ACCA

Accountant in Business

Paper F1

Course Notes

ACF1CN07

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F1 *Accountant in Business*
Study Programme for Standard Taught Course

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Introduction to the paper and the course ..... (iii)

1 Business organisation and structure 1.1
2 Information technology and systems 2.1
3 Influences on organisational culture 3.1
4 Ethical considerations 4.1
5 Corporate governance and social responsibility 5.1
6 *Home study chapter* – The macro economic environment 6.1

End of Day 1 – refer to Course Companion for Home Study ❑

7 The business environment 7.1
8 *Home study chapter* – The role of accounting 8.1
9 Control security and audit 9.1
10 Identifying and preventing fraud 10.1
11 Leadership and managing people 11.1
12 Individuals, groups, teams 12.1

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Course exam 1 ❑

13 Motivating individuals and groups 13.1
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Don't forget to plan your revision phase!

- Revision of syllabus
- Testing of knowledge
- Question practice
- Exam technique practice

BPP provides revision courses, question days, mock days and specific material to assist you in this important phase of your studies.

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Introduction to Paper F1 *Accountant in Business*

Overall aim of the syllabus

To introduce knowledge and understanding of the business and its environment and the influence this has on how organisations are structured, on the role of the accounting and other key business functions in contributing to the efficient, effective and ethical management and development of an organisation and its people and systems.

The syllabus

The broad syllabus headings are:

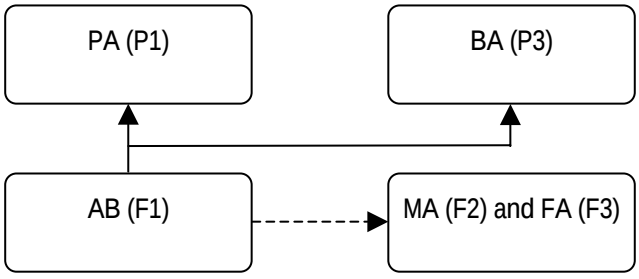
A	Business organisation structure, governance and management
B	Key environmental influences and constraints on business and accounting
C	History and role of accounting in business
D	Specific functions of accounting and internal financial control
E	Leading and managing individuals and teams
F	Recruiting and developing effective employees

Main capabilities

On successful completion of this paper, candidates should be able to:

- Explain how the organisation is structured, governed and managed
- Identify and describe the key environmental influences and constraints
- Describe the history, purpose and position of accounting
- Identify and explain the functions of accounting systems
- Recognise the principles of leadership and authority
- Recruit and develop effective employees

Links with other papers



This diagram shows where direct (solid line arrows) and indirect (dashed line arrows) links exist between this paper and other papers that may follow it.

The Accountant in Business is the first paper that students should study, as it acts as an introduction to business structure and purpose and to accountancy as a core business function.

Assessment methods and format of the exam

Examiner: Bob Souster

The examination is a two hour paper-based or computer-based examination. Questions will assess all parts of the syllabus and will test knowledge and some comprehension of application of this knowledge. The examination will consist of 40 two mark and 10 one mark multiple choice questions. The pass mark is 50% (ie. 45 out of 90).

Course Aims

Achieving ACCA's Study Guide Outcomes

A Business organisations structure, governance and management

A1	The business organisation and its structure	Chapter 1
A2	The formal and informal business organisation	Chapter 3
A3	Organisational culture in business	Chapter 3
A4	Stakeholders of business organisations	Chapter 3
A5	Information technology and information systems in business	Chapter 2
A6	Committees in the business organisation	Chapter 1
A7	Business ethics and ethical behaviour	Chapter 4
A8	Governance and social responsibility	Chapter 5

B Key environmental influences and constraints on business and accounting

B1	Political and legal factors	Chapter 7
B2	Macro-economic factors	Chapter 6
B3	Social and demographic factors	Chapter 7
B4	Technological factors	Chapter 7
B5	Competitive factors	Chapter 7

C History and role of accounting in business

C1	The history and functions of accounting in business	Chapter 8
C2	Law and regulations governing accounting	Chapter 8
C3	Financial systems, procedures and IT applications	Chapter 8
C4	The relationship between accounting and other business functions	Chapter 1

D Specific functions of accounting and internal financial control

D1	Accounting and financial functions within business	Chapter 1
D2	Internal and external auditing and their functions	Chapter 9
D3	Internal financial control and security within business organisations	Chapter 9
D4	Fraud and fraudulent behaviour and their prevention in business	Chapter 10

E Leading and managing individuals and teams

E1	Leadership, management and supervision	Chapter 11
E2	Individual and group behaviour in business organisations	Chapter 12
E3	Team formation, development and management	Chapter 12
E4	Motivating individuals and groups	Chapter 13

F Recruiting and developing effective employees

F1	Recruitment and selection, managing diversity and equal opportunities	Chapter 15, 16
F2	Techniques for improving personal effectiveness at work and their benefits	Chapter 14
F3	Features of effective communication	Chapter 14
F4	Training, development and learning in the maintenance and improvement of business performance	Chapter 17
F5	Review and appraisal of individual performance	Chapter 18

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Classroom tuition and Home study

Your studies for BPP consist of two elements, classroom tuition and home study.

Classroom tuition

In class we aim to cover the key areas of the syllabus. To ensure examination success you will need to spend private study time reinforcing your classroom course with question practice and reviewing areas of the Course Notes and Study Text.

Home study

To support you with your private study BPP provides you with a Course Companion which helps you to work at home and aims to ensure your private study time is effectively used. The Course Companion includes a Home Study section which breaks down your home study by days, one to be covered at the end of each day of the course. You will find clear guidance as to the time to spend on various activities and their importance.

You are also provided with sample questions and either two course exams which should be submitted for marking as they become due, or an I-pass CD which is full of questions.

These may include questions on topics covered in class and home study.

BPP Learn Online

Come and visit the BPP Learn Online free at www.bpp.com/acca/learnonline for exam tips, FAQs and syllabus health check.

ACCA Forum

We have thriving ACCA bulletin boards at www.bpp.com/accaforum. Register and discuss your studies with tutors and students.

Helpline

If you have any queries during your private study simply contact your class tutor on the telephone number or e-mail address that they will supply. Alternatively, call +44 (0)20 8740 2222 (or your local training centre if outside the London area) and ask for a tutor for this paper to speak to you or to call you back within 24 hours.

Feedback

The success of BPP's courses has been built on what you, the students tell us. At the end of the course for each subject, you will be given a feedback form to complete and return.

If you have any issues or ideas before you are given the form to complete, please raise them with the course tutor or relevant head of centre.

If this is not possible, please email ACCAcoursesfeedback@bpp.com.

Key to icons



Question practice from the Study Text

This is a question we recommend you attempt for home study.



Real world examples

These can be found in the Course Companion.



Section reference in the Study Text

Further reading is needed on this area to consolidate your knowledge.

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1

Business organisation and structure

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Ascertain the appropriate organisational structure for different types and sizes of business.
- Understand the concepts of span of control and scalar chains.
- Appreciate the differing levels of strategy in an organisation.

Exam Context

This chapter lays the foundation for an understanding of what organisations are, what they do and how they do it. Section 2 (Organisational structure) represents a higher level of knowledge. You must be able to apply knowledge to exam questions.

Qualification Context

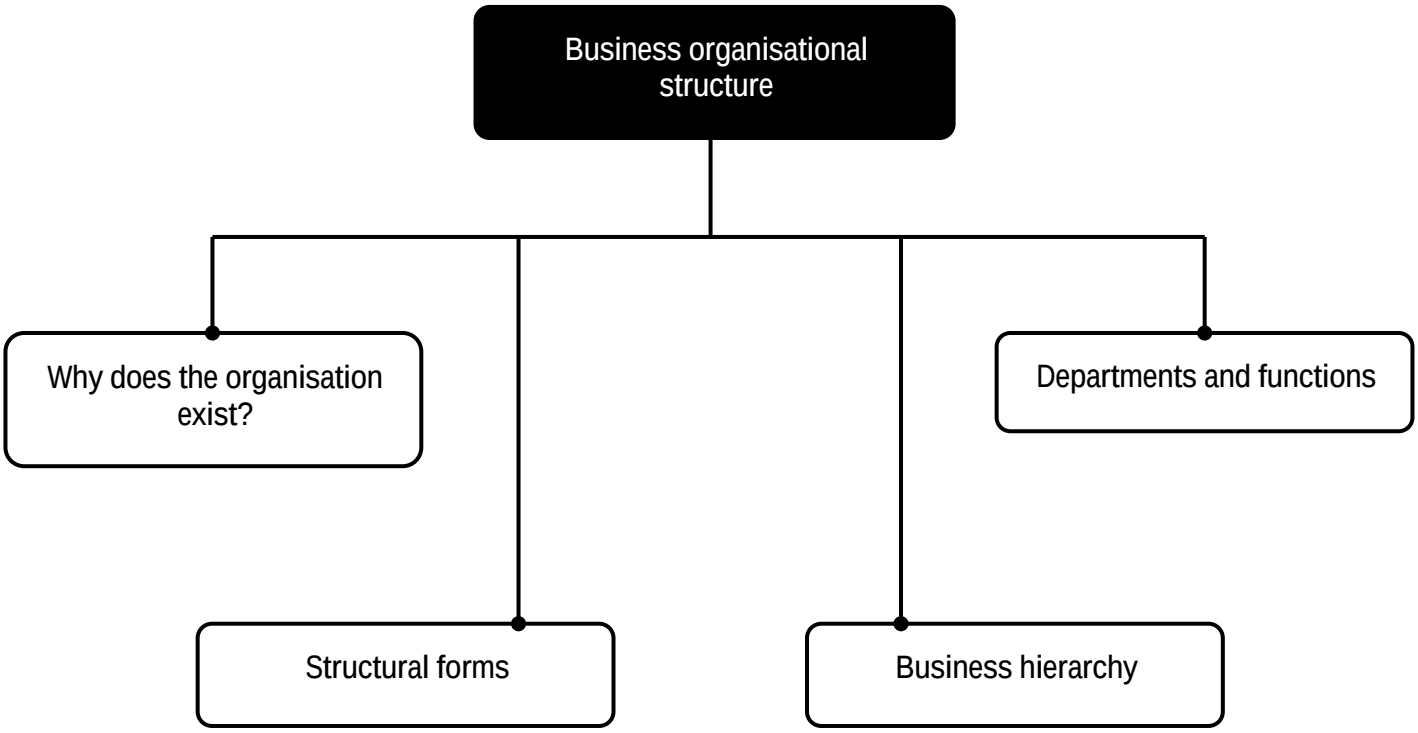
An understanding of business structures is important with regard to higher level accounting papers as well as P3 (Business Analysis).

Business Context

Appreciating why organisations are structured in different ways will help with an understanding of how they should be managed.

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Overview


Business organisational structure
Why does the organisation exist?
Structural forms
Business hierarchy
Departments and functions

1 Organisations

1.1 Definition – 'An organisation is a social arrangement which pursues collective goals, which controls its own performance and which has a boundary separating it from its environment'. Boundaries can be physical or social.

1.2 Key categories:

- Commercial
- Not for profit
- Public sector
- Charities
- Trade unions
- Local authorities
- Mutual associates



Pg 52-56

Lecture example 1

Class exercise

Required

Identify a 'real-world' example of the above categories of organisation.

Solution

1.3 Organisations owned or run by the government (local or national) or government agencies are described as being in the **public sector**. All other organisations are classified as the **private sector**.

Limited liability

1.4 Limited companies (denoted by X Ltd or X plc) are set up so as to have a separate legal entity from their owners (shareholders). Liability of these owners is thus limited to the amount invested.

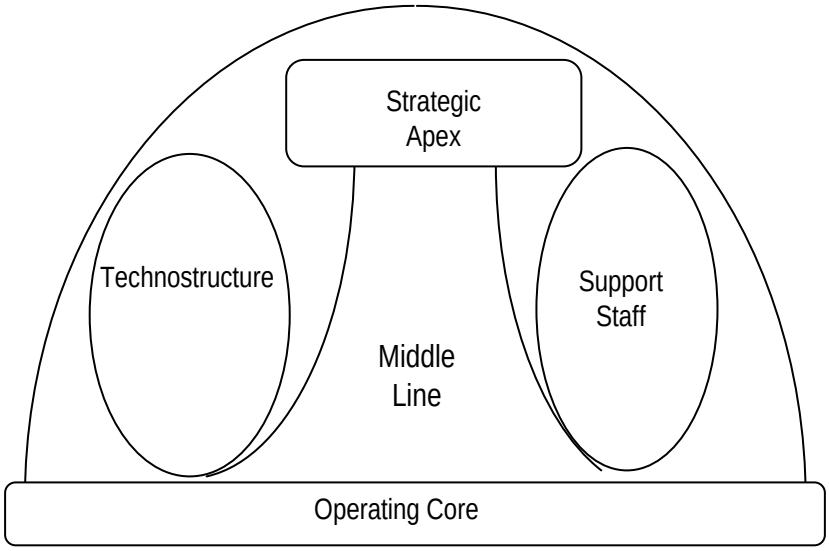
Private v public

1.5 Private companies are usually owned by a small number of people (family members), and these shares are not easily transferable. Shares of public companies will be traded on the Stock Exchange.

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2 Organisational structure

2.1 Henry Mintzberg believes that all organisations can be analysed into five components, according to how they relate to the work of the organisation and how they prefer to co-ordinate.



(a) Strategic apex

Drives the direction of the business through control over decision-making.

(b) Technostructure

Drives efficiency through rules and procedures.

(c) Operating core

Performs the routine activities of the organisation in a proficient and standardised manner.

(d) Middle line

Performs the management functions of control over resources, processes and business areas.

(e) Support staff

Provide expertise and service to the organisation.

Lecture example 2

Exam standard question

Required

Match the following staff/rules to Mintzberg's technostructure:

(a) Manager of a retail outlet supervising 40 staff.
(b) A salesman responsible for twenty corporate accounts.
(c) The owner of a start-up internet company employing two staff.
(d) The HR department which provides support to business managers.
(e) The IT department seeking to standardise internal systems.

3 Structural forms for organisations

Scalar chain and span of control

3.1 As organisations grow in size and scope, different organisational structures may be suitable.

3.2 The **Scalar chain** and **Span of control** determine the basic shape. The scalar chain relates to levels in the organisation, and the span of control the number of employees managed.

3.3 Tall organisations have a:

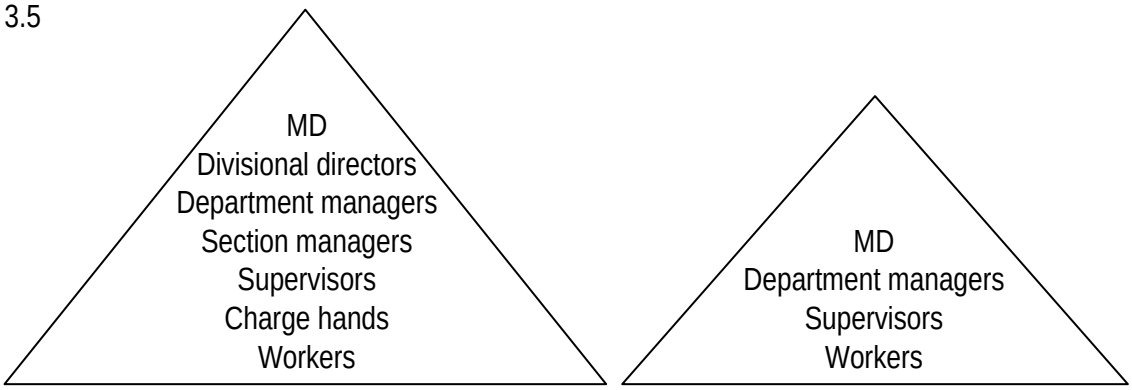
(a) Long scalar chain (via layers of management)
(b) Hierarchy
(c) Narrow span of control.

3.4 Flat organisations have a:

(a) Short scalar chain (less layers)
(b) Wide span of control.

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3.5



Tall Flat

Lecture example 3

Pilot paper

Required

Identify factors which may contribute to the length of the chain and the span of control.

Solution

Organisational structures

3.6 Entrepreneurial

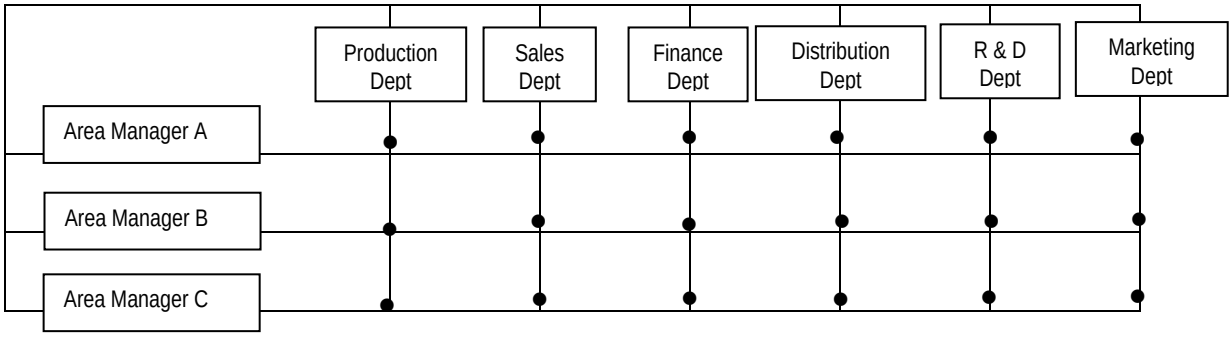
A fluid structure with little or no formality. Suitable for small start-up companies, the activities and decisions are dominated by a key central figure (the owner/entrepreneur).

3.7 Functional

This structure is created via separate departments or 'functions'. Employees are grouped by specialism, and departmental targets will be set. Formal communication systems will be set up to ensure information is shared.

3.8 Matrix

A matrix organisation crosses a functional with a product/customer/project structure.



This structure was created to bring flexibility to organisations geared towards project work or customer-specific jobs. Staff may be employed within a hierarchy or within specific functions but will be slotted into different teams or tasks where their skill is most needed. The matrix structure is built upon the principles of **flexibility** and **dual authority**.

Lecture example 4

Required

Identify two advantages and two disadvantages of each structure.

	Advantages	Disadvantages
Entrepreneurial		
Functional		
Matrix		

3.9 Organisations are rarely composed of only one type of structure, especially if the organisation has been in existence for some time and as a consequence a **'hybrid'** structure may be established. 'Hybrid' structures involve a mixture of functional divisionalisation and at least one other form of divisionalisation.

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Lecture example 5

Ideas generation

Required

Which structure would suit these companies?

(a) A family run restaurant with 10 staff.
(b) A small manufacturing company with 250 staff.
(c) Johnson and Johnson who have 197 strategic business units.
(d) BPP Holdings plc

Solution

(a)

(b)

(c)

(d)

4 Divisional structures

4.1 When organisations reach a certain size it may be appropriate to structure it into divisions or 'semi-autonomous' blocks. These divisions may focus on a particular geographic area or a particular product.

Role of head office in divisions

4.2 Divisions will normally report to head office on a range of performance-related matters. The level of autonomy given to divisional heads is dependant on the level of centralisation required.

4.3 Centralised organisations retain much of the power and decision-making at head office. Decentralised organisations delegate more business decisions to divisional heads.

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Lecture example 6

Pilot paper question

Required

Suggest two benefits and two drawbacks of both centralisation and decentralisation.

Solution

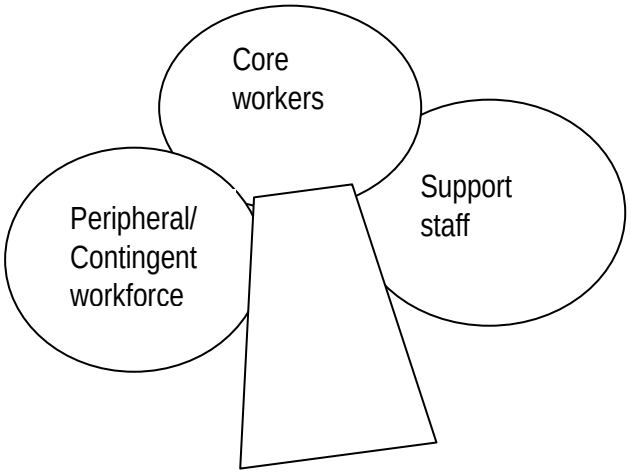
5 Flexibility in modern organisations

5.1 Modern management writers such as Charles Handy and Tom Peters rate flexibility as a key critical success factor for competitive organisations today.

5.2 Flexibility can be achieved by:

(a) Flat structures
(b) Out-put focused structures
(c) Delayering
(d) Outsourcing
(e) Flexible working conditions/patterns
(f) Information technology

5.3 The 'Shamrock' organisation to encourage flexibility:

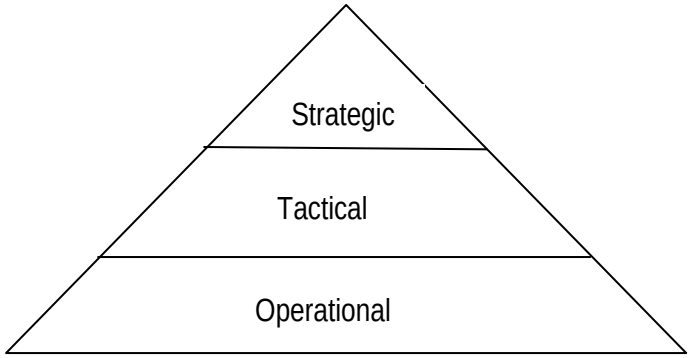


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5.4 A fourth element of organisations today is the consumer who may do part of the work themselves(eg self-checkout).

6 Anthony's hierarchy

6.1



6.2 Each level of the organisation differs in terms of:

(a) The role/tasks performed
(b) The decisions taken
(c) The nature of the working environment
(d) The nature of the information required (see chapter 2).

The rest of this chapter is for Home Study

7 Organisational departments and functions

7.1 Research and development

(a) Organisations undertake research and development in order to improve their products and processes; thus enabling them to remain competitive in the market place.

(b) Research types:

Pure
No commercial advantage

Applied
Specific application

(c) An 'R & D' department will be involved in the development of brand new products as well as enhancements to existing ones. It will also be involved with improving the manufacturing processes.

7.2 Purchasing

(a) The purchasing department is responsible for the acquisition of material resources and business services used by the organisation.

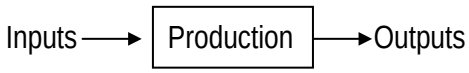
(b) Purchasing managers have to obtain the best purchasing mix from suppliers bearing in mind four factors in order to obtain the best value for money:

- Price
- Quality
- Quantity
- Delivery

(c) Key issues:

- Sources of supply – number and mix
- Cost of supplies
- Whether to outsource or make it in house
- Building supplier relationships

7.3 Production



Decisions

- *Long-term*
  - Assets
  - Job design
  - Layout
  - Selection of employees
- *Shorter-term*
  - Scheduling
  - Maintenance
  - Quality
  - Management

7.4 Service operations

(a) Many products have a service element (eg after sales warranty and service), whilst some businesses are purely service orientated (eg health-care, education).

(b) Service issues:

Simultaneous
Homogenous
Intangible
Perishable

7.5 Marketing

(a) Marketing is 'the management process which identifies, anticipates, and satisfies customer needs profitably' (Chartered Institute of Marketing).

(b) Marketing activities comprise:

- Sales support (reactive to the needs of its sales force)
- Marketing communications (a pro-active approach)
- Strategic marketing (creation of competitive strategy)
- Operational marketing (supports all aspects of the organisation)

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(c) Marketing strategy has a very important input into the organisation's corporate strategy as it will help influence the overall direction of the organisation. Marketing planning ensures that the marketing strategy is actioned in the day-to-day operational process.

(d) There are four types of marketing orientation:

(i) Production – Customers will buy whatever is produced (demand exceeds supply)

(ii) Product – If more features are added to the product, more units will be sold. No research into customer requirements is carried out.

(iii) Sales – Customers must be persuaded to buy the product or service.

(iv) Marketing – The organisation determines the needs, wants and values of the target market and the organisation then aims to satisfy these customer requirements.

(e) The marketing 'mix' comprises four 'Ps':

(i) Product

The actual physical products or services that are being sold. The marketing function endeavours to ensure that the products are what the customers require and/or communicates the benefits of the products to the consumers.

(ii) Place

Marketing help decide where the consumer can obtain the product and how the product is distributed.

(iii) Promotion

This includes all marketing communications which inform potential customers about the products on offer. Promotion should create:

- Awareness of the product
- Interest in the product
- Desire to purchase the product
- Action in purchasing the product

(iv) Price

The price of a product has to deliver a profit to the organisation, but at the same time must be set at the right level for the consumer.

Sometimes prices are pitched at a low level to persuade purchasers to buy. This is known as 'penetrating pricing' and often occurs in the early stages of the product life cycle.

'Price skimming' is where prices are set very highly to maximise profits, even though this will restrict demand.

Price is often used as a competitive weapon.

7.6 Administration

This is covered in Chapter 8.

7.7 Finance

(a) The finance function has four primary roles:

- Raising money
- Recording and controlling what happens to the money
- Providing information to mangers
- Reporting to shareholders and others

(b) Money is raised from a variety of equity and debt sources as required by the organisation's strategic plan.

(c) The finance function produces financial accounts for its shareholders and ensures that all transactions are properly recorded in accordance with the law.

(d) A key feature of the finance function is treasury management to ensure that the organisation deploys its financial resources in the most effective manner. This role includes the management of working capital (ie debtors, creditors, stock).

(e) The finance function produces management accounts, which are used by the organisation to control its activities and to help make general management decisions.

8 Committees

8.1 Many organisations set up permanent or limited duration committees to assist in the management of the organisation.

8.2 Committees can assist in:

- Creating new ideas
- Communications
- Problem solving
- Combining abilities
- Co-ordination (between departments)

8.3 Types of committee include:

- Executive – the power to govern/administer
- Standing – deal with routine business issues
- Ad hoc – complete a specific task
- Sub committees – relieve a main committee of tasks
- Joint committees – co-ordinate activities
- Management committees – make key organisational decisions

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8.4 Advantages of committees:

(a) Consolidation of power
(b) Delegation
(c) Blurring responsibility
(d) Creating new ideas
(e) Communication
(f) Encourage participation
(g) Advisory capacity

8.5 Disadvantages of committees:

(a) Too large for constructive action
(b) Time consuming and expensive
(c) Delays
(d) Incorrect or ineffective decisions
(e) Apathetic members
(f) Compromise

9 Chapter summary

- This chapter has outlined the various types of structure that organisations effect in order to achieve their objectives.
- It has also looked at the different departments to be found within organisations.

Chapter 1: Questions



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1.1 Which of the following is not a type of marketing orientation?

A Product

B People

C Sales

D Production (2 marks)

1.2 A limited company has a separate legal identity from its owners. True or false.

A True

B False (1 mark)

1.3 Strategy can be made at several levels in an organisation; which of the following is not one such level:

A Supervisory

B Functional

C Corporate

D Business (2 marks)

1.4 Who devised a method of analysing organisations into five components, including the operating core?

A Charles Handy

B Abraham Maslow

C Henry Mintzberg

D Tom Peters (2 marks)

1.5 What is not an advantage of a matrix structure?

A Slower decision making

B Bureaucratic obstacles removed

C Greater feasibility

D Closeness to customers (2 marks)

Chapter 1: Answers



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1.1 B Products or services are marketed to people but this is not a type of marketing orientation as all marketing is to people.

1.2 A In law a limited company has its own identity even if it is owned by only one shareholder (ie. owner).

1.3 A Supervisors manage groups of employees. Supervisors are usually below middle management levels in an organisation, but they are not included in strategy setting.

1.4 C Mintzberg's organigrams.

1.5 A A matrix structure should lead to better decision making, but at a cost of the speed of making the decision.

END OF CHAPTER

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2

Information technology and systems

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand the differences between types of information systems.
- Evaluate sources and uses of data.
- Appreciate levels of security for information systems.

Exam Context

The choice of suitable systems to meet specific business information requirements could be the topic of a question.

Qualification Context

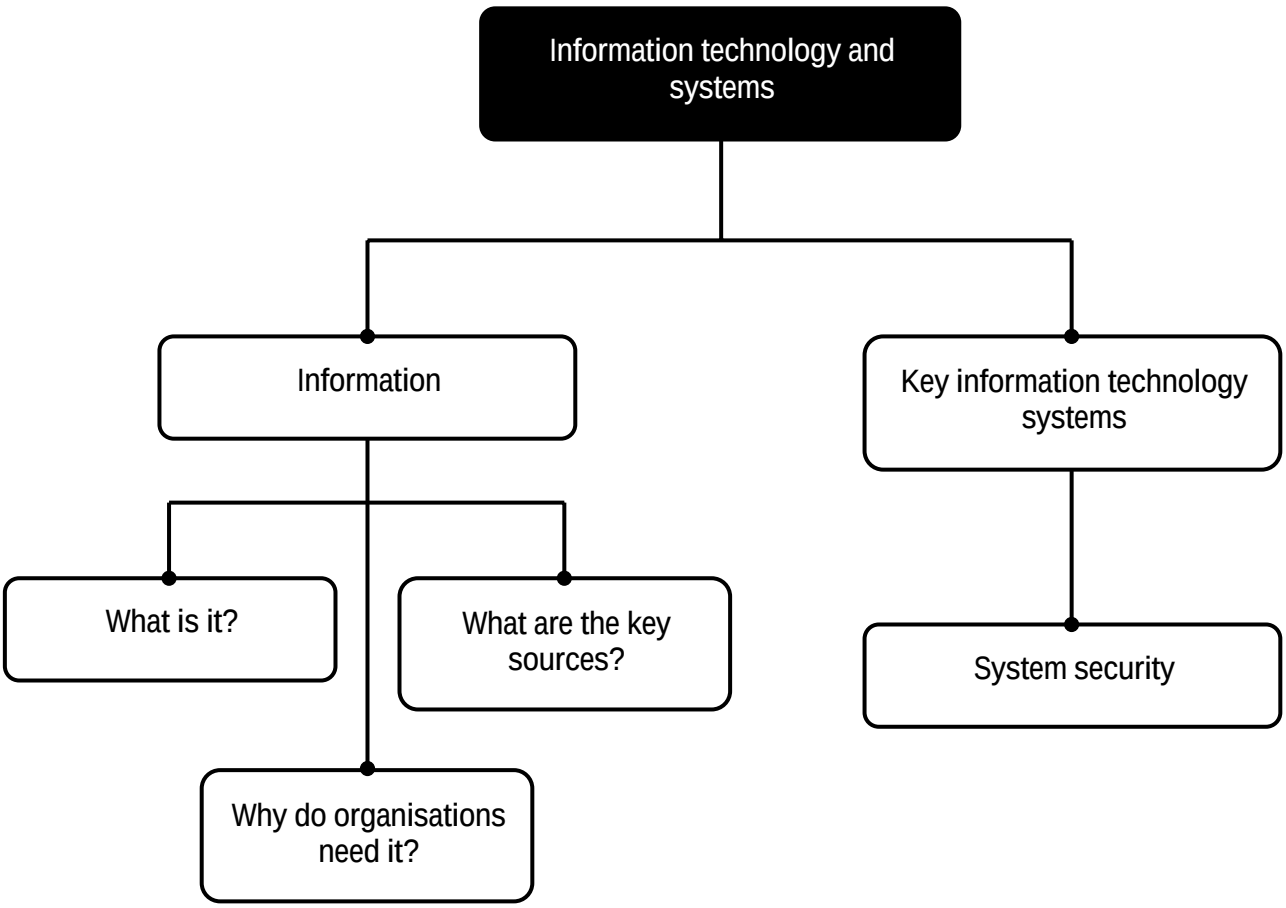
An understanding of information technology is important with regard to higher level papers.

Business Context

Virtually all organisations now rely on information technology and systems for their operational requirements.

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Overview


Information technology and systems
Information
Key information technology systems
What is it?
What are the key sources?
System security
Why do organisations need it?

1 What is information?

1.1 DATA → System/process → INFORMATION

1.2 Information is data which has been processed to make it **meaningful** to the user.

1.3 Sales day book → Analysis → Aged debtors analysis

1.4 Meaningful information provides a basis for **decision-making**.

Lecture example 1

Brainstorming

Suggest some uses of information in organisations.

Solution

1.5 Information can be obtained from both internal and external sources.

1.6 Qualities of Good information

A – accurate
C – complete
C – cost – beneficial
U – user – targeted
R – relevant
A – authoritative
T – timely
E – easy to use

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Lecture example 2

Brainstorming

Suggest ways in which the organisation can improve its information to make it ACCURATE.

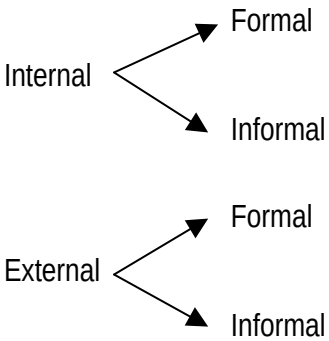
Solution

1.7 The features of information will differ at each level in the organisation and therefore different systems will be used to support those information needs

1.8

(i)	Strategic information:	Ad hoc Range of sources required Overview/big picture
(ii)	Tactical information:	Routine Formally reported Largely internal
(iii)	Operational information:	Real-time Highly detailed Internal

1.9 Sources of information



2 Information systems

2.1 Data capture

Data can be captured by organisations in the following ways.

(a) Manual input

(b) Automated systems

(c) Self-administration.

2.2 The method of data capture will depend on the nature of the organisation, the speed of the data capture and the volume.

Lecture example 3

Exam standard question

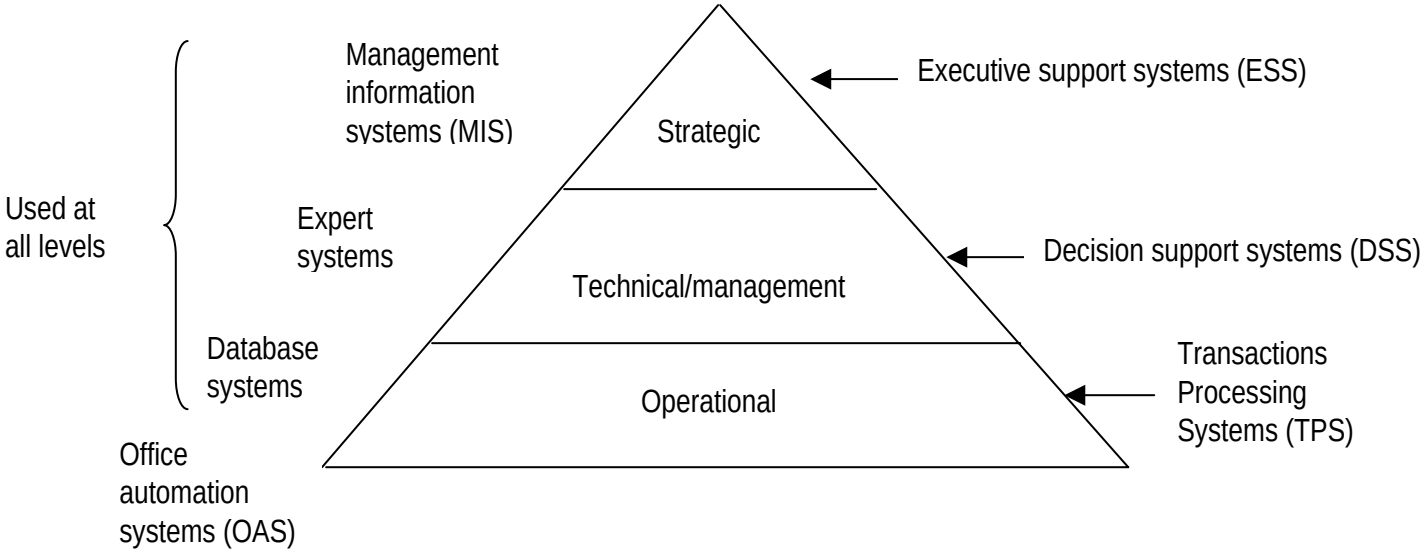
Suggest business uses of the following data capture systems:

(a) Optical character recognition (OCR)
(b) Optical mark recognition (OMR)
(c) Scanners/bar code readers
(d) Voice recognition
(e) Touch screens
(f) Electronic funds transfer at point of sale (EFTPOS)

Solution

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2.3 Systems at different organisational levels.



Lecture example 4

Class exercise

Complete the following table:

	TPS	DSS	ESS	Expert	MIS
Purpose	Volume processing	Manipulation of information	Presentation of key information	Adds value to decisions	Integrates internal information
Example					

3 Database systems

3.1 A database is a collection of records and files designed in such a way that it is possible for the whole of the user community to search and obtain a wide range of data and process it into standard and ad hoc reports.

3.2 Data will be stored in tables, and will be accessed by users via a piece of software called the database management system (DBMS).

3.3 A database has three major characteristics:

(a) It is shared
(b) It provides for needs of different users
(c) It can evolve to meet future needs

3.4

Advantages of a database	Disadvantages of a database
Reduced duplication of data or data redundancy	High set-up costs
Reduced storage costs	Risk of failure
Consistent data	Data not meeting all users' needs
Security and privacy	Costs of security and contingency planning

3.5 A database administrator (DBA) controls and sets standards for:

(a) Data input
(b) Physical storage structures
(c) System performance
(d) Back-up and recovery strategies
(e) Security of data

3.6 A database structure is developed for each database. This structure specifics which files will be held in the database and what 'records' and 'fields' they contain. It will specify how many characters can be entered in each field.

4 Internet technology

4.1 Internet technology can be used in organisations in different ways, eg

(a) Source of information

(b) Sales channel

(c) Communication channel

(d) Supply chain management

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Lecture example 5

Brainstorming

Identify the key features of a well-designed website.

Solution

4.2 An **intranet** is an internal' mini' internet using the company's own networked computers and internet technology. Each employee has a browser and a server which distributes corporate information.

The type of information which an intranet may be used to distribute could be company-wide information such as the company newsletter, staff hand-book, job vacancies and key operational information.

4.3 An **extranet** is a secure private extension of a company's intranet, it can be accessed by authorised outsiders.

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5 Systems security

5.1 Organisations must set up suitable controls to reduce significant risks to IT systems and data.

Lecture example 6

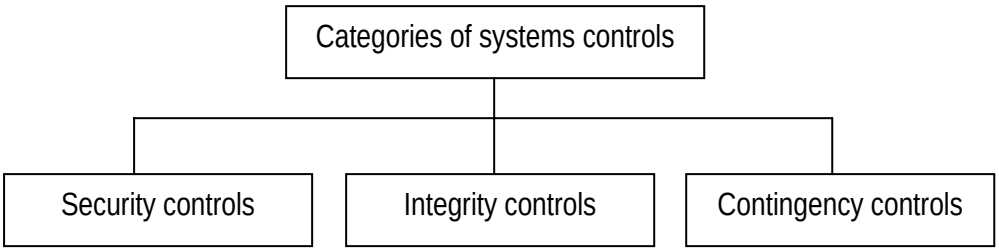
Class exercise

Give an example of the risks below, and suggest a suitable control.

Solution

Risk	Example	Control
• Human error		
• Malfunctioning hardware or software		
• Natural disasters		
• Deliberate actions		
• Commercial espionage		
• Malicious damage		
• Industrial action		

5.2



5.3 These types of controls are covered in more details in chapter 9.

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6 Chapter summary

- This chapter has outlined the importance and significance of Information technology and systems to all organisations.
- It has also looked at the relevance of databases to organisations, and the significant risks affecting IT systems.

Chapter 2: Questions



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2.1 What is not an example of an internally generated source of information?

A Personnel records

B Production department information

C Customer listing

D Industry wide analysis of market shares (2 marks)

2.2 Good information has specific qualities. Which of the following is not such a quality?

A Complete

B Authoritative

C Non-targeted

D Timely (2 marks)

2.3 It is essential that information systems have contingency controls. True or false?

A True

B False (1 mark)

2.4 Which of the following is not an advantage of a database?

A Reduced storage costs

B Data meets all users needs

C Security

D Reduced duplication of data (2 marks)

2.5 Which of the following types of information systems does not operate on the managerial level?

A Expert systems

B Management information systems

C Executive support systems

D Decision support systems (2 marks)

Chapter 2: Answers



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2.1 D An industry wide analysis of market shares includes information obtained from outside the company and so is classified as being external (even if it is produced by the company itself).

2.2 C Good information should always be targeted to the user's requirements.

2.3 A Contingency controls allied with security controls and integrity controls ensure that information is as protected as possible.

2.4 B A database ensures consistent data and so it may not be in a format which meets the needs of all users.

2.5 C Executive support systems operate at the strategic level.

END OF CHAPTER

BPP LEARNING MEDIA

3

Influences on organisational culture

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Describe different organisational cultures and relate them to organisations.
- Evaluate stakeholder groups and how they can be managed.

Exam Context

Cultural influences provide a good source of potential exam questions. There is such a question on the pilot paper. Stakeholders too are very important – worth four marks n the pilot paper.

Qualification Context

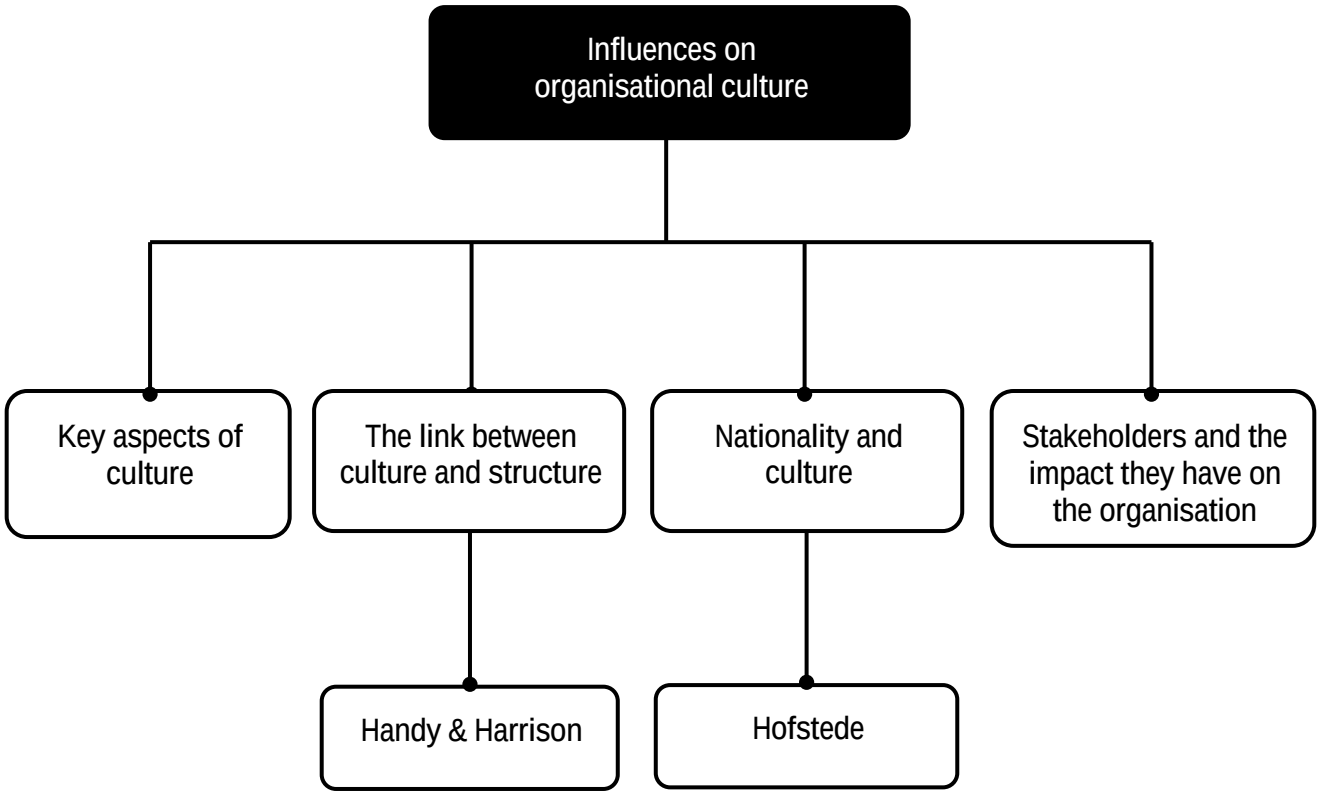
An understanding of organisational culture will be helpful when studying P3 (Business Analysis).

Business Context

Managers and corporate leaders need to understand the formal and informal culture of their organisations, if they are to maximise the achievement of the organisation's objectives.

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Overview


Influences on organisational culture
Key aspects of culture
The link between culture and structure
Nationality and culture
Stakeholders and the impact they have on the organisation
Handy & Harrison
Hofstede

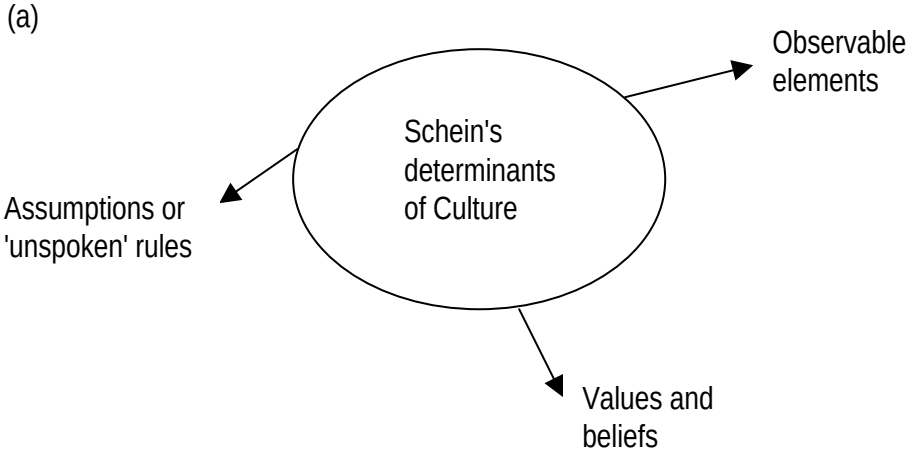
1 What is culture?

1.1 Schein defines organisational culture as 'the set of shared, taken for granted implied assumptions that a group holds and that determines how it perceives, thinks about and reacts to its environment'.

Handy describes culture as 'the way we do things around here'.

1.2 According to Schein there are three determinants of culture which build on each other:

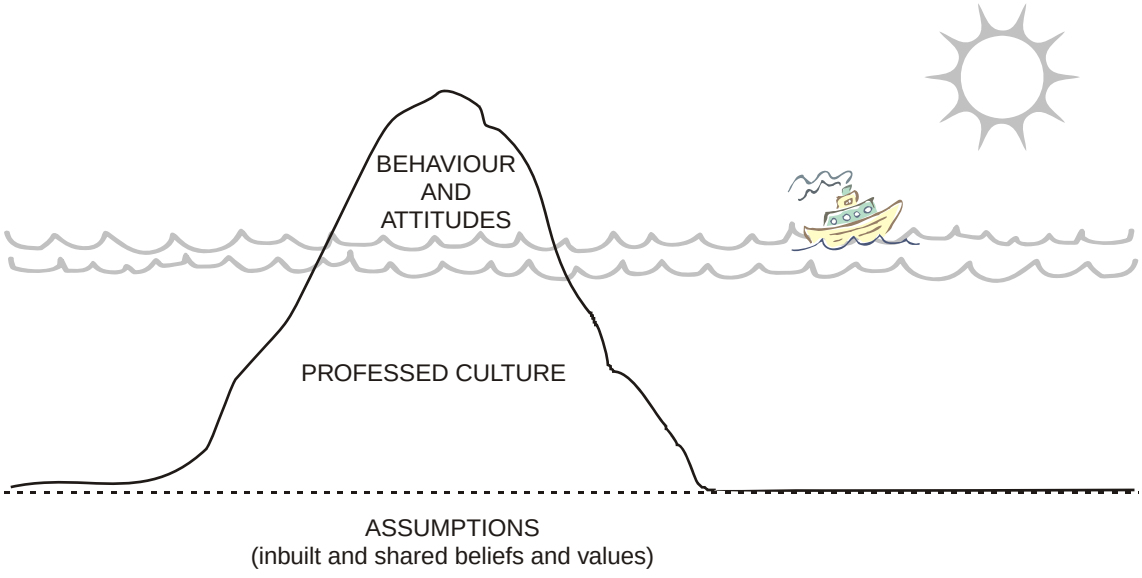
(a)



(b) Values and beliefs

(c) Assumptions or 'unspoken rules'

1.3 The 'Iceberg' of culture



Behaviour and attitudes are observable to outsiders, but professed culture and assumptions are not, despite often being the more important aspect of culture.

1.4 Organisations have differing cultures. These are sets of values, norms (standards of behaviour) and beliefs, which are reflected in different organisation structures and systems.

1.5 There are five observable aspects of culture that can be identified (and memorised as CRABS).

Customs
Rituals
Artefacts
Beliefs and values
Symbols

Lecture example 1

Ideas generation

Give an example of each of the aspects in 1.5, using your organisation.

Solution

2 Culture and structure

2.1 Roger Harrison (1972) classified organisation culture into four types that relate structure to culture. Charles Handy in his book 'Gods of Management' (1996) gave each type the name of a Greek God.

Power culture – (Web) Zeus



2.2 Key features

(a) Central power source

(b) Control through trust

(c) Flexible and reactive

Role culture – (Temple) Apollo

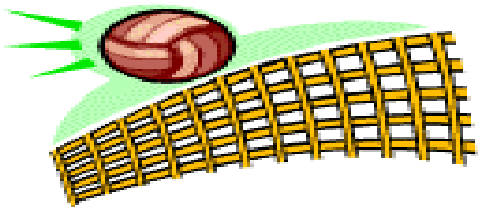


2.3 Features based around functional "pillars" (ie Finance, Production etc)

(a) The pillars are co-ordinated at the top by a narrow band of senior management.

(b) Likely to be regulated and hierarchical.

Task culture – (Net) – Athena



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2.4 Features

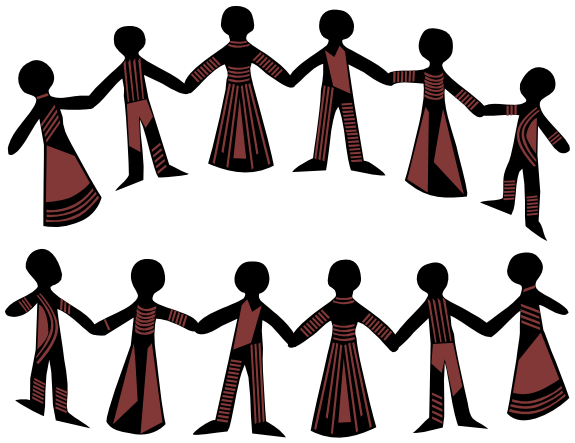
(a) Job or project orientated.

(b) Team based.

(c) Very adaptable.

(d) Horizontally structured.

Person culture – (Cluster) – Dionysus



2.5 Features

(a) A culture based on self-interest.

(b) Management through facilitation and administration.

2.6 It is possible for different cultures to occur in different parts of the same organisation, especially large ones with many departments and sites. This is an example of the "contingency approach" where "it all depends".

3 National cultures

3.1 National Cultural dimensions influence the way in which people work and the way in which they expect to be managed.

3.2 Global organisations need to be sensitive to these particular issues.

3.3 The Hofstede model (developed by Gert Hofstede in 1980) explains key cultural differences and values, rating different countries on a scale.

In particular, Hofstede pointed out that countries differ on the following dimensions:

(a) Power distance. This dimension measures how far superiors are expected to exercise power.

(b) Uncertainty avoidance. Some cultures prefer clarity and order, whereas others are prepared to accept change.

(c) Individualism-collectivism. In some countries individual achievement is what matters. In a collectivist culture, people put the interests of the group first.

(d) 'Masculinity'. In 'masculine' cultures assertiveness and acquisitiveness are valued. 'Masculine' cultures place greater emphasis on possessions, status, and display as opposed to quality of life and caring for others.

Hofstede grouped countries into eight clusters using these dimensions. Here are some examples:

	HIGH	LOW
Power distance	Latin, Near East , less developed Asian	Anglo, Nordic, Germanic
Uncertainty Avoidance	Latin, Near East, Germanic, Japan	Anglo, Nordic
Individualism	Anglo, Nordic	Near East, less developed Asian
Masculinity	Anglo, Germanic, Japan	Nordic

4 The informal organisation

4.1 An informal organisation exists side by side with the formal one. Informal organisations are loosely structured, flexible and spontaneous. Features of informal organisations include:

- Social networks
- Informal channels of communication
- Informal ways of doing things

4.2 Benefits/uses of the informal organisation

- Satisfying for staff
- Can over-ride 'red tape'
- Can encourage staff to share knowledge

4.3 Drawbacks/risks

- Can distract energy/attention
- Can encourage the cutting of corners
- Can undermine management

4.4 The Hawthorne experiments performed by Elton Mayo identified the importance workers place on belonging to a group, and the influence a group can have on an individual.

4.5 Mayo's work forms the basis of the 'Human Relations' School of Management which will be covered in chapter 11.

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5 Stakeholder goals and objectives

5.1 Stakeholders are those people or groups that have an interest in what the organisation does. Johnson and Scholes identified three types of stakeholder:

(a) **Internal:**

Corporate management
Employees

(b) **Connected:**

Shareholders
Debt holders (eg bank)
Intermediate (business) and final (consumer) customers
Suppliers

Primary

(c) **External:**

Immediate community
Competitors
Society at large
Special interest groups
Government

Secondary

5.2 Stakeholders potential influence can be mapped according to **Mendelow:**

(a) The matrix can be used to:

(i) **Track the changing influences** between **different stakeholder** groups over time. This can act as a trigger to change strategy as necessary; and

(ii) **Assess the likely impact that a strategy** will have on different stakeholder groups.

Power \ Level of interest	Low	High
Low	A MINIMAL EFFORT eg Casual labour	B KEEP INFORMED eg Core employees
High	C KEEP SATISFIED eg Institutional shareholder	D KEY PLAYERS eg Main suppliers

(b) Its aim is to assess:

(i) Whether stakeholders' resistance is likely to inhibit the success of the strategy; and

(ii) What policies or actions may ease the acceptance of the strategy.

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5.3 An organisation can make strategic gains from effectively managing its stakeholder relationships and it needs to measure levels of satisfaction amongst its stakeholders. Measurement will not be easy but ideally a combination of qualitative and quantitative measures needs to be established.

6 Chapter summary

- This chapter has looked at what culture is and how it impacts on organisations.
- The objectives and importance of different stakeholder groups have also been reviewed.

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Chapter 3: Questions



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3.1 Which of the following is not a connected stakeholder?

A Customer

B Employee

C Landlord (Lessor)

D Shareholder (2 marks)

3.2 A role culture emphasises the completion of a job or project. True or false?

A True

B False (1 mark)

3.3 What is the name of the management theorist that broke national culture into four key dimensions?

A Mayo

B Handy

C Scholes

D Hofstede (2 marks)

3.4 If a stakeholder has a high level of interest in the company and has high power under Mendelow's stakeholder mapping grid, the stakeholder is classified as:

A Minimal effort

B Keep informed

C Key players

D Keep satisfied (2 marks)

3.5 Which of the following is not an observable aspect of culture?

A Style

B Beliefs and values

C Customs

D Rituals (2 marks)

Chapter 3: Answers



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3.1 B Employee is an internal stakeholder.

3.2 B Role culture emphasises the importance of the functions/departments. Task culture emphasises the importance of the job or project.

3.3 D Hofstede developed the four key dimensions of national culture; power distance, uncertainty avoidance, individualism – collectivism, masculinity.

3.4 C High interest and high power stakeholder means the company has to work with the stakeholder to keep them satisfied.

3.5 A The observable aspects of culture are identified (and memorised) as CRABS; customs, rituals, artefacts, beliefs and values, symbols.

END OF CHAPTER

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4

Ethical considerations

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Appreciate why and how ethics affect the way people work.
- Understand the environment in which ethical decisions are made.
- Evaluate the role of ethics in an accountant's working life.

Exam Context

Ethics does not appear on the pilot paper, but it is something that is relevant to all professional and organisational behaviour, so it could be included in a question on any topic on future papers.

Qualification Context

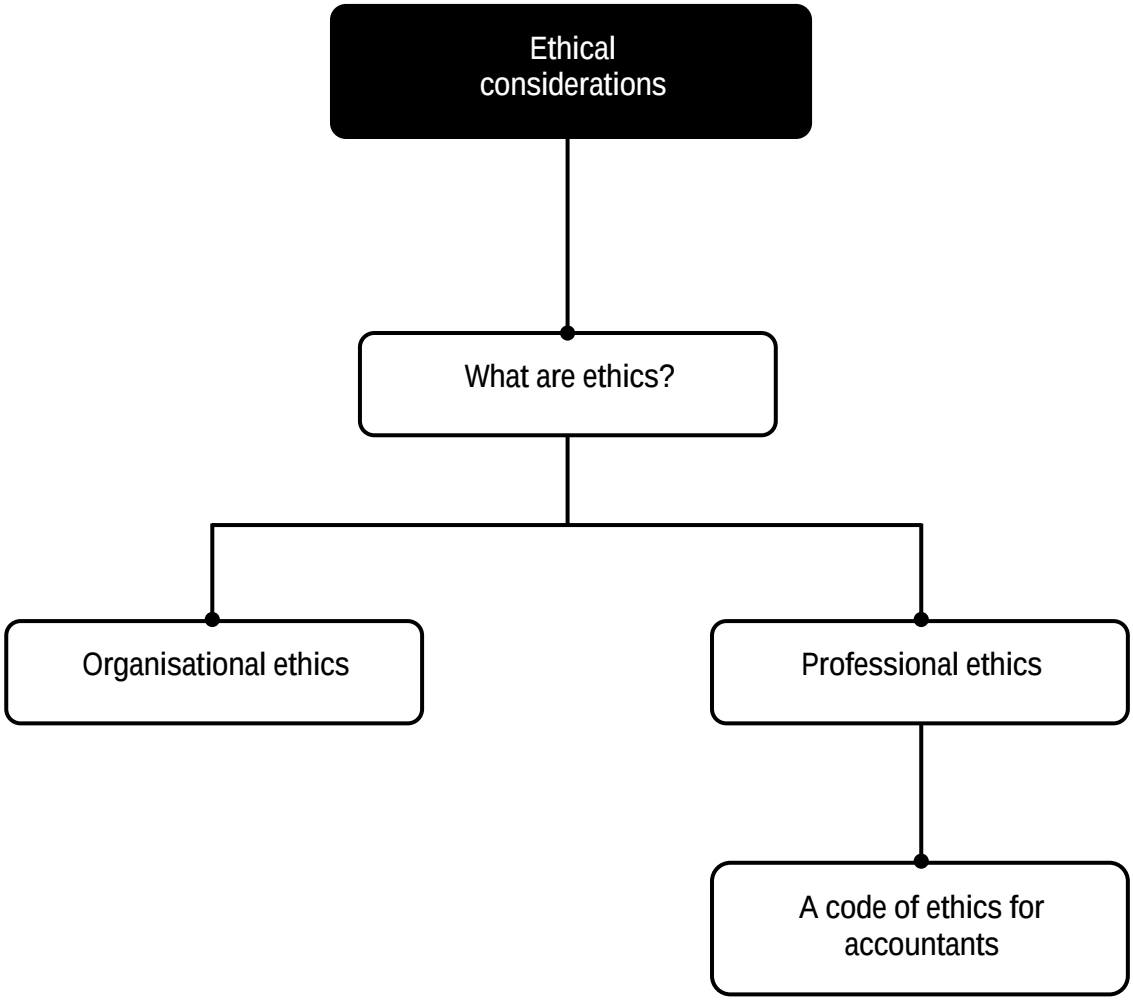
Ethical considerations are reflected across several papers and impact on the way that students and qualified accountants act.

Business Context

Legislation and public reaction to events are ensuring that modern day business people pay significantly more attention to ethical ways of working.

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Overview


Ethical considerations
What are ethics?
Organisational ethics
Professional ethics
A code of ethics for accountants

1 What are ethics?

1.1 Ethics are a set of moral principles that guide behaviour. They can be distinguished in principle from the legal obligations, and other rules and regulations which must be adhered to. They apply to organisations as well as individuals.

Lecture example 1

Ideas generation

Required

Complete the following table, in a business context:

	Examples of obligations	*Consequences of non-compliance*
Law		
Regulations		
Ethics		

1.2 Two approaches to ethics that are found in Western cultures are 'consequences' and 'duty':

(a) A 'consequences' approach judges actions by reference to their outcomes. For example, utilitarianism suggests that actions should be undertaken 'for the greater good of the greater number'. However, this can overlook the need to protect minorities and lead to a view that 'the end justifies the means'.

(b) A 'duty' approach is not concerned with consequences but with acting according to ethical principles such as 'treat others as you would like to be treated yourself'.

These approaches can conflict at times, for example if job reductions are required to secure an organisation's future.

Lecture example 2

Ideas generation

Required

What ethical issues might the following types of organisation face?

How might they address these issues?

(a) A multinational manufacturing company
(b) A mining company
(c) A cosmetics manufacturer
(d) An arms manufacturer

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Solution

2 Organisational ethics

2.1 There are many influences on the ethics practiced within organisations. These may include:

(a) Personal ethics of staff
(b) Organisation culture
(c) The example set by senior management – 'tone from the top'
(d) Organisational statements of ethics or values
(e) Professional ethics from relevant bodies such as ACCA

2.2 It has been suggested that organisations can adopt an approach to ethics based entirely on **compliance**, i.e. ethics consists of ensuring that the letter of the law and any relevant regulations are observed. This approach tends to be driven and codified by lawyers.

2.3 An alternative approach is that of ethics based on **integrity**. The law and regulations are treated as a starting point, but ethics are also seen as part of organisational culture. The approach will be driven by management as well as lawyers.

2.4 **Whistle-blowing** is the disclosure to the authorities/public by an employee of an illegal or unethical practice carried out by the organisation. Such disclosure can lead to financial loss for the whistle-blower as he/she may lose his/her job. In the UK some protection is now provided under legislation to whistle-blowers.

3 Professional ethics

3.1 A profession is an occupation that requires extensive training and the study and mastery of specialised knowledge, and usually has a professional association, ethical code and process of certification or licensing.

3.2 Professional bodies will issue 'Codes of Conduct' or 'Codes of Ethics', which members are expected to adhere to. The may be developed using:

(a) A rules based approach, creating specific rules for members to follow in as many situations as possible.

(b) A framework based approach, describing fundamental values and qualities that members should aspire to, but not laying out prescriptive rules.

Lecture example 3

Exam standard question

Required

What are the respective advantages of the rules-based and framework-based approaches to professional ethical codes?

Solution

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4 A code of ethics for accountants

4.1 Accountancy is a high-profile profession and accountants are frequently in positions of trust and responsibility. A code of ethics for accountants has been issued by the International Federation of Accountants (IFAC), which represents all the major accountancy bodies around the world. This has been incorporated by ACCA into its own code of ethics. Principles of the code include:

(a) Integrity
(b) Objectivity
(c) Professional competence and due care
(d) Confidentiality
(e) Professional behaviour

4.2 To meet these principles, students and members of ACCA need to develop a mix of personal and professional qualities.

4.3 Personal qualities include:

(a) Reliability – all work must meet professional standards
(b) Responsibility – taking ownership for your work
(c) Timeliness – delays can be costly and disruptive
(d) Courtesy – to colleagues and clients
(e) Respect – to develop constructive relationships

4.4 Professional qualities include:

(a) Independence – not only being independent, but appearing to be independent
(b) Scepticism – questioning information and data
(c) Accountability – for judgements and decisions
(d) Social responsibility – to your employer and the public

5 Chapter summary

- This chapter has reviewed ethics as an issue for organisations today.
- Specifically, it has looked at how ethics impact on accountants, and the standards they are expected to adhere to as professionals.

Chapter 4: Questions



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4.1 IFAC stands for

A International Financial Accounting Committee

B International Financial Accounting Commission

C International Federation of Accountants

D International Federation of Accounting Concepts

(2 marks)

4.2 Which of the following is an advantage of the rules based approach to developing a code of ethics?

A Ideal for complex or fast changing situations

B Consistency of application

C Encourage proactive members

D Hinders members trying to circumvent rules (2 marks)

4.3 Which of the following is not a source of rules that regulate behaviour of individuals and businesses?

A The law

B Ethics

C Customs and rituals

D Non-legal rules and regulations (2 marks)

4.4 Ethical behaviour is the same the world over. True or false

A True

B False (1 mark)

4.5 Which of the following is not a principle of the code of ethics issued by the International Federation of Accountants?

A Objectivity

B Professional behaviour

C Integrity

D Courtesy (2 marks)

Chapter 4: Answers



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4.1 C IFAC is an international body representing all major bodies across the world.

4.2 B The other three possible answers are all advantages of the framework based approach rather than the rules based approach.

4.3 C Customs and rituals are not a source of rules, although they will influence the way individuals and organisations behave.

4.4 B Ethical behaviour can vary from country to country as a result of different cultures.

4.5 D Courtesy is a personal quality that all members of the ACCA should demonstrate.

END OF CHAPTER

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Corporate governance and social responsibility

5

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand the essence of good corporate governance.
- Appreciate why corporate governance and social responsibility have grown in significance.
- Understand the role of directors in corporate governance.

Exam Context

Corporate governance and social responsibility is an issue for all corporate bodies, both commercial and not-for-profit. 'Best practice' in corporate governance features was in a pilot paper question.

Qualification Context

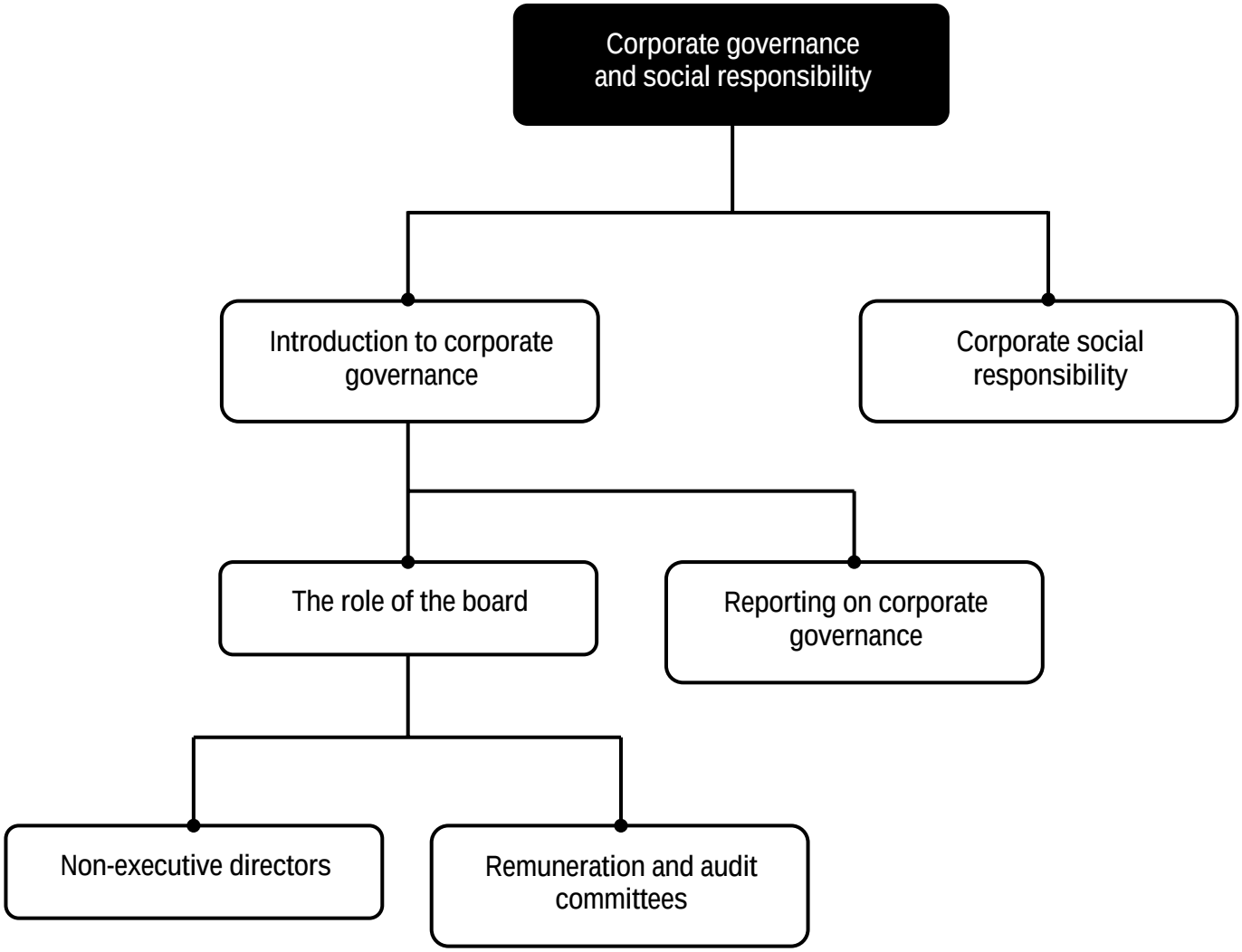
Corporate governance issues are also covered in the 'Auditing' papers, whilst social responsibility is useful background to P3 (Business Analysis).

Business Context

In the past decade social responsibility and corporate governance have become increasingly important topics for all organisations, especially in the wake of some corporate collapses such as Enron.

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Overview


Corporate governance and social responsibility
Introduction to corporate governance
Corporate social responsibility
The role of the board
Reporting on corporate governance
Non-executive directors
Remuneration and audit committees

1 Introduction to corporate governance

1.1 Corporate governance is the system by which organisations are directed and controlled by their senior officers. It is an issue not just for public companies but also not-for-profit and public sector bodies.

1.2 Corporate governance issues generally arise from the separation between ownership and control in organisations (for many smaller organisations, ownership and control may not be separated and these issues are less relevant). For example, public companies are owned by their shareholders but controlled by senior management. There is scope for senior management to abuse the power they have.

Lecture example 1

Class exercise

Required

Why might managers act in a way that is not in the best interests of shareholders?

Solution

1.3 Corporate governance has become increasingly high profile in recent years due to a number of factors including:

(a) High-profile corporate scandals (e.g. Maxwell, Enron, WorldCom)
(b) Increasingly active and international shareholders
(c) Increasing media scrutiny
(d) Globalisation highlighting cultural differences
(e) Developments in financial reporting

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Lecture example 2

Ideas generation

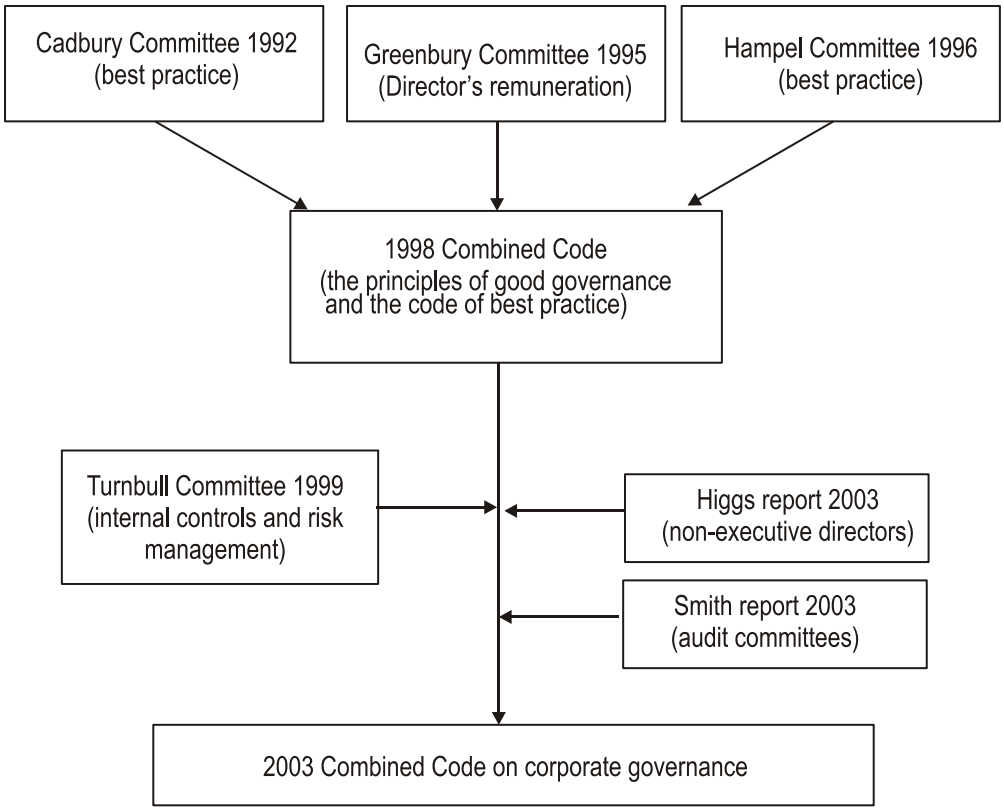
Required

What might the features of poor corporate governance be?

Solution

1.4 Poor corporate governance can lead to reputational damage and sometimes bankruptcy.

1.5 Corporate governance in the UK has developed through a series of committees and reports:



2 The role of the board

2.1 A director is someone who works for a company and is charged with the conduct and management of its affairs. The directors collectively are referred to as the Board of Directors, who are elected by the shareholders.

2.2 Stewardship theory links to Corporate Governance as it views the directors as stewards of the company assets on behalf of the owners.

2.3 The role that should be taken by the Board has been much debated. The Cadbury report suggests that the Board should have a formal schedule of matters on which it decides, which should include:

(a) Mergers and acquisitions
(b) Acquisitions and disposals of major assets
(c) Investments
(d) Capital projects
(e) Bank and other borrowings

2.4 Corporate governance codes have made a number of recommendations in relation to the Board, including the following:

(a) Individual directors should have relevant expertise, which complements each other.

(b) The Board should receive appropriate information of sufficient quality in a timely manner, including non-financial information.

(c) The performance of the Board and its members should be assessed annually

(d) The roles of chairman and chief executive should be separated. Companies are discouraged from appointing an outgoing chief executive as chairman.

3 Non-executive directors

3.1 Non-executive directors have no management responsibilities. It is intended that they act as a balance to executive management and advise the board on issues such as strategy, performance, risk and remuneration of the executive directors.

3.2 Non-executive directors can broaden the experience and perspective available to the Board, and can offer reassurance to shareholders and other outside parties.

3.3 Non-executive directors must be independent of the company, for example, they are not expected to have business or financial connections with the company, and have time-limited appointments.

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Lecture example 3

Ideas generation

Required

What do you think are some of the problems around the recruitment and role of non-executive directors?

Solution

3.4 In certain countries, the concept of non-executive directors is taken further. For example, in Germany all public companies must have a two-tier board. The management board comprises executive directors and the supervisory board comprises non-executive directors, partly elected by shareholders and partly by employees.

4 Remuneration and audit committees

4.1 Key features of the Remuneration and Audit Committees may be set out as follows:

	Remuneration Committee	Audit Committee
Membership	At least 2-3 non-executive directors	At least 2-3 non-executive directors, at least one of whom must have recent, relevant financial experience
Remit	Remuneration policy and specific packages for executive directors and senior management	Internal controls with the organisation, liaison with external auditors, oversight of internal auditors
Key concerns	(a) Procedures for determining remuneration are formal and transparent (b) Bonuses should arise from achievement of measurable performance (c) All Board remuneration and benefits are transparent in the statutory accounts (d) Remuneration packages align the interests of management and shareholders	(a) An independent channel is available to report any control issues (b) Resolving any auditor recommendations and auditor/management disputes (c) Financial and control systems in place are adequate, including an effective internal audit function (d) Adequate risk monitoring is in place

5 Reporting on corporate governance

5.1 Companies listed on the London Stock Exchange are required to provide:

(a) A narrative statement of how the principles of the Combined Code have been applied

(b) A statement of compliance with the Code throughout the accounting period, or reasons for non-compliance

(c) Information about the Board of Directors

(d) Reports of the Remuneration and Audit Committees

(e) A statement of effectiveness of internal controls

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6 Corporate social responsibility

6.1 Corporate Social Responsibility is the idea that organisations, especially (but not only) companies, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations.

6.2 Some arguments for and against companies embracing corporate social responsibility are as follows:

For	Against
Large companies can be very powerful and, as they are not democratically accountable, may infringe on others' rights if they do not exercise self-restraint	Companies can benefit societies most by operating efficiently and maximising wealth for shareholders
Companies depend on society's infrastructure to function	Companies already fund society's infrastructure via taxes
A company's operations may have social consequences that need to be addressed, e.g. pollution, environmental damage	It should be up to shareholders to donate to charities if they wish to, not for companies to undertake charitable activities
Adopting corporate social responsibility can result in a better image and greater customer and employee loyalty	Companies should already be focused on anything that will enhance shareholder value without labelling it corporate social responsibility

6.3 The range of ethical stances, as described by Johnson and Scholes includes:

(a) Short-term shareholder interest

The organisation is responsible for its ethical stance in the short term interests of shareholders, but the government has a wider longer term remit.

(b) Long-term shareholder interest

The organisation takes a wider view of its ethical responsibilities by:

(i) Corporate image enhancement
(ii) Presentation of pressure for legal regulation

(c) Multiple stakeholder obligations.

The organisation accepts the legitimacy of the expectations of stakeholders other than shareholders.

(d) Shaper of society

This is a more demanding role that 'multiple stakeholder obligations' and is largely the preserve of public sector organisations.

6.4 Many companies develop a social responsibility programme by identifying key stakeholders and analysing their needs and interests (refer back to chapter 1 for information on Stakeholders).

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7 Chapter summary

- This chapter has reviewed the importance and implications of corporate governance.
- It has also reviewed the impact of increasing pressure for companies to adopt corporate social responsibility.

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Chapter 5: Questions



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5.1 Johnson and Scholes described a range of ethical stances. Which of the following is not part of the range?

A Social audit

B Shaper of society

C Long term shareholder interest

D Multiple stakeholder obligations (2 marks)

5.2 Which of the following produced a report into the principles and guidelines of UK corporate governance?

A Sarbanes

B Mintzberg

C Hampel

D Friedman (2 marks)

5.3 The Combined Code is a set of principles that is followed by companies quoted on the London Stock Exchange. True or false?

A True

B False (1 mark)

5.4 Which of the following would prevent a non executive director from being seen as independent?

A Not being financially independent of the company

B Having share options

C Other directorships

D Not being a previous employee of the company (2 marks)

5.5 Which of the following is not a theory on governance associated with the ownership and management of UK organisations?

A Agency theory

B Stakeholder theory

C Two-tiered boards theory

D Stewardship theory (2 marks)

Chapter 5: Answers



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5.1 A A social audit is used by an organisation to see if it has achieved its social responsibility targets.

5.2 C Sarbanes with his colleague Oxley developed the USA's approach to corporate governance through detailed rules and laws.

5.3 A True.

5.4 A In the UK it is not acceptable for independent non executive directors to be awarded share options.

5.5 C Two-tiered boards are a common feature of German companies.

END OF CHAPTER

BPP LEARNING MEDIA

The macro-economic environment

6

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand the implications of government economic decisions.
- Appreciate the impact of fiscal and monetary policy.
- Understand the relationship of economic growth to inflation and the balance of payments.

Exam Context

Macro-economic factors might be considered a peripheral part of the syllabus, but the pilot paper contained nine marks for questions on this topic.

Qualification Context

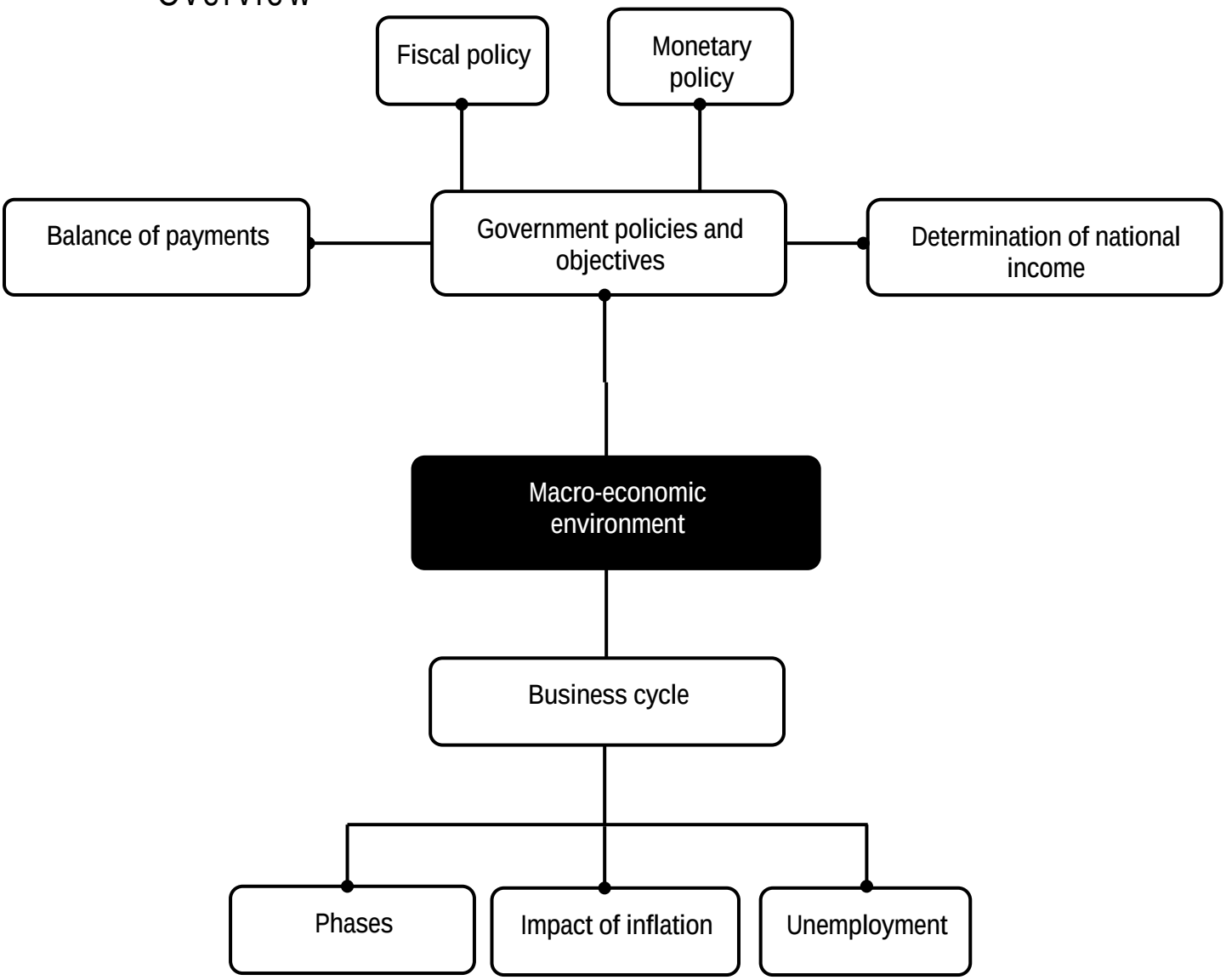
An understanding of this topic will assist with P3 (Business Analysis).

Business Context

Macro-economic factors affect all aspects of managing organisations as the economic climate alters consumers' demand requirements as well as the price and availability of raw materials and the labour force.

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Overview


Fiscal policy
Monetary policy
Balance of payments
Government policies and objectives
Determination of national income
Macro-economic environment
Business cycle
Phases
Impact of inflation
Unemployment

THIS CHAPTER IS FOR HOME STUDY

1 Government policies and obligations

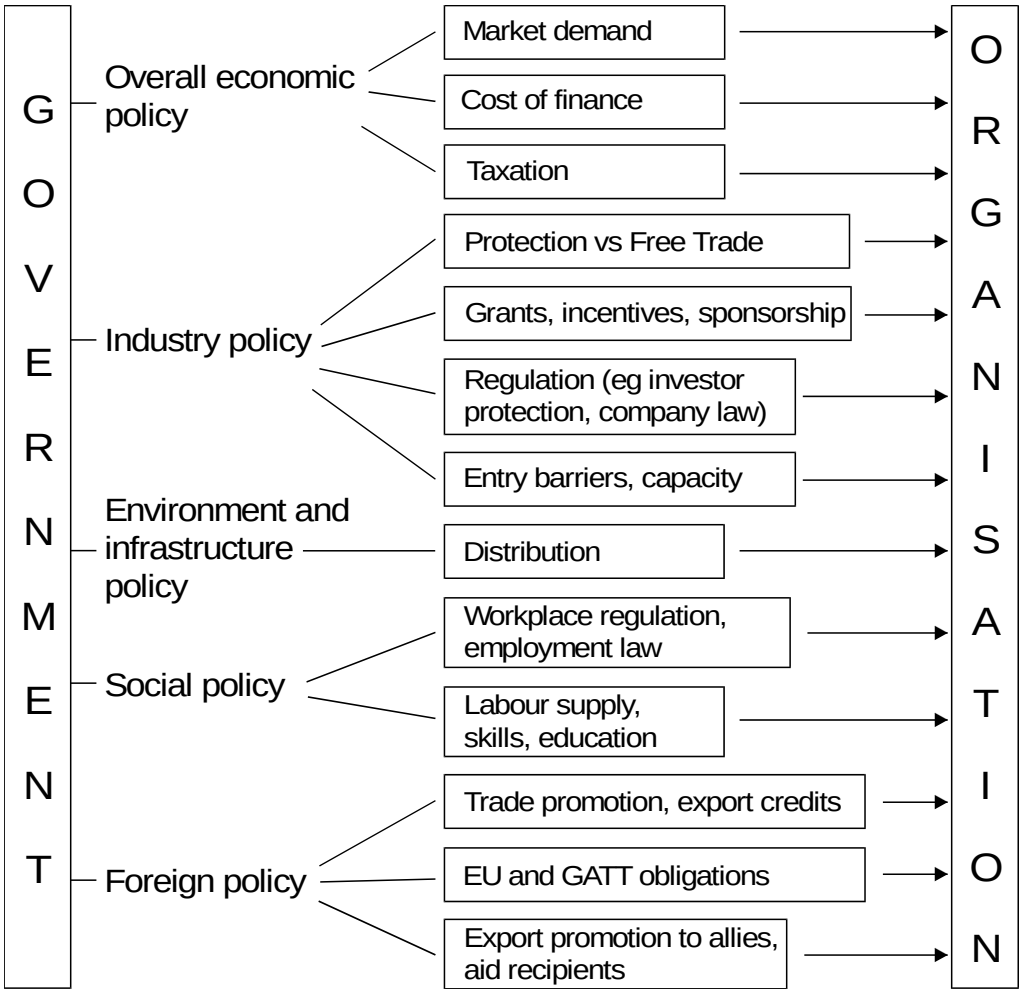
1.1 Governments seek to manage national economy, and this may include the following aims:

(a) To achieve economic growth
(b) To control price inflation
(c) To achieve full employment
(d) To achieve a balance between exports and imports

1.2 Governments spend money raised by taxation and borrowing on a variety of items. Decisions by governments on taxing and spending affect companies in many ways:

(a) Suppliers to government
(b) Knock on effect of government spending throughout the economy
(c) Taxation affects consumers' purchasing power
(d) Taxes on profits affect investment returns
(e) Public sector investment benefits some companies
(f) Public sector investment has a longer time scale and less quantifiable benefits

1.3 Government influences are outlined in the diagram below:



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2 Fiscal policy

2.1 The formal planning of fiscal policy is set out in the 'Budget' which has three components:

(a) Expenditure planning

(b) Revenue raising

(c) Borrowing

If expenditure exceeds revenues the government will need to borrow. This is known as the 'Public Sector Net Cash Requirement' (PSNCR).

2.2 Governments can use fiscal policy to change the level of demand in the economy:

(a) If government reduces taxation, but does not change its spending then economic demand is stimulated.

(b) Demand can be increased by the government spending more, but not altering taxation.

(c) Demand can be reduced by increasing taxation or reducing spending.

2.3 When the government's income exceeds its expenditure and, therefore it is repaying earlier borrowings, it is known as having a **'budget surplus'**. The opposite position is known as running a **'budget deficit'**.

2.4 Taxation is a key source of revenue raising. It also serves to discourage activities and to redistribute income and wealth.

2.5 A good tax system should be:

(a) Flexible
(b) Efficient
(c) Able to attain its purpose

2.6 Taxes can be either:

(a) Direct

Paid directly to the Revenue authority (eg income tax, capital gains tax, inheritance tax).

(b) Indirect

This is collected by the Revenue authority via a third party (a 'supplier') who passes the tax on to consumers

Indirect taxes can be:

(i) A specific tax charged as a fiscal sum per unit sold (eg petrol tax)

(ii) 'Ad valorem tax' charged as a fixed percentage of the price of the item (eg VAT).

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3 Monetary policy

3.1 Monetary policy uses money supply, interest rates, exchange rates and credit control to influence aggregate demand.

3.2 Instruments of monetary policy include:

- Changing interest rates through open market operations
- Changing reserve requirements
- Intervention to influence the exchange rate

3.3 Monetary control can reduce inflation which helps:

- Prevent economic uncertainty through high inflation
- Ensure business confidence and so stimulate investment
- Controlled money supply growth should provide higher incomes

4 National income and economic growth – key terminology

4.1 Equilibrium national income

- Demand for goods and services is in balance with available supply and the level of output is produced fully utilising resources.

4.2 Inflationary gap

- Occurs when resources are already employed so that an increase in demand will serve to increase prices.

4.3 A 'deflationary gap' occurs where there is unemployment of resources. Prices are fairly constant and real output changes as aggregate demand changes.

4.4 'Stagflation' occurs where there is a combination of high unemployment and high inflation caused by a price shock (eg crude oil price rises in the early 1970's).

5 Phases in the business cycle

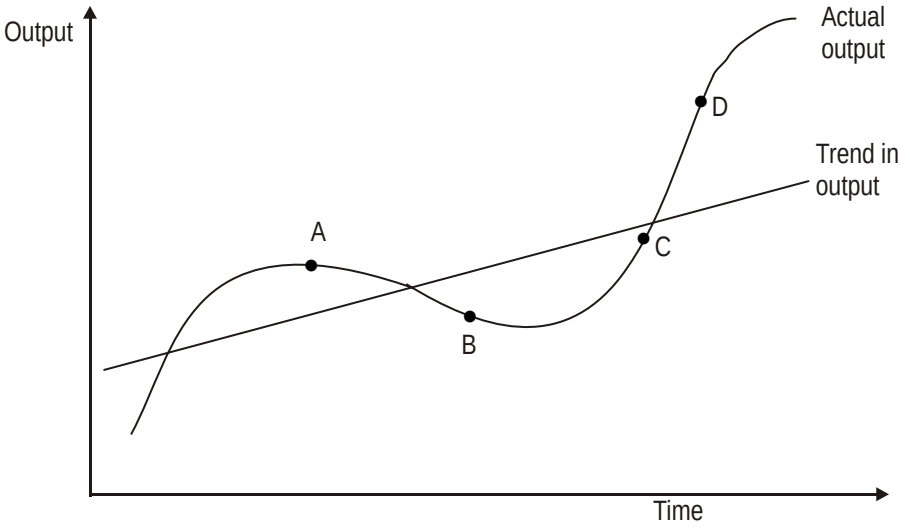
5.1 The business cycle is the continual sequence of rapid growth in national income followed by a slowdown.

5.2 After slowdown or recession comes growth again and so on.

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5.3 The four main phases of the business cycle are:

(a) Recession (point A on the graph below)
(b) Depression (point B on the graph below)
(c) Recovery (point C on the graph below)
(d) Boom (point D on the graph below)



5.4 In the 'Recession' phase consumer demand falls and previous investment projects begin to look unprofitable. This phase can begin quite quickly.

5.5 If during the recession phase there is a lack of stimulus to aggregate demand a period of 'depression' will set in.

5.6 'Recovery' is usually slow to begin due to a general lack of confidence in the economy, but it will quicken up. Incomes and employment will rise as output does.

5.7 Once the actual output has risen above the trend line the 'Boom' phase of the cycle is entered. Capacity and labour become fully utilised in this phase.

6 Inflation and its consequences

6.1 Inflation is the name given to an increase in prices.

6.2 High inflation is a problem because it leads to:

(a) Redistribution of income and wealth
(b) Balance of payments effects
(c) Uncertainty of the value of money and prices
(d) Resource costs of changing prices
(e) Lack of economic growth and investment

6.3 The rate of inflation is measured by price indices. A 'basket' of items which represent average purchases around the country is priced regularly and this forms the basis of a price index.

6.4 In the UK there are now two key price indices:

(a) Retail Prices Index (RPI)

This index includes prices for all goods and services (including housing costs) purchased by UK consumers.

(b) Consumer Prices Index (CPI)

This index, which excludes housing costs, is calculated on the same basis as the rest of Europe.

(c) RPIX

This is the underlying rate of inflation excluding mortgage interest payments.

(d) RPIY

This is RPIX as adjusted for the effects of any VAT changes.

7 Unemployment

7.1 The rate of unemployment can be calculated as:

$$\frac{\text{Number of unemployed}}{\text{Total workforce}} \times 100\%$$

7.2 Consequences of unemployment include:

(a) Loss of output
(b) Loss of human capital
(c) Increases inequalities in income distribution
(a) Social costs
(e) Increased welfare payments

7.3 Unemployment can be classified into categories:

(a) Real wage unemployment (labour supply exceeds demand but wage rates do not fall)
(b) Frictional (delays in transferring from one job to another)
(c) Seasonal (eg tourism)
(d) Structural (eg coal mining)
(e) Technological (eg robots in car plant)
(f) Cyclical or demand deficient (reflects the economic cycle)

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8 Objective of economic growth

8.1 Economic growth is measured by increases in real gross national product (GNP) per head of population.

8.2 Factors which contribute to growth include:

(a) New investment
(b) Natural resources
(c) Labour sources
(d) Capital availability
(e) Technological progress

9 The balance of payments

9.1 The balance of payments account relates to foreign exchange movements in a country. It consists of a current account for trading activities and a capital account.

9.2 The current account is sub-divided into:

(a) Trade in goods

(b) Trade in services

(c) Income from:

- Employment by overseas companies of UK residents
- Returns on overseas capital investment

(d) Transfers from:

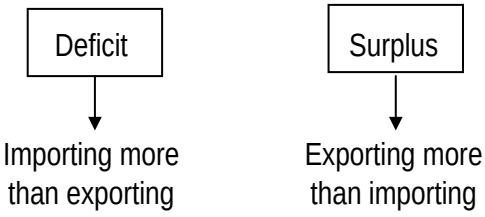
- Interest payments to/from overseas bodies, eg EU
- Non government payments to/from overseas bodies, eg EU

9.3 The capital account comprises public sector flows of capital (eg government loans to other countries).

9.4 The balance on the financial account comprises flows of capital to/from non government sector (eg investment overseas).

9.5 The sum of the balance of payments accounts must always be zero, excluding statistical errors in collecting the data known as the 'balancing item'. When commentators speak of a balance of payments **surplus** or **deficit** they are only referring to the current account, which is also known as the balance of trade.

9.6



10 Chapter summary

- This chapter has explained the impact of government policy on the macro economy and the potential impact of policy decisions on organisations.

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Chapter 6: Questions



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6.1 Adam Smith lists four features of a good tax system, which of the following is not one of these features?

A Regressive

B Economy

C Certainty

D Convenience (2 marks)

6.2 The Consumer Prices Index (CPI) is the European equivalent of the Retail Prices Index (RPI). True or false?

A True

B False (1 mark)

6.3 Which of the following is not a category of unemployment?

A Technological

B Cyclical

C Demographic

D Seasonal (2 marks)

6.4 Which of the following is not a disadvantage of economic growth?

A Increased pollution

B Structural unemployment

C Faster use of natural resources

D Higher standard of living (2 marks)

6.5 In the business cycle if A represents Recession, B Depression, C Recovery and D Boom, which is the correct sequence?

A BADC

B DABC

C CBAD

D ACDB (2 marks)

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Chapter 6: Answers



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6.1 A A regressive tax is one which takes a higher proportion of a low income than a high income (eg vehicle excise duty).

6.2 B The Consumer Prices Index excludes housing costs (which are included in the Retail Prices Index), but is calculated on the same basis as the rest of Europe.

6.3 C Demographic is a term used to analyse a population into segments based on factors such as age and income.

6.4 D Higher standard of living is an advantage of economic growth.

6.5 B The cycle operates in the following sequence; Boom, Recession, Depression, Recovery.

END OF CHAPTER

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7

The business environment

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Appreciate factors outside the organisation, but which impact on it, using PEST analysis.
- Understand the necessity for data protection and health and safety procedures.
- Appreciate how the value chain enhances competitive advantage.
- Think through the impact of technology on organisations.

Exam Context

The topics covered in this chapter are heavily tested in the pilot paper. Questions covered population trends, environmental factors and scanning, data protection regulation and employment legislation.

Qualification Context

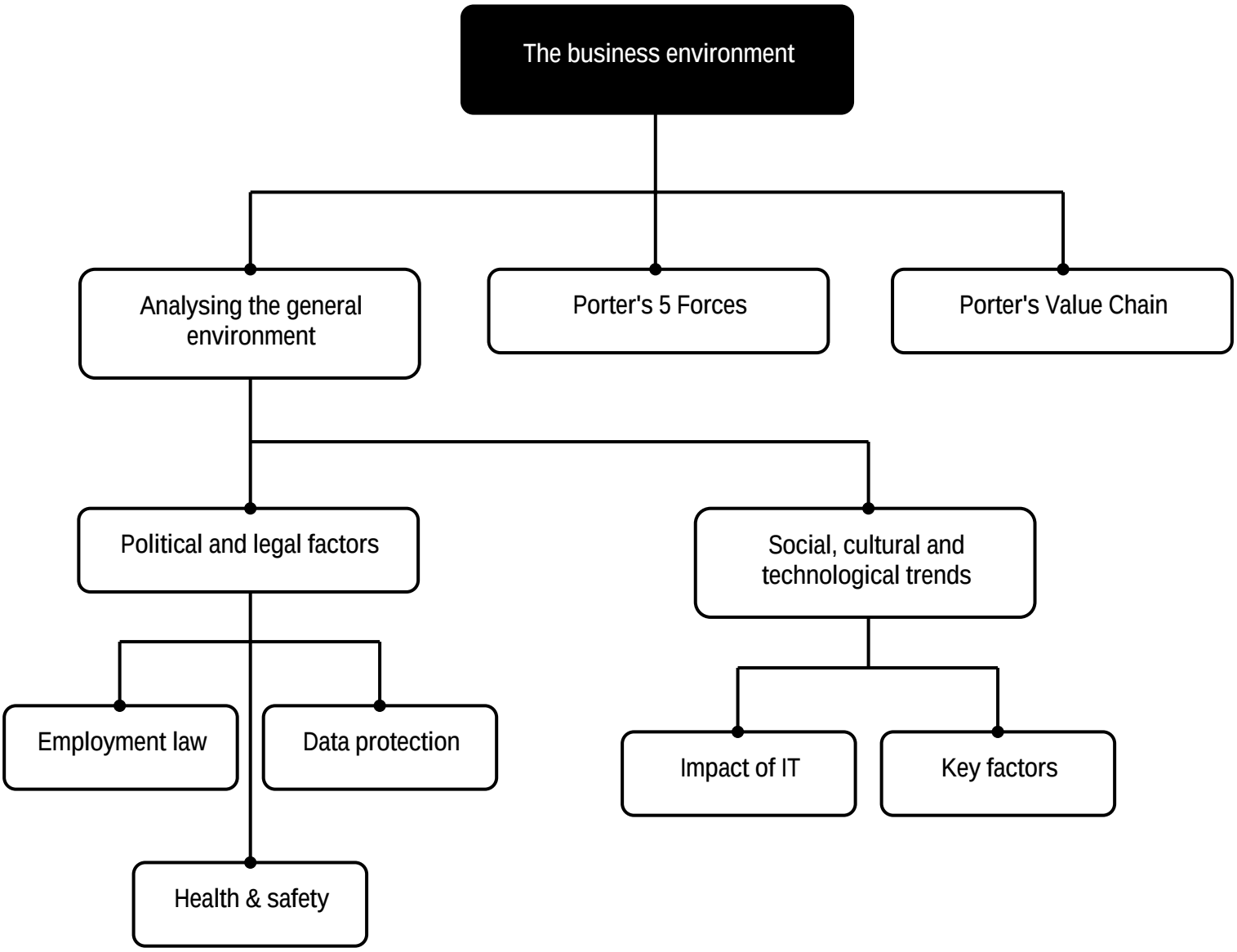
This chapter forms a useful basis for part of the P3 syllabus.

Business Context

Organisations need to understand and appreciate the environment in which they operate in order to maximise their potential competitive advantage.

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Overview

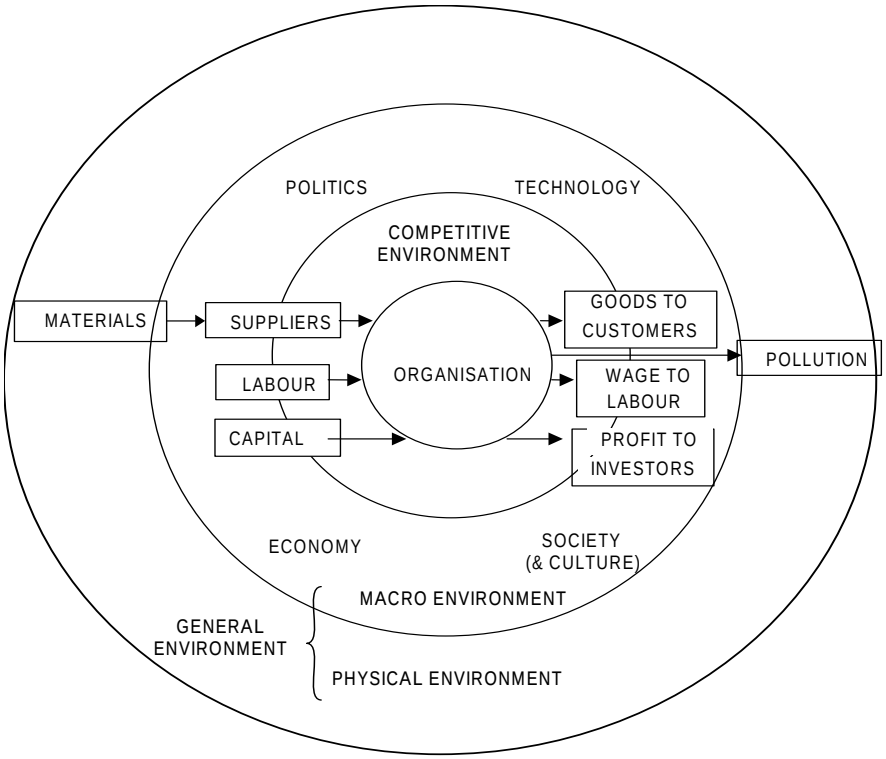

The business environment
Analysing the general environment
Porter's 5 Forces
Porter's Value Chain
Political and legal factors
Social, cultural and technological trends
Employment law
Data protection
Health & safety
Impact of IT
Key factors

1 Analysing the environment

1.1 The environment can be described as everything which is beyond the organisational boundary.

1.2 Management cannot control the environment, however it influences all aspects of organisational activity and so must be viewed strategically.

1.3 The environment comprises a number of different elements, illustrated by the rings in the diagram below:



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Lecture example 1

Ideas generation

Required

Suggest some reasons why companies should analyse their environment?

Solution

1.4 The general environment covers all the **political/legal**, **economic**, **social/cultural** and technological influences in the countries in which an organisation operates.

1.5 **PEST analysis** is used as a framework for generating ideas for the factors that are influencing the environment:

P Political/Legal/Regulation
E Economic
S Social/Cultural/Fashion
T Technology

2 Political and legal environment

2.1 The political factors impacting on the environment include:

(a) Degree of government intervention
(b) Policy direction
(c) Political risk

2.2 The legal framework in which organisations operate derives from:

(a) Parliamentary legislation
(b) Government regulations
(c) Treaty obligations
(d) Official regulations
(e) International bodies

2.3 Key legislation for organisations includes:

- Company law
- Criminal law
- Employment law
- Health and Safety
- Data Protection

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3 Legal framework for employees

3.1 Employees are protected by a range of laws including the following areas:

- Termination of employment
- Health and safety in the workplace.

Termination of employment

Lecture example 2

Ideas generation

Required

Identify ways in which people leave organisations.

Solution

Health and safety

3.2 Both employers and employees have a duty to maintain health and safety standards at work for the following reasons:

- To meet legal obligations
- To minimise the risk of accidents
- To minimise the risk of litigation

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Lecture example 3

Ideas generation

Required

Suggest areas which would fall under the responsibility of the employer.

Solution

3.3 Employees' duties over health and safety include:

(a) Take care of themselves and others
(b) Do not interfere with machinery
(c) Use all equipment properly
(d) Inform employer of any potentially dangerous situation

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Lecture example 4

Ideas generation

A scene from everyday office life is shown below

Required

Note down anything that strikes you as being dangerous and allocate responsibilities between employer and employee.



Solution

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Stress

3.4 Stress in employees can arise for a variety of reasons, connected with the job or the employee's private life. Symptoms of stress in the work environment include:

(a) Nervous tension
(b) Withdrawal
(c) Low morale
(d) Repressing the problem

3.5 Causes or aggravators of stress in the work place:

(a) Personality of employee
(b) Ambiguity/conflict in employee's roles
(c) Change, insecurity, risk
(d) Management style
(e) Job related factors (eg environment, work load)
(f) Social factors

3.6 Many employers have a health and safety policy which details:

(a) Statement of principles
(b) Detail of safety procedures
(c) Compliance with the law
(d) Instruction on equipment use
(e) Training requirements

4 Data protection and security

4.1 In recent years, there has been a growing popular fear that **information** about individuals which was stored on computer files and processed by computer could be **misused**.

4.2 In particular, it was felt that an individual could easily be harmed by the existence of computerised data about him or her which was inaccurate or misleading and which could be **transferred to unauthorised third parties** at high speed and little cost.

4.3 In the UK the current legislation is the **Data Protection Act 1998**. This Act replaced the earlier Data Protection Act 1984.

4.4 In order to understand the Act it is necessary to know some of the technical terms used in it:

(a) **Personal data** is information about a living individual, including expressions of opinion about him or her. Data about other organisations (eg supplier or customer companies) is not personal data, unless it contains data about individuals who belong to those other organisations.

(b) **Data users** are organisations or individuals who control the contents of files of personal data and the use of personal data which is processed (or intended to be processed) automatically – ie who use personal data which is covered by the terms of the Act.

(c) A **data subject** is an individual who is the subject of personal data.

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4.5 The Act contains the Data Protection Principles which data users must comply with:

(a) Personal data shall be processed fairly and lawfully.

(b) Personal data shall be obtained only for one or more specified and lawful purposes.

(c) Personal data shall be adequate, relevant and not excessive.

(d) Personal data shall be accurate and, where necessary, kept up to date.

(e) Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.

(f) Personal data shall be processed in accordance with the rights of data subjects under this Act.

(g) Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.

(h) Personal data shall not be transferred to a country or territory outside the European Economic Area unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data.

4.6 Key points of the Act can be summarised as follows.

(a) With certain exceptions, all **data users** and all computer bureaux have had to **register** under the Act with the **Data Protection Registrar**.

(b) **Individuals** (data subjects) are awarded certain **legal rights**.

(c) **Data holders** must adhere to the **data protection principles**.

4.7 The key risks affecting data are:

(a) Human error
(b) Technical malfunction
(c) Deliberate/malicious action
(d) Hacking

4.8 Using the Internet brings numerous security dangers:

(a) Viruses

(b) Deliberate damage caused by disaffected employees

(c) Damage caused by outside people (hackers)

(d) Downloading of inaccurate information and/or virus ridden software

(e) Internal information may be intercepted, but this can be avoided by encryption (see later)

(f) Communications link may distort data or break down

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4.9 Data stored electronically is at risk of a security breach. At particular risk is:

(a) Information regarding the business's standing and competitive advantage
(b) Personal and private information
(c) Information regarding the business's security
(d) Information integral to the outcome of deadlines (eg tenders)

4.10 When data is transmitted over a network or **telecommunications link** (especially the **Internet**) there are numerous security dangers:

(a) Corruptions such as **viruses** on a single computer can spread through the network to all of the organisation's computers. (Viruses are described at greater length later in this chapter.)

(b) Disaffected employees have much greater potential to do **deliberate damage** to valuable corporate data or systems because the network could give them access to parts of the system that they are not really authorised to use.

5 Social and demographic trends

5.1 Organisations are impacted by social and demographic factors in two ways:

(a) Managing HR
(b) Successfully marketing products.

5.2 Managing HR

Organisations must take account of a range of factors when managing its labour force:

(a) What skills do we need:

(b) What skills are available

– internally?
– externally?

(c) How does the education system contribute to our labour supply?

6 Cultural trends

6.1 There have been significant changes in UK attitudes to diet and health in areas such as:

(a) Smoking
(b) Diet (eg organic food)
(c) Obesity

6.2 The impact on business of these trends in health and diet include:

(a) Growing market (for sports-related goods)
(b) Employee health (and its impact on employers' productivity)
(c) New foods (with added vitamins)
(d) New convenience foods
(e) Organic foods

7 Impact of technology on organisations

7.1 Information technology has played a significant role in the development of the modern business environment.

Lecture example 5

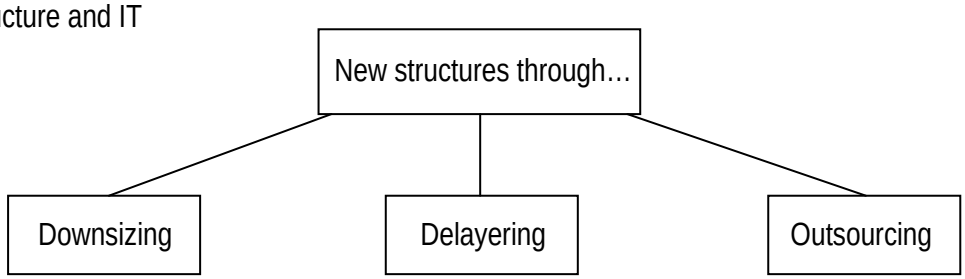
Ideas generation

Required

Suggests ways in which IT has changed your working environment.

Solution

7.2 Structure and IT



Lecture example 6

Pilot Paper question

Required

Identify the benefits and risks of outsourcing an organisations IT department.

Solution

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7.3 When finalising arrangements for outsourcing IT the following factors need to be considered:

(a) Is the system of strategic importance?
(b) Can the system be relatively isolated?
(c) Do we understand the systems enough to manage the service agreement?
(d) Are our requirements likely to change?

8 Competitive forces

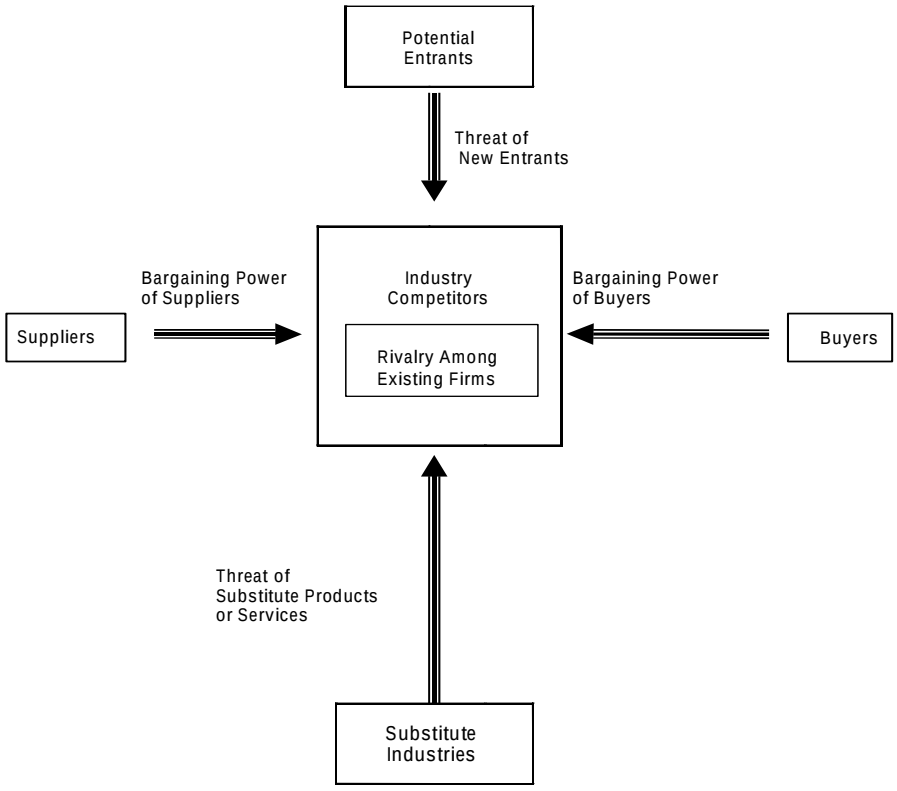
8.1 Michael Porter argues that the pressures of five competitive forces, specific to the industry or organisation, will determine long-term shareholder returns (1980).

8.2 This model may be used in two ways:

(a) To understand the inherent attractiveness of an industry.

(b) By understanding the impact of each individual force on an organisation, actions may be taken to mitigate that force.

8.3 Porter's 5 forces model



(a) Substitutes. The threat that alternative products (or services) will equally satisfy customer needs.

(b) Potential entrants. The threat posed by an outside organisation that may try to penetrate the market place. Examples of barriers include economies of scale, product differentiation, capital costs, switching costs, distribution channels.

(c) Buyer power. The threat posed by the relative market forces that can be imposed by customers (eg relative size and number of buyers).

(d) Supplier power. The threat posed by the relative market forces that can be imposed by suppliers (eg monopoly suppliers, switching costs, possible alternative products).

(e) Competition and rivalry. The inherent level of rivalry and competition in the industry between existing firms.

8.4 IT can be used to support an organisation's competitive strategy and can be used in a collaborative venture.

9 Converting resources: the value chain

9.1 Michael Porter says that competitive advantage is achieved by the way a firm organises and performs activities.

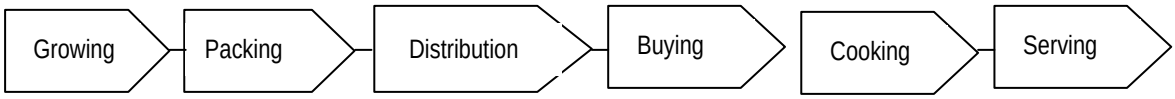
9.2 Example – A restaurant



A restaurant's activities can be divided into buying food, cooking it, and serving it. The ultimate value a firm creates is measured by the amount customers are willing to pay for its products or services above the cost of carrying out value activities.

A firm is profitable if the realised value to customers exceeds the collective cost of performing the activities.

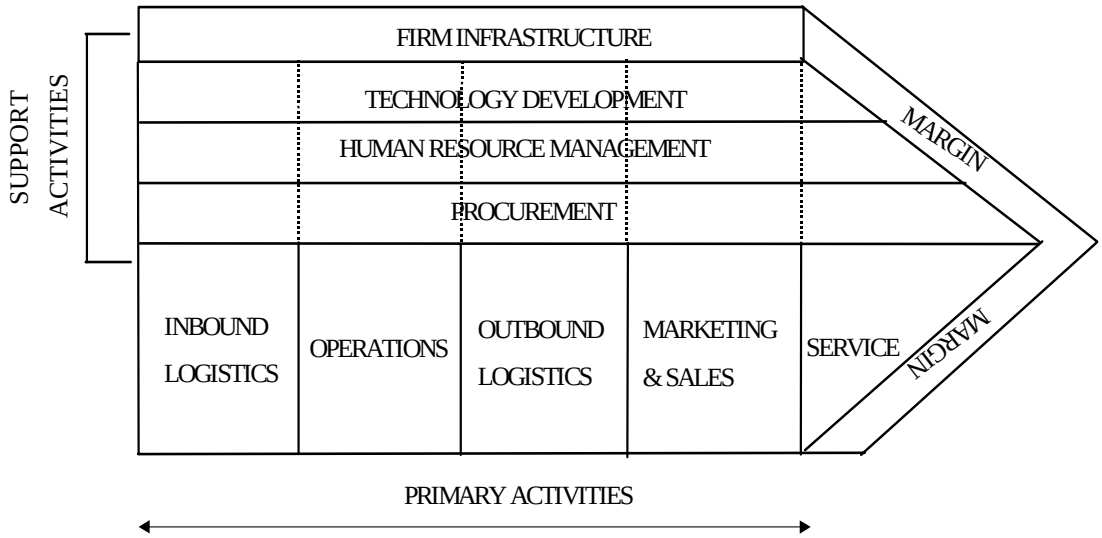
9.3



9.4 Activities that add value do not stop at the organisation's *boundaries*. For example, when a restaurant serves a meal, the quality of the ingredients – although they are chosen by the cook – is determined by the grower.

9.5 Porter analysed the various activities of an organisation into a *value chain.* This is a model of value activities and the relationships between them.

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9.6 Primary activities are those directly related to production, sales, marketing, delivery and services:

(a) *Inbound logistics* eg warehousing, transport, stock control.

(b) *Operations* are those activities that convert resource inputs into a final product.

(c) *Outbound logistics* are those activities relating to storing the product and its distribution to customers.

(d) *Marketing and sales* are those activities that relate to informing customers about the product, persuading them to buy it, and enabling them to do so. This includes advertising, promotion etc.

(e) *After sales service.* For many companies, there are activities such as installing products, repairing them, upgrading them, providing spare parts etc.

9.7 Support activities are those which provide purchased inputs to support the primary activities, eg human resources, technology and infrastructural functions:

(a) *Procurement* refers to those activities which acquire the resource inputs to the primary activities (eg purchase of materials, subcomponents and equipment).

(b) *Technology development* (in the sense of apparatus, techniques and work organisation). These activities are related to both product design and to improving processes and/or resource utilisation.

(c) *Human resource management* is the activities of recruiting, training, developing and rewarding people.

(d) *Firm infrastructure.* The systems of planning, finance and quality control are activities which Porter believes are crucially important to an organisation's strategic capability in all primary activities.

9.8 Value Chain is used to identify the following:

(a) Internal strengths and weaknesses
(b) Benefits from internal linkages
(b) Benefits from external linkages
(c) How the value chain supports the generic strategy

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10 Chapter summary

- This chapter has demonstrated a variety of techniques that organisations use to understand the impact of the changing business environment on their organisations.

Chapter 7: Questions



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7.1 Which of the following headings is not part of a normal PEST analysis?

A Political

B Ecological

C Social

D Technological (2 marks)

7.2 Which of the following is not a competitive force in Porter's 5 forces model?

A Potential entrants

B Supplier power

C Substitute industries

D Infrastructure (2 marks)

7.3 What does a Value Chain not identify?

A Internal strengths and weaknesses

B Positions in the market

C Benefits from internal linkages

D How the generic strategy is supported (2 marks)

7.4 The Data Protection Act enables organisations to indiscriminately utilise information held on all databases. True or false?

A True

B False (1 mark)

7.5 Which of the following is not likely to effect an organisation's span of control?

A Nature of the task

B Age of the organisation

C Ability of the managers

D Availability of good quality information (2 marks)

Chapter 7: Answers



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7.1 B Ecological factors may be an important part of an environmental analysis for some organisations, but the "E" in PEST stands for Economic.

7.2 D Firm infrastructure is a secondary activity in Porter's Value Chain.

7.3 B The value chain reviews the organisation and not its position within the business environment and so its position in the market (eg market share) is not obvious from the value chain.

7.4 B The Data Protection Act is designed to protect data about individuals from being misused by any organisation.

7.5 B Whether the organisation is young or old does not necessarily impact on its span of control.

END OF CHAPTER

BPP LEARNING MEDIA

8

The role of accounting

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand how accounting information is used.
- Appreciate the regulatory system under which accounts are prepared.
- Understand how accounting systems function.

Exam Context

The specifics of accounting systems are likely to be examined. The business needs of the users of accounting information are a 'hot topic'.

Qualification Context

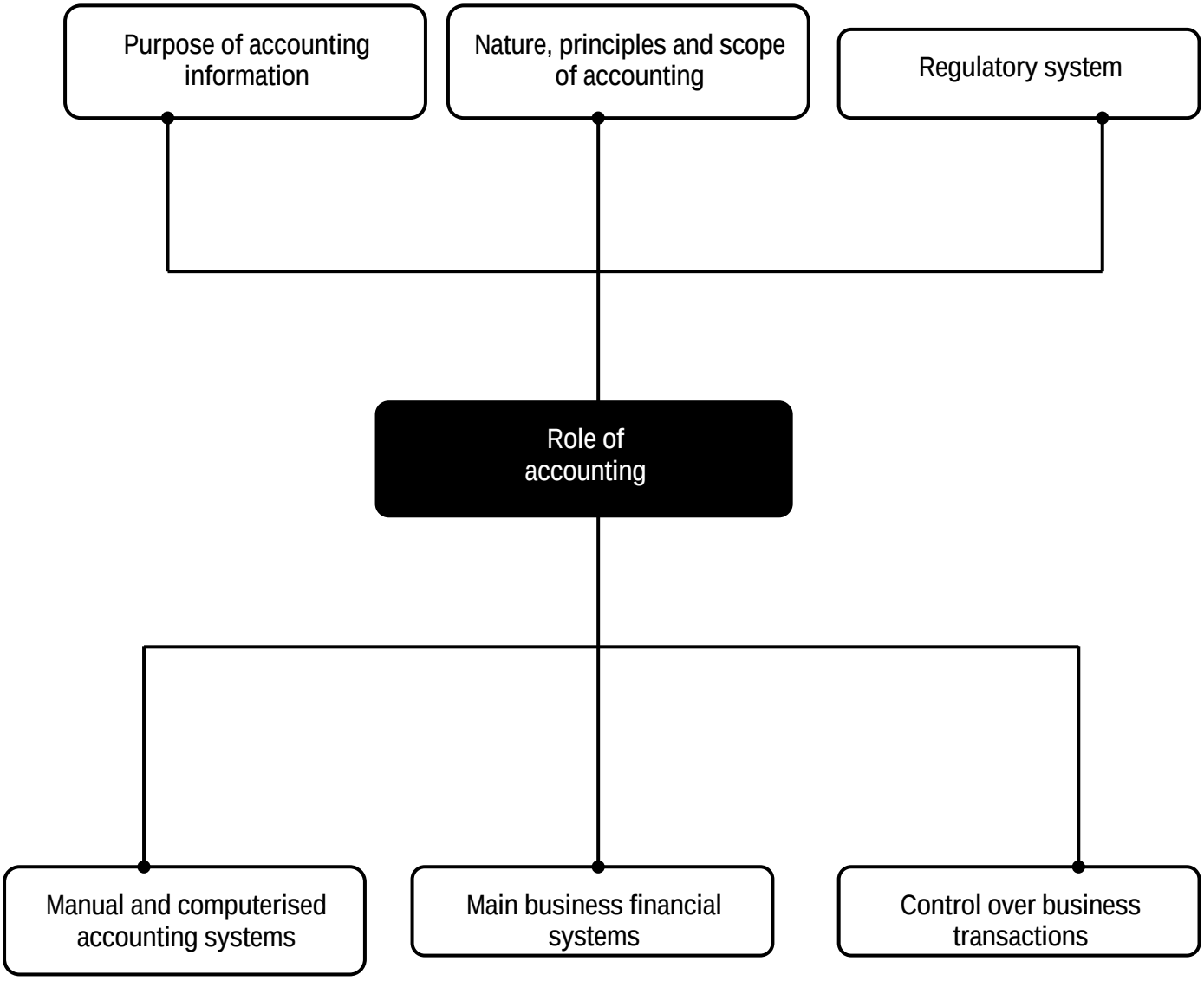
A broad appreciation of the various uses for accounting information will help students in preparing accounts.

Business Context

Financial information is vital in all organisations for controlling and decision making purposes.

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Overview


Purpose of accounting information
Nature, principles and scope of accounting
Regulatory system
Role of accounting
Manual and computerised accounting systems
Main business financial systems
Control over business transactions

THIS CHAPTER SHOULD BE DONE AS HOME STUDY

1 The purpose of accounting information

1.1 Accounting is a way of recording, analysing and summarising the transactions of a business and the accounting system must be adequate to fulfil this task.

1.2 An appropriate accounting system will depend upon:

- Size of the organisation
- Type of organisation
- Structure of organisation
- Legal jurisdiction of the organisation

1.3 The accounting system will provide the basis for financial information used internally and externally.

1.4 Financial statements have to be produced as a result of requirements of:

(a) Law (Companies Acts)
(b) HM Revenue and Customs
(c) Banks (if providing finance to the company)
(d) Employee reports

1.5 Professional accountancy bodies around the world have produced accounting standards with which all published accounts are expected to comply.

1.6 Good accounting information will have the following qualities:

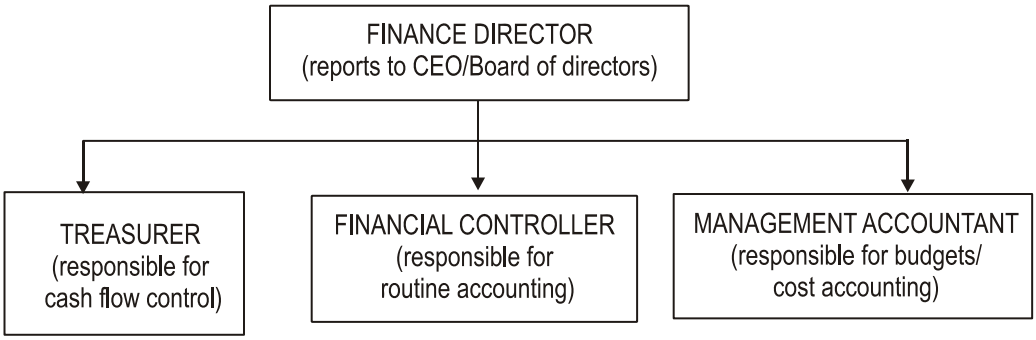
(a) Relevance
(b) Comprehensibility
(c) Reliability
(d) Completeness
(e) Objectivity
(f) Timeliness
(g) Comparability

1.7 Key users of accounts include:

(a) Managers
(b) Shareholders
(c) Trade contacts
(d) Providers of finance
(e) Analysts

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1.8 Typically large organisations structure their accounting functions on the lines of:



1.9 Many organisations also have an internal audit department, which is designed to alleviate the risks of error and fraud. Internal auditors are employees of the company.

2 Nature, principles and scope of accounting

2.1 *Financial accounting*

- Records historic results
- Provides information for external users

Management accounting

- Produces information for decision-making
- Provides information for internal users

2.2 The statutory annual accounts of a company, subject to a minimum size requirement, need to be audited by an independent qualified person. The auditors prepare an audit report which is either unqualified or if there are issues arising from the accounts it will be qualified.

2.3 The accounts department interacts with other departments in the organisation and so there is a need for close co-ordination.

3 The regulatory system

3.1 The following factors have influenced the current shape and style of financial statements:

(a) Company law
(b) Accounting concepts and individual judgement
(c) Accounting standards
(d) European Union
(e) Other international influences
(f) Generally accepted accounting principles (GAAP)

3.2 The Companies Act 1985 dictates the form and content of accounts, which must also comply with accounting standards.

3.3 In 1990 this system was replaced by the Financial Reporting Council and its subsidiary the Accounting Standards Board (ASB) which issued statements that focused on principles rather than fine details. The Urgent Issues Task Force is an offshoot of the ASB and deals with urgent matters not covered by existing standards.

3.4 The International Accounting Standards Board's objectives include:

(a) Development of global accounting standards
(b) Rigorous application of those standards
(c) Convergence of national accounting standards

3.5 Company law requires that a published balance sheet must give a 'true and fair view of the state of affairs' of the company at the year end, whilst the profit and loss account must give a 'true and fair view of the profit or loss' for the financial period.

4 Control over business transactions

4.1 There are a number of functions to be managed within a business:

(a) Purchasing
(b) Human resources
(c) Finance
(d) Sales and marketing
(e) General administration

4.2 To minimise these risks, an organisation must ensure that it has adequate controls over transactions

4.3 Financial control procedures exist to ensure that:

(a) Transactions are correctly recorded
(b) Business assets are safeguarded
(c) Production of accurate and timely information

4.4 Examples of good financial control procedures include:

(a) Cheque/bank transfers over a certain amount needing two signatures
(b) Authorisation limits on purchase orders
(c) Authorisation of expense claims
(d) Effective credit control
(e) Effective computer security and access levels

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5 Manual and computerised accounting systems

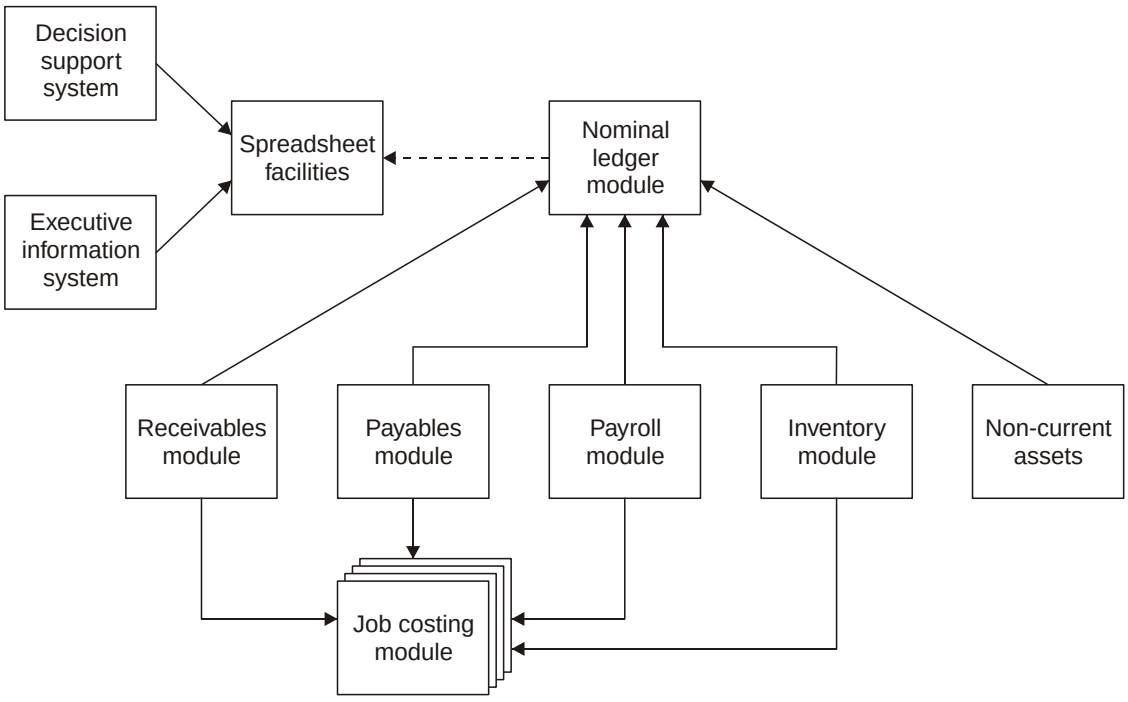
5.1 The principles behind computerised accounting are the same as those of manual accounting. Computerised accounting tends to rely on accounting packages which comprise several modules (eg sales ledger, purchase ledger).

5.2 Manual systems are usually inferior to computerised systems. Disadvantages of manual systems include:

(a) Lower productivity
(b) Slower processing speeds
(c) Greater risk of errors
(d) Information less accessible
(e) More difficult to make alterations/corrections
(f) Not suitable for large amounts of data
(g) Inconsistent quality of output

5.3 Integrated accounting software has automatic links between separate accounting modules thus meaning data needs only to be processed once and all files are updated.

5.4 Example

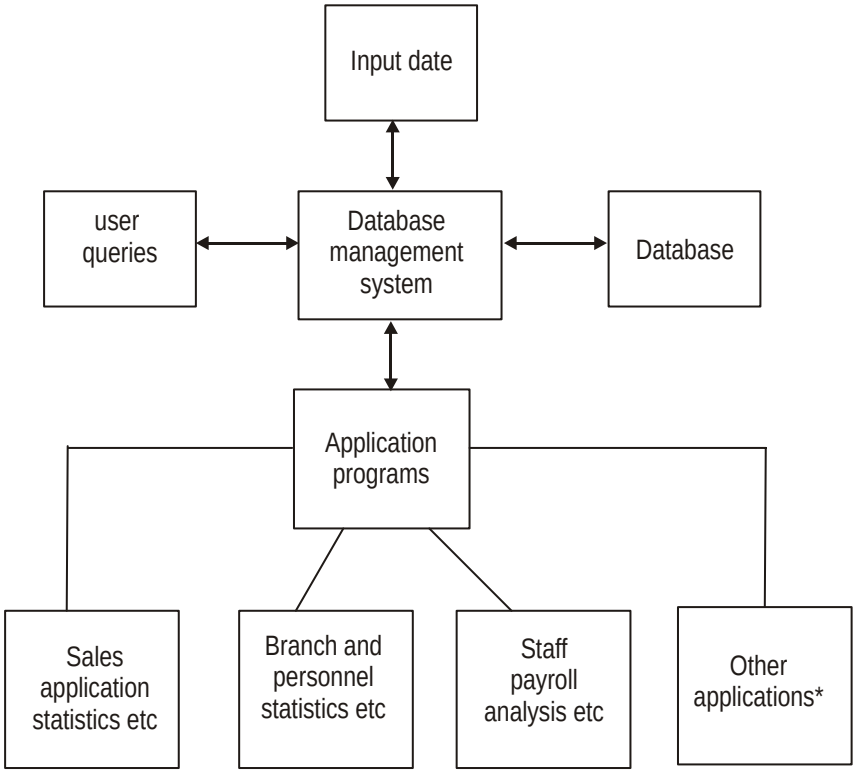


5.5 Integrated accounting systems have the following advantages and disadvantages:

Advantages	Disadvantages
1 entry updates others	Greater computer memory needed
Users specify reports	Fewer facilities than specialist modules
Users workload is simplified	

6 Databases and spreadsheets

6.1 A database is a 'pool' of data that can be used by a variety of people for a variety of applications:



* The range of applications which make use of a database will vary widely, depending on what data is held in the database files.



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6.2 Spreadsheets are often used in both financial and cost accounting and are essentially computerised calculation formats.

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7 Chapter summary

- This chapter has looked at why and how accounting is used in organisations.

Chapter 8: Questions



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8.1 Which of the following is not an advantage of an organisational database?

A Only one secure access point

B No need to duplicate files or data

C Common data is shared by all users

D There is no inconsistent data (2 marks)

8.2 Which of the following has not influenced the current shape an style of financial statements?

A Accounting standards

B HM Revenue and Customs

C Company law

D GAAP (2 marks)

8.3 Which of the following is a requirement of an effective procurement system?

A Quality of goods received checked upon receipt

B Reconciliation of suppliers' statements

C Bank reconciliation

D All orders properly authorised (2 marks)

8.4 Which of the following is not a disadvantage of a manual accounting system as compared to a computerised one?

A Slower processing speeds

B Greater risk of error

C Cost of system

D Not suitable for large volumes of data (2 marks)

8.5 Double entry bookkeeping ensure every transaction is entered twice thus ensuring that the accounts balance. True or false?

A True

B False (1 mark)

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Chapter 8: Answers



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8.1 A The concept of an organisational database is that a range of employees can have access to it at any time.

8.2 B HM Revenue and Customs use published accounts as an initial basis for tax collection, but they do not influence the shape and style of financial statements.

8.3 D The quality of goods received is a task for the Goods in/Inventory department. Reconciliation of suppliers' statements and bank reconciliations are the responsibility of the accounts department.

8.4 C Computerised systems are more expensive to set up than manual systems.

8.5 A True.

END OF CHAPTER

BPP LEARNING MEDIA

Control security and audit

9

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Identify weaknesses in controls of an organisation's assets.
- Appreciate the differences between internal and external audit.
- Understand the control and security issues around information technology.

Exam Context

The syllabus regards internal control as a specific and very important business function, supported by effective and secure management information.

Qualification Context

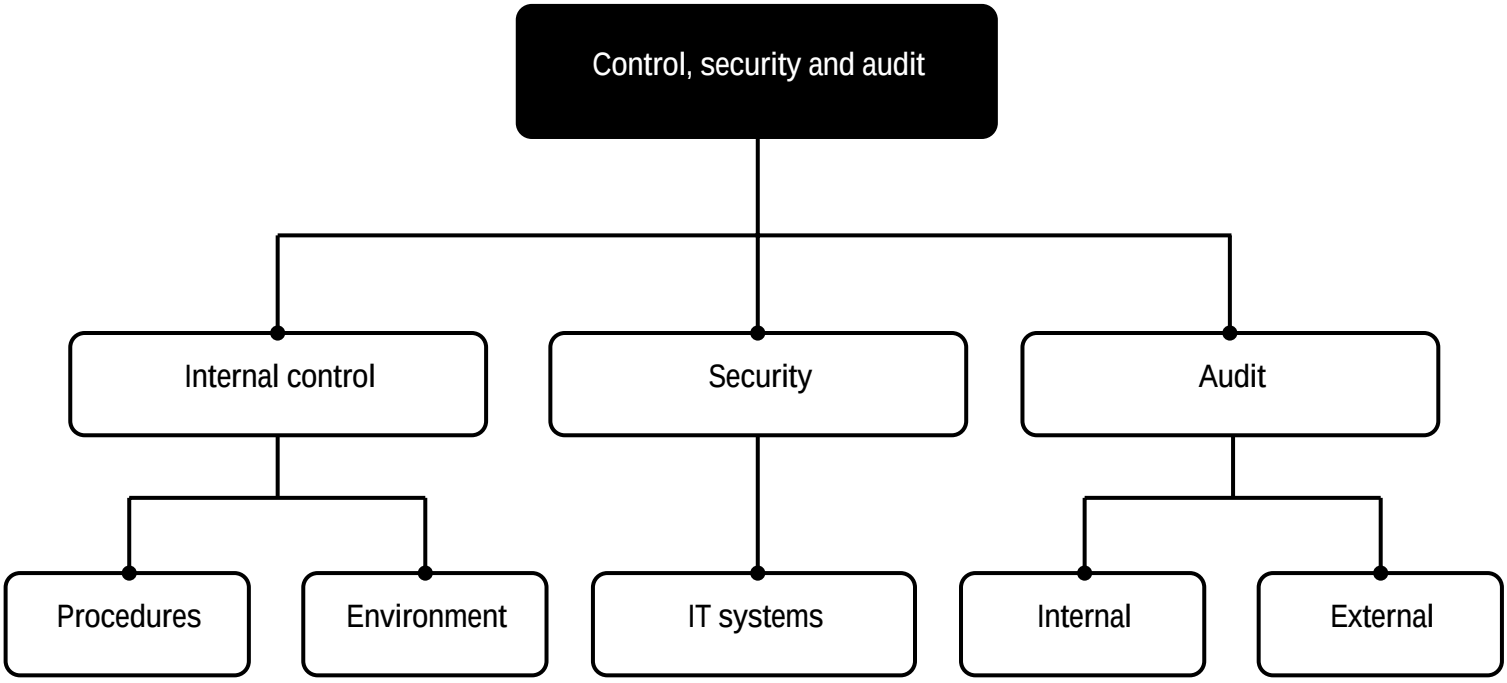
The contents of this chapter cross over with parts of other papers in the overall qualification.

Business Context

It is the duty of all directors and senior managers to protect and be accountable for their organisation's assets.

BPP LEARNING MEDIA

Overview


Control, security and audit
Internal control
Security
Audit
Procedures
Environment
IT systems
Internal
External

1 Internal control systems

Lecture example 1

Ideas generation

Required

What are the purposes of controls in an organisation?

Solution

1.1 To succeed internal controls need to be well directed and staff need to understand them.

1.2 A suitable framework for controls would consist of:

(a) Control environment
(b) Control procedures
(c) Information and communication processes
(d) Processes monitoring their continuing effectiveness

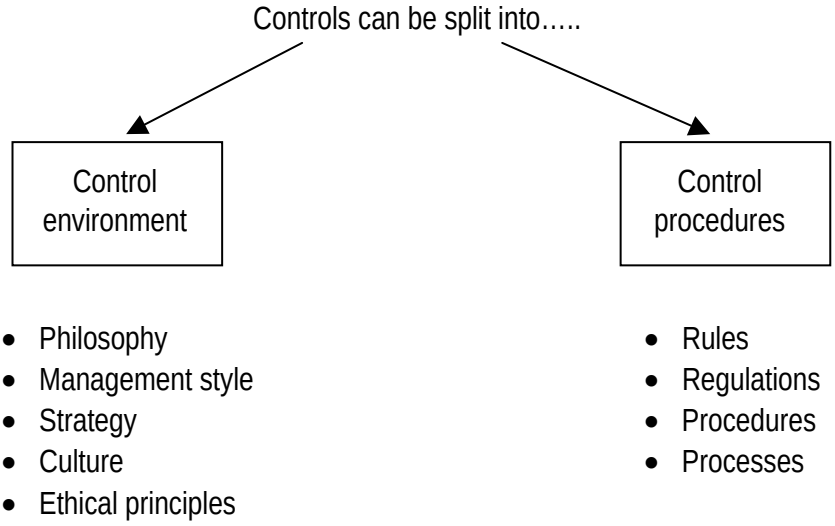
1.3 There are inherent limitations of an internal control system:

(a) Cost v benefits
(b) Potential for fraud or human error
(c) Employee collusion
(d) Bypassing/overriding of controls by management

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2 Internal control environment and procedures

2.1



2.2 A useful framework for control procedures is

Segregation of duties

Physical

Accounting

Management

Supervision

Organisational structure

Audit

Personnel

3 Internal audit and internal control

3.1 Internal audit is one part of an internal control system which assesses the effectiveness of other controls.

3.2 The work of the internal audit department may cover the following broad areas:

(a) Review of accounting and internal control systems

(b) Examination of financial and operating information

(c) Review of the economy, efficiency and effectiveness of operations

(d) Review of compliance

(e) Review of safeguarding of assets

(f) Review of implementation of corporate objectives

(g) Identification of significant business risks, monitoring overall risk management policy and monitoring risk management strategies

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(h) Special investigations

3.3 Internal auditors' work depends on the scope and priority of the identified risks. They may have to conduct a risk assessment from which they will recommend an appropriate framework.

3.4 The key features of good internal audit:

(a) Independence
(b) Appraisal

3.5 There are five different types of audit to be aware of:

(a) Operational
(b) Systems
(c) Transactions
(d) Social
(e) Management investigations

3.6 Operational audits monitor management's performance and are sometimes known as 'management', 'efficiency' or 'value for money' audits.

3.7 Systems audits test and evaluate internal controls. Typically there are two types of test:

- Compliance (controls are applied as laid down)
- Substantive (seeking errors and omissions)

If compliance tests reveal that internal controls are working satisfactorily then the amount of substantive testing can be reduced.

3.8 A transactions audit aims to detect fraud and uses only substantive tests.

3.9 Ideally the internal audit department should report to the audit committee of the board of directors as it is then free to report on all levels of management and can ensure that any of its recommendations are implemented.

3.10 The internal audit department plays a significant part in an organisation's risk management process.

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4 External audit

4.1 External audit is the regular examination of the organisation's records by an outside party to ensure that they have been properly maintained and give a true and fair view of the entity's financial state.

4.2 The key differences between internal and external audit are:

	Internal	External
Reason	Add value and improve organisation's operations	Express an opinion on the financial statements
Reporting to	Board of Directors	Shareholders
Work relating to	Operations of the organisation	Financial statements
Relationship with company	Employees of the company	Independent of the company and its management

The table above shows that whilst some of the work may be similar the whole basis and reasoning for their work is fundamentally different. This is emphasised by the difference in objectives with internal audit having a much wider scope.

4.3 There should be co-ordination between the external and internal auditors to ensure that duplication of work is minimised and controls enhanced.

4.4 If external auditors rely to an extent on the work of the internal audit department they will consider:

(a) Organisational status
(b) Scope of internal audit functions
(c) Technical competence
(d) Due professional care

5 IT systems security and safety

5.1 It is important that IT systems are secure and protect the data and information which they process and store. Security can be categorised as follows:

(a) Prevention
(b) Detection
(c) Deterrence
(d) Recovery procedures
(e) Correction procedures
(f) Threat avoidance

Lecture example 2

Ideas generation

Required

Suggest some physical environmental threats to IT systems and data.

Solution

5.2 Physical access controls seek to prevent intruders access to the IT system and include:

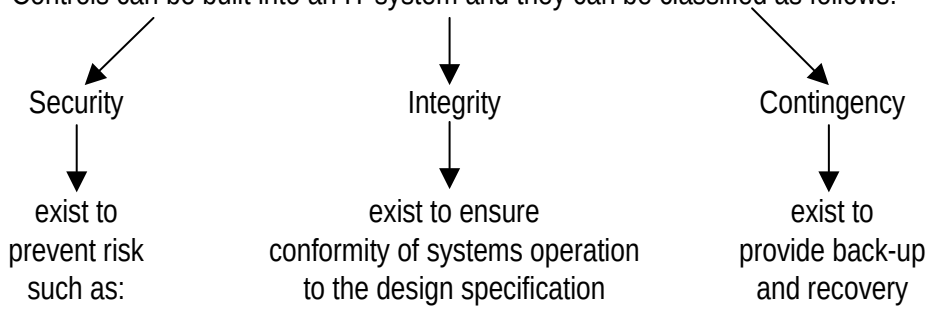
- Personnel
- Door locks
- Keypad or card entry systems
- Intruder alarms

5.3 Computer theft is an increasing problem as equipment becomes smaller and more portable. Whilst the loss of the physical asset is a concern, the loss of the data stored on the computer may cause a bigger problem.

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6 Building controls into an information system

6.1 Controls can be built into an IT system and they can be classified as follows:



- Human error
- Technical error
- Natural disaster
- Deliberate actions (eg fraud)
- Commercial espionage
- Malicious damage
- Industrial action

6.2 Input controls ensure the accuracy, completeness and validity of input data by:

(a) Data verification
(b) Data validation

6.3 Back-up controls aim to maintain system and data integrity by ensuring that the most recent copy of the data can be recorded and restored in the event of loss or corruption to the primary storage media.

6.4 A well planned back up and archive strategy should include:

(a) Off site storage and back up
(b) Regular back up of critical data
(c) Archive plans
(d) Disaster recovery plan
(e) Regular testing to verify back up data can be successfully restored

6.5 Administrative controls include:

(a) Careful personnel selection for senior IT roles
(b) Segregation of duties for other IT roles

6.6 Contingency controls include the creation of a 'disaster recovery plan' to ensure that the system recovers as fully and as soon as possible in the event of a disaster.

6.7 Disaster recovery plans provide for:

(a) Standby procedures
(b) Recovery procedures
(c) Personnel management

7 Chapter summary

- This chapter has explained internal control and compared the role of internal and external auditors.

Chapter 9: Questions



BPP LEARNING MEDIA

9.1 Internal auditors are employees of the company's external auditors who work full time auditing the company's accounts. True or false?

A True

B False (1 mark)

9.2 Which of the following is not an inherent limitation of an internal control system?

A Procedures manual

B Non routine transactions

C Management by passing controls

D Employee collusion (2 marks)

9.3 Which of the following is an incorrect statement regarding the external auditors?

A They report to the Board of Directors

B There work relates to financial statements

C They express an opinion on the financial statements

D They are independent of the company and its management (2 marks)

9.4 Which of the following is not a method of data validation?

A Audit trails

B Range checks

C Control totals

D Limit checks (2 marks)

9.5 Which of the following is not suggested by Turnbull to help ensure a strong control environment?

A Clear definition of authority

B Clear strategies

C Good internal communications

D Reconciliations (2 marks)

Chapter 9: Answers



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9.1 B Internal auditors are employees of the company itself and are not controlled or employed by the external auditors.

9.2 A Procedures manuals will aid the effectiveness of an internal control system.

9.3 A External auditors report to shareholders whilst internal auditors report to the Board of Directors.

9.4 A Audit trails show who has accessed a system and what operations were performed. They do not validate data.

9.5 D Reconciliations are a specific control procedure listed by the UK Auditing Practices Board.

END OF CHAPTER

BPP LEARNING MEDIA

10

Identifying and preventing fraud

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand the impact and circumstances of fraud in organisations.
- Appreciate how fraud can be prevented.
- Allocate responsibility for detecting and preventing fraud.

Exam Context

The practical aspects of fraud (where it might occur and how it can be detected) are the most likely areas to be examined, as shown by the pilot paper.

Qualification Context

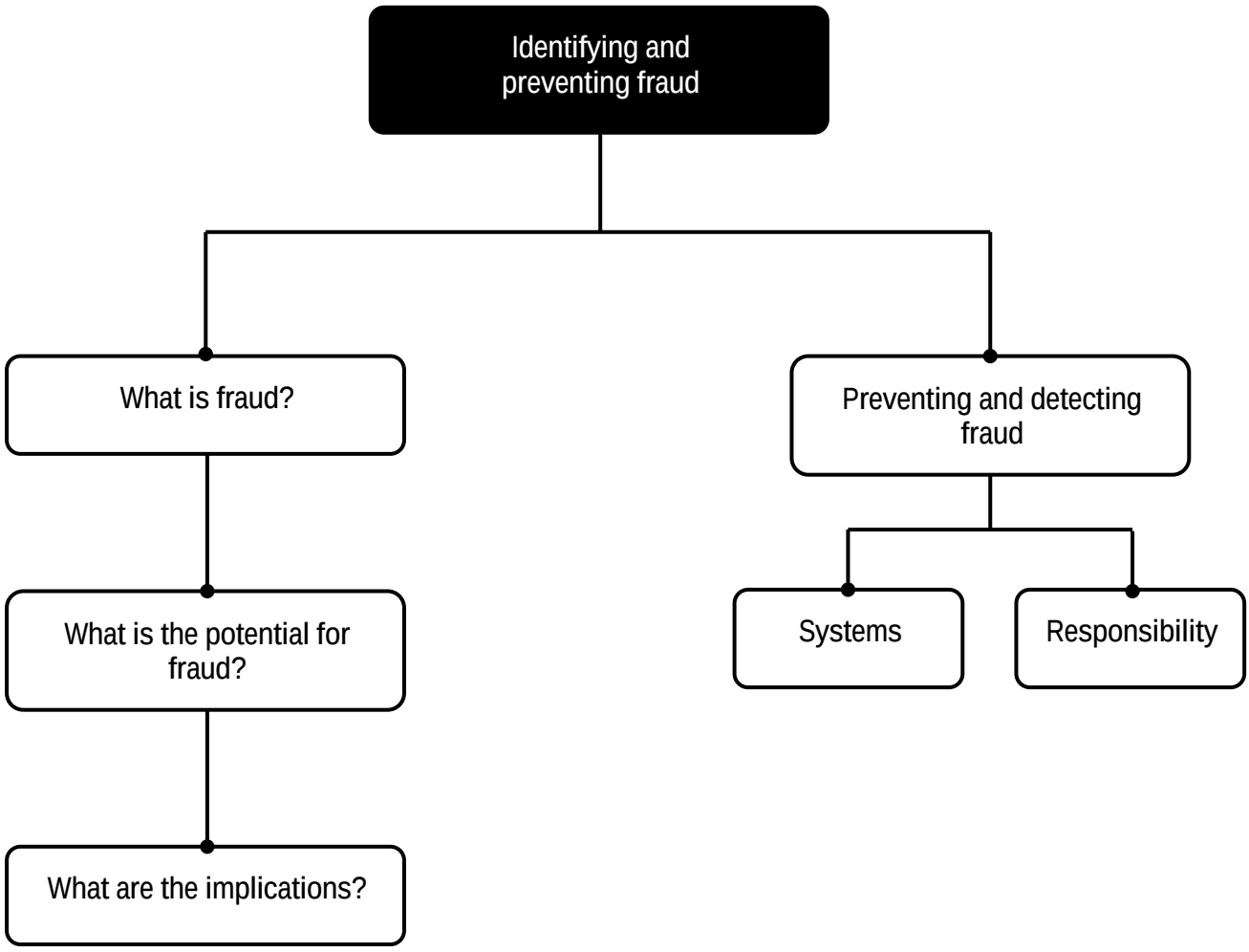
There is a potential cross over between this chapter and those papers that cover Audit.

Business Context

The potential for fraud is of concern to all organisations as it can lead to significant financial losses and it is usually the responsibility of senior finance employees to ensure the organisation's systems prevent and detect fraud.

BPP LEARNING MEDIA

Overview


Identifying and preventing fraud
What is fraud?
What is the potential for fraud?
What are the implications?
Preventing and detecting fraud
Systems
Responsibility

1 What is fraud?

1.1 In a corporate context, fraud can fall into one of two main categories:



1.2 Removal of funds or assets from a business includes:

(a) Theft of cash

(b) Theft of stock

(c) Payroll fraud

(d) Teeming and lading

(e) Fictitious customers

(f) Collusion with customers

(g) Bogus supply of goods or services

(h) Paying for goods not received

(i) Misuse of pension funds or other assets

(j) Disposal of assets to employees

(k) Manipulation of bank reconciliations and cash book

1.3 Intentional misrepresentation of the financial position of the business is often caused by a desire to overstate or understate profits:

(a) Over-valuation of stock

(b) Bad debt policy may not be enforced

(c) Fictitious sales

(d) Manipulation of year end events

(e) Understating expenses

(f) Manipulation of depreciation figures

2 Potential for fraud

2.1 Prerequisite of fraud:

(a) Dishonesty
(b) Motivation
(c) Opportunity

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2.2 Signs of high fraud risk include indications of:

(a) Lack of integrity
(b) Excessive pressures
(c) Poor control systems
(d) Unusual transactions
(e) Lack of audit evidence



Pg332-334

2.3 When assessing the risk of fraud management must consider:

(a) External factors (eg general environment of the business, nature of the industry)
(b) Internal factors (eg new personnel, rapid growth)

2.4 Types of risk to be considered include:.

(a) Business risk
(b) Personnel risk
(c) IT risk

3 Implications of fraud for the organisation

3.1 Fraud often leads to the removal of funds or assets from a business which has the following impacts:

(a) Immediate financial implications
(b) Long-term effects on company performance
(c) Intentional misrepresentation of the business's financial position

3.2 If results are overstated the impact is demonstrated by:

(a) Excessive distribution of profits
(b) Retained profits will be lower than believed
(c) Incorrect decisions will be made
(d) Impact on stakeholders (investors and suppliers)

3.3 If results are understated the impact is demonstrated by:

(a) Negative publicity
(b) Legal consequences

4 Systems for detecting and preventing fraud

4.1 Prevention of fraud must be an integral part of corporate strategy and a control system has to be designed to detect and investigate fraud.

4.2 General prevention policies include:

(a) Emphasising ethics
(b) Personnel controls
(c) Training and raising awareness

4.3 Controls discussed in the previous chapter should be selected and implemented with key risks in mind.

Lecture example 1

Ideas generation

Required

What behavioural evidence could suggest that fraud is being committed?

Solution

4.4 The primary aim of internal controls should be to prevent fraud, but it is equally important that the controls also enable fraud to be detected.

4.5 The following controls can be used specifically to target fraud:

(a) Internal audit
(b) Employment of a fraud officer
(c) Good personnel procedures
(d) Segregation of duties
(e) Whistle-blowing systems.

4.6 Investigation of fraud can be done by:

(a) Developing fraud response plan
(b) Assessing the adequacy of existing controls on fraud.

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5 Responsibility for detecting and prevent fraud

5.1 **Directors** responsibilities include:

(a) Ensuring controls are appropriate
(b) Ensuring financial information is reliable.

5.2 **External auditors** responsibilities include:

(a) Designing suitable audit procedures
(b) Documenting findings
(c) Qualifying an audit report if necessary.

6 Chapter summary

- This chapter has discussed the concept of fraud and how it can be detected and prevented.

Chapter 10: Questions



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10.1 Which of the following frauds is an example of intentional misrepresentation rather than removal of funds?

A Payroll fraud

B Teeming and lading

C Fictitious sales

D Collusion with customers (2 marks)

10.2 Which of the following is not an example of a business risk that may indicate potential fraud?

A Complex structure

B Market opinion

C Profit levels deviating from the norm

D Expensive lifestyles (2 marks)

10.3 Which of the following is incorrect? In preventing and detecting fraud the company directors have responsibility to:

A Ensure financial information is reliable

B Establish arrangements to deter fraudsters

C Design audit procedures for the external auditors

D Ensure the company's activities are conducted honestly (2 marks)

10.4 Prevention of fraud must be an integral part of corporate strategy. True or false?

A True

B False (1 mark)

10.5 Which of the following is not an internal control to combat fraud?

A Not enforcing holidays

B Authorisation policies

C Segregation of duties

D Sequential numbering (2 marks)

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Chapter 10: Answers



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10.1 C Fictitious sales includes falsely inflating the performance of the organisation (eg to achieve performance targets) and does not lead to the physical misappropriation of assets.

10.2 D Expensive lifestyles is an example of a personnel risk that may indicate fraud.

10.3 C The external auditors have sole responsibility for designing their own procedures.

10.4 A

10.5 A Fraudulent staff who do not take holidays may not wish other employees to cover their absence on holiday as this may lead to the discovery of their fraud.

END OF CHAPTER

11

Leadership and managing people

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand what management is all about.
- Appreciate how good leaders operate.
- Understand why alternative management styles are appropriate in different circumstances.

Exam Context

The work of writers in section 4 are highly examinable. Popular exam topics include leadership style models, the difference between management and leadership and the difference between trait theories, style theories and contingency approaches.

Qualification Context

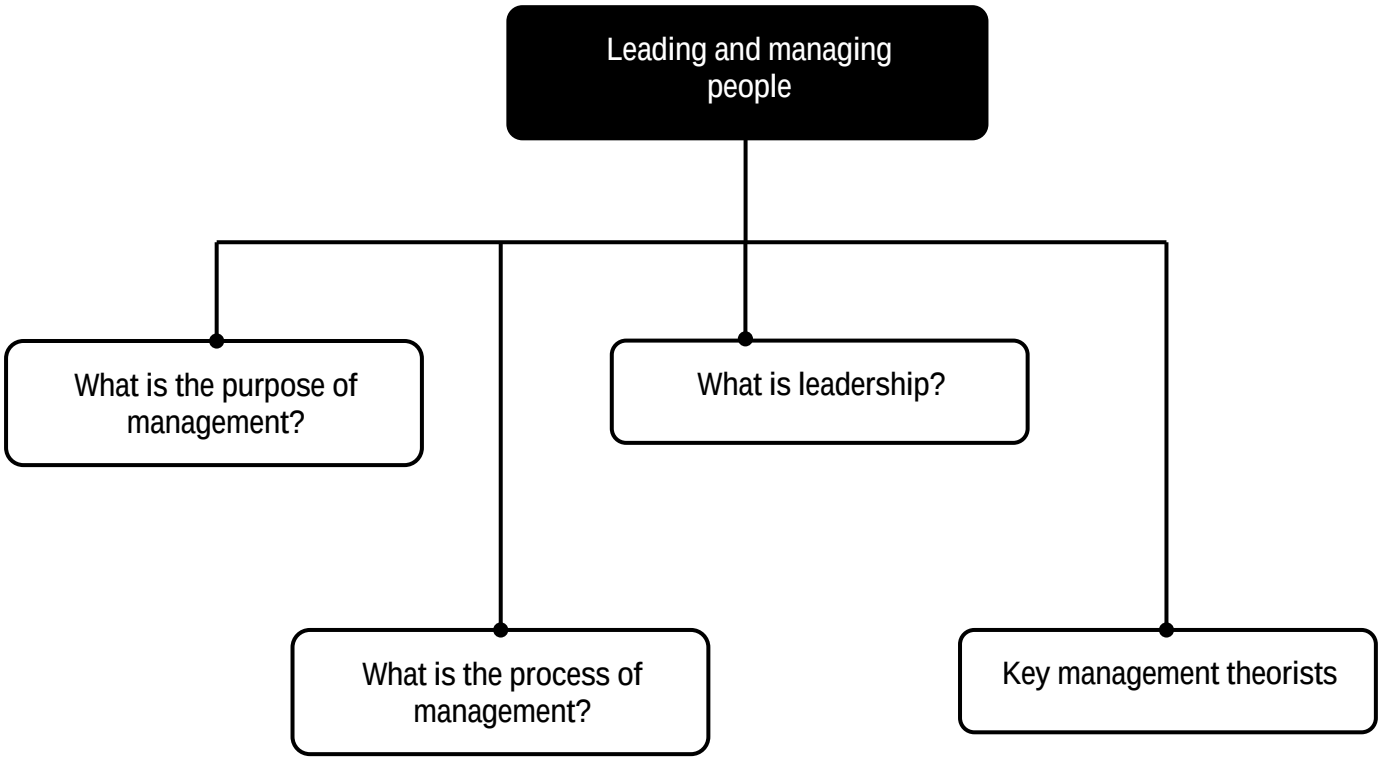
This chapter is not just important in its own right, but helps with some aspects of P3 (Business Analysis).

Business Context

Organisations cannot run without management and some form of leadership. Ensuring that the right style of management and leadership is present for the circumstances of the organisation is vital.

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Overview

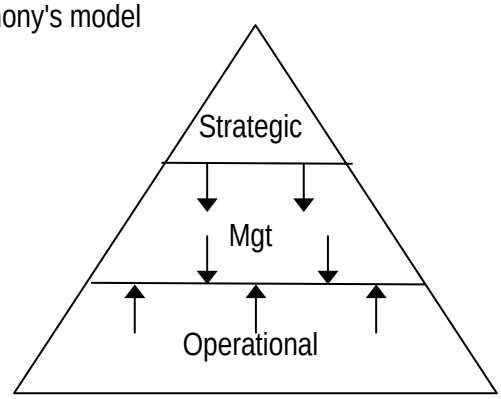

Leading and managing people
What is the purpose of management?
What is leadership?
What is the process of management?
Key management theorists

1 The purpose of management

1.1 Definition

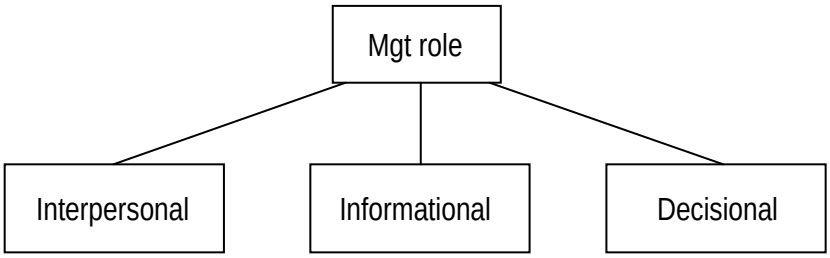
Management is the process of getting activities completed efficiently and effectively, with and through other people.

1.2 Anthony's model



The management 'layer' in an organisation bridges the gap between the strategic level where the goals are set, and the operational level where activities take place.

1.3



2 The process of management

2.1 A manager is an integral part of the organisational structure and therefore has:

(a) Authority – the right to do something

(b) Responsibility – the obligation to do something

(c) Accountability – the readiness to accept responsibility, judgement by others

(d) Power - the ability to do something.

2.2 Delegation enables management to allocate responsibility and authority to subordinates, whilst ***retaining*** overall accountability.

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Lecture example 1

Brainstorming

Suggest three benefits of delegation (consider both the manager and the organisation).

Solution

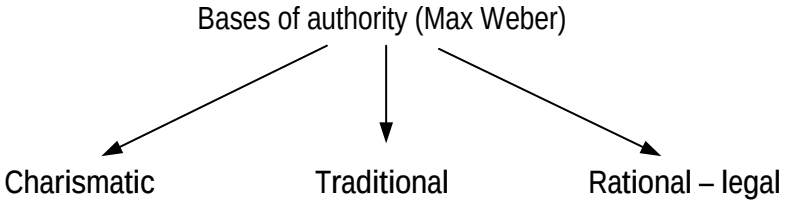
Lecture example 2

Brainstorming

Suggest three reasons why managers may not like to delegate.

Solution

2.3



2.4 Sources of power (French and Raven)

(a) Legitimate power
(b) Coercive power
(c) Reward power
(d) Referent power
(e) Expert power
(f) Resource power
(g) Negative power

Supervision

2.5 The supervisor is the lowest level of management, at the interface between managerial and non-managerial staff.

2.6 The key features of supervision are:

(a) A supervisor is usually a front-line manager
(b) Much time will be spent doing technical/operational work
(c) A supervisor is a gatekeeper or filter for information between management and staff

A supervisor monitors and controls work by means of day-to-day, frequent and detailed information.

3 Leadership

What is leadership?

3.1 Leadership is the process of influencing others to work willingly towards goals, to the best of their capabilities, perhaps in a manner different to that which they would otherwise have chosen.

A leader exercises acts of influence frequently and persistently.

3.2 Key leadership skills include:

(a) Entrepreneurship
(b) Interpersonal skills
(c) Decision-making and problem solving
(d) Time management and personal organisation
(e) Self development

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3.3 Managers need to develop their leadership skills to:

(a) Energise and support change
(b) Secure commitment from their staff
(c) Set direction
(d) Develop people

3.4 Trait theory (quality theory)

Trait theories of leadership attempt to identify the distinguishing characteristics of successful leaders. Most studies single out the following traits:

(a) Intelligence – above average but not genius level.

(b) Initiative – independence and inventiveness, the capacity to perceive a need for action and the urge to do it.

(c) Self-assurance.

(d) The helicopter factor – ability to rise above the particulars of a situation and perceive it in relation to the overall environment.

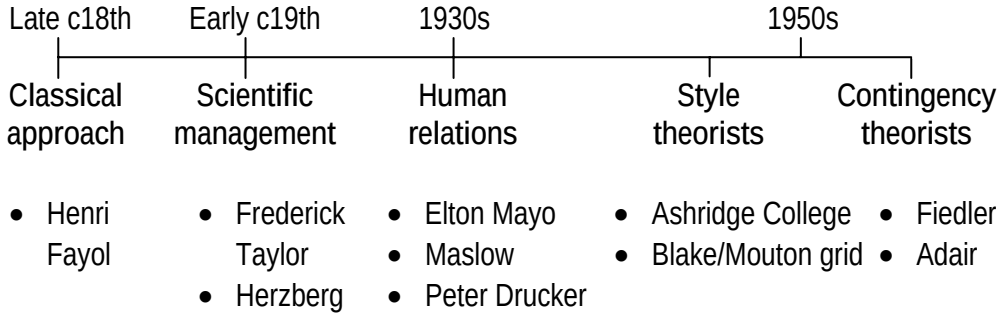
3.5 Other studies mention: enthusiasm, sociability, integrity, courage, imagination, decisiveness, determination, energy, faith, virility, good health, above average height or well below it.

3.6 In general, criticisms of trait theory are:

(a) Possession of all traits becomes an impossible ideal
(b) Too many exceptions to the rule
(c) If reduced to the useful minimum they become at best necessary but not sufficient
(d) Traits are not well defined and not much use in practice for recruitment of leaders

4 Key theorists – time line

4.1



Fayol's five functions of management

4.2 Fayol (1899) suggested that all management revolved around carrying out five functions:

(a) Planning

- Deciding the objectives to be achieved by the department
- Selecting courses of action to reach the objectives

(b) Organising

- Dividing the work up into tasks and projects
- Appointing subordinates responsible for each element of the work
- Ensuring staff have the skills and resources they will need

(c) Commanding

- Giving instructions to subordinates to carry out the tasks
- Delegating authority to subordinates so that they can command others (subordinates, suppliers etc.)

(d) Coordinating

- Ensure all staff are working towards common goals
- Provide information on progress and any changes necessary to the plan (eg late-running)
- Reconcile differences in timing, effort or specifications

(e) Controlling

- Measure the outcomes achieved and compare with the plan
- Chase up poor or late work and bring it back on target
- Counsel or discipline underperforming staff members

Scientific management (Taylor 1856 – 1917)

4.3 Taylor argued that management must take responsibility for design and performance of jobs at all levels in the organisation, through application of *four principles of scientific management*.

Four principles of scientific management

4.4 (a) Development of the true science of work, with written down methods and procedures

(b) Application of scientific techniques to job design

(c) Scientific selection and development of worker and motivation through financial reward

(d) Co-operation of management and workers

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Benefits of scientific management

4.5 (a) Increased productivity and prosperity
(b) Wage allocation based on productivity
(c) Workforce care programmes

Criticisms of scientific management

4.6 (a) Dehumanisation of work
(b) Misuse of work study by management
(c) Union conflict
(d) Worker/manager conflict

Human Relations School

4.7 The Human Relations school of thought is based upon the work of the Hawthorne Studies (Mayo 1880 - 1949) and the work of Maslow, Herzberg and McGregor.

4.8 The main principles of the Human Relations school are:

(a) Individuals seek more than financial satisfaction from their jobs.

(b) Individuals can often perform better if they are allowed control over their work.

(c) Group interaction is an important element in determining the behaviour of an organisation.

Hawthorne experiments

4.9 A series of experiments carried out between 1927-1932 at the Western Electric plant at Hawthorne, Chicago by Mayo.

The findings of these experiments founded the *Human Relations School* of organisation theory.

Contribution to management thought

4.10 (a) There are benefits in looking after and involving employees.

(b) Individual workers cannot be treated in isolation but must be seen as members of a group.

(c) The need to belong to a group and have status within it is more important than monetary incentives or good physical working conditions.

(d) Informal groups exercise a strong influence on worker behaviour.

(e) Supervisors and managers must manage group operations rather than individuals.

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Style theories

4.11 Writers in the last fifty years have taken a more flexible view:

- The search for efficiency continues with work study and industrial engineering, whilst specific techniques have been developed for project management.
- Human relations theory has been expanded through industrial psychology.
- Much writing has focussed on the managers' task.

4.12 Peter Drucker (1909-2005), an Austrian professor believed that management has three basic functions:

(a) Managing a business. The purposes of the business are:

- To create a customer
- Innovation

(b) Managing managers. The requirements here are:

- Management by objectives (MBO)
- Proper structure of managers' jobs
- Creating the right spirit in the organisation
- Making a provision for the managers of tomorrow.
- Arriving at sound principles of organisation structure.

(c) Managing worker and work

A manager's performance in all areas of management, including management of the business, can be enhanced by a study of the principles of management, the acquisition of organised knowledge (e.g. management techniques) and systematic self-assessment.

4.13 Drucker suggested that management could also be broken down into five categories:

- Objective setting
- Work organisation
- Motivation
- Measuring performance and control
- Developing people

4.14 The Ashridge Management College model distinguishes four different styles:

(a) Tells (autocratic)
(b) Sells (persuasive)
(c) Consults (consultative)
(d) Joins (democratic)

4.15 Hinzberg: the manager's role:

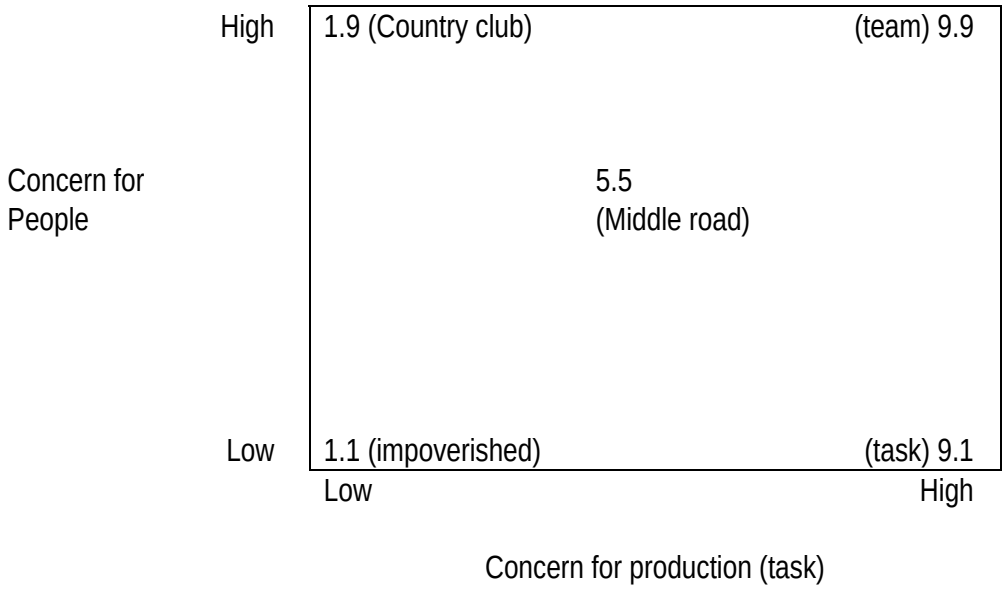
(a) Interpersonal
(b) Informational
(c) Decisional

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4.16 **Blake and Mouton's** managerial grid looks at the two basic criteria for leadership:

- Concern for task being achieved
- Concern for people/staff carrying out the task

These are echoed in their grid below:



4.17 **Contingency theories** see effective leadership as being dependent upon a number of variable factors. The theorists that we shall look at are:

- Fiedler
- Adair

4.18 **Fiedler** identified two variables in leadership:

- Psychological proximity of manager
- Favourability of situation to manager

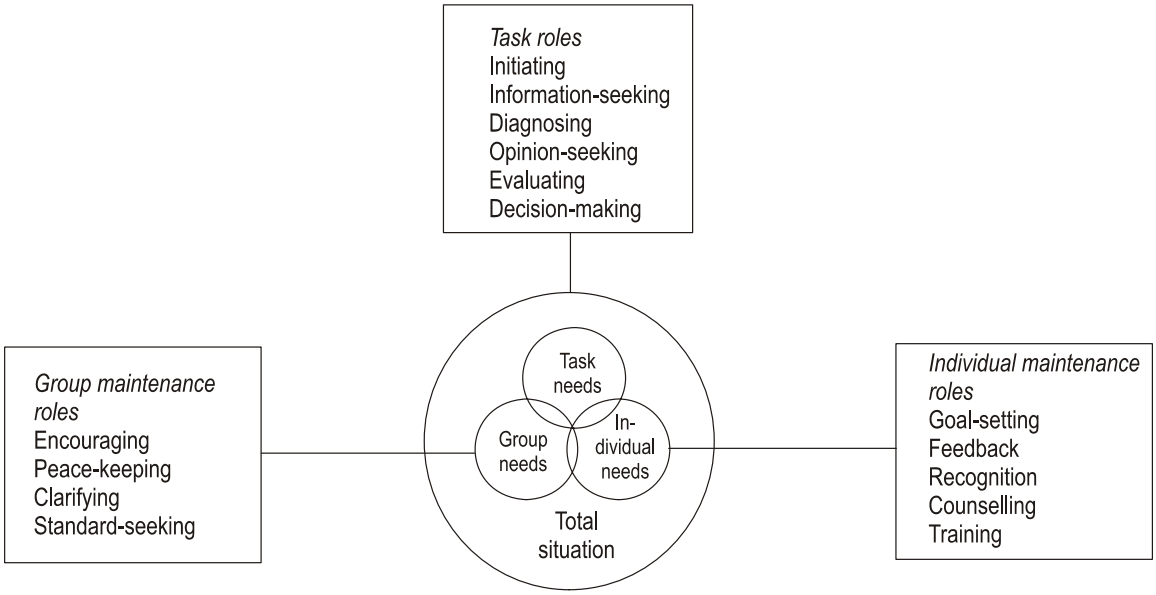
4.19 Psychologically close managers:

- Like good relationships
- Prefer informality

4.20 Situational factors include:

- Task structure
- Power of the leader
- Trust

4.21 A contingency approach, developed by **John Adair**, states that effective leadership lies in what the leader *does* to meet the needs of:



4.22 Adair's theory is often known as 'action centred leadership'. Action in one area will impact the other areas. Managers must therefore balance their attention between the three variables.

4.23 **Warren Bennis** suggested specific differences between the roles of manager and leader:

Manager	Leader
Administers	Innovates
Focus on short term, control and systems	Focus on people and long term
'Does the right thing'	'Does things right'

5 Chapter summary

- This chapter has looked at the process of leading and managing people, and the development of management theory over time.

END OF CHAPTER

Chapter 11: Questions



BPP LEARNING MEDIA

11.1 Who suggested that management revolved around the fine functions of planning, organisation, commanding, coordination and controlling?

A Taylor

B Fayol

C Stewart

D Mayo (2 marks)

11.2 Which of the following is not a benefit of delegation?

A Speeds up decision making

B Empowers the subordinate

C Assists with progression planning

D Ultimate responsibility is passed to the subordinate (2 marks)

11.3 Which of the following is not one of Max Weber's three bases of authority?

A Rational–legal

B Charismatic

C Traditional

D Referent (2 marks)

11.4 The principles of scientific management were first expressed by?

A Drucker

B Maslow

C Taylor

D Fiedler (2 marks)

11.5 Blake and Mouton's managerial grid compares concern for the task with psychological proximity of the manager. True or false?

A True

B False (1 mark)

Chapter 11: Answers



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11.1 B Henri Fayol, a French engineer, suggested these five functions in 1899.

11.2 D Responsibility cannot be delegated; it remains with the manager.

11.3 D Referent is a type of power exercised in organisations.

11.4 C Frederick Taylor, an American engineer developed his ideas about the design and performance of jobs into the application of four principles of scientific management.

11.5 B Blake and Mouton's managerial grid compares concern for the task with concern for people.

END OF CHAPTER

BPP LEARNING MEDIA

12

Individuals, groups and teams

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Appreciate how individuals' behaviour affects organisations.
- Ascertain why some groups and teams perform significantly better than others.
- Understand the life cycle of a team.

Exam Context

Both Tuckman and Bellin and featured in the pilot paper. Relationships within a team and management of teams have often featured in exams under the old syllabus.

Qualification Context

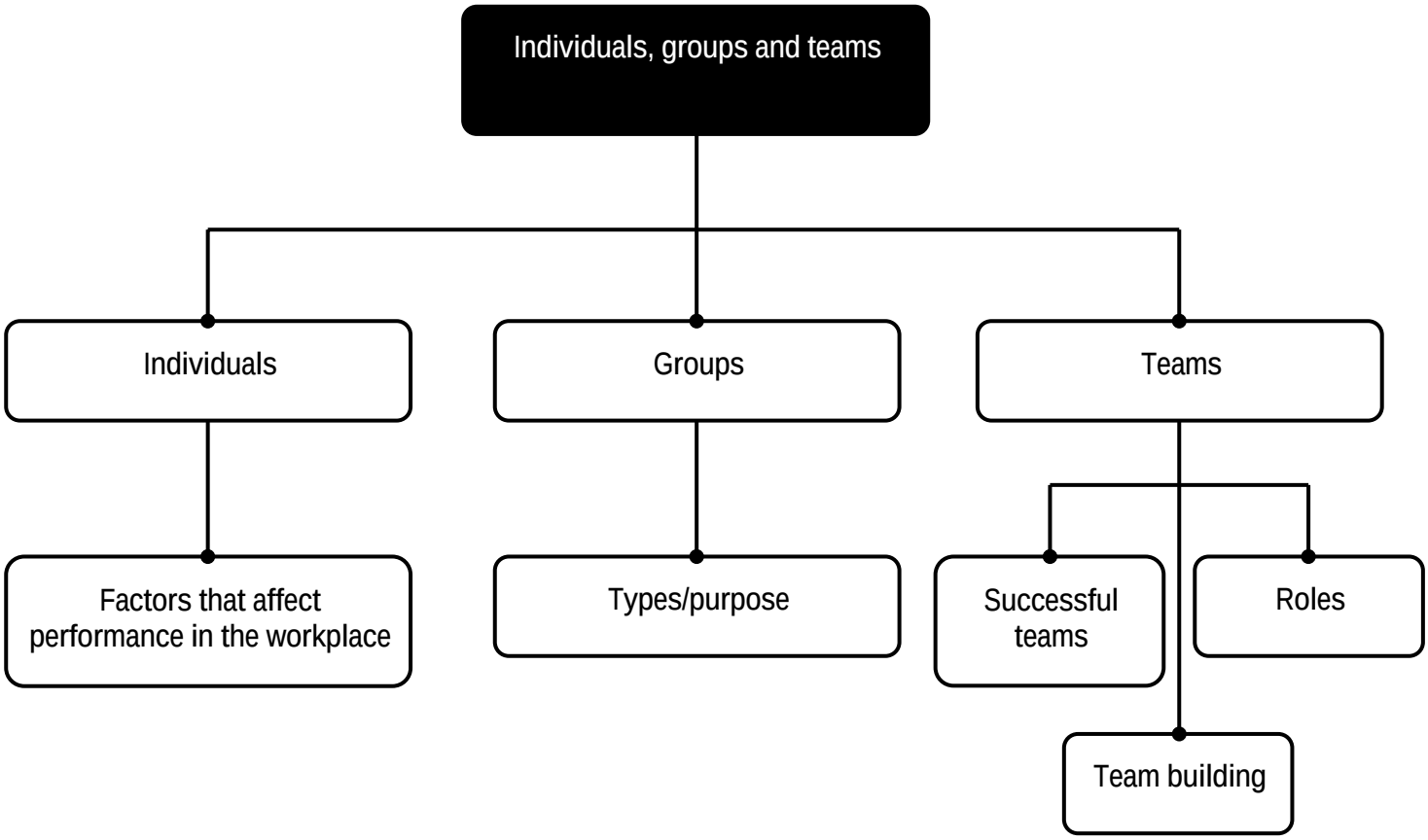
This is an important topic that impacts on the way people should work once they are qualified.

Business Context

Teams are an essential ingredient for most organisations, whether the team is of a short term nature (eg. project team) or ongoing (eg. credit control department).

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Overview


Individuals, groups and teams
Individuals
Groups
Teams
Factors that affect performance in the workplace
Types/purpose
Successful teams
Roles
Team building

1 Individuals

Lecture example 1

Ideas generation

Required

In what ways do you feel or behave differently at work compared to when you are with your family/social group/sports team?

Solution

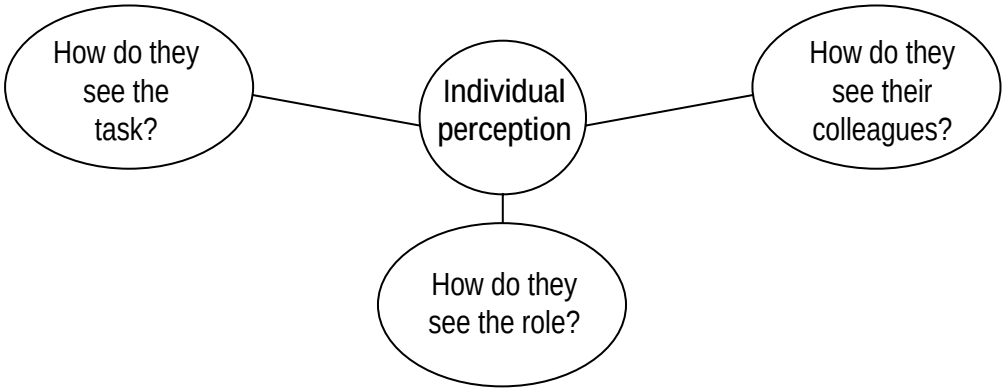
Individuals

1.1 Managers need to understand what motivates *individuals* within the groups and teams they control. Key variables include:

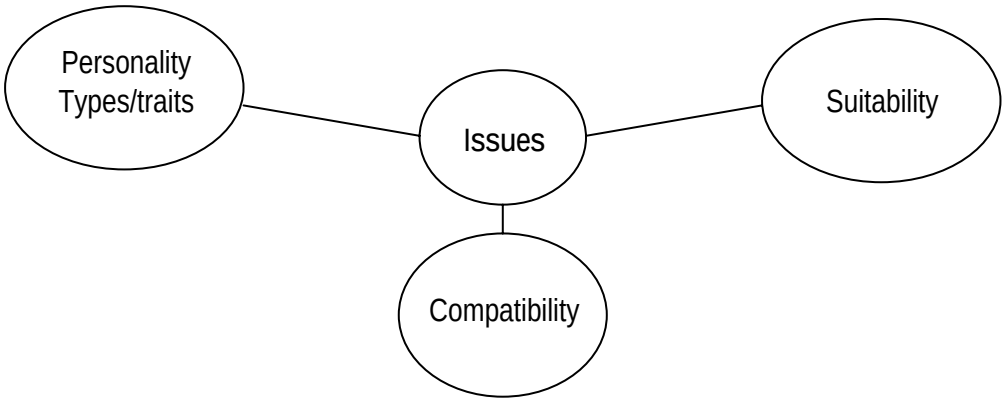
- Perception
- Personality
- Attitude

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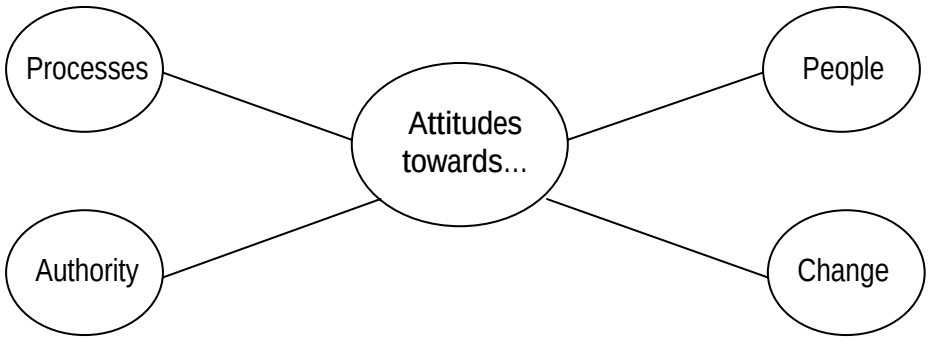
1.2 Perception



1.3 Personality



1.4



1.5 Individuals perform a range of roles in life both in and out of work, and may have a particular view on how they fit into a group or team.

2 Groups

2.1 In addition to understanding the nature of individuals it is also important to understand the nature of groups of people.

2.2 Organisations contain formal and informal groups.

2.3

Formal Group eg. special committee	Informal Group eg. lunch
Objectives mainly set by superior management	Objectives set by the group itself
Tends to be permanent	Often temporary and changes when staff join or leave
Organised according to established structure and procedures	Fluid organisation based on norms and roles allocated by group itself
Membership decided by management	Self-selecting membership
Main function is the realisation of organisation's aims	Main aim is the survival of the group and the welfare of its members

3 Teams

3.1 A team is a small number of people with complementary skills who are committed to a common purpose, performance goals and approach for which they hold themselves basically accountable.

In short, teams are a focussed and organised group useful in the workplace for decision making, idea generation and project work requiring a mix of skills.

3.2 Teams are well suited to:

- Work organisations
- Control
- Ideas generation
- Decision making

3.3 There are two basic approaches to the organisation of team work:

- Multi-disciplinary teams

  Bring together individuals who each have a particular skill or specialism so that knowledge is pooled.

- Multi-skilled teams

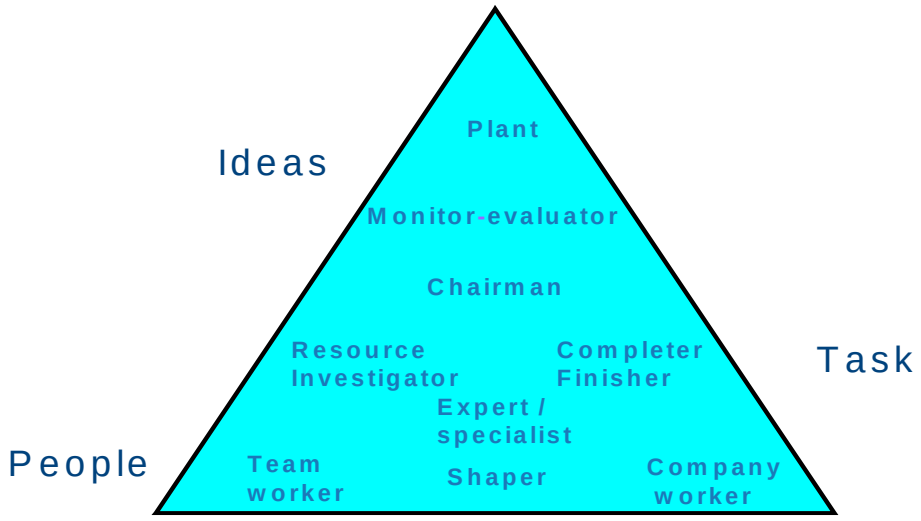
  Bring together individuals who can perform any of the group's tasks, allowing greater flexibility in the allocation of roles.

3.4 Virtual teams' members work in different locations and work together via the use of Information and Communications Technology.

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4 Team member roles

4.1 Meredith Belbin characterised the successful mix of team roles in an effective management team as follows:



Chairman/Co-coordinator	–	clarifies group objectives, often stable and dominant
Shaper	–	compulsive drive to get things done, anxious and dominant extrovert
Plant	–	good at coming up with original ideas, introvert with high IQ
Monitor-evaluator	–	good at dispassionate analysis of options and suggestions, a stable introvert
Company worker/Implementer	–	turns decisions into tasks, stable and controlled
Resource investigator	–	goes out of the group in order to obtain useful resources, dominant stable extrovert
Team worker	–	supports team members, stable, low dominance extrovert
Completer/finisher	–	impatient and concerned with meeting deadlines, anxious introvert
Expert/Specialist	–	technical person

A team could be comprised of any number of members, from a minimum of two upwards. The smaller the team the more the likelihood that individuals will fulfil more than one role.

4.2 Ensuring a successful mix of roles within a team is vital but seldom achieved.

This is due to:

- Lack of understanding
- Lack of time
- People not available
- Misunderstanding of task requirements.

4.3 Belbin insisted that a distinction be made between:

- Team (process) roles
- Functional roles

Lecture example 2

Ideas generation

Required

Describe what factors a manager should take into account when building a successful team.

Solution

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5 Team development

5.1 Tuckman (1965) suggested workgroups pass through four stages of development:

(a) Forming: the individuals are thrown together and enter a process of establishing rules, tasks and methods.

(b) Storming: intra-group conflict as leaders are established, goals set and personalities and emotions resolved.

(c) Norming: a period of settling down in which the norms and rules have been established.

(d) Performing: group performs at the highest level of efficiency.

Later writers added two further stages to Tuckman's model.

(a) Dorming: after a long period together the team may become complacent and concentrate more upon the ideas of it's members, rather than the task in hand.

(b) Mourning/adjourning: a stage of confusion, sadness and anxiety as a group breaks up. The formation of a new group will require a return to the forming stage.

6 Team building

Lecture example 3

Brainstorming

Suggest some ways in which team identity can be reinforced.

Solution

7 Chapter summary

- This chapter has compared the rule of individuals and groups in organisations.
- It has also outlined the formation of teams and the necessary factors that can make a team successful.

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Chapter 12: Questions



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12.1 Which of the following is not a development stage of team development as suggested by Tuckman?

A Forming

B Storming

C Naming

D Performing (2 marks)

12.2 How many team roles did Belbin suggest were necessary for an effective team?

A 6

B 9

C 12

D 5 (2 marks)

12.3 Who defined a group as "any collection of people who perceive themselves to be a group"?

A Handy

B Peters and Waterman

C Woodcock

D Mintzberg (2 marks)

12.4 For management purposes a team is defined as a small number of people with complementary skills who are committed to achievement of a common purpose. True or false?

A True

B False (1 mark)

12.5 Which of the following is not a Belbin team role?

A Shaper

B Team worker

C Plant

D Admin worker (2 marks)

Chapter 12: Answers



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12.1 C The fourth stage is 'norming'.

12.2 B Belbin suggests 9 roles including that of "expert", which is not always necessary.

12.3 A Charles Handy.

12.4 A True

12.5 D Admin worker is a type of employee and not a particular role required in a team.

END OF CHAPTER

13

Motivating individuals and groups

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Motivate yourself and others.
- Appreciate how employers can motivate their staff.
- Understand what motivates people other than money.

Exam Context

Motivation is likely to appear regularly in the exam and so the various theories must be well understood.

Qualification Context

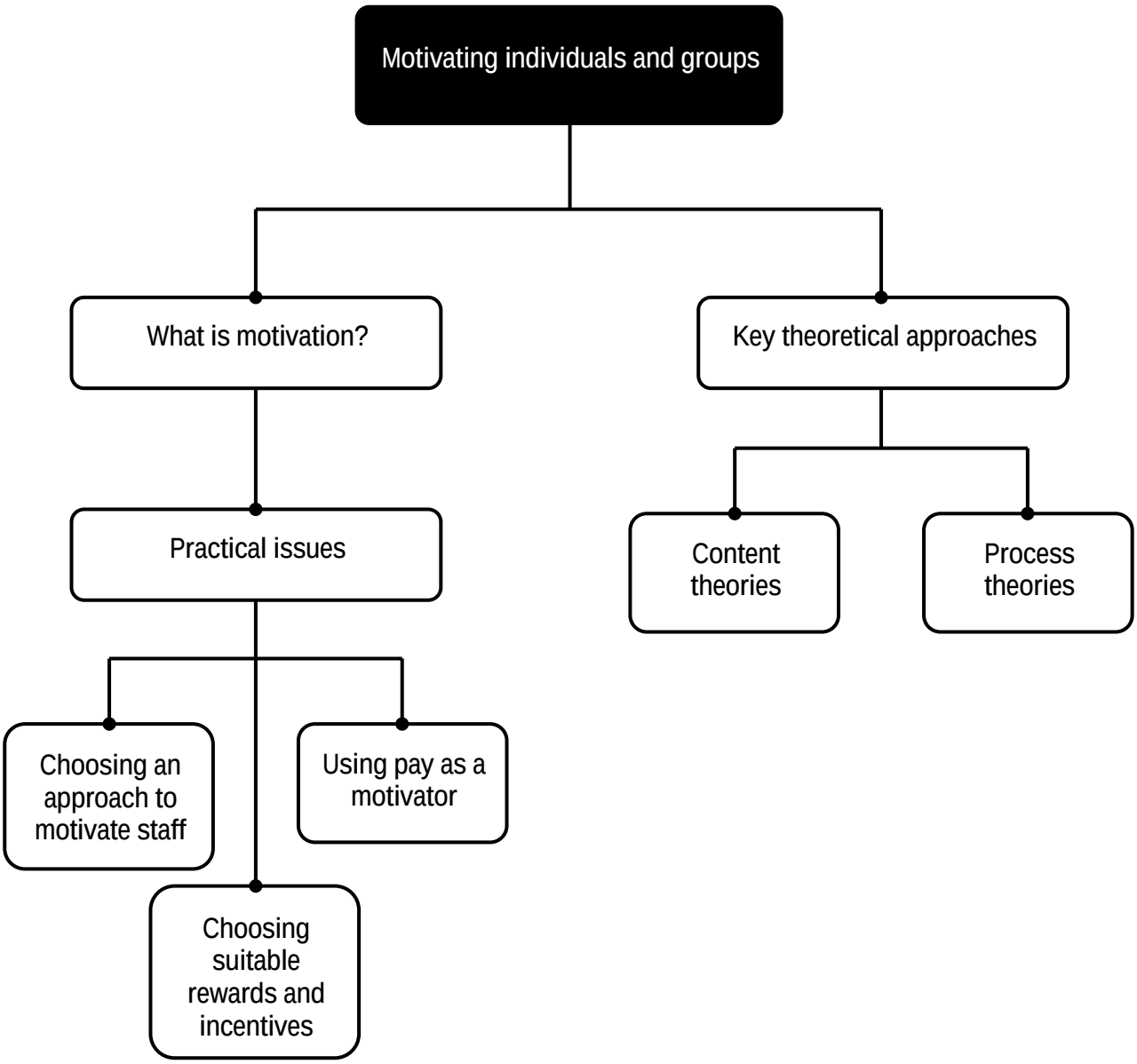
This is an important topic which impacts on the way people work.

Business Context

In order to maximise its competitive advantage any organisation needs to employ well motivated staff who will help contribute to achievement of the organisation's objectives.

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Overview


Motivating individuals and groups
What is motivation?
Key theoretical approaches
Practical issues
Content theories
Process theories
Choosing an approach to motivate staff
Using pay as a motivator
Choosing suitable rewards and incentives

1 Overview of motivation

1.1 Motivation is the urge to take action to achieve something or to avoid something.

1.2 If managers understand what motivates their staff, they can actively use this knowledge to drive towards the organisation's objectives.

Lecture example 1

Preparation question

Morse and Weiss (1955)

80% of respondents expressed the view that they would continue to work even if they had no economic need to do so.

Required

Why?

Solution

1.3 The basic assumptions of motivation are that:

(a) People seek to satisfy their needs
(b) Organisations can offer some of the satisfaction people seek
(c) Organisations can influence people's behaviour
(d) If people's needs are met they will have job satisfaction and a positive attitude to work

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Lecture example 2

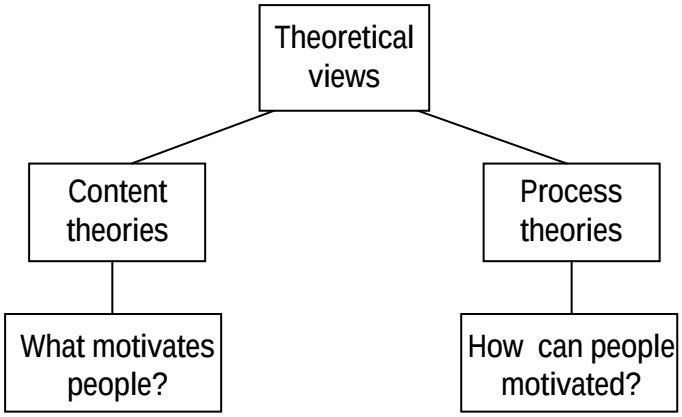
Ideas generation

Required

How does demotivation manifest itself in organisations?

Solution

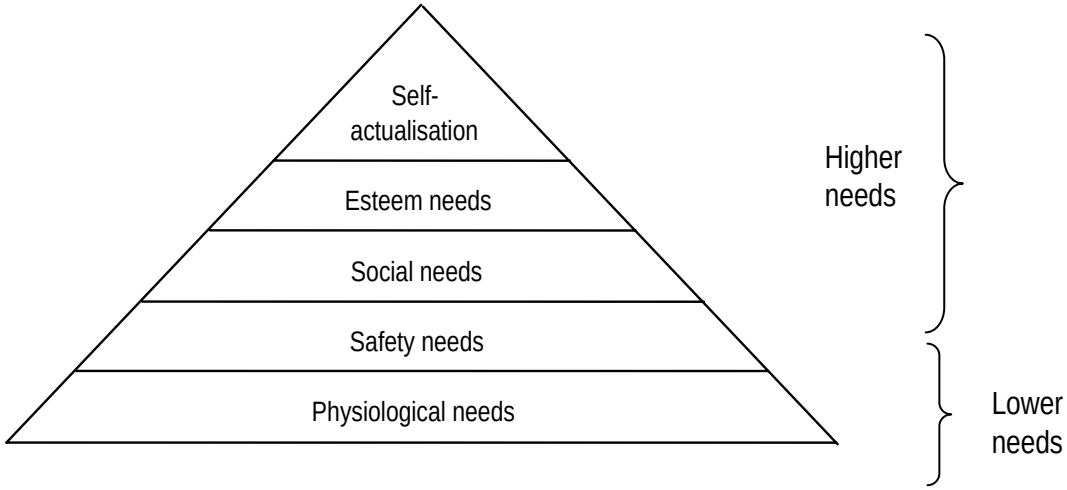
1.4



2 Content theories of motivation

2.1 Abraham Maslow (1908-1970), an American psychologist, produced his hierarchy of needs as follows:

2.2



Lecture example 3

Ideas generation

Required

Give two examples of each level of need in a work environment.

Solution

2.3 Key limitations to Maslow's hierarchy of needs include:

(a) Individual's behaviour may be in response to several needs.
(b) The same need may cause different behaviour in different individuals.
(c) Not all needs manifest themselves on a hierarchical order.

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2.4 Frederick Herzberg produced his two factor theories of motivation in 1959. He concluded that certain factors led to job satisfaction (*motivators*) and a different group led to dissatisfaction (*hygiene factors*).

2.5

Motivators (yield job satisfaction)	Hygiene factors (cannot motivate *but* cause dissatisfaction if unsuitable)
Recognition	Policies and administration
Responsibility	Supervision
Achievement	Salary
Advancement	Working conditions

3 Process theories of motivation

3.1 Victor Vroom produced his "Expectancy Theory" in 1964. It is based on a simple calculation:

VALENCE	x	EXPECTANCY	=	FORCE
Do I really value the outcome?		If I tried could I do it?		The amount of effort or motivation present

3.2 A high Force is only possible if both a high Valence and a high Expectancy are present.

4 Choosing a motivational approach

4.1 Douglas McGregor presented two opposing assumptions held by managers about employees, which affected how they managed and motivated them. These theories are *opposite ends of a continuum*.

4.2 Theory X assumes that individuals have an inherent dislike for work and will avoid it if they can. A Theory X employee:

(a) Prefers to be directed
(b) Has little ambition
(c) Is resistant to change, gullible
(d) Must be coerced and controlled.

4.3 Theory Y asserts that work is as natural as play or rest. A Theory Y employee has:

(a) Self direction
(b) Self control
(c) An emphasis on self actualising needs.

4.4 Theory X is a 'stick' approach whilst Theory Y seeks to encourage motivation by influencing the circumstances of work.

5 Rewards and incentives

5.1 A **reward** is something given to an individual or team in recognition of contribution and success.

5.2 An **incentive** is the *offer* of a reward designed to motivate current and future performance.

5.3 Financial rewards and incentive can motivate (see section 6).

5.4 Job satisfaction is a key motivator and is created through:

(a) Variety
(b) Task identity/clarity
(c) Autonomy/ownership
(d) Constructive feedback
(e) Task significance

5.5 Job design or redesign can increase motivation. Herzberg suggests:

(a) Job rotation
(b) Job enlargement
(c) Job enrichment.

5.6 Participation in decision making is usually perceived as a motivator and there are two main streams:

(a) Immediate participation
(b) Distant participation

5.7 Participation works as a motivator if the '5 Cs' are present:

(a) Certainty
(b) Consistency
(c) Clarity
(d) Capacity
(e) Commitment

6 Pay as a motivator

6.1 Maslow and Herzberg both recognise money as a means of satisfying some needs and symbolising worth.

6.2 However, pay does not satisfy higher order needs and should thus be considered a hygiene factor.

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Lecture example 4

Ideas generation

Required

How can organisations ensure equitable pay?

Solution

6.3 Performance related pay (PRP) is a type of incentive which rewards extra pay for extra output or performance. PRP schemes include:

- Piecework
- Bonuses for achievement of specific objectives/outstanding performance.

Lecture example 5

Ideas generation

Required

Suggest some benefits and drawbacks of PRP.

Solution

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7 Chapter summary

- This chapter has outlined various theories which seek to demonstrate the factors that managers need to consider when motivating staff.

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Chapter 13: Questions



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13.1 Which of the following is not one of the 4 'Cs' that need to be present for participation to work as a motivator?

A Certainty

B Cleverness

C Capacity

D Commitment (2 marks)

13.2 Content theories outline 'how can people be motivated'. True or false?

A True

B False (1 mark)

13.3 Which of the following is not one of Child's criteria for a reward system?

A Motivate

B Encourage innovative behaviour

C Fill job vacancies and retain staff

D Equality between grades of staff (2 marks)

13.4 Which of the following is an example of an intrinsic reward?

A Working conditions

B Benefits

C Feeling of achievement

D Non cash incentives (2 marks)

13.5 Which of the following developed the 'Expectancy Theory'?

A Vroom

B McGregor

C Maslow

D Hertzberg (2 marks)

Chapter 13: Answers



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13.1 B Cleverness (or intellectual ability) is a personal behaviour factor but not a necessary factor for participation to work as a motivator.

13.2 B Content theories outline "what motivates people".

13.3 D Reward systems need to be fair and equal between people on the same grades doing the same job, but not between different grades.

13.4 C All of the others listed are examples of extrinsic rewards.

13.5 A Victor Vroom developed the theory of "Valence × Expectancy = Force".

END OF CHAPTER

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14

Personal effectiveness and communication

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand why communication is so important in all organisations.
- Manage your time more effectively.
- Appreciate how individuals can benefit from coaching, mentoring and counselling.

Exam Context

Many of these topics (eg. barriers to communication, qualities of effective communication, counselling) may be set as questions. Articles in Student Accountant have demonstrated the importance of communication to accountants.

Qualification Context

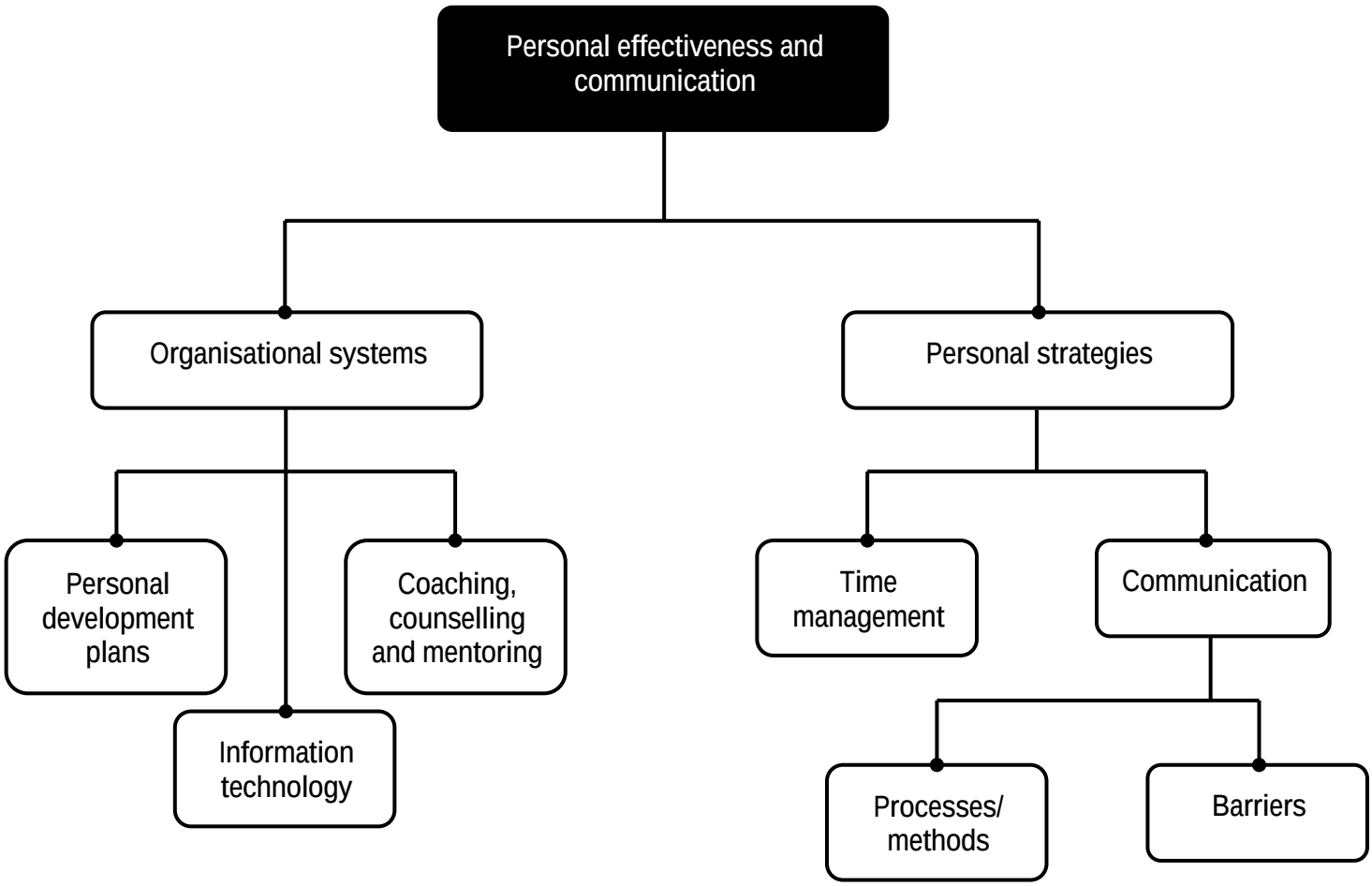
Accountants need to be good communicators and so this topic is of importance to all trainee accountants.

Business Context

Organisations need to use the appropriate form of communication for the relevant circumstances. Communication is of equal importance to internal communications as it is to the organisation's external communications.

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Overview


Personal effectiveness and communication
Organisational systems
Personal strategies
Personal development plans
Coaching, counselling and mentoring
Information technology
Time management
Communication
Processes/ methods
Barriers

1 Personal development plans

1.1 A personal development plan is an action plan for an individual that incorporates a set of developmental opportunities including formal training.

1.2 A systematic approach to personal development planning:

Step 1	Select area for development
↓	
Step 2	Set an objective (SMART: Specific, Measurable, Agreed, Realistic, Time bound)
↓	
Step 3	Determine how to move towards objective by research
↓	
Step 4	Formulate detailed action
↓	
Step 5	Secure agreement to action plan
↓	
Step 6	Implement action plan

Lecture example 1

Ideas generation

Required

What are the benefits of PDPs as to the organisation?

Solution

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2 Time management

2.1 'The process of allocating time to task in the most effective manner.'

Lecture example 2

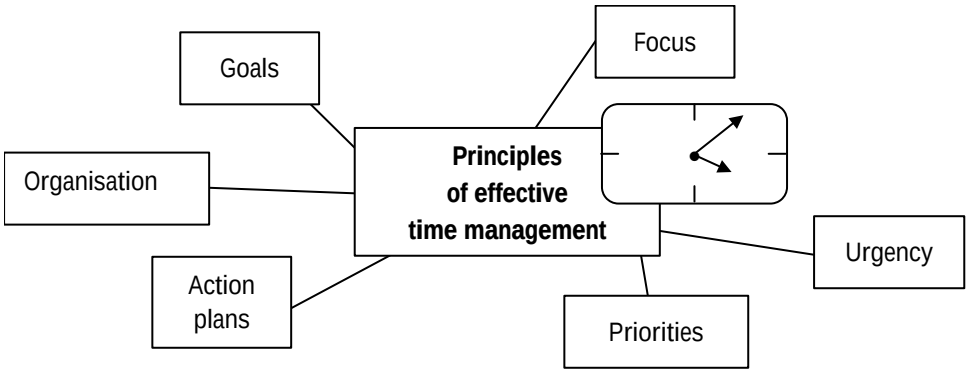
Ideas generation

Required

Suggest some time management tools/activities which managers can use on a daily basis.

Solution

2.2 The key principles of time management can be depicted as follows:



2.3 Goals need to be SMART:

Specific
Measurable
Attainable
Realistic and
Time bound

Measurable and time bound goals are very important to effective time management.

2.4 Work organisation can be improved by:

(a) Use the ABCD method of in tray management where:

A is Act on it immediately

B is Bin it, if it is unnecessary and irrelevant

C is Create a plan for when and how you will deal with it

D is Delegate it to someone else

(b) Organise your work in batches.

(c) Take advantage of your natural work patterns.

3 Role of information technology

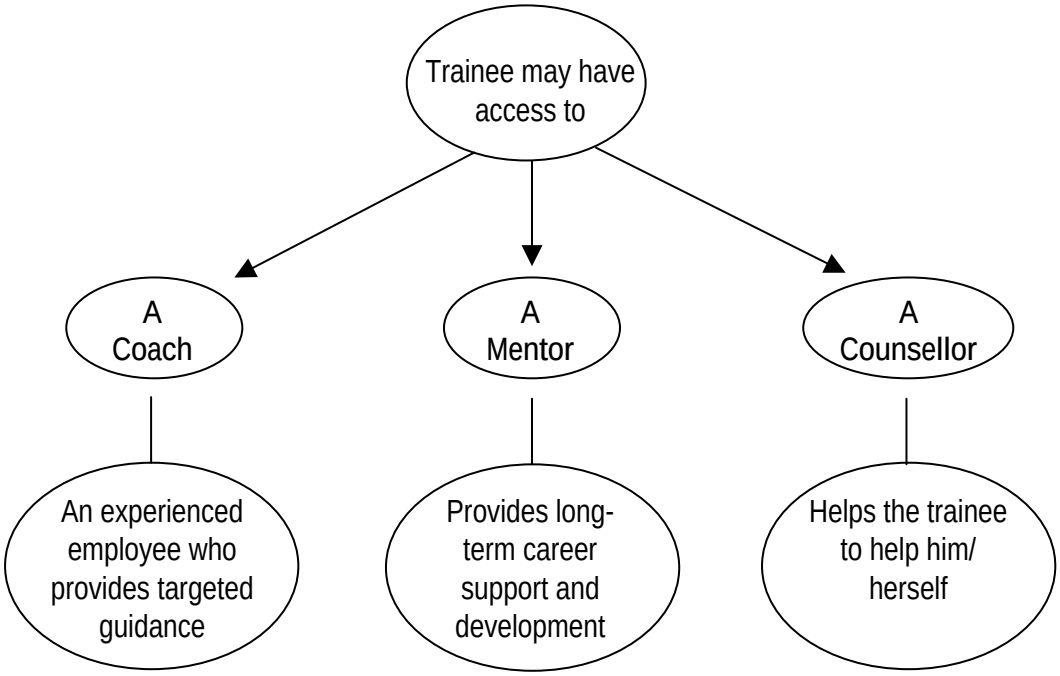
3.1 Information technology has significantly changed the way in which we work and communicate.

3.2 Technologies which continue to evolve and affect communication include:

(a) Modems and digital transmission
(b) Electronic Data Interchange (EDI)
(c) Mobile phones, laptops
(d) Computer Telephone Integration (CTI)
(e) Voicemail
(f) Email
(g) Internet access.

4 Coaching, mentoring and counselling

4.1



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4.2 Coaching is where a trainee is put under the guidance of an experienced employee. For coaching to succeed the following steps are appropriate:

Step 1 Establish learning targets
↓
Step 2 Plan systematic learning and development programme
↓
Step 3 Identify opportunities to broaden trainee's knowledge and experience
↓
Step 4 Allow for trainee's strengths and weakness
↓
Step 5 Exchange feedback

4.3 Mentoring requires a long term relationship. It differs from coaching as:

- A mentor is not usually the individual's immediate superior
- Mentoring covers a wider range of issues and concerns.

4.4 Counselling should be performed by a trained person on a professional basis, to resolve problems' or issues in the workplace, eg.

- Motivation
- Management
- Relationships.

4.5 Effective counselling is important because it:

- Motivates individuals
- Reduces conflict in the department
- Aids management's understanding of issues

The result of these three elements is an increase in productivity and efficiency.

4.6 There are three key stages in counselling:

(a) Recognition and understanding
(b) Empowering/finding solutions
(c) Resourcing the solutions

The manager should help the employee to recognise and deal with issues rather than merely to provide a solution.

5 Communication in the workplace

5.1 Communication should be a two way process and is required for planning, co-ordination and control. Management decision making requires data to be communicated.

5.2 In an organisation communication can take any of the following forms:

(a) Giving instructions
(b) Giving or receiving information
(c) Exchanging ideas
(d) Announcing plans
(e) Comparing actual v plan
(f) Rules or procedures
(g) Communication of the organisation structure

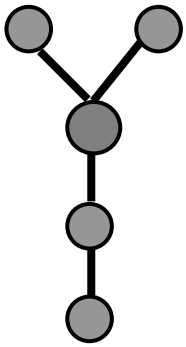
5.3 Communication within the formal organisation structure may be of the following types:

(a) ***Vertical*** – through the hierarchy (upwards and downwards)
(b) ***Horizontal*** – across the same level

5.4 Leavitt (1951), from experiments with written communication and five people, identified patterns of communication that exist between group members and described these as:

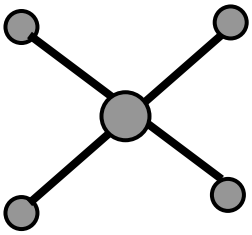
(a) A Y

- Co-ordinated by the figure where the Y forks into two
- Quick to solve problems



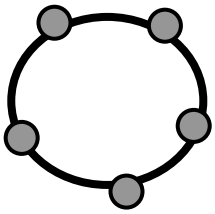
(b) A wheel

- Central figure has all information to co-ordinate the task
- Communicates only through central figure
- Solves problems the quickest



(c) A circle

- No obvious leader
- Each person only communicates with the person next to them
- Slow to make decisions and solve problems



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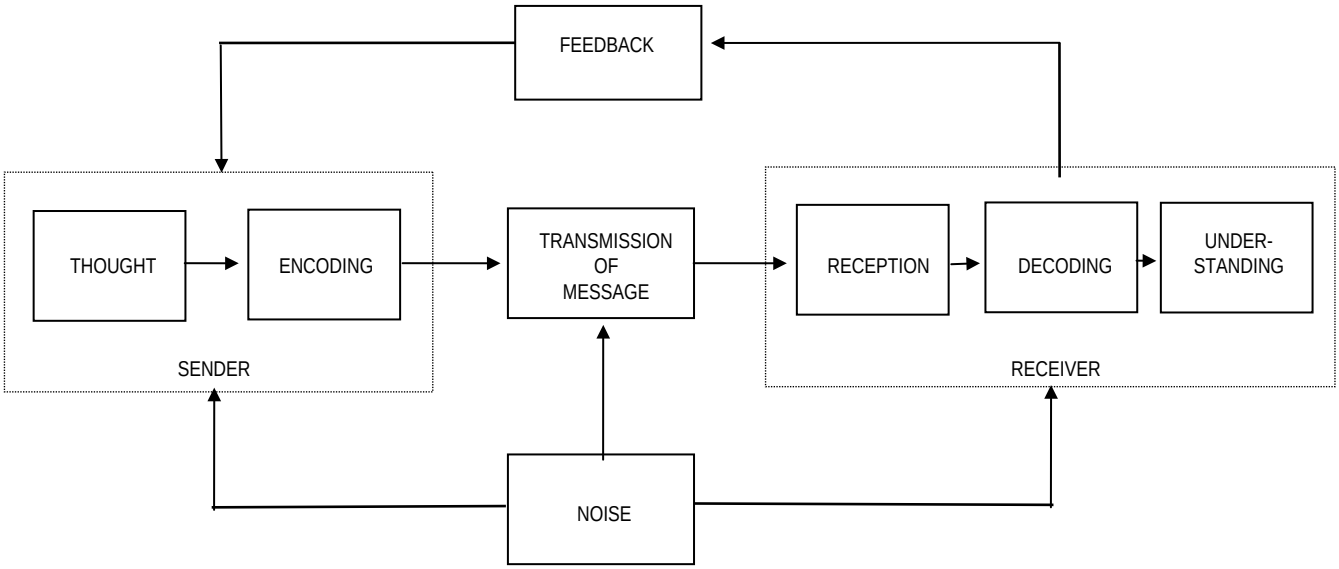
(d) A 'chain'



- Each end cannot communicate with the other end
- Each person only communicates with the person next to them.

6 Formal communication process

6.1



6.2 Noise

Noise is anything which hinders communication and may include:

(a) Physical noise
(b) Jargon
(c) Poor explanation
(d) Emotions
(e) Not listening

6.3 Feedback

The process by which the sender checks and the recipient signals that the message has been received and understood.

6.4 The 5 Cs of good communication:

(a) Concise
(b) Complete
(c) Correct
(d) Courteous
(e) Clear

7 Interpersonal skills and communication

7.1 Interpersonal skills which managers and employees need to develop include:

(a) Rapport building
(b) Persuasion
(c) Negotiation
(d) Conflict resolution
(e) Empathy
(f) Listening
(g) Assertiveness

7.2 Communication can be facilitated or emphasised using non verbal techniques eg.

(a) Posture
(b) Expressions
(c) Eye contact
(d) Movement
(e) Silence

Lecture example 3

Ideas generation

Required

Suggest some barriers to communication.

Solution

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Lecture example 4

Ideas generation

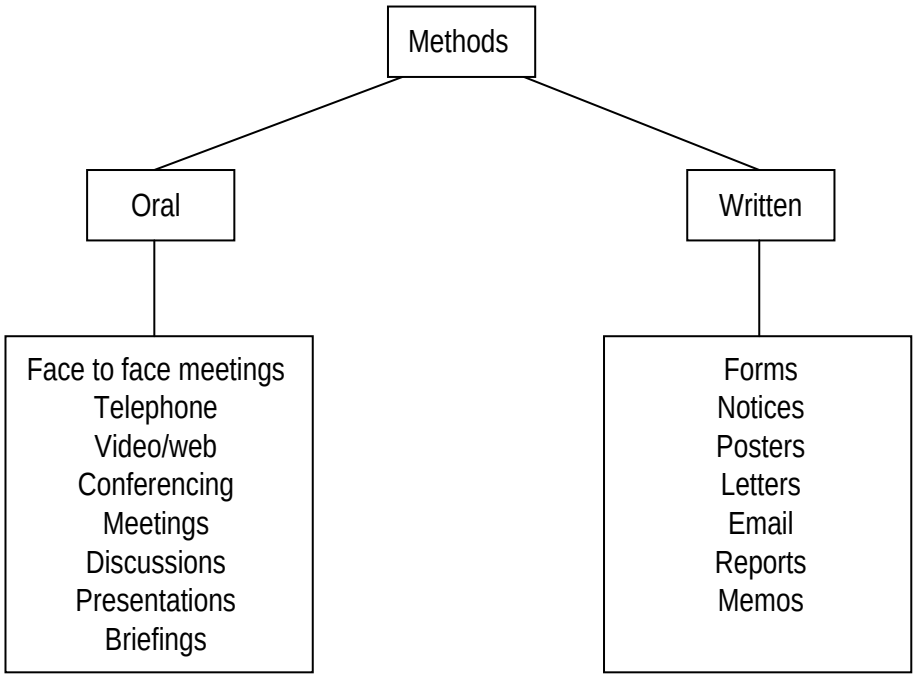
Required

Suggest some ways in which organisational communication can be improved.

Solution

8 Communication methods

8.1



9 Chapter summary

- This chapter has reviewed the communication process and how individuals can improve their personal effectiveness.

Chapter 14: Questions



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14.1 In the communications process 'Noise' can include items such as emotions as well as physical barriers and noise. True or false?

A True

B False (1 mark)

14.2 Which of the following is incorrect with regard to the definition of SMART goals?

A Specific

B Meaningful

C Realistic

D Time bound (2 marks)

14.3 Which of the following is not a skill required by a counsellor?

A Empathy

B Sensitive

C Numeracy

D Observant (2 marks)

14.4 Leavitt identified 4 patterns of communication – which of the following is not one of these patterns?

A Z

B Chain

C Circle

D Wheel (2 marks)

14.5 Which of the following is a problem with face to face communication?

A Participants must be willing communicators

B Participants must maintain courtesy throughout the communication

C Participants must know the reason for the discussion

D Participants must try to lead the conversation at all times (2 marks)

Chapter 14: Answers



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14.1 A True. Noise can include anything which hinders communication.

14.2 B The M in SMART stands for Measurable.

14.3 C Numeracy is a skill required in certain roles (eg accountants, engineers) but it is not needed for counsellors.

14.4 A The fourth patterns is a 'Y'.

14.5 D Both participants cannot try to lead the conversation all of the time.

END OF CHAPTER

15

Recruitment and selection

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand how and why staff are recruited.
- Appreciate different selection techniques.
- Evaluate the various methods of recruitment and selection.

Exam Context

This part of the syllabus is a rich source of potential questions. The pilot paper includes questions on the advertising of vacancies, selection tests, training and the learning process.

Qualification Context

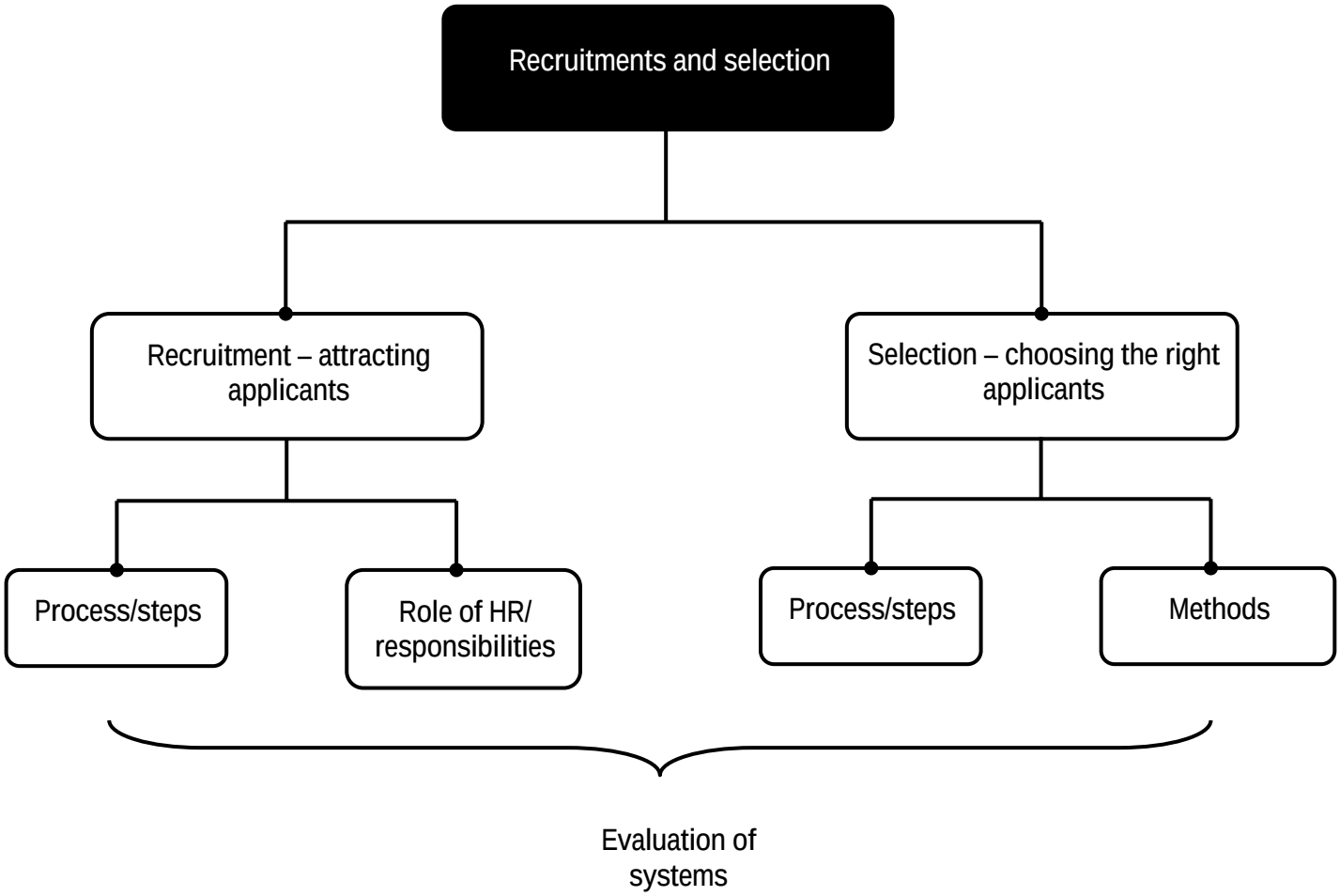
As this topic is highly examinable it forms an essential part of the qualification process.

Business Context

Recruiting and selecting the right staff who will deliver on the organisation's objectives are vital for all organisations.

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Overview


Recruitments and selection
Recruitment – attracting applicants
Selection – choosing the right applicants
Process/steps
Role of HR/ responsibilities
Process/steps
Methods
Evaluation of systems

1 Recruitment and selection

1.1 The aim of the recruitment and selection process is to obtain the quantity and quality of employees needed to fulfil the organisation's objectives. It comprises three main stages:

(a) Defining the requirements
(b) Attracting applicants
(c) Selecting the right candidates

1.2 Human resources management (HRM) believes that employees are a scarce and crucial resource and so recruitment and training issues are key to achieving the organisation's strategy.

2 Responsibility for recruitment and selection

2.1 Numerous people may be included in the recruitment and selection process:

(a) Senior managers (for senior positions and HR planning)
(b) Human Resources (HR) department
(c) Line managers
(d) Recruitment consultants

Lecture example 1

Ideas generation

Required

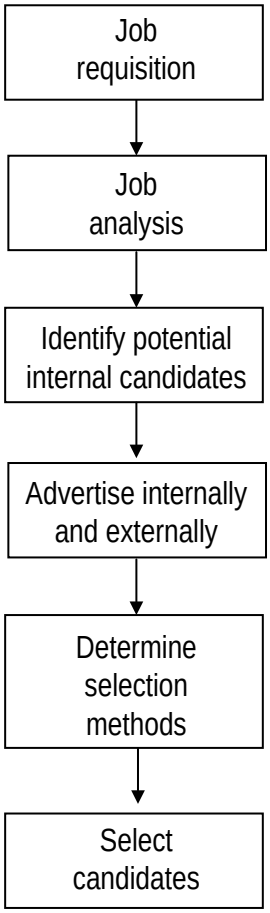
Suggest three advantages and three disadvantages of using external recruitment consultants.

Solution

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3 The recruitment process

3.1



3.2 Step 1 - Job requisition

- A process to ensure all vacancies are valid and authorised.

3.3 Job analysis is the process of collecting, analysing and setting out information about the content of jobs.

3.4 The job analysis leads to two documents:

- Job description and specification – tasks and duties, skills and knowledge
- Person specification – personal attributes required of job-holder

3.5 Competences can also be used as a means of defining job descriptions.

3.6 Mintzberg's parameters of job design:

- Job specialisations
  - How many different tasks are contained within the job and how multi-skilled do the job holders need to be?
  - To what extent does the worker have control over the work?
- Regulation of behaviour
- Training in skills and indoctrination in organisational values.

3.7 Job descriptions (or job specifications) are detailed accounts of the job role of the individual or groups of workers of a particular type. The contents of a job description include:

(a) Job title and job grade
(b) Department/section and location
(c) Wage salary/range
(d) Function of department and main purpose of job
(e) Duties and responsibilities
(f) Specific limits to authority
(g) Responsible to and for
(h) Date prepared and Reference number

3.8 A person specification is a set of role-specific attributes used to attract applications and used as a benchmark against which to compare candidates' actual attributes when making the selection decision. These may be derived from analysis of attributes of known high-performing job holders in similar roles.

3.9 One method that has been used for many years is Alex Rodger's Seven Point Plan (1951):

Background
Circumstances, work record

Achievements
Qualifications, Experience

Disposition
Goals, Motivation

Physical make-up
Appearance, Speech, Strength, Health

Interests
Practical, Social

General Intelligence
Problem Solving

Special Aptitudes
Languages, Typing

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4 Advertising vacancies

4.1 The objective is to attract suitable applications from people likely to fit job and person specifications and job advertisements should aim to:

(a) Clearly describe the job on offer
(b) Provide information about the company
(c) Arouse interest from readers
(d) Deter unsuitable persons from applying
(e) Hold reader's attention.

4.2 Media for recruitment advertising include:

(a) Informal (word of mouth, staff recruit others)
(b) In house (magazine, notice board, memo to managers)
(c) Publications (trade journals, local and national press)
(d) Careers Service (schools, job centre, Professional & Executive register)
(e) Recruitment Fairs ('milk round', local business groups)
(f) Specialist Agencies (Secretarial Bureau, 'headhunter')
(g) Local radio, television and cinema
(h) Internet

5 A systematic approach to selection

5.1

Step 1	Deal with responses to adverts	
Step 2	Assess each application against criteria	
Step 3	Sort applications	
Step 4	Invite candidates for interview	
Step 5	Selection testing	
Step 6	Contact applicants	→ Provisional offer → Rejection

5.2 The main selection methods are:

(a) Interviewing
(b) Selection tests
(c) Reference checking
(d) Work sampling
(e) Group selection methods

5.3 Most organisations use interviews as a basis for selection and interviews should be a two way process:

(a) Finding the best person
(b) Ensuring applicants understand the job
(c) Give the best possible impression of the organisation
(d) Offer fair treatment to all applicants

5.4 Both candidates and interviewers need to prepare for the interview and there are various questioning techniques such as:

(a) Open questions (who, what, where, when, why)
(b) Probing questions (to discover 'deeper' answers)
(c) Closed questions (Yes or No answers)
(d) Problem solving questions (outline how to deal with situation)
(e) Leading questions (Do you agree)

5.5 Candidates should be encouraged to ask questions of the interviewer during the interview.

5.6 There are three types of interview:

(a) Individual (one to one or face to face) interviews
(b) Panel interviews
(c) Selection boards

5.7 Advantages of interviews include:

(a) Personal information assessed more easily
(b) Allows more flexible approach
(c) Can put applicant on the spot

Whilst disadvantages include:

(a) Bias/subjective
(b) Hard to remember later
(c) Hard to compare candidates

5.8 A criticism of this method of recruitment has often been that those interviewing are managers and not professional interviewers with the necessary skills. This could lead to an unsuitable candidate being offered a job and a more suitable candidate being rejected.

The skills required by an interviewer include:

(a) Interview planning
(b) Control of length and direction of interview
(c) Ability to evaluate information
(d) Ability to probe into facts and challenge statements
(e) Ability to listen
(f) Open minded
(g) Overcome contagious bias (eg. leading questions or tone)
(h) Overcome first impression.

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6 Selection testing

6.1 Selection testing involves submitting applicants to formal tests to identify:

- Degree of competence in performing required skills
- Attributes such as intelligence and personality

6.2 There are two types of test:

(a) Psychometric testing:

(i) Personality assessed against known scales (introversion/extroversion, Belbin types, cognitive style etc.)

(ii) Resulting profile compared to *norm tables* –i.e. profiles of good performers in similar roles

(iii) Used to select candidates and to pinpoint areas for personal development.

(b) Proficiency and attainment testing:

(i) Intelligence tests – seeks to assess basic IQ or verbal reasoning

(ii) Aptitude/skills testing (eg. numerical, dexterity, spatio-visual ability)

(iii) Job simulation/work sampling to test proficiency (eg. typing speed, telesales role play).

6.3 Evaluation of selection testing:

(a) Advantages

(i) Ensure fulsome coverage of all aspects of a candidate
(ii) Test of ability not just blind acceptance of a CV
(iii) Good accuracy record for some

(b) Disadvantages

(i) Can be very time consuming
(ii) Candidate might feel affronted
(iii) High expense of buying tests or employing consultants/specialists
(iv) Can measure current skills and not potential
(v) Interpretation of tests results

7 Other selection methods

7.1 Group selection methods (sometimes known as "assessment centres") are used for jobs requiring leadership and/or team working. It is a process involving small groups of participants undertaking a series of tests and exercises under observation with a view to assess their skills and competencies.

7.2 The above process often lasts several days ('country weekend') and may include:

(a) Decision-making simulations
(b) Communication exercises
(c) Structured interviews and tests
(d) Leadership and team challenges

Participants observed by multiple assessors who report back later on their overall assessment of each participant.

Lecture example 2

Ideas generation

Required

Suggest three advantages and disadvantages of using assessment centres.

Solution

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7.3 References are used by employers mainly to verify straightforward factual information such as previous job details and the period of employment. Any information on the applicants' personality must make allowances for bias and blandness. References may be written or via the telephone:

(a) Advantages

- Independent opinion
- Honest feedback

(b) Disadvantages

- Bias for/against
- Bland (fear of being sued)

8 Evaluating recruitment and selection practices

8.1 Recruitment and selection practices can be reviewed in several ways:

(a) Performance indicators
(b) Cost effectiveness
(c) Monitoring the work force
(d) Attitude surveys
(e) Actual individual job performance

8.2 Improvements to the recruitment and selection process could result from:

(a) Improved policies and guidelines
(b) Establishment of systematic procedures
(c) Improved training
(d) Auditing of job advertising
(e) Widening the range of selection techniques
(f) Possible use of external recruitment agencies and consultants

9 Chapter summary

- This chapter details the processes for recruiting and selecting suitably qualified employees.

Chapter 15: Questions



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15.1 Which of the following would not be included in a person specification?

A Responsibilities

B Background

C General intelligence

D Disposition (2 marks)

15.2 Which of the following is not a necessity for an effective selection test?

A Reliable

B Standardised

C Long length of time

D Valid (2 marks)

15.3 The aim of the recruitment process is to obtain a large quantity of applicants. True or false?

A True

B False (1 mark)

15.4 Which of the following is not one of Mintzberg's parameters of job design?

A Training in skills

B Consider delayered teams

C Regulation of behaviour

D Job specialisation (2 marks)

15.5 Which of the following is a disadvantage to the use of assessment centres as a method of selection testing?

A Longer to study candidate

B Shows stamina and attitude

C Allows a wide range of assessment methods

D May encourage contrived behaviour (2 marks)

Chapter 15: Answers



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15.1 A Responsibilities would be included in the job description not the person specification.

15.2 C An effective selection test may take a long time, but equally it may only take a short time.

15.3 B The recruitment process should aim to attract sufficient suitably qualified applicants only.

15.4 C Belbin described how job design should be tailored to reflect flexible working systems and delayered teams.

15.5 D This is a disadvantage of assessment centres.

END OF CHAPTER

BPP LEARNING MEDIA

16

Diversity and equal opportunities

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Understand the requirement of discrimination legislation.
- Appreciate the practical implications of the legislation.
- Understand the impact of diversity on organisations.

Exam Context

This topic features on the pilot paper in the context of recruitment advertising.

Qualification Context

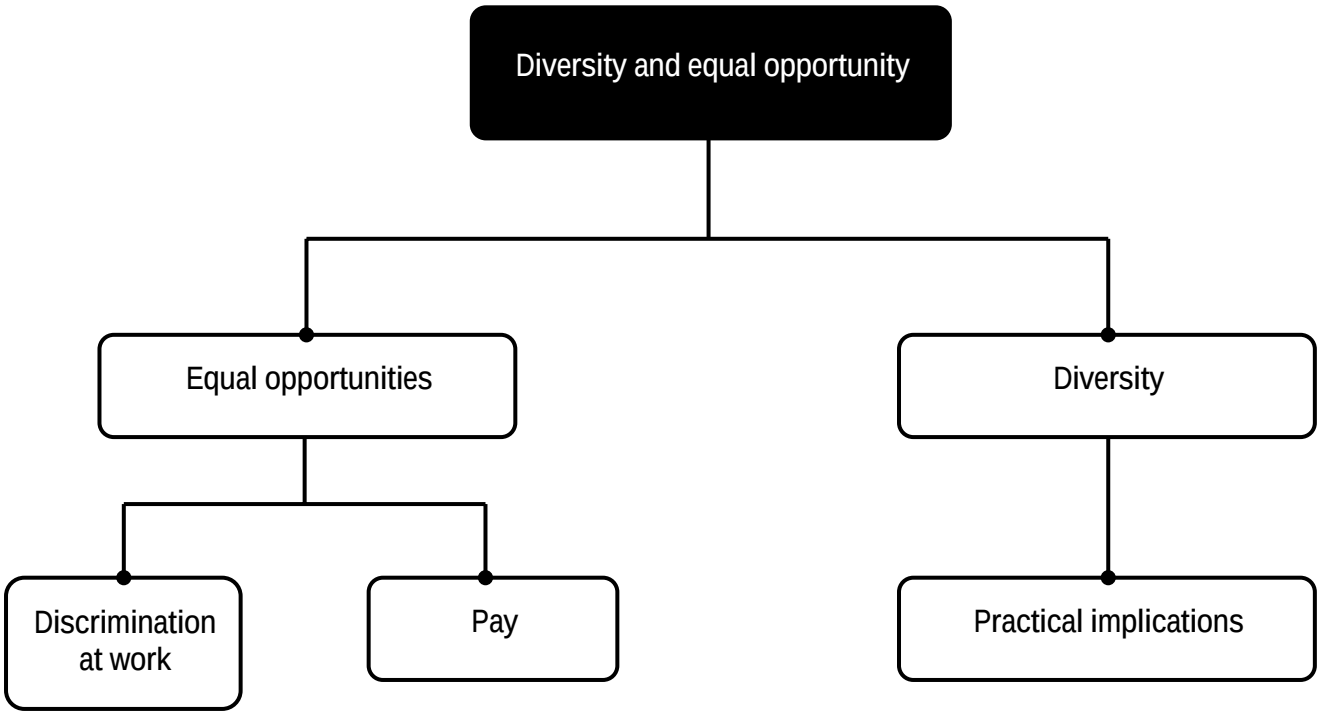
In some respects this topic is allied to ethics and social responsibility of organisations.

Business Context

Discrimination and equal opportunities are topics of great importance for managers, relevant to all aspects of people management.

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Overview


Diversity and equal opportunity
Equal opportunities
Diversity
Discrimination at work
Pay
Practical implications

1 Discrimination at work

1.1 Legalisation exists to prevent discrimination on the basis of gender, race or disability.

1.2 Equal opportunities is an approach to the management of people at work based on equal access and fair treatment.

1.3 This relates to all aspects of employment:

(a) Adverts
(b) Recruitment and selection
(c) Access to training
(d) Promotion
(e) Disciplinary procedures
(f) Redundancy and dismissal

Lecture example 1

Ideas generation

Required

How does equal opportunities benefit organisations?

Solution

1.4 The Equal Pay Act 1970/Equal Pay (Amendment) Regulations 1984 states that men and women have the right to equal pay for work of equal value (e.g. as determined by evaluation). The Act covers all conditions and terms of employment, not just pay.

1.5 The Sex Discrimination Acts 1975 and 1986 prohibit discrimination on the ground of sex, marital status and gender change. This applies to all areas identified above, but especially to the selection process.

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1.6 There are four types of discrimination covered by the legislation:

- Direct discrimination
- Indirect discrimination
- Victimisation
- Harassment

1.7 The Race Relations Acts 1976 and 1996 prohibit discrimination on the grounds of:

- Colour
- Race
- Nationality
- Ethnic or national origin

1.8 The Rehabilitation of Offenders Act 1974 provides that a conviction, other than one involving imprisonment for more than 30 months, may become erased if the offender commits no further serious offences during the rehabilitation period. This will vary according to the age of the person convicted and the length of the sentence imposed.

1.9 The Disability Discrimination Act 1995 contains provisions for disabled access to employment opportunities: interview, selection, training, promotion, dismissal. Disability is defined as physical or mental impairment that has a substantial / long-term adverse effect on ability to carry out normal activities.

1.10 The Employment Equality Regulations 2003 outlawed discrimination and harassment on the grounds of sexual orientation and/or religious belief.

1.11 The Employment Equality (Age) Regulations came into effect in the UK in October 2006. They prohibit unjustified age discrimination in employment and vocational training; support later retirement; and remove the upper age limit for unfair dismissal (currently individuals over 70 years of age cannot claim unfair dismissal).

2 The practical implications

2.1 Setting up an equal opportunities policy involves:

(a) Secure support from top management: create senior accountabilities
(b) Set up a representative working party to produce a Code of Practice
(c) Formulate action plans and allocate resources to publicise / implement policy
(d) Implement monitoring and review of minority staff entering / progressing / leaving
(e) Plan and implement positive action initiatives to facilitate minority access to opportunities.

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2.2 Some employers are doing more than the legal minimum by addressing the underlying problems of discrimination. Positive action initiatives include:

(a) Flexible hours/part time working

(b) Career break or return to work schemes

(c) Putting equal opportunities higher on the agenda (eg appointing equal opportunity manager)

(d) Fast tracking school leavers (as well as graduates)

(e) Training for women returnees

(f) Awareness training

(g) Counselling and disciplinary policies

(h) Positive action (to encourage applications from minorities)

3 Diversity

3.1 This concept goes further than just providing equal opportunities in the workforce. Diversity's main thrust is to ensure, within a legally acceptable framework, the composition of the workforce reflects the population as a whole. Here the rationale is that a diverse organisation will both understand and meet its customer's needs better.

3.2 In order to reflect diversity managers need to ensure that organisational systems also support diversity. For example:

(a) Recruitment and selection
(b) Education and training
(c) Career development
(d) Communications methods and channels
(e) Work/life balance

3.3 Diversity in the workplace means:

(a) Managing co-operative working in diverse teams
(b) Tolerance of individual differences
(c) Communicating effectively with an ethically diverse workforce
(d) Managing workers with diverse family structures and responsibilities
(e) Managing the adjustments to be made by an ageing workforce
(f) Managing diverse career paths and aspirations
(g) Confronting educational/qualification issues in an international workforce

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3.4 The steps in implementing a 'diversity policy' are:

Step 1 Analyse your business environment

↓

Step 2 Define diversity and its business benefits

↓

Step 3 Introduce diversity policy into corporate strategy

↓

Step 4 Embed diversity into core HR processes and system

↓

Step 5 Ensure leaders implement policy

↓

Step 6 Involve staff at all levels

↓

Step 7 Communicate, communicate, communicate

↓

Step 8 Understand your company's needs

↓

Step 9 Evaluate

4 Chapter summary

- This chapter has outlined the range of legislation covering equal opportunities and discrimination, with a comparison to the requirements for diversity.

Chapter 16: Questions



BPP LEARNING MEDIA

16.1 Which of the following is not an example of diversity in the workplace?

A Managing co-operative working in diverse teams

B Non acceptance of different family structures

C Communicating effectively with all employees

D Tolerance of individual differences (2 marks)

16.2 The Equal Pay Act states that men and women have the right to equal pay for work of unequal value. True or false?

A True

B False (1 mark)

16.3 Which of the following is not an offence to discriminate against anyone on the basis of:

A Age

B Race

C Weight

D Disability (2 marks)

16.4 There are four types of discrimination covered by the Sex Discrimination Acts. Which of the following is not covered?

A Direct discrimination

B Harassment

C Indirect discrimination

D Equal pay (2 marks)

16.5 Which of the following is not an example of positive action to address the problems of discrimination?

A Use of general recruitment advertising

B Return to work schemes

C Flexible hours

D Awareness training (2 marks)

Chapter 16: Answers



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16.1 B Diversity in the workplace ensures managers understand and accept the implications of diverse family structures.

16.2 B The Equal Pay Act states that men and women have the right to equal pay for work of equal value.

16.3 C Weight, unless it is extreme, when it might be covered by the disability discrimination legislation.

16.4 D Victimisation is the fourth type of discrimination. Equal pay is covered by different legislation.

16.5 A Positive action involves using specialist recruitment advertising that attracts minority applicants.

END OF CHAPTER

17

Training and development

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Appreciate the differences between training and development.
- Understand the learning process.
- Evaluate the benefits of different training methods.

Exam Context

Training and development are very examinable topics, especially if linked to appraisal and performance management.

Qualification Context

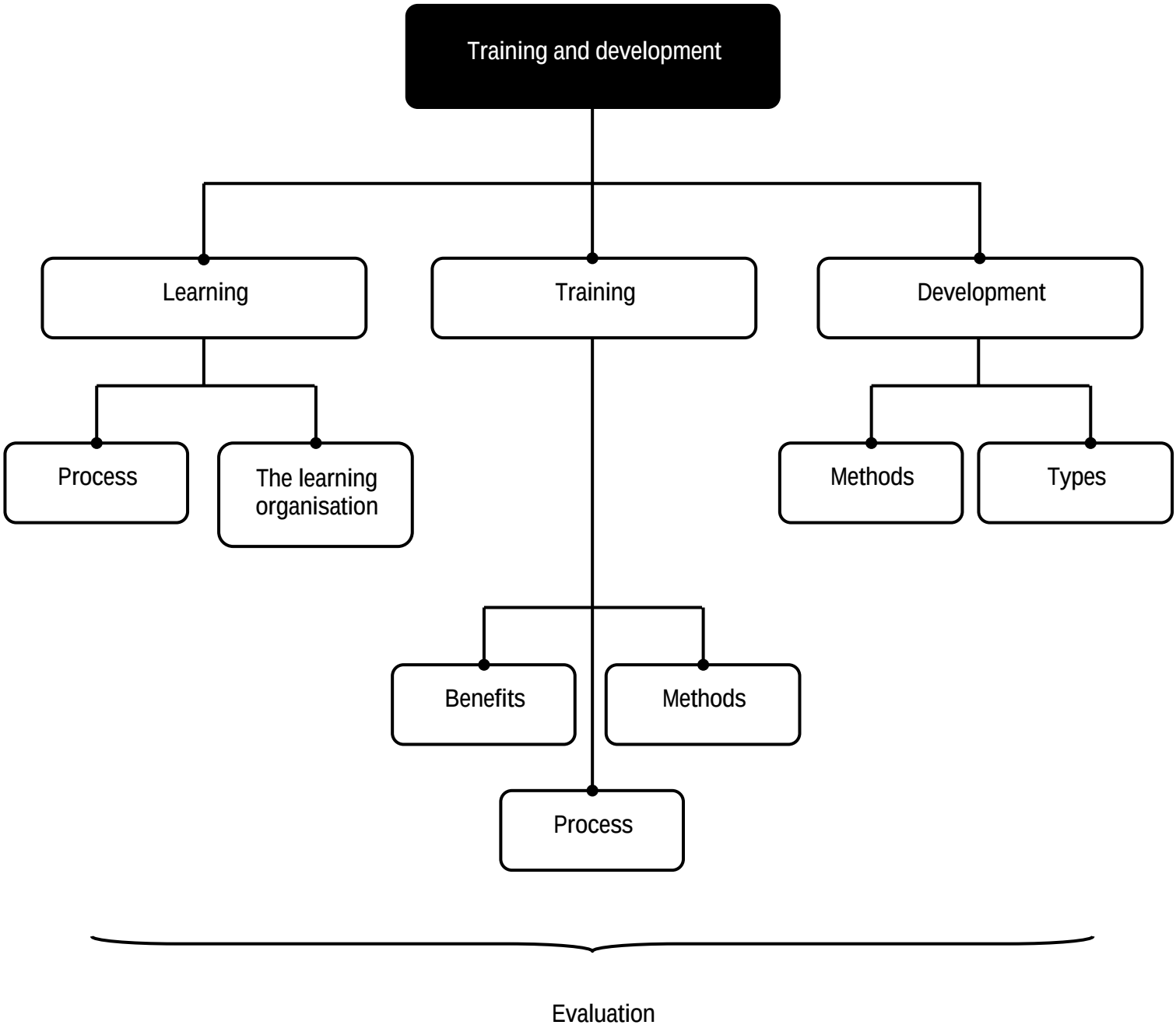
Some of the techniques discussed in this chapter will help students throughout their studies.

Business Context

As organisations change their staff have to learn new skills. Organisations need to develop staff in order to have a suitable succession plan in place.

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Overview


Training and development
Learning
Training
Development
Process
The learning organisation
Methods
Types
Benefits
Methods
Process
Evaluation

1 The learning process

1.1 There are two schools of learning theory explaining how people learn:

- Behaviourist
- Cognitive

1.2 Both learning theories help design effective training programmes which should encourage:

(a) Motivated trainees
(b) Clear objectives and standards
(c) Feedback
(d) Reinforcement of confidence
(e) Participation

1.3 The way in which people learn differs according to the type of person. (**Honey and Mumford**) (1986)

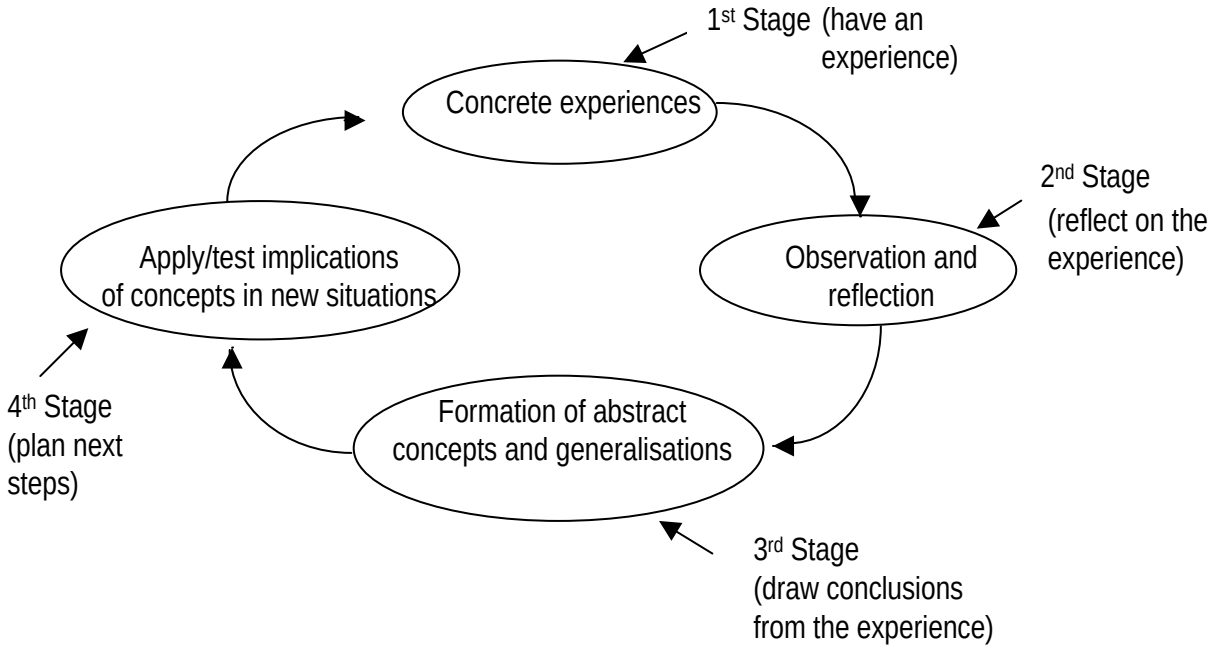
(a) **Theorists** – seek to understand underlying concepts taking an intellectual, logical approach

(b) **Reflectors** – observe and consider phenomena then act at their own pace

(c) **Activists** – deal with practical, active problems (in hands-on experience manner)

(d) **Pragmatists**– study if there is a direct link to practical problems (on the job training)

1.4 Experiential learning involves trainees learning through experience and this is demonstrated by the learning cycle devised by David **Kolb** of Harvard:



1.5 A 'Learning organisation' is one that facilitates the learning of all its members by gathering and sharing knowledge, tolerating experience and solving problems analytically.

1.6 Learning organisations are good at:

- Experimentation
- Learning from past experience
- Learning from others
- Transferring knowledge quickly and efficiently throughout the organisation

Lecture example 1

Ideas generation

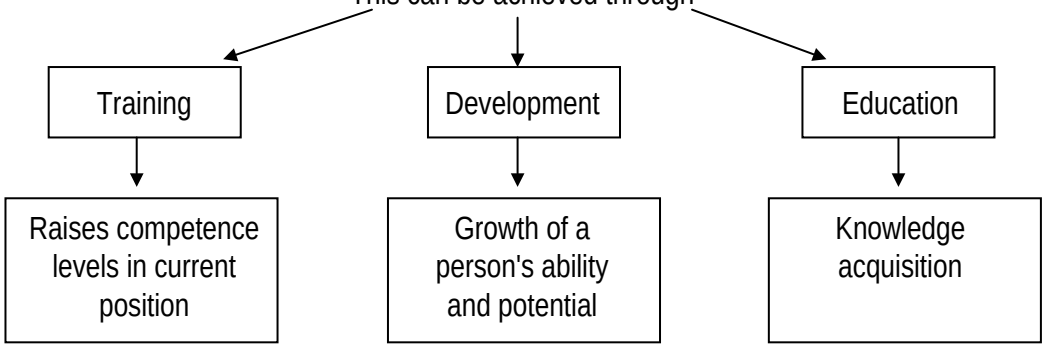
Required

Suggest some practical ways of becoming a learning organisation.

Solution

2 Development and training

2.1 In order to achieve its goals, organisations require skilled employees. This can be achieved through



2.2 Organisations create 'training and development' strategies to tie in with the overall business strategy by:

Step 1 Identifying required skills and competences

↓

Step 2 Create development strategy

↓

Step 3 Implement strategy

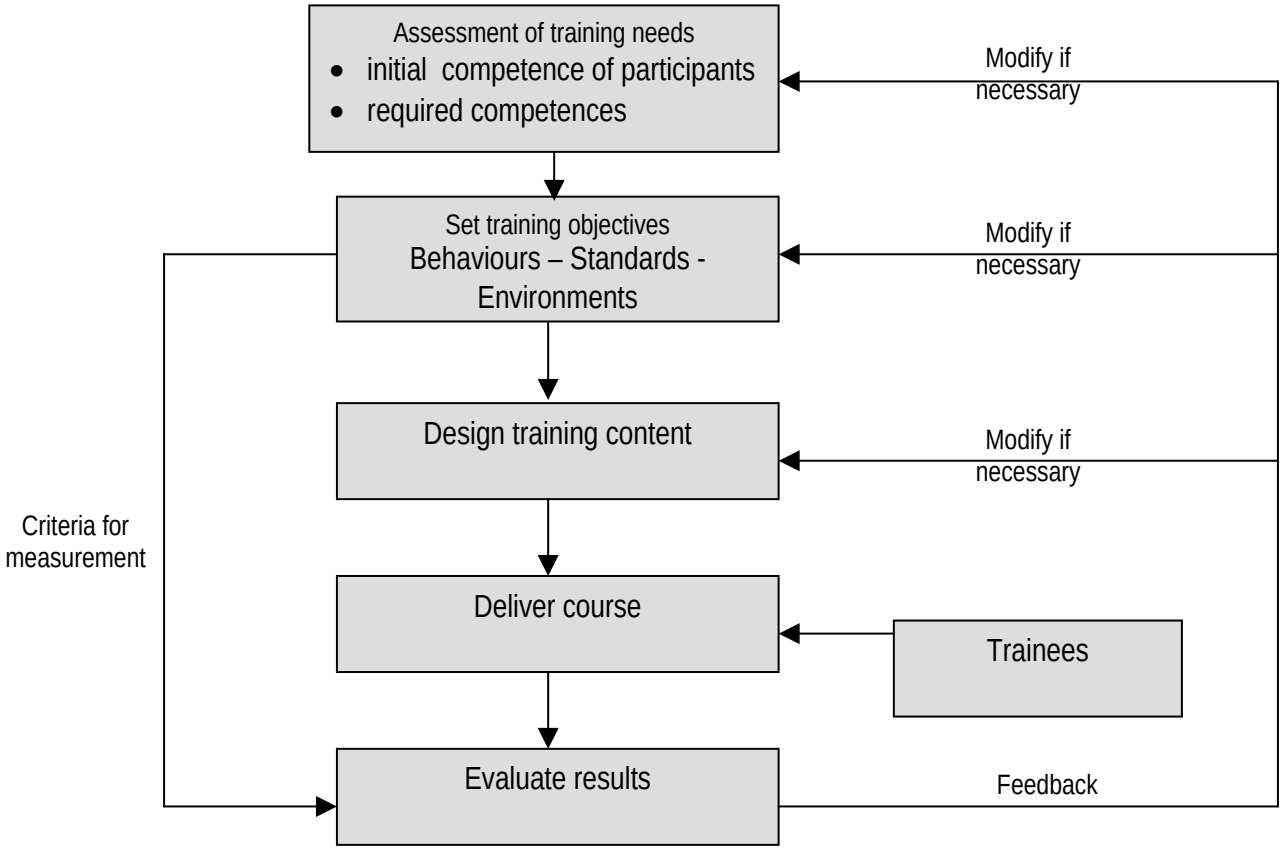
2.3 Benefits of training for the organisation include:

(a) Improves productivity of staff
(b) Reduces accidents and errors at work (and associated costs)
(c) Improves motivation and retention of staff
(d) Improves quality of staff available internally for promotion
(e) Attracts better staff due to showing commitment and progression opportunities
(f) Enables succession planning and career development
(g) Source of competitive advantage through innovation
(h) Helps build corporate culture

2.4 Benefits of training for the employee include:

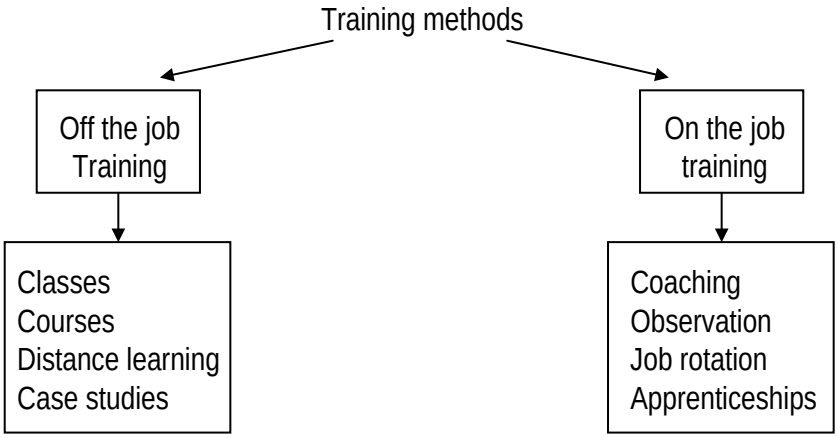
(a) Enhances portfolio of skills
(b) Psychological benefits (helps self-esteem and confidence in future)
(c) Social benefit (can help satisfy 'social needs')
(d) The job (helps them do it successfully)

2.5 A systematic approach to training should be used to ensure that the training undertaken meets the needs of the organisation:



3 Training methods

3.1



Lecture example 2

Pilot Paper

Required

What are the pros and cons to the organisation of sending people on off site courses?

Solution

Lecture example 3

Ideas generation

Required

What are the pros and cons to the individual of on-the-job training?

Solution

3.2 Induction training is the process whereby a person is formally introduced and integrated into an organisation or department. Inductions should be an 'on –going' process that involves mentoring, coaching, training and monitoring.

4 Responsibility for training and development

4.1 Responsibility for an individual's training is shared by several parties:

(a) Trainee
(b) HR department or training department
(c) Line managers
(d) Training manager (reports to head of HR)

4.2 The training manager's responsibilities include:

(a) Liaison (with operating depts)
(b) Scheduling
(c) Needs identification
(d) Programme design
(e) Feedback
(f) Evaluation

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5 Evaluating training programmes

5.1 Evaluation – carry out a cost/benefit analysis

Validation – observe results of the course and measure whether training objectives have been achieved.

5.2 Hamblin: Five-Level Evaluation Model:

(1) Get trainee reactions - via questionnaires or feedback forms

(2) Test trainees – to measure what they have learned

(3) Monitor changes in job behaviour – whether trainees have been able to apply learning to the job

(4) Impact on organisation goals/results – quality, productivity, profitability, employee retention

(5) Ultimate value – stakeholder benefits, i.e. greater social responsibility

6 Development

6.1 Development is wider than just attending training courses and includes:

(a) Work experience
(b) Guidance, support and counselling
(c) Education and training
(d) Planning of the individual's future

Lecture example 4

Ideas generation

Required

What may prevent a staff member from learning or developing?

Solution

6.2 Approaches to development include:

- Management development (eg MBA)
- Career development (career paths)
- Professional development (CPD)
- Personal development (more rounded employees)

7 Chapter summary

- This chapter has outlined the difference between training and development and the various types of training.

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Chapter 17: Questions



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17.1 Which of the following is not part of Kolb's learning cycle?

A Formation of abstract concepts

B Attending a training course

C Observation and reflection

D Apply/test implications of concepts (2 marks)

17.2 Development is a specific part of training. True or false?

A True

B False (1 mark)

17.3 Which of the following developed a five level training evaluation model?

A Mumford

B Maslow

C Hamblin

D Honey (2 marks)

17.4 Which of the following is not a name for a learning style?

A Activists

B Reflectors

C Practicers

D Theorists (2 marks)

17.5 Which of the following is not a benefit of training for the employee?

A Helps minimise costs

B Enhances portfolio of skills

C Psychological benefits

D Improves performance in job (2 marks)

Chapter 17: Answers



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17.1 B The fourth part of the cycle is "Concrete experiences".

17.2 B Training can be part of a development programme.

17.3 C Honey and Mumford categorised people into four learning types. Maslow developed his hierarchy of needs motivation theory.

17.4 C The fourth style is Pragmatists.

17.5 A This is a benefit to the employer.

END OF CHAPTER

BPP LEARNING MEDIA

18

Performance appraisal

Syllabus Guide Detailed Outcomes

Having studied this chapter you will be able to:

- Undertake performance appraisals.
- Understand problems in achieving successful appraisals.
- Appreciate why appraisals can be beneficial to employees and the employer.

Exam Context

This topic is a rich source of potential exam questions. The approaches taken with performance appraisal feature in a pilot paper question.

Qualification Context

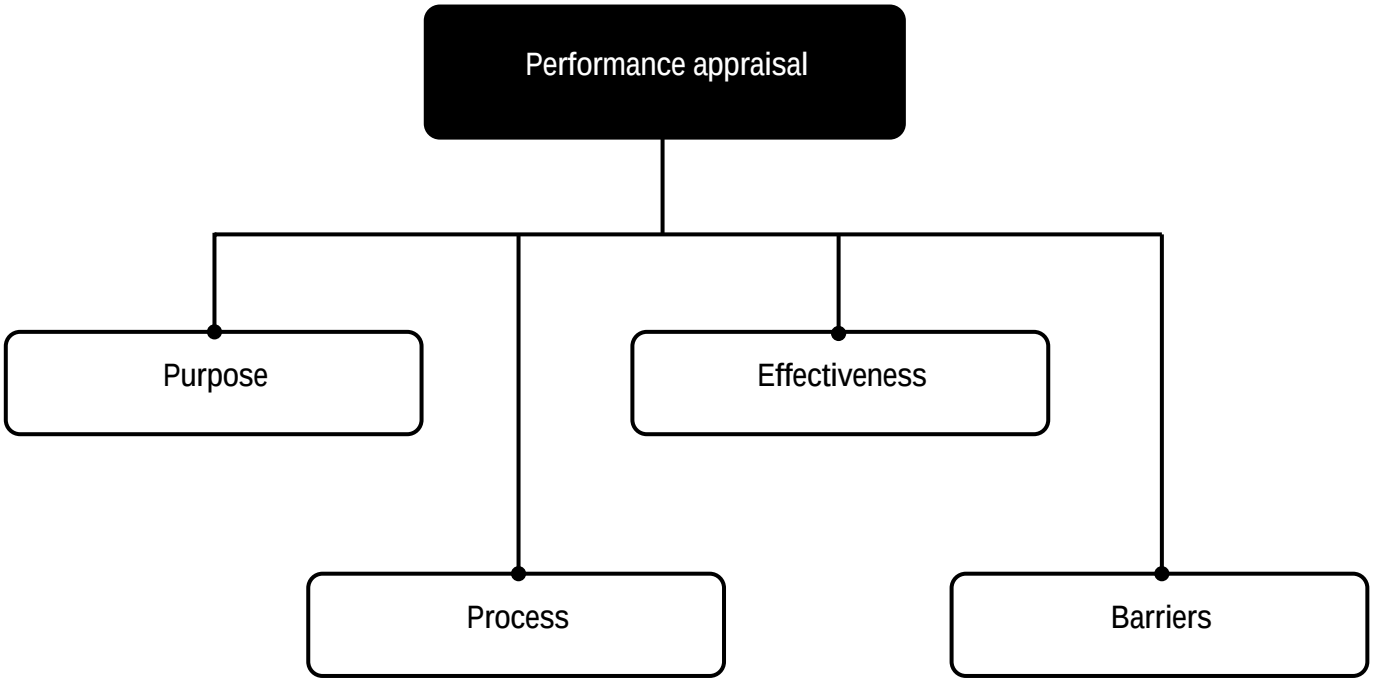
Monitoring performance of all the assets of an organisation, including its employees, is an essential part of the role of accountants.

Business Context

Appraisals can be used to reveal training and development needs, whilst also being an opportunity to discuss performance rewards.

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Overview


Performance appraisal
Purpose
Effectiveness
Process
Barriers

1 Performance management and assessment

1.1 The purpose of performance management is to improve **organisational performance** by ensuring that **individuals** within it are performing to the best of their ability and developing their potential for improvement.

1.2 The process of performance management is as follows:

Step 1 Identify requirements and competences

Step 2 Draw up a performance agreement

Step 3 Draw up a development plan

Step 4 Manage performance continuously

Step 5 Review performance (via appraisals)

1.3 Appraisal systems may have three elements:

(a) **Reward review**: measuring the extent to which the employee deserves a bonus or pay increase.

(b) **Performance review**: for planning and following up training and development programmes.

(c) **Potential review**: aid to planning career progression and succession planning.

1.4 Objectives of performance review:

(a) Communicate objectives

(b) Establish expected results for an individual

(c) Assess current performance level against standard

(d) Identify staff development and training needs

(e) Career management. (Identify high fliers and under-achievers)

(f) Identify areas for improvement

(g) Provide feedback

(h) Improving communication

(i) Monitor selection procedures

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2 The process of performance appraisal

Lecture example 1

Pilot Paper

Required

Suggest a suitable step by step process for an appraisal interview.

Solution

2.1 It is important that the appraisal takes place in a neutral environment and away from office disturbances. Adequate time should be allocated and sufficient notice given for preparation.

2.2 A combination of methods may be used to measure the effectiveness of employees:

(a)	Overall assessment	– narrative of manager's judgement
(b)	Guided assessment	– comments by manager and appraisee under specific performance elements
(c)	Grading	– manager applies a numerical grade against each performance element
(d)	Behavioural incident methods	– success or failure based on critical job behaviour
(e)	Results orientated schemes	– assessment against specific, measurable objectives

2.3 Self appraisal is where the employee assesses their own performance against criteria, identifies issues, and discusses with their manager how to resolve them. This emphasises development.

Lecture example 2

Ideas generation

Required

What are the pros and cons of self-appraisal?

Solution

2.4 Maier in 'The Appraisal Interview" identifies three approaches to appraisal interviews:

(a) Tell and sell style
(b) Tell and listen style
(c) Problem solving style

2.5 Follow up procedures to appraisals may include:

(a) Informing appraisees of the results
(b) Carrying out agreed actions
(c) Monitoring the appraisee's progress
(d) Help the appraisee to attain improvement objectives

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3 Barriers to effective appraisal

3.1 Appraisal is far from a tried and tested route for success of employer – employee relations within organisations.

3.2 Lockett pointed out appraisal fails due to:

Appraisal	=	confrontation
Appraisal	=	judgement
Appraisal	=	chat
Appraisal	=	bureaucracy
Appraisal	=	unfinished business
Appraisal	=	annual event

3.3 An appraisal scheme should be regularly assessed for the following factors:

(a) Relevance
(b) Fairness
(c) Serious intent
(d) Co-operation
(e) Efficiency

3.4 Upward appraisal is where employees are not rated by their superiors, but by their subordinates. The benefits of this method are:

(a) Subordinates have better knowledge of appraisee than the superior does
(b) Subordinates rate statistically, giving a more balanced view
(c) More impact from subordinates ratings than those from superior

3.5 The 360° appraisal (or multi-source appraisal) collects feedback from a variety of sources including:

(a) Immediate superior
(b) Subordinates
(c) Peers/co-workers
(d) Customers
(e) Self appraisal

4 How effective is the appraisal scheme?

4.1 Criteria for evaluating an appraisal scheme include:

(a) Relevance
(b) Fairness
(c) Serious intent
(d) Co-operation
(e) Efficiency

4.2 It can be evaluated by:

(a) Asking participants their views
(b) Checking to see if performance improves
(c) Reviewing other indicative factors

5 Chapter summary

- This chapter has outlined the importance of performance appraisals and how they should be conducted.

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Chapter 18: Questions



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18.1 Lockett pointed out six reasons why appraisals fail. Which of the following is not one of these reasons?

A Confrontation

B Reward

C Chat

D Annual event (2 marks)

18.2 Which of the following is not an objective of a performance review?

A Resolution of interpersonal conflicts

B Establish expected results for individual

C Communicate objectives

D Identify areas for improvement (2 marks)

18.3 Which of the following is the name given to an appraisal that collects feedback from a variety of sources?

A All round

B Circular

C Complete

D 360° (2 marks)

18.4 Upward appraisal is where employees are rated by their subordinates. True or false?

A True

B False (1 mark)

18.5 Which of the following is not an essential feature of performance management?

A It is an approach to managing people

B Shared understanding

C It is a one off event

D It needs an agreed framework of goals (2 marks)

Chapter 18: Answers



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18.1 B Reward is a type of appraisal.

18.2 A Resolution of conflicts should be dealt with separately.

18.3 D

18.4 A True

18.5 C It is an ongoing process.

END OF CHAPTER

Answers to Lecture Examples



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Chapter 1

Answer to Lecture Example 1

Commercial	– BPP
NFP	– Olympic committee
Public Sector	– NHS
Charity	– Save the Children
Trade Union	- National Union of Teachers
Mutual Associates	- Building Societies

Answer to Lecture Example 2

(a) Middle line

(b) Operating core

(c) Strategic apex

(d) Support staff

(e) Technostructure

Answer to Lecture Example 3

- Age of organisation
- Size
- Management ability
- Similarity of work
- Number of employees

Answer to Lecture Example 4

	Advantages	Disadvantages
Entrepreneurial	Flexible Quick to react	Not scalable Duplication
Functional	Standardisation Teamwork	Sub-optimal behaviour Reduced communication
Matrix	Customer focus Motivational	Dual authority Uncertainty

Answer to Lecture Example 5

(a) Entrepreneurial

(b) Functional

(c) Divisional

(d) Divisional

Answer to Lecture Example 6

	Centralisation	Decentralisation
Advantages	Quick decisions Strategic view	Motivational Local focus
Disadvantages	Loss of local focus Loss of autonomy	Costly Lack of direction

Chapter 2

Answer to Lecture Example 1

- Control
- Decision –making
- Performance measurement
- Review
- Decision-making
- Change management

Answer to Lecture Example 2

A Automated data capture

C Use external sources

C Review usage levels

U Summarised information

R Exception reporting

A Use of reliable sources

T Review reporting cycle

E Download into easy to use applications, eg Excel

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Answer to Lecture Example 3

OCR:	Pre-printed cheques
OMR:	Lottery
Bar codes:	Retail
Voice recognition:	Voice activated booking systems
Touch screens:	In store promotions
EFTPOS:	Credit transactions

Answer to Lecture Example 4

TPS:	Sales order system
DSS:	Excel spreadsheet (budget)
ESS:	'Dashboard' system, eg Business objects
Expert:	Taxation advice
MIS:	Internal reporting system

Answer to Lecture Example 5

- Easy to navigate
- Speedy search
- FAQ's
- Drill down facility
- Clear visuals
- Product search

Answer to Lecture Example 6

Example	Control
Input error	On-line entry by customer
Fire	OFF site back-up
Fraud	Segregation of duties
Insider dealing	Systems monitoring
Viruses	Anti-virus software
Strike action	Negotiation

Chapter 3

Answer to Lecture Example 1

- Dress codes
- Language
- Rules
- Logos
- Communication methods
- Workings methods

Chapter 4

Answer to Lecture Example 1

	Examples of obligations	Consequences of non-compliance
Law	Health & Safety, Anti-discrimination rules, Competition law	Fines (and in extreme cases imprisonment), reputational damage
Regulations	Financial service companies must adhere to multiple regulations re advertising, internal procedures etc. Some industries are subject to regulation of price and service standards, e.g. telecoms, water, electricity	Fines, reputational damage
Ethics	Treatment of staff, customers etc.	Variable – potentially reputational damage

Answer to Lecture Example 2

	Ethical issues	Ways of addressing
Multinational manufacturing company	Use of child labour in certain locations	Rules for sub-contractors, provision of education
Mining company	Environmental damage	Funding of environmental projects
Cosmetics manufacturer	Testing products on animals	Not using animal testing, funding of alternatives
Arms manufacturer	Sale of arms to repressive regimes or into civil war areas, bribery of officials where this is common practice	Restriction of sales to certain governments

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Answer to Lecture Example 3

Advantages of rules-based approach	Advantages of framework-based approach
Results in clear and specific rules	Rules cannot cover all possible situations
Consistent application is easier	Members are able to exercise professional judgement
It is easier to spot conduct outside the rules	Easier to adapt in complex or fast changing environments
	Can be harder to circumvent

Chapter 5

Answer to Lecture Example 1

Shareholders are primarily interested in the financial performance of the company. Managers may have multiple interests including their own personal success and remuneration, which may or may not be dependent on the company's performance. For example, managers of large companies are generally paid more than managers of small companies, so managers may have an incentive to make an acquisition even if it does not make financial sense.

Answer to Lecture Example 2

- Dominance of the Board and company by one individual or a small group
- Excessive remuneration and perks
- Lack of transparency
- In extreme cases, corruption or illegality

Answer to Lecture Example 3

- Are they genuinely independent? They are ultimately appointed by the executive directors
- Can be hard to recruit, especially if there are strict requirements on experience, e.g. must have been a director of a FTSE100 company
- They usually have significant other responsibilities so may have limited time available
- Executives may ignore their views

Chapter 6

No Lecture Examples

Chapter 7

Answer to Lecture Example 1

- To understand their competitors
- To predict trends
- To spot unusual disturbances
- To prevent an internal focus

Answer to Lecture Example 2

- Redundancy
- Retirement
- Working of notice period
- Headhunted by competitors

Answer to Lecture Example 3

- Health and Safety assessments/risk assessment
- Regular checks
- H & S training

Answer to Lecture Example 4

You perhaps associate danger in the workplace with building sites, or factories with heavy machinery or coal mines but assuming you work in an office of some sort you need only look about you to find numerous potential sources of injury. Common causes include the following.

- Slippery or uneven floors
- Frayed carpets
- Trailing electric leads, telephone cables and other wires
- Obstacles (boxes, files, books, open drawers) in gangways
- Standing on chairs (particularly swivel chairs) to reach high shelving
- Blocked staircases, for example where they are used for extra storage space
- Lifting heavy items without bending properly
- Removing the safety guard on a machine to free a blockage or to make it run faster

Answer to Lecture Example 5

- Speed
- Volume of info
- Flexible/remote working
- Fewer support staff
- Less face to face work

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Answer to Lecture Example 6

Advantages	Risks
Focus	Reliance
Cost management	Lock-in
Access to skills	Service provision

Chapter 8

No Lecture Examples

Chapter 9

Answer to Lecture Example 1

- Reduce risks
- Guide behaviour
- Highlight inconsistencies
- Alert management
- Apply rules/regulations

Answer to Lecture Example 2

- Fire
- Flood
- Unauthorised access
- Power failure
- Loss
- Damage

Chapter 10

Answer to Lecture Example 1

- Extravagant lifestyle
- Reluctance to take holidays
- Refusal to share information
- Excessive working hours

Chapter 11

Answer to Lecture Example 1

- Free up management time
- Empowerment
- Motivation
- Development
- Co-operation

Answer to Lecture Example 2

- Loss of power
- Fear of being undermined
- Frustration – quicker to do it
- Lack of confidence

Chapter 12

Answer to Lecture Example 1

- Adopt a more formal approach / response
- Defer to colleagues at a higher level
- Conform to regulations and conventions
- Complain a lot
- Get more and more frustrated about the inadequate systems
- Stab people in the back – play power games

Answer to Lecture Example 2

Belbin and Adair identified factors that foster greater team spirit and teamwork:

(a) Allowing time to develop
(b) Team typing – based on roles, a mix is required
(c) Team-building – team-building events and activities to develop trust, loyalty and understanding
(d) Team leadership – to integrate task, individual and group needs
(e) Team culture – instil an appropriate work ethic or way of working

Peters and Waterman defined five key aspects to be found in successful teams

(a) The numbers should be small
(b) The team should be of limited duration
(c) Membership should be voluntary
(d) Communication should be informal and unstructured
(e) It should be action-oriented

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Answer to Lecture Example 3

- Team building
- Team name
- Self rule
- Rewards/incentives

Chapter 13

Answer to Lecture Example 1

Reasons cited were

- Interest or accomplishment (particularly amongst managerial class)
- To keep occupied (particularly amongst working class and farmers)

They said they would miss most

- Friends and contacts (31%)
- Feeling of doing something (25%)
- The kind of work they do (12%)

Answer to Lecture Example 2

- Poor time keeping
- Absenteeism
- Staff turnover
- Missed targets
- Indifference

Answer to Lecture Example 3

Physiological	Need for pay Need for basic job
Safely	Health and Safety Job security
Social	Team membership Social interaction
Esteem	Responsibility Recognition
Self-actualisation	Job satisfaction Success

Answer to Lecture Example 4

- Benchmark internally
- Benchmark externally
- Create payscales linked to job descriptions

Answer to Lecture Example 5

benefits	drawbacks
Increase output	Conflict
Short-term motivator	High cost
Support targets	Excessive earnings
Healthy competition	

Chapter 14

Answer to Lecture Example 1

- Motivation
- Basis for planning
- Retention
- Career structure
- Equality

Answer to Lecture Example 2

- Prioritisation/lists
- Closed office/surgery hours
- Delegation
- Scheduling
- Automation

Answer to Lecture Example 3

- Language
- Physical distance
- Jargon
- Lack of goal-congruence
- Lack of time

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Answer to Lecture Example 4

- Meetings
- Briefings
- Mentoring
- Intranet
- Job rotation
- Projects/learns
- Open door management
- Office layout

Chapter 15

Answer to Lecture Example 1

Advantages	Disadvantages
Time	Cost
Quality	Risk
Screening	Access to company information

Answer to Lecture Example 2

Advantages	Disadvantages
More time to assess candidates	Time
Range of skills can be tested	Cost
Avoid biased decisions	Modified behaviour

Chapter 16

Answer to Lecture Example 1

- Retention of staff
- Company image/PR
- Motivation
- Reduced risk of litigation

Chapter 17

Answer to Lecture Example 1

- Access to a range of training
- Knowledge management systems
- Training budgets
- Encouragement of innovation
- Mentoring

Answer to Lecture Example 2

Pros	Cons
Quality	Quality/focus
Motivation	Time delay
No distractions	Retention

Answer to Lecture Example 3

Pros	Cons
Quick	Not standardised
Cost effective	May not happen
Flexible	Not always recognised

Answer to Lecture Example 4

- Motivation
- Lack of awareness
- Lack of confidence
- Lack of encouragement

Chapter 18

Answer to Lecture Example 1

- Written assessment by appraiser
- Written assessment by appraisee
- Meeting
- Target setting
- Performance evaluation
- Set date of future meetings

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Answer to Lecture Example 2

Pros	Cons
Involvement	Subjective
Better allowances	Inaccurate

END OF ANSWERS TO LECTURE EXAMPLES

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Appendix: Pilot Paper Questions



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Pilot paper

Paper F1

Accountant in Business

Time allowed: 2 hours

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

Warning

The pilot paper cannot cover all of the syllabus nor can it include examples of every type of question that will be included in the actual exam. You may see questions in the exam that you think are more difficult than any you see in the pilot paper.

ALL FIFTY questions are compulsory and MUST be attempted

1 Span of control is concerned with the number of levels of management in an organisation.

A True
B False (1 mark)

---

2 Which of the following is the main function of marketing?

A To maximise sales volume
B To identify and anticipate customer needs
C To persuade potential consumers to convert latent demand into expenditure
D To identify suitable outlets for goods and services supplied (2 marks)

---

3 Which one of the following has become an established best practice in corporate governance in recent years?

A An increasingly prominent role for non-executive directors
B An increase in the powers of external auditors
C Greater accountability for directors who are in breach of their fiduciary duties
D A requirement for all companies to establish an internal audit function (2 marks)

---

4 According to Charles Handy's four cultural stereotypes, which of the following organisations would adopt a task culture?

A The cost accounting department of a large steel producing company
B The consulting division of a 'big four' accountancy firm
C A civil service department
D A small clothes and design fashion house (2 marks)

---

5 At what stage of the planning process should a company carry out a situation analysis?

A When converting strategic objectives into tactical plans
B When formulating a mission statement
C When validating the effectiveness of plans against outcomes
D When formulating strategic objectives (2 marks)

---

6 Which one of the following is a potential advantage of decentralisation?

A Greater control by senior management
B Risk reduction in relation to operational decision-making
C More accountability at lower levels
D Consistency of decision-making across the organisation (2 marks)

---

7 Which one of the following is an example of an internal stakeholder?

A A shareholder
B An non-executive director
C A manager
D A supplier (2 marks)

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8 According to Mendelow, companies must pay most attention to the needs of which group of stakeholders?

A Those with little power and little interest in the company
B Those with a high level of power but little interest in the company
C Those with little power but a high level of interest in the company
D Those with a high level of power and a high level of interest in the company (2 marks)

9 What is the responsibility of a Public Oversight Board?

A The establishment of detailed rules on internal audit procedures
B The commissioning of financial reporting standards
C The creation of legislation relating to accounting standards
D The monitoring and enforcement of legal and compliance standards (2 marks)

10 The ageing population trend in many European countries is caused by a increasing birth rate and an increasing mortality rate.

A True
B False (1 mark)

11 Which one of the following is consistent with a government's policy objective to expand the level of economic activity?

A An increase in taxation
B An increase in interest rates
C An increase in personal savings
D An increase in public expenditure (2 marks)

12 Which of the following is the name given to unemployment arising from labour in the market place being of the wrong type or available in the wrong place?

A Structural unemployment
B Cyclical unemployment
C Frictional unemployment
D Marginal unemployment (2 marks)

13 When an organisation carries out an environmental scan, it analyses which of the following?

A Strengths, weaknesses, opportunities and threats
B Political, economic, social and technological factors
C Strategic options and choice
D Inbound and outbound logistics (2 marks)

14 Which of the following is data protection legislation primarily designed to protect?

A All private individuals and corporate entities on whom only regulated data is held
B All private individuals on whom only regulated data is held
C All private individuals on whom any data is held
D All private individuals and corporate entities on whom any data is held (2 marks)

15 Which of the following types of new legislation would provide greater employment opportunities in large companies?

A New laws on health and safety
B New laws to prevent discrimination in the workplace
C New laws making it more difficult to dismiss employees unfairly
D New laws on higher compensation for employer breaches of employment contracts

(2 marks)

---

16 The total level of demand in the economy is made up of consumption, ... , government expenditure and net gains from international trade.

Which of the following correctly completes the sentence above.

A Savings
B Taxation
C Investment (1 mark)

---

17 Which set of environmental factors does a lobby group intend to directly influence?

A Political
B Technological
C Demographic
D Economic (2 marks)

---

18 The use of advanced technology solutions in order to maximise the productivity and effectiveness of call centre operations is an application of the principles established by which school of management thought?

A Human relations
B Empirical
C Scientific
D Administrative (2 marks)

---

19 The original role of the accounting function was which one of the following?

A Providing management information
B Recording financial information
C Maintaining financial control
D Managing funds efficiently (2 marks)

---

20 Tax avoidance is a legal activity whilst tax evasion is an illegal activity.

Is this statement true or false?

A True
B False (1 mark)

---

21 The system used by a company to record sales and purchases is an example of which of the following?

A A transaction processing system
B A management information system
C An office automation system
D A decision support system (2 marks)

---

22 The implementation of a budgetary control system in a large organisation would be the responsibility of the internal auditor.

Is this statement true or false?

A True
B False (1 mark)

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23 Which type of organisation would have the retail prices it charges to personal consumers subject to close scrutiny by a regulator?

A A multinational corporation
B A multi-divisional conglomerate
C A national utilities company
D A financial services provider (2 marks)

---

24 The central bank has announced a 2% increase in interest rates.

This decision has the most impact on which department of a large company?

A Marketing
B Treasury
C Financial accounting
D Production (2 marks)

---

25 The major purpose of the International Accounting Standards Board (IASB) is to ensure consistency in .....

Which two words complete this sentence?

A Financial control
B Corporate reporting
C External auditing (1 mark)

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26 X Co has a financial accountant and a management accountant.

Which group of activities would fall within the responsibility of the financial accountant?

A Payroll, purchase ledger, sales invoicing
B Inventory valuation, budgetary control and variance analysis
C Fraud avoidance, segregation of duties, internal review and control
D Funds management, risk assessment, project and investment appraisal (2 marks)

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27 In an economic environment of high price inflation, those who owe money will gain and those who are owed money will lose.

Is this statement true or false?

A True
B False (1 mark)

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28 To whom is the internal auditor primarily accountable?

A The directors of the company
B The company as a separate entity
C The shareholders of the company
D The employees of the company (2 marks)

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29 Which one of the following is a DISADVANTAGE of a computerised accounting system over a manual accounting system?

A A computerised system is more time consuming to operate
B The operating costs of a computerised system are higher
C The computerised system is more costly to implement
D A computerised system is more error prone (2 marks)

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30 The identification, evaluation, testing and reporting on internal controls is a feature of which of the following?

A Operational audit
B Transactions audit
C Social responsibility audit
D Systems audit (2 marks)

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31 What is the primary responsibility of the external auditor?

A To verify all the financial transactions and supporting documentation of the client
B To ensure that the client's financial statements are reasonably accurate and free from bias
C To report all financial irregularities to the shareholders of the client
D To ensure that all the client's financial statements are prepared and submitted to the relevant authorities on time (2 marks)

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32 Which of the following are substantive tests used for in the context of external audit of financial accounts?

A To establish whether a figure is correct
B To investigate why a figure is incorrect
C To investigate whether a figure should be included
D To establish why a figure is excluded (2 marks)

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33 In the context of fraud, 'teeming and lading' is most likely to occur in which area of operation?

A Sales
B Quality control
C Advertising and promotion
D Despatch (2 marks)

---

34 In order to establish an effective internal control system that will minimise the prospect of fraud, which one of the following should be considered first?

A Recruitment policy and checks on new personnel
B Identification of areas of potential risk
C Devising of appropriate sanctions for inappropriate behaviour
D Segregation of duties in critical areas (2 marks)

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35 The leadership style that least acknowledges the contribution that subordinates have to make is .....

Which word correctly completes this sentence?

A Authoritarian
B Autocratic
C Assertive (1 mark)

---

36 The Blake and Mouton managerial grid examines the relationship between 'concern for production' and which of the following?

A Concern for people
B Concern for sales
C Concern for quality
D Concern for service (2 marks)

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37 Jackie leads an established team of six workers. In the last month, two have left to pursue alternative jobs and one has commenced maternity leave. Three new staff members have joined Jackie's team.

Which one of Tuckman's group stages will now occur?

A Norming
B Forming
C Performing
D Storming (2 marks)

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38 Richard is a valuable member of his team. He is enthusiastic and curious, highly communicative and has a capacity for contacting people and exploring anything new.

Which of Belbin's team roles does Richard fulfil?

A Monitor-evaluator
B Plant
C Resource-investigator
D Company worker (2 marks)

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39 Which one of the following statements is correct in relation to monetary rewards in accordance with Herzberg's Two-Factor theory?

A Pay increases are a powerful long-term motivator
B Inadequate monetary rewards are a powerful dissatisfier
C Monetary rewards are more important than non-monetary rewards
D Pay can never be used as a motivator (2 marks)

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40 Which one of the following is a characteristic of a team as opposed to a group?

A Members agree with other members
B Members negotiate personal roles and positions
C Members arrive at decisions by consensus
D Members work in cooperation (2 marks)

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41 According to Victor Vroom:

Force (or motivation) = ... × expectancy

Which of the following words completes Vroom's equation.

A Needs
B Valence
C Opportunity (1 mark)

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42 According to Handy's 'shamrock' organisation model, which one of the following is becoming progressively less important in contemporary organisations?

A The permanent, full-time work force
B The part-time temporary work force
C The role of independent sub-contractors
D The role of technical support functions (2 marks)

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43 Which pattern of communication is the quickest way to send a message?

A The circle
B The chain
C The Y
D The wheel (2 marks)

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44 Poor quality lateral communication will result in which of the following?

A Lack of direction
B Lack of coordination
C Lack of delegation
D Lack of control (2 marks)

45 Role playing exercises using video recording and playback would be most effective for which type of training?

A Development of selling skills
B Regulation and compliance
C Dissemination of technical knowledge
D Introduction of new processes or procedures (2 marks)

46 In the context of marketing, the 'four P's' are price, place, promotion and .....

Which word correctly completes this sentence?

A Processes
B Production
C Product (1 mark)

47 In relation to employee selection, which type of testing is most appropriate for assessing the depth of knowledge of a candidate and the candidate's ability to apply that knowledge?

A Intelligence testing
B Personality testing
C Competence testing
D Psychometric testing (2 marks)

48 A company has advertised for staff who must be at least 1.88 metres tall and have been in continuous full-time employment for at least five years.

Which of the following is the legal term for this unlawful practice?

A Direct discrimination
B Indirect discrimination
C Victimisation
D Implied discrimination (2 marks)

49 Which one of the following is most appropriate for the purpose of supporting the individual through the learning process with a view to promoting career development?

A Buddy
B Counsellor
C Mentor
D Instructor (2 marks)

50 Gils is conducting an appraisal interview with his assistant Jill. He initially invites Jill to talk about the job, her aspirations, expectations and problems. He adopts a non-judgmental approach and offers suggestions and guidance.

This is an example of which approach to performance appraisal?

A Tell and sell approach
B Tell and listen approach
C Problem solving approach
D 360 degree approach (2 marks)

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END OF PILOT PAPER QUESTIONS