

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Management	Final Examination - Summer 2008

Q.1 The Question on Franchise Arrangement was attempted by almost all the students. In essence, in a franchise arrangement one business entity who is the franchisor grants a license to another business entity called the franchisee to use the name, brand/trade mark of the franchisor and conduct the business in accordance with tested processes, methods, administrative and marketing techniques developed by the franchisor. A number of candidates did not identify the parties as franchisor and franchisee and erroneously illustrated the arrangement in the context of a partnership.

This part of the question specifically asked for the advantages which would accrue to the franchisee, viz

- investment by the franchisee in a proven business format and therefore elimination of the risks inherent in establishing a completely new business
- access to a well-known brand name which enjoys wide customer acceptance
- availability of guidance and advice on selection of project design and equipment according to pre-tested specifications of the franchisor
- responsibilities for purchase of inventories, staff training, marketing and advertisement are substantially assumed by the franchisor which enables the franchisee to concentrate on the day-to-day running of the business
- availability of sound managerial advice and expert guidance on overcoming any unforeseen business problems.

A number of the students who did not read the question carefully, mentioned the advantages from the franchisor's standpoint and therefore lost valuable marks.

Q.2 This Question pertaining to the preparation of a Mission Statement of a non-profit organization contained within itself all the vital information and candidates having an understanding of the concept of a Mission Statement were able to score satisfactory marks in spite of rather weak grammar and inadequate vocabulary. Some of the students attempted to explain the purpose and objectives of a Mission Statement which was not required.

Q.3 Most of the students described the Code of Ethics in a business environment quite satisfactorily and mentioned that it provides a guideline to the moral principles and values by which an organization conducts its business with respect to what is right or wrong. The Code of Ethics applies both to the organization as well as its employees in all spheres of their business dealings.

The replies to the part of the question relating to the advantages of adopting Code of Ethics were generally satisfactory as they adequately covered the following important elements:

- provides specific guidance to the employees of their responsibilities in their ethical conduct and behaviour
- enhances the organization's reputation and inspires confidence among the public
- creates a sense of awareness of the organization's expectations of appropriate conduct among all the stakeholders, including the management
- promotes a culture of excellence by demonstrating the organization's commitment to ethical behaviour

It was observed that some of the students repeated the same point(s) with variations in emphasis and usage of words.

Q.4 In this question the students were required to identify and explain the necessary steps to ensure that the Disciplinary Enquiry is conducted in a free and impartial manner and the final outcome is based on principles of equity. A substantial number of the students were unable to comprehend the basic requirements of the question and instead stated the various types of disciplinary actions/punishment on the premise that the charges against the Assistant Manager have already been duly established. However, quite a few replies were very well elucidated and adequately mentioned the following steps:

- (i) Obtain complete written evidence from the Branch Manager stating the specific nature of the Assistant Manager's misconduct, their dates and timings and names of the colleagues who had lodged the complaint.
- (ii) Acquire insight in the source of the problem from information obtained from complainants and other colleagues
- (iii) Investigate the Assistant Manager's personal record to ascertain if there are any evidences of indiscipline or aggressive behaviour in the past.
- (iv) Direct the Assistant Manager to give a written reply, offering his explanations to the charges leveled by the Branch Manager.
- (v) Conduct a meeting with the Assistant Manager in which he should be provided with an opportunity to explain his viewpoint and circumstances leading to the Branch Manager's complaint. Structure the enquiry and make noting of the key points covered in the meeting. The Assistant Manager should be informed of date, time and place of enquiry and the reasons why he has to appear for the enquiry.
- (vi) After hearing the Assistant Manager's explanation in an objective, fair and consistent manner, draw conclusions regarding the nature of the allegations and intensity of the misconduct.
- (vii) Examine similar cases in the past and the nature of punishment awarded to the defaulters.

- (viii) Prepare a comprehensive report on the allegations leveled by the Branch Manager and the replies of the Assistant Manager and on the basis of the findings, offer recommendations for the proposed line of action along with their rationale.

Q.5 In this question, the students were required to describe five core capabilities which are observed in all leading global business organizations. A number of students were unable to understand the precise requirements of the question and offered vague replies pertaining to the advantages of global business organizations engaged in the manufacturing of fast moving consumer goods. However, the well-formulated replies were able to mention the following core capabilities of leading global business organizations:

- in-depth knowledge of their products, their strengths and special customer service skills
- developed marketing skills by way of insight of consumer behaviour, market segments, share of the market and distribution channels
- capacity for innovation and research which is necessary for maintaining and consolidating of global leadership status in a highly competitive business environment
- creation and retention of a pool of talented and motivated management team and work force aligned with the strategic objectives of the organization
- financial resourcefulness with the ability to utilize the funds efficiently with sound planning and control structures
- assessment of strengths and weaknesses of competitors in different territories by way of their market share, competitive advantages and business strategies.

Q.6 This Question was designed to identify those areas of activities which an industry leader has to scan continuously to achieve economies in production and operating costs in order to maintain its competitive advantage. A significant number of the candidates who scored high marks covered the following important points:

- (i) exploring alternate sources of cheaper raw materials and components
- (ii) undertaking negotiations with existing suppliers of raw materials and components for obtaining more favourable terms
- (iii) relocating facilities to those areas which have lower costs
- (iv) improving capacity utilization to achieve economies in operating costs
- (v) improving worker and machine efficiencies
- (vi) re-engineering processes to bring cost reductions
- (vii) hiring contract workers with the objective to reduce costs
- (viii) outsourcing processes/manufacturing of components to low cost suppliers
- (ix) adoption of efficient inventory management practices such as just-in-time inventory management techniques.

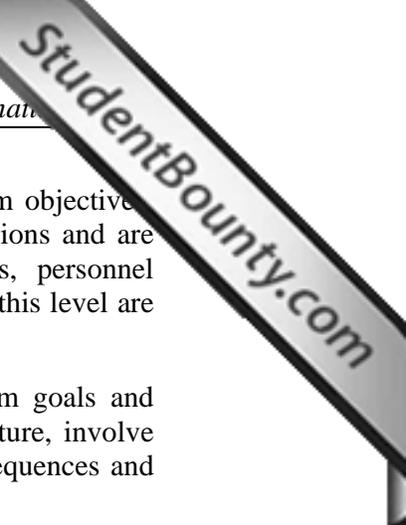
- Q.7 (a) This Question was based on international trade fairs and students were required to describe the advantages which companies expect to obtain by participation in these fairs. The widely accepted advantages of participation in international trade fairs are:
- (i) trade fairs serve as a vehicle for securing orders for the company's products
 - (ii) trade fairs help to create awareness of the products among prospective customers
 - (iii) participants from other countries may show interest in the products which may lead to sales and joint ventures in these countries
 - (iv) participation in trade fair would lead to contacts and opportunities for appointment of agents and distributors in Sri Lanka

A number of students offered other logical reasons and were able to earn marks.

- (b) The replies to the part of the question relating to reasons for entering into international alliances were quite satisfactory as they covered the key points such as gaining access to foreign markets, more effective utilization of complementary facilities, sharing of research costs, business risks and different skills and abilities. International alliances can also help to achieve certain important business objectives without seeking ownership of overseas operations.

The replies to the question regarding examples of industries in which international alliances were common showed awareness among the students and pharmaceuticals, airlines and banking sectors were mentioned in a number of the replies.

- Q.8 (a) In this question, students were expected to state the important points to be considered in the decision making process. The essential elements of the decision making process are: developing a clear perspective of the goals, setting time-frame limits for reaching decisions, analyzing the nature of the problem in sufficient detail commensurate with the significance of the decision outcome, examination of the different options and weighing the possible consequences of selecting any one option. Quite a number of replies covered these points satisfactorily. However, certain students mentioned decision implementation and monitoring strategies which were not required.
- (b) The answers regarding particular characteristics of decisions at the operational, tactical and strategic levels were quite satisfactory as they adequately covered the underlying features of the decision making process in these different organizational tiers. Those students who scored high marks mentioned the following points:
- Operational Level Decisions pertain to day-to-day systems and procedures, are highly structured and of a routine nature. Their impact is immediate and of a short-term nature and involves relatively fewer risks.



- Tactical Level Decisions relate to short to medium term objectives, influence implementation and success of strategic decisions and are concerned with overseeing, and handling of budgets, personnel schedules and resources. Risks of failure of decisions at this level are moderate.
- Strategic Level Decisions are concerned with long-term goals and future direction of the business, are of a conceptual nature, involve elements of higher uncertainties with far-reaching consequences and are taken at the highest management and board levels.

Q.9 Replies to the question regarding difficulties in pursuing a highly centralized financial policy in a situation where the parent company and the subsidiary are located in different countries were quite satisfactory. The more focused replies listed the typical problems arising in such a situation on the following lines:

- (i) Staff at the parent company would not be fully conversant with the local rules and regulations in the country where the subsidiary is located.
- (ii) Delays in decisions by the parent company may hamper the operations of the subsidiary, resulting in higher costs and inefficiencies.
- (iii) Executives at the principal office may be overburdened with numerous decisions pertaining to the subsidiary.
- (iv) Morale and initiative of the staff at the subsidiary may suffer as they would have to be dependent on even minor decisions on the principal office.
- (v) Overall operating costs would be higher owing to duplication of work, additional travel and other incidental costs.

Q.10 (a) In this question the students were required to identify five objectives which the governments expect to achieve by promulgation of laws for health, safety and security of the workers.

Essentially, governments seek to achieve the following objectives i) to reduce hazards in the workplace by strengthening health, safety and security programs ii) to establish minimum safety and health standards iii) to create an effective framework for enforcement of regulations iv) to lay down procedures for reporting of job related accidents, injuries, illnesses and deaths v) to prevent employment of child workers and vi) to provide special facilities for female workers.

Several students could not comprehend the requirements of the question and offered general replies in the context of welfare and improvement in the living standards of the citizens. Some students mentioned the advantages which organizations expect to achieve instead of mentioning the objectives which the governments expect to achieve.

- (b) Responsible management can reduce risks of industrial accidents arising from Human, Environmental and Mechanical security factors by ensuring strict compliance with safety rules, avoidance of excessive overtime, good housekeeping, proper lighting and ventilation, safe storage of inflammable material, proper tools and equipment and proper protective equipment.

Although some of the aforesaid points were well presented by several students, there were numerous instances where the same point was repeated in different words.

- Q.11 The replies to this question pertaining to international transfer pricing were generally satisfactory as a large number of the students rightly stated that it is the price at which goods and services are transacted between units of the same company located in different countries.

The part of the question in which the students were required to list the advantages of pursuing a market-based pricing policy drew rather vague and irrelevant replies. The appropriate replies should have stated that the individual units would achieve high levels of efficiency as they would be able to negotiate most favourable prices. As a result, more objective evaluation of the performance of the individual units would be possible. Consequently, both the units would continue to remain motivated to improve their performance.

(THE END)