

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

**SUBJECT**

Business Management

**SESSION**

Final Examination - Winter 2007

**General**

In spite of the viewpoint expressed by most of the examiners that the Paper was rather easy, the overall results were below expectations. Out of the 1,316 students who appeared in the examination, only 317 candidates were able to obtain passing grades - 24 per cent. Lack of ability to precisely comprehend the requirements of the questions, inadequate preparations and failure to tailor the replies according to the marks assigned to the individual questions were the shortcomings apparent in a large number of the answer sheets.

Comments on the individual questions are given below:

- Q.1 Specifically, the Question required identification and brief explanation of six important HR management functions to be addressed by the newly appointed HR Manager on an urgent footing in a situation in which these have been largely ignored. The replies should have focused on the basic HR functions of Recruitment, Training, Preparation of Job Analysis and Descriptions modules, Review of Compensation Packages, Employee Appraisal Procedures, Health and Safety Procedures and Development of an HR Information System. A number of students got confused and discussed matters relating to organization design and development, delineation of staff and line functions and exit interviews. These are considered at the strategic level or at a subsequent stage. Approximately, 22 per cent of the students were able to secure passing grades in this 12 mark Question.
- Q.2 Related and Unrelated Diversification strategies are pursued by business firms after careful consideration of their inherent advantages and disadvantages in different business scenarios. A number of replies regarding Related Diversification repeatedly discussed increase in the market share without coming to the main point i.e. the difference between Related and Unrelated diversification. While explaining Related Diversification most students either ignored or made vague references to the critical issues of strategic fits or linkages with the firm's existing line of business in the form of sharing of technology, in-house availability of HR skills, more effective utilization of sales networks, including common distribution channels and gaining better bargaining leverage with the existing suppliers. Similarly, the important point that Unrelated Diversification Strategies are usually pursued when the opportunities in the existing line of business are saturated was ignored in nearly all the replies.

Q.3 The replies to this Question relating to difference between Strategic Objectives and Financial Objectives were generally satisfactory. The strategic objectives include sustaining and consolidating competitive advantage in the areas of technology, H.R. skills, access to distribution channels and insights into consumer buying behaviour. Financial objectives are the quantifiable targets of performance pertaining to profitability, market capitalization and financial strength which a company envisages to achieve within a stated time-frame. In quite a few replies, the candidates offered explanations of corporate strategy which was not required.

Q.4 The concept of Corporate Social Responsibility means operating a business in a manner which fulfils or excels the ethical, legal and commercial expectations of the stakeholders including the society. Most of the replies were relevant, although all these points were not covered in quite a number of the answers.

The essential features of CSR-conscious organizations are that these firms pursue open and transparent business practices conforming to high ethical values, respect for employees, communities and the environment. They deliver sustainable value both to the society and the shareholders and contribute towards the economic, environmental and social aspirations of the communities in which they operate.

Q.5 This Question relating to identification of the various stages of Product Life Cycle and the distinctive characteristics in each of these stages had an allocation of ten marks. A significant number of the candidates were able to correctly identify the introduction, growth, maturity and declining stages of the product life cycle, along with their relevant characteristics of changes in sales revenue, costs, profitability and nature of competition. It appears that the candidates were well prepared for this Question as 78 per cent of the examinees achieved passing grades.

Q.6 Employee Performance Appraisal is an essential HR function and a considerable amount of time and effort at different levels is involved in this exercise at regular intervals. Most of the candidates covered the points adequately and mentioned that the EPA function is considered to be of significance in all major organizations as it fulfills the following needs:

- To determine how effectively the employees have performed their duties and allocate rewards accordingly
- To provide objective feedback and guidance to the employees on their performance
- To identify employees with potential for promotion
- To review the soundness of the selection procedures
- To determine the training needs for improvement of future performance

Almost 40 per cent of the candidates who attempted this Question obtained passing marks.

- Q.7 In this Question, the candidates were required to explain the concepts of i) Branded Merchandise ii) Competitive Advantage iii) Global Company and iv) Contract Manufacturing. The replies have been discussed in the following paragraphs:

**Branded Merchandise** A significant number of the candidates stated that Branded Merchandise refers to the merchandise marketed by a particular firm and is identifiable by its name, term, sign, symbol or design to differentiate them from the offerings by the competitors. The important point that the consumers regard brand as an integral part of the product and branding adds value to the product was also mentioned by most of the students. However, a number of candidates wrongly interpreted the concept to mean the availability and display of the merchandise at the retail outlets at prominent locations at the right time and therefore lost marks.

**Competitive Advantage** A number of candidates stated that competitive advantage accrues to a firm which is in a position to offer consumers tangible value through lower prices or by way of superior quality of products as compared to those offered by the competitors. These attributes are considered as valuable by the consumers and therefore, they purchase the products in preference to those offered by the competitors. However, some of the students misinterpreted the concept of competitive advantage and discussed the comparative advantages available to businesses situated in different countries or geographical locations and lost easy marks.

**Global Company** It was mentioned by a number of candidates that a Global Company operates in several countries through subsidiary companies, branches and joint ventures. The concept of a truly global company is that it considers the world as one market and minimizes the importance of national boundaries. Global companies are able to achieve management, R&D, production, technology and marketing advantages in costs and reputation which are not available to purely domestic companies. Only a few students were able to cover these points adequately.

**Contract Manufacturing** This concept of Contract Manufacturing was not well understood by quite a few students who interpreted it to include joint ventures, licensing and franchising arrangements. In essence, contract manufacturing is an arrangement in which a company contracts with a manufacturer in a foreign country to manufacture products according to pre-determined specifications and on agreed terms and costs. The objectives are to avoid making capital investment in the foreign country and to obtain the advantages of lower manufacturing costs. Obviously, there are no fees or royalties involved in contract manufacturing as was erroneously mentioned by some of the candidates

- Q.8 (a) Companies strive to achieve high levels of Employee Motivation by setting demanding goals for employees, giving clear guidelines for achievement of these goals and creating an environment in which work skills and decision making abilities are given recognition. Appropriate financial and non-financial rewards and establishing transparent linkages between rewards and performance are also essential for achieving high levels of motivation. Opportunities for training and enhancing skill levels also contribute towards enhancement of motivation levels. Most of the candidates were able to highlight the financial and non-financial and training aspects of motivation. Some of the candidates explained the concept of Employee Motivation in the context of Maslow's Theory of Level of Needs and Herzberg's Theory of Hygiene which were not relevant to this Question.
- (b) This part of the question regarding Benchmarking was attempted by the students with emphasis on comparison of processes and functions of an organization with those of competitors. However, most of the replies did not mention that collection of vital data of these outsiders constituted an important element of the benchmarking exercise.
- Q.9 The Question regarding Entry Barriers which make it difficult for new comers to enter a certain type of industry was attempted by nearly all the students. These Entry Barriers are high capital costs, achievement of break-even level at high operating capacities, dominant role of distribution channels, differentiated products and intense competition from firmly-entrenched competitors, their bargaining strengths and long periods of initial expensive research and gestation. Most of the candidates were able to identify only 2 or 3 of the entry barriers. However, some of the candidates incorrectly identified poor profitability, switching costs, large scale of operations of competitors and government policies as Entry Barriers. A few candidates discussed Porter's SWOT analysis which was not required either.
- Q.10 (a) This Question relating to pursuance of international business operations by Global Companies carried nine precious marks with individual point-wise allocations. Global companies undertake international operations as deliberate and carefully considered strategic decisions to achieve the advantages of spreading of economic and political risks, establishment of low-cost production facilities at favourable locations and reduction in unit costs by spreading them over much larger volumes of units manufactured. International operations can also help to overcome tariff and non-tariff barriers, obtain advantages of low competition in foreign countries and acquire insights in the cultures and business practices in foreign countries, besides establishing contacts with potential customers and linkages with distribution channels. Although a number of the students were able to identify some of the aforesaid points, some of them made rather vague references like increase in profitability, cost reduction and image building, etc which are applicable to even domestic business operations.

- (b) The question required identification of five constraints which act as impediments towards attracting foreign investment in a typical underdeveloped country. Specifically, these constraints are poor infrastructure facilities, lack of education, absence of skilled work force and uncertain economic and financial policies. Besides, weak and inadequate legal framework, unstable system of governance, rampant corruption and absence of generally accepted accounting principles also act as impediment to attracting foreign investment in underdeveloped countries. Most of the candidates were able to identify these constraints and accordingly secured good marks.

Q.11 The question was designed to assess the candidates' understanding of the concept of Market Skimming Strategy. Most of the candidates correctly identified that such a policy aims at charging a substantially higher price at the product's launching stage as it perceives that there are a sizeable number of prospective buyers who are able and willing to pay the high prices because the product has a high present value for them. However, many of them overlooked the other crucial point that the prices are reduced gradually to attract the relatively price-sensitive segments of the market.

In Part (b) of the question, the candidates were required to state the factors which induced the management of a company, to pursue a Market Skimming Strategy. A large number of the candidates stated that the management pursued this policy to recover the substantial R&D expenditures incurred in the development of the product and also to make quick profits. These are general points and are applicable in almost all business situations. A more focused answer should have considered the management's decision from the following viewpoints:

- Existence of an adequate-sized market which is not price-sensitive and is willing to buy the game cube at the high price.
- In spite of the high price of the game cube, there is no risk of competitors entering the market.
- The purchase of game cube at a high price creates an impression of possession of a superior product and enhanced status symbol among the buyers.

**(THE END)**