and Aptitudes required

The may also be called the person specification. It details the skills, qualification, knowledge and experience the individual should possess in order to best match the job. The person specification may often distinguish between those characteristics considered essential and those considered desirable. Among the things it might take account of are:

- attainments, education/ qualifications / experience
- general intelligence
- special aptitudes
- interests
- motivation
- adjustment

### Advertising

Equipped with a job description and a person specification, the task now becomes one of attracting a pool of potential candidates. In considering possible sources of labour, we must consider internal and external sources. Internal sources may come from transfers or promotions. Potential external sources include colleges, Institute's of Technology, Universities, employment agencies and management consultancies and executive search agencies.

Each of these sources should be evaluated, particularly with respect to their suitability to yield the right candidate, and the costs involved.

### Selection

The selection process effectively begins when application forms / CV's are received. Selection tools available to organisations range from the more traditional methods of interviews and references, through to the more sophisticated techniques, such as biographical data, aptitude tests and psychological tests.

The interview is widely held to be the most commonly used selection technique. Often described as a conversation with the purpose, it may take a number of different forms. The three most common types are one-to-one interviews, panel interviews and group interviews / assessment.

| <b>Marks Awarded</b>                         |
|--|
| 2 marks per stage – max 8                    |
| 2 marks for overall quality and presentation |

**PART C**

Planning may be defined as

*“...the systematic development of action programmes aimed at reaching agreed-upon business objectives by the process of analysing, evaluating and selecting among opportunities that are foreseen. It is the process of determining exactly what the organisation will do to accomplish its objectives.”*

Planning incorporates defining the organisation’s objectives, establishing an overall strategy, and developing a comprehensive hierarchy of plans to integrate and co-ordinate actions within a company. It is concerned with ends (what is to be done) and with means (how it is to be done).

|   |
|---|
| Limitations of planning   |
| Can create rigidity and inflexibility as there may be a tendency to be locked into specific goals and timetables                          |
| Inflexible planning will make it much harder to deal with turmoil internally and externally   |
| Planning functions often assume that the environment won’t change over the course of the plan   |
| Formal plans cannot replace intuition and creativity  |
| Successful plans may produce a false sense of security  |
| There may be internal resistance to formal planning due to factors such as conflict, distribution of power, relationships and uncertainty |
| Planning can be expensive both in terms of time and money   |

**Marks Awarded**

2 marks per limitation – max 4

1 mark for overall quality and presentation

**SOLUTIONS TO QUESTION 5****PART A (i)**

PESTLE analysis is a technique for analyzing the macro environment of an organization under the following headings – political, economic, socio-cultural, technological, legal and environmental considerations.

Analysis of the Political environment involves considering the impact of changes in taxation requirements, safety regulations, consumer protection legislation, parties in Government, EU developments etc.

Consideration of the levels of demand within the economy, interest rates, foreign exchange rates, grants, inflation etc. are indicative of the economic variables to be monitored and considered.

The Socio-Cultural environment encompasses issues of a demographic nature, such as, changes in the structure of the population – age, gender, income distribution, emigration etc.; and issues of a cultural nature, such as, language, customs, religion etc.

The Technological environment includes consideration of the threats and opportunities arising from IT and scientific developments in various areas.

Organisations must be aware of the legal parameters of their markets and operating environments including issues related to employment law, contract law etc.

Increasingly organizations are developing strategies to minimize the effects their operations have on the ecological systems etc.

| <b>Marks Awarded</b>                        |
|---|
| 1.5 marks per element                       |
| 1 mark for overall quality and presentation |

**PART A (ii)**

Many factors have had an impact on the Newspaper industry over the last five years. A number of these are set out below:

**Technological factors**

Growth in the use of the Internet and mobile computing has had a profound effect on the newspaper market over the last number of years. Not only must newspapers have an on-line presence, they have witnessed an increasing number of their readers opting for the on-line version and not purchasing the hard copy version of their newspapers.

Growth in mobile technology and on-line news channels etc. has also had a corresponding effect on readership numbers.

**Economic**

The economic recession and the accompanying austerity measures have significantly affected levels of disposable income and likewise money available to purchase newspapers. The recession has also significantly affected economic activity and the general level of Corporate Advertising spend. In addition costs associated with print productions are increasing.

**Legislation**

The recent revelations surrounding the phone hacking scandal in the UK and overseas has challenged the trust readers have placed in news reporting and the quality and reliability of the methods used to generate stories and the standards in general in the profession. These inquiries and investigations have damaged the industry.

**Socio Cultural factors**

The growing diversity of the composition of the population has changed the level of interest in newspapers. Many different communities now exist in Ireland and have an interest in newspapers that reach the needs of their community. Our broadsheets and the “celebrity culture” associated with our tabloids has little appeal to many of their needs.

| <b>Marks Awarded</b>                         |
|--|
| 2 marks per influence – max 4                |
| 2 marks for overall quality and presentation |

**PART C**

Corporate Social Responsibility (CSR) refers to the voluntary actions that businesses may undertake over and above compliance with the minimum legal requirements to address both its competitive interests and the interests of the wider community. It can be characterised as the concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders on a voluntary basis.

A firms' obligation to its publics is seen to extend beyond the legal responsibility to comply with legislation. Instead firms voluntarily take further steps to improve the quality of life for employees and their families as well as for the local community and society at large.

Firms' should engage in CSR to ensure they gain social acceptance through ethically responsible behaviour. Not engaging sufficiently with CSR is not only potentially damaging to the firm's reputation but also to the sustainability of long term growth and development.

| <b>Marks Awarded</b>               |
|------------------------------------|
| 3 marks for quality of explanation |
| 2 marks for relevance / importance |

## SOLUTIONS TO QUESTION 6

### PART A

Transaction processing systems (TPS) are information systems which exist to support the day to day, or week to week, processing and recording of routine business transactions such as Orders, Despatch Notes and Invoices. (e.g. cash registers, atm's , sales order processing systems etc.). Transaction processing systems are primarily used by operational managers. However as TPS store the pool of information in databases which may be accessed and manipulated in a manner which provides meaningful insights that guide management decision-making, they may be used indirectly by all levels of management.

They are generally designed to work with high volumes on a "real time" basis. (e.g. online cinema seat sales, or on line airline ticket sales). They form the backbone of the entities information processing systems and need to be fully secure and functional at all times.

**Management information system (MIS)** are systems which produce and present information in order to satisfy the information needs of managers at various levels in the organisation. They are systems that analyse/summarise existing data (usually from a database) and produce reports for management-level staff. The reports generated by an MIS are usually:

- Periodic (e.g. a monthly sales report for the Galway branch)
- Demand (e.g. an updated class attendance sheet showing all registered students)
- Exception ( e.g. a report showing all rejected / refused credit card transactions for the last month; or a report showing all accounts more than two months overdue)

Management are tasked with making the decisions that will decide how the business will operate in the foreseeable future. They need to be able to drill down into existing data sources to the level of detail required for the purpose. (e.g. to be able to view sales by product, region, salesperson or some combination of these).

**Decision support systems** are complex systems used to help managers make non-routine decisions. They generally consist of a "model" based on past experience. Users can then use expected data (e.g. projected sales for next year), to generate estimates for other factors (e.g. projected profits, etc.)

DSS's use various types of analysis, like "what if" (i.e. change in one element of the model and see what happens to the result), and "sensitivity" (i.e. make small changes to one element and see what happens to another element).

A spreadsheet model can be used as a simple but effective Decision Support System.

| Marks Awarded                                   |
|---|
| 3 marks for quality of description of each type |
| 1 mark for overall quality and presentation     |

## PART B

Systems are generally developed following a 'life-cycle' known as the SDLC (Systems Development Life Cycle). The main stages of the lifecycle are:

1. Feasibility Study
2. Requirements Analysis (or systems analysis)
3. Systems Design
4. System Build
5. Implementation
6. Maintenance

### Feasibility Study

A feasibility study is conducted to determine whether a project is fundamentally worthwhile. There are many areas to consider when assessing the feasibility of a project, these include its economic feasibility, its technical feasibility, and its organizational and operational feasibility. The feasibility analysis provides a high level snap shot of the potential costs and benefits of the proposed system and the technical / organisational feasibility of the project. If the results of the analysis are favourable an explicit decision is made to proceed.

### Requirement Analysis

Requirements analysis involves assessing what is needed from the new system. This involves identifying the problems with the current system and identifying requirements to solve these problems. Several requirement gathering techniques are used here, including interviews, questionnaires, and direct observation.

### Systems Design

Systems design results in a technical design of the system to be produced, including outputs, inputs, screen layouts and hardware requirements. It is generally broken down into a logical design (what the system will do) and a physical design (how the system is to do it).



### System Build

Systems build involves programming the new system to the specifications produced at the design stage and then testing the completed system thoroughly. Best practice is to test during programming rather than waiting until everything is done, as errors are almost certainly going to occur. With large complex systems it is almost impossible to locate all the errors (known as 'bugs'), so very often the completed system will still have problems after it is released to the user. Hence the need for ongoing maintenance.

### Implementation

Implementation involves extensive User-IT co-ordination as the transition is made from the predominantly technical, IT-driven task of construction to the user-driven management of the completed system. Whether the system is bought or made, the implementation phase is very much a joint effort. Extensive testing, which disrupts normal business operations, must be performed; training is required, work procedures and communication patterns likewise are affected.

### Maintenance

Maintenance refers to any upgrading or 'fixes' made to the system after it is up-and-running on-site. Maintenance is usually either corrective (i.e. fix a problem that was not spotted before), adaptive (i.e. add a feature or modify the system slightly to improve it), or perfective (i.e. make the system faster, or able to cope with more users).

This model is used to demonstrate the stages that need to be included to produce the system required. It should be noted that at each stage there are decision points to ensure that the outcomes of work produced from each stage are correct before moving forward to the next phase in the lifecycle. In reality there is some iteration, where some work in a previous stage maybe revisited to ensure it reflects and meets the actual requirements before moving onto the next stages.

| Marks Awarded                                   |
|---|
| 2 marks for quality of description of each step |
| 2 marks for overall quality and presentation    |

**PART C**

Risk mitigation involves implementing controls that are likely to reduce/eliminate the risk AND developing some way of recovering the asset if a breach occurs (i.e. recognising that no security can be 100% perfect). This is often done through:

- ✓ Risk acceptance (i.e. continuing without controls and accept any loss that occurs)
- ✓ Risk limitation (implement some controls to reduce the threat)
- ✓ Risk transference (use some other means to compensate for any possible loss, e.g. insurance)

| <b>Marks Awarded</b>                        |
|---|
| 1 mark per relevant point (Max 4)           |
| 1 mark for overall quality and presentation |

**SOLUTION TO QUESTION 7****PART A**

Students are expected to demonstrate a full understanding of Payback, NPV and IRR

**Payback Period**

This is represented as a period of time; it is the length of time that it takes for an initial investment to be repaid from the resulting income that the investment will generate. Investments with a shorter payback period would normally be deemed to be more attractive.

It is easy and quick to calculate and is easily understood.

**Net Present Value**

The net present value method considers all costs and benefits of the project, and also takes into account the timing of these costs and benefits.

Timing is critical at this junction. Primarily due to inflation, the value of money changes with time. What is worth €50 now will probably not be worth €50 in 5 years time. So the net present value formula considers that if an outlay for a project occurs now, this should not be compared directly with future incomes as the value of money will have changed in the intervening period.

The Net Present Value method works out the present values of all cash inflows and outflows of an investment at a given target rate of return or cost of capital, and then works out a net total.

When the net present value is calculated, if it is positive then the project is acceptable, and the project with the highest value is the most acceptable.

**Internal rate of return**

This is very similar to the net present value in that it takes into account the change in value of money over time. Instead of providing a value of what an investment will produce, it gives it in percentage terms. It is the rate of return if the net present value of a project was zero. It equates the present value of inflows with the present value of outflows and represents the projects return in % terms.

There are various ways to appraise the suitability of a capital investment. The finance function will have to determine what level of funds are available, what project opportunities are available, which ones to select, and how to monitor and control the selected project.

| <b>Marks Awarded</b>                              |
|---|
| 3 marks for quality of description of each method |
| 1 mark for overall quality and presentation       |

**Part B**

Cash is the lifeblood of any business. Profitability is a close second. If we are to survive and thrive we need to have mechanisms to monitor these two important dimensions of our activities.

Liquidity is generally monitored through short term cash budgets and profitability via monthly accounts. It is vital that we plan our cash requirements and ensure we have funds on hand to meet our needs. Likewise it is vital that we know the sections of our business that are working (e.g. In a hotel – are each of the following segments profitable – accommodation, food, bar etc) and those that are a drain on our resources.

Many of the activities in our business could easily run out of control. Food, for example, could be pilfered or wasted.

A system of budgetary control is a useful way to monitor a firm's profitability and liquidity.

Budgetary control refers to the analysis, recording and reporting on the activities and financial well being of the organisation. It involves forecasting likely outcomes of plans in an attempt to control the future for the organisation. It is a bread and butter activity for the financial team, in that it ensures effective monitoring of current activities, and gives invaluable information about performance in relation to plans.

Financial control of activities is vital to all organisations. Many smaller firms, for a variety of reasons, such as lack of expertise or over-trading, opt for informal rather than formal systems of control. This can be catastrophic for the small firm as the true performance or profitability cannot be gauged.

Budgetary control requires that realistic profit and loss and cash flow forecasts are prepared at the beginning of the period and that they be updated normally on a quarterly basis as the year progresses. Due care and consideration is required in interpreting variances from budget to ensure managers are held accountable for all those matters that fall within their sphere of control

The cash flow forecast may be used to determine if company borrowing is required or if surplus funds are likely to be available for re-investment. Comparing actual performance against forecasted profit and loss account projections allows management to monitor margins on a regular basis and to take appropriate corrective action before deviations become too serious.

Comparisons against budgets may be done in a number of ways but ideally it should be integrated with the system of responsibility accounting in place in the company – by department etc. Indeed it may be wise to prepare financial reports on a weekly basis should this be deemed necessary. It is also important to incentivise those with the authority to make decisions. (e.g. in the case of a restaurant one may link the Chefs bonus to the margin earned by the Food section etc.)

At a higher level rolling budgets should be in place whereby outturns for the year are updated on a quarterly basis.

| Marks Awarded   |
|---|
| 4 marks for quality of description for monitoring each type - Max 8<br>2 marks for overall quality and presentation |

### PART C

#### Factoring of debtors

Debtors factoring is a policy adopted by some companies for acquiring cash on the strength of their debtors' balances at a date earlier than credit terms would normally indicate. In conjunction with providing cash advances some factoring agencies offer sideline services such as accounting, book keeping and insurance against debt default. There are two main types of factoring

- Confidential invoice factoring
- Sales ledger factoring

#### Confidential Invoice Factoring

Under this method of factoring, the buyer of goods is unaware of any third party being involved. The client forwards a copy of all sales invoices to be factored. The factoring company in turn advances monies on the strength on these invoices. This form of factoring requires the company itself to collect the debts and forward the cash, when collected to the factoring company.

#### Sales Ledger Factoring

Under this method of factoring, the factoring company becomes responsible for credit control and debt collection. If required, for an additional premium, the factoring company will accept the risks involved pertaining to debt default.

| Marks Awarded   |
|---|
| 1 mark per valid point (Max 4)<br>1 mark for overall quality and presentation |

# 1st Year Examination: August 2012

## Business Management

### Examiner's Report

| <b>Statistical Analysis - By Question</b> |     |     |     |     |     |     |     |
|---|-----|-----|-----|-----|-----|-----|-----|
| <b>Question No.</b>                       | 1   | 2   | 3   | 4   | 5   | 6   | 7   |
| <b>Average Mark (%)</b>                   | 53% | 56% | 56% | 57% | 61% | 55% | 42% |
| <b>Nos. Attempting</b>                    | 170 | 73  | 108 | 103 | 137 | 66  | 28  |

| <b>Statistical Analysis - Overall</b> |                         |
|---------------------------------------|-------------------------|
| <b>Pass Rate</b>                      | 79%                     |
| <b>Average Mark</b>                   | 55%                     |
| <b>Range of Marks</b>                 | <b>Nos. of Students</b> |
| 0-39                                  | 30                      |
| 40-49                                 | 6                       |
| 50-59                                 | 62                      |
| 60-69                                 | 40                      |
| 70 and over                           | 36                      |
| <b>Total No. Sitting Exam</b>         | 174                     |
| <b>Total Absent</b>                   | 55                      |
| <b>Total Approved Absent</b>          | 10                      |
| <b>Total No. Applied for Exam</b>     | 239                     |

Overall performance was satisfactory in this autumn sitting.

#### Question 1

This was a compulsory question and attempted by practically all candidates. Overall it was well answered

Part (a) (i) Answers to this part in general were good. Whilst most candidates outlined the forces well, the description of the relationship between the forces and the intensity of competition could be have developed much better in a number of instances.

Part (a) (ii) Answers in as number of cases were very good. The application of the concept to the scenario could have been developed more comprehensively in a number of instances.

Part (b) Answers here in general were good but a number of candidates clearly did not understand the concept or its importance.

### Question 2

Part (a) was well answered by the majority of candidates. A wide range of factors driving change were identified by candidates.

Part (b) was very well answered with most students providing clear answers on the common sources of conflict in organisations. However, a number of candidates failed to explain how this may be overcome.

Part (c) Answers to this part were mixed. Whilst some candidates were clearly familiar with the literature on this theme, many answered the question in broad general terms.

### Question 3

Part (a) Candidates displayed a good understanding of the product lifecycle but answers on the “new product development” process were somewhat mixed.

Part (b) was very well answered. A small number of candidates referred to the marketing mix elements relating to services.

Part (c) Answers to this part were good in general but it was disappointing that a number of candidates failed to understand the distinction.

### Question 4

Part (a) was very well answered. Candidates displayed a good understanding of both theories and their relevance.

Part (b) Answers to this part were mixed and incomplete which was rather surprising.

Part (c) was well answered.

Question 5

A very popular question

Part (a) was very well answered.

Part (b) most candidates were able to relate the concept to the scenario in a clear manner.

Part (c) Candidates did well in this part.

Question 6

Part (a) Answers were generally good with many candidates providing good relevant examples to illustrate their understanding

Part (b) Answers to this part were good with most candidates providing comprehensive descriptions of each stage in the process.

Part (c) Most candidates focused on controls as opposed to risk mitigation.

Question 7

Part (a) Answers to this part were very poor with a number of candidates confusing capital investment appraisal with share and loan capital.

Part (b) Answers to this part were generally good.

Part (c) There were a number of excellent answers to this part.