

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
NOVEMBER 2015 PROFESSIONAL EXAMINATIONS
BUSINESS MANAGEMENT & INFORMATION SYSTEMS
EXAMINERS GENERAL COMMENTS**

GENERAL PERFORMANCE

The performance of candidates was generally fair. Indeed, it compared favourably to the May 2015 performance. Of the 453 candidates who wrote the Paper, 269 of them passed, giving a 59% pass rate, as against the 40% pass rate recorded in the previous examinations

COVERAGE OF SYLLABUS

The question paper was not fairly spread across the syllabus. Out of the seven questions administered, two were from **Marketing** and two from **Information Systems** which are both weighted 10% in the syllabus. Thus clearly acted as a limit to the options available to candidates.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
NOVEMBER 2015 PROFESSIONAL EXAMINATIONS QUESTIONS
BUSINESS MANAGEMENT & INFORMATION SYSTEM (1.2)

QUESTION ONE

Before an organisation can begin strategy formulation, there is the need to scan the external environment to identify possible opportunities and threats and its internal environment for strengths and weakness.

Explain the following:

- a) Environmental scanning. **(3 marks)**
- b) Strategic planning. **(3 marks)**
- c) Outline the strategic planning process. **(14 marks)**

(Total: 20 marks)

QUESTION TWO

CLife is a large manufacturing firm, dealing in several product lines. Currently, there are plans to explore other foreign markets for its products. 40 staff are tasked with matching goods received notes with orders and then with invoices.

It has been observed that an appreciable length of time is spent trying to find out why some of the set of three documents do not agree.

While some managers recommend the computerisation of the existing process to facilitate matching, others propose the use of Business Process Re-engineering.

- a) Explain Business Process Re-engineering. **(3 marks)**
- b) State **FIVE** characteristics of a re-engineered business process. **(5 marks)**

- c) Explain **SIX** examples of how technology can change the way business activities are conducted, with reference to the CLife scenario where appropriate.

(12 marks)

(Total: 20 marks)

QUESTION THREE

The strategy and structure of compensation programmes have important implications for businesses and their ability to create and sustain competitive advantage.

- a) What is meant by 'Compensation'? **(2 marks)**
- b) State **FOUR** characteristics of an effective compensation system. **(8 marks)**

- c) Explain the following:
 - i. Direct compensation **(5 marks)**
 - ii. Indirect compensation. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

Marketing mix refers to the particular combination of key variables under a company's control that can be used to affect demand and to gain competitive advantage.

Explain the following:

- a) Competitive advantage. **(4 marks)**
- b) Corporate reputation. **(4 marks)**

- c) List the key variables of the marketing mix and, within each, **FOUR** associated sub-variables.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

You are employed by a local company, AllFresh Ltd, specialising in the production and sales of fresh fruit drinks.

At a recent Management meeting, a 3-member team was selected to prepare a marketing plan for the company. Your letter appointing you as a member of the team also specifies that you will be chairman of the team.

Required:

Describe the contents of the marketing plan.

(20 marks)

QUESTION SIX

The layout of an operation is concerned with the physical location of its transforming resources.

It concerns the decision to put all the facilities, machines, equipment and staff into the operation. After the process type has been selected, the basic layout type needs to be selected.

Required:

Explain the following; giving an example each:

a) Fixed-position layout. **(7 marks)**

b) Process layout. **(6 marks)**

c) Product layout. **(7 marks)**

(Total: 20 marks)

QUESTION SEVEN

SoEasy is a medium-sized firm in the detergent manufacturing sector. It started operations in 2008 and its customer base is quite large, comprising both foreign and local firms and individuals.

In July 2012, the management of SoEasy approved the automation of its operations using an off-the-shelf package.

Around May 2013 a number of defects and problems were identified with the software. The local agents of the software providers were accordingly invited for a discussion and solution of the defects and problems.

The management of SoEasy directed that to save time, the agents should quickly do the fixes on their own for normal operations to continue.

After the agents reported they had completed their job, operations continued without any tests being performed. Two months later, operations nearly came to a halt because of software issues.

Required:

- a) Explain how the software should have been acquired and the bugs (software errors corrected). **(10 marks)**

- b) Advise the management of SoEasy on the way software defects and problems should have been handled in future. **(10 marks)**

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

- a) **Environmental Scanning** is the monitoring, evaluation, and dissemination of information from the internal and external environments to key people within the organisation. This information relates to the factors which can have effects on the operations of the firm.

(3 Marks)

- b) **Strategic planning** is a process which involves taking a view of both the organisation and the future that it is likely to encounter, and then attempting to organise the structure and resources of the organisation accordingly. It deals with the statement of actions to be taken together with resources required to achieve goals.

(3 Marks)

- c) i) **Mission and Objectives**

A mission is the rationale behind the company's existence. What is it for? An objective is more precise. It is a particular desired outcome

(2 Marks)

- ii) **Internal assessment.**

This is a review of an organisation, existing structure, skills and processes.

(2 Marks)

- iii) **Environmental assessment**

The external assessment analyses the factors in the organisation's environment which might affect it in general terms and in terms of its competitors.

(2 Marks)

- iv) **Corporate appraisal**

This is the process by which the internal and external assessments are combined to assess the organisations strengths and weaknesses and the opportunities and threats it faces in the environment.

(2 Marks)

v) **Strategic choice**

This involves the analysis of alternative strategies, and a choice among them. They include the 'three generic strategies outlined by Michael Porter (cost-leadership differentiation, focus)

(2 Marks)

vi) **Implementation**

At this point, strategies are put into action in the firm's activities and practices in relation to the operational units.

(2 Marks)

vii) **Review**

During the implementation of a chosen strategy, there is the need to periodically review it in the light of changes in the environment in order that implementations challenges can be solved.

(2 Marks)

{Total: 20 Marks}

EXAMINER'S COMMENTS

Most candidates answered this question and obtained very good marks

QUESTION TWO

- a) **Business process re-engineering (BPR)** is the fundamental re-thinking and radical design of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed.

BPR asks "why do we do what we do? "Without making any assumptions or looking back to what has always been done in the past.

It should also achieve very high performance and not just marginal incremental improvement.

(3 Marks)

b) Characteristics of re-engineered business process include:

- Several jobs are often combined into one.
- Workers are able to make decisions.
- The steps in the process are performed in a logical order.
- Work is performed where it makes most sense.
- Checks and controls may be reduced, and quality ‘built - in ‘.
- The advantages of centralised and decentralised operations are combined.

(5 Marks)

c) Technology has changed the way business activities are conducted in a number of ways , including:

- Shared databases make it possible for information to appear simultaneously in as many places as required. In the case of CLife, orders entered into a database will facilitate the matching with goods received notes, quantity and type of goods received, and invoices.
- The use of expert systems means that a generalist can do the work of an expert.
- Telecommunication networks enable businesses to simultaneously reap the rewards of centralisation and decentralisation.

CLife could easily engage in electronic data interchange (EDI) with its business partners.

- Decision support tools mean that decision making is part of everyone’s job. These tools will help CLife management in the area of inventory decisions.
- Wireless data communication and portable computers mean that field staff can send and receive information wherever they are thus taking advantage of telecommuting.
- Automatic identification and tracking technology will make it possible to locate certain assets wherever they are and CLife can use this to track orders.
- Through the use of the internet, CLife can apply electronic commerce to help in the more efficient handling of ordering and payment for goods.

(12 Marks)

{Total 20 Marks}

EXAMINER’S COMMENTS

Many candidates attempted this question with a few of them doing quite well.

QUESTION THREE

a) The term '**Compensation**' refers to all forms of financial and non-financial benefits that an employee receives as part of an employment relationship. **(2 Marks)**

b) An effective compensation system typically has the following characteristics:

- It enables an organisation to attract and retain qualified, competent workers.
- It motivates employee performance, fosters a feeling of equity, and provides direction to their efforts.
- It supports, communicates, and reinforces an organisation's culture, values, and competitive strategy
- Its cost structure reflects the organisation's ability to pay.
- It complies with government regulations.

(8 Marks)

c) i) **Direct compensation** is used to describe the cash received in the form of basic salary, overtime pay, bonuses, sales commissions, etc.

Direct compensation is divided into two components:

- The wage and salary programme, and
- Pay that is contingent on performance (merit increases, bonuses, commissions, etc)

(5 Marks)

ii) **Indirect compensation** refers to services, incentives or facilities which accrue to workers in addition to their usual wages and salaries. Apart from the direct benefits from employment employees enjoy other benefits usually referred to as welfare services. This includes membership of sports and other clubs, etc.

(5 Marks)

{Total = 20 Marks}

EXAMINER'S COMMENTS

The very few candidates who answered this question performed badly largely because the question was vague. Instead of relating compensation to employment relations, candidates took it to mean compensating someone for loss or injury hence their poor performance.

QUESTION FOUR

- a) **‘Competitive advantage’** may be termed as anything which gives an organization an edge over its rivals in the products it sells or the services it offers.

It can also refer to a situation where an organization does something which its competitors cannot do or which they can do only at a disproportionate cost to them.

(4 Marks)

- b) **‘Corporate reputation’** is an image that describes an organization for its achievement and what it stands for. It also serves as goodwill to the firm. Circumstances which can result in a company having positive reputation include integrity, good customer relations, reliability and quality of products/services. Good corporate reputation results in increased demand for company products.

(4 Marks)

- c) **‘Marketing mix’** refers to the particular combination of key variables under a company’s control that can be used to affect demand and gain competitive advantage. The key variables of the marketing mix may be listed as;

Key Variables	Sub- Variables
Product	Product variety Quality Design Features Brand name etc
Price	List price Discounts Allowances Payment period Credit terms
Promotion	Sales promotion Advertising Sales force Public relations Direct marketing
Place	Channels Coverage Locations Assortments Inventory

(12 Marks)

{Total = 20 Marks}

EXAMINER'S COMMENTS

Most candidates attempted this question and scored good marks although some performed badly.

QUESTION FIVE

A marketing plan is a written document that summarises what the marketer has learned about the market place and indicates how the firm plans to reach its marketing objectives.

Content of the Marketing Plan:

1) Executive summary and table of contents

The marketing plan should open with a brief summary of the main goals and recommendation. The executive summary helps senior management to grasp the plan's major thrust. A table of contents that outlines the rest of the plan and all the supporting rationale and operational details should follow the executive summary.

(4 Marks)

2) Situation analysis

This section presents relevant background data on sales, cost, the market, competitors and the various forces in the macro environment and seeks answers to such question as how is the market defined, how big is it and how fast is it growing? What are the relevant trends affecting the markets?

What is the product offering and what are the critical issues facing the company?

Pertinent historical information can be included to provide context. All this information is used to carry out a SWOT analysis.

(4 Marks)

3) Marketing Strategy

At this point the product manager defines the mission and marketing and financial objectives, as well as those groups and needs that the market offerings are intended to satisfy.

The manager then establishes the product lines competitive positioning, which will inform the game plan to accomplish the plan's objectives. All this is done with inputs from other divisions/departments of the firm.

The marketing strategy should be specific about the branding strategy and customer strategy that will be used.

(4 Marks)

4) Financial projections

The projections include a sales forecast, and expense forecast and a break-even analyses. On the revenue side, the projections show the forecast sales volume by month and product category.

On the expense side, the projections show the expected cost of marketing, broken down into finer categories.

The break-even analysis shows how many units must be sold monthly to offset the monthly fixed-costs and average per- unit variable cost. **(4 Marks)**

5) **Implementation controls.**

This final section outlines the controls for monitoring and adjusting implementation of the plan. The goals and budget are spelt out for each month or quarter for management to review each period's results and take corrective action as needed.

Some firms include contingency plans outlining the steps management would take in response to specific environmental developments, such as price wars or strikes.

(4 Marks)

{4 Marks × 5 = 20 Marks}

EXAMINER'S COMMENTS

Although most candidates answered this question, it appears many of them did not understand how to go about it and therefore scored low marks and in some cases zero.

QUESTION SIX

The basic layout type is the general form of the arrangement of the facilities of the operation.

a) **Fixed –position layout**

Fixed-position layout is the type of layout where the product being manufacture remains fixed at a given place and materials, people and equipment in the transformation process are transported to it. This is so because the product or the recipient of the service is too large to be moved conveniently, or it might be too delicate to move, or it could even object to being moved.

For example:

- i) Monitoring construction- The product is too large to move.
- ii) Open- heart surgery- Patients are too delicate to move.

(7 Marks)

b) **Process layout**

Process layout is so called because the needs and convenience of the transforming resources which constitute the processes in the operation dominate the layout decision. In process layout, similar processes (or processes with similar needs) are located together. The reason is that it is convenient for the operation to group them together, or that the utilisation of transforming resources is improved. This means that when products, information or customers flow through the operation they will take a route from process to process according to their needs.

Different products or customers will have different needs and therefore take different routes through the operation.

Examples include:

- i) Hospital- Some processes (eg X- ray machines and laboratories) are required by several types of patients.
- ii) Supermarket- Some processes, such as the area of holding tinned vegetables, are convenient to restock if grouped together. Some, such as the area holding frozen meat and / or fish, need the common technology of freezer cabinets.

(6 Marks)

c) **Product layout**

Product layout (sometimes called line-flow layout) refers to the type of layout in which workstations or departments are arranged in a linear path. Here, the customer or product flows in a smooth, continuous flow. Resources are arranged around the customer's or product's route, rather than shared across many of them.

The key feature of this layout type is that resources are placed to maximise product flow. Each product or service will follow a path which is pre-determined by the product's processing requirements. Most traditional product lines in factories follow this layout.

Examples include:

- i) Vehicle assembly- Almost all variants of the same model require the same sequence of processes.
- ii) Self- Service Cafeteria- Generally the sequence of customers' requirements is common to all customers, but layout also helps control customers flow.

(7 Marks)

{Total= 20 Marks}

EXAMINER'S COMMENTS

This question was a good one except that the marks allocated for explanation and examples respectively were not indicated. Also many candidates appeared not to have read that part of the syllabus. About half of those who answered obtained good marks.

QUESTION SEVEN

a) Software acquisition

- SoEasy ought to have ascertained its exact software needs before taking the steps to acquire the package.
- Having identified the package, SoEasy should have carried out a thorough user acceptance test to ensure the software needs were met.
- SoEasy staff ought to have been sufficiently trained in the use of the software. This would have been done by the agent, a normal component of software acquisition.

(5 Marks)

Clearing software bugs

- An elaborate software maintenance contract should have been entered into between SoEasy and the agents.
- SoEasy staff should have been fully involved in the software amendment process.
- Thorough tests (regression tests) should have been carried out by the agents with the participation of user staff to ensure the amendments were properly carried out and that the resulting programs would work flawlessly.

(5 Marks)

b) Future handling of software defects and problems

- Any software maintenance contract in existence should be reviewed to ensure it doesn't favour only one party.
- In future all software issues should be properly documented and forwarded to the information systems (IS) manager if there is one, or to a manager nominated for the purpose.
- The documented issues should then be discussed with an IS steering committee.
- The approved documentation should then be passed on to the Chief Systems Analyst for discussion with his/her team of Analysts
- Competent Programmers and other user staff should then be trained to work on the issues in conjunction with the agents.
- Regression tests should be carried out on any amended programs to ensure that the amendment exercises have not created new problems.
- The amended programs should be fully documented. This documentation should replace any existing ones.

(10 Marks)

{Total= 20 Marks}

EXAMINER'S COMMENTS

Although a lot of candidates attempted this question, their performance was poor.