

### Important Note

These exam questions were set in 2002 and 2003 as part of module B123 Foundation of Business.

While students may find these exam questions useful as part of their revision, they are warned that the format of the exam has now changed, to reflect changes in the overall learning objectives associated with the module. Students are now required to demonstrate their **understanding** of the subject by answering one long question, broadly similar in style to those shown here, from a choice of two. They are also required to demonstrate their **knowledge** of the subject by answering a series of compulsory shorter questions, not shown here.

## Question 1

Accountants are often regarded as “mere bean-counters”, and yet many accountants become successful business executives. Explain this apparent paradox, with reference to accountancy as a discursive practice.

### Answer

*A satisfactory answer will explain that accountancy is not just a set of techniques and activities (book-keeping) but establishes a dominant language for business. Accountants are seen as the masters of this dominant language, and this confers power and success. Success is largely measured by accountancy.*

*An above-average answer will acknowledge this power, and will go on to question the validity and completeness of this language, with clear indication of the possible gaps and distortions in this language. It will distinguish between “accountancy” as a discursive practice, and the career paths of trained accountants.*

*An excellent answer might discuss the nature of success for a business executive, and the degree to which a trained accountant can and must go beyond accountancy practice to achieve success – even in terms of accountancy. It might show how rivals for top management positions (such as engineers) are also caught within their own discursive practices.*

## Question 2

Information and Communication Technology systems are often justified by claims of increased productivity.

Define productivity, making sure you indicate the scope of the measurements concerned (30 marks). Provide an example from a organization perspective of how productivity might be improved by ICT. (40 marks). Indicate how ICT systems sometimes fail to deliver the promised productivity. (30 marks).

Note: the purpose of this question is to look at the organizational effects of ICT. No marks will be awarded for technical description of an ICT system itself.

### Answer

*A satisfactory answer will define productivity as a ratio of input (effort) to output (outcome), and will indicate at least one way in which this could plausibly be enhanced by a suitable ICT system.*

*An above average answer might additionally discuss some general barriers to productivity in organizations, and show how an ICT system might overcome these. At this level, there should be some awareness of possible implementation problems.*

*In addition to covering the basic requirements of the question, an excellent answer might take a sociotechnical perspective on organizational change, perhaps using a systems diagram to show the interaction between the ICT system and its organizational context.*

## Question 1

Define and illustrate transaction costs (25 marks). Explain the potential impact of information and communication technology (ICT) on transaction costs (25 marks). What is the predicted effect on organization structures (25 marks)? What other factors may influence organization structure (25 marks)?

### Answer

*A satisfactory answer will outline the types of transaction costs, and indicate that both internal and external costs may be reduced by ICT. It will indicate that ICT may enable or facilitate various trends, e.g. delaying and outsourcing.*

*An above average answer might discuss some of the problems with trends such as delaying and outsourcing – especially social and ethical problems such as trust – and show how ICT fails to address these problems. It would indicate the social patterns – hierarchy, market, network, clan – and show how they are distinguished in terms of culture and style.*

*An excellent answer might discuss the dynamics of change across these social patterns. How do social structures change over time, and how does ICT come into the story?*

## Question 2

Describe how risk and reward are balanced (30 marks). Explain the importance of a proper balance (30 marks).

Bank A will lend money to any venture, no matter how risky, provided that there is a large enough premium or share. Bank B refuses to lend to high-risk ventures above a defined level of risk. Discuss the commercial prospects for each bank (40 marks).

### Answer

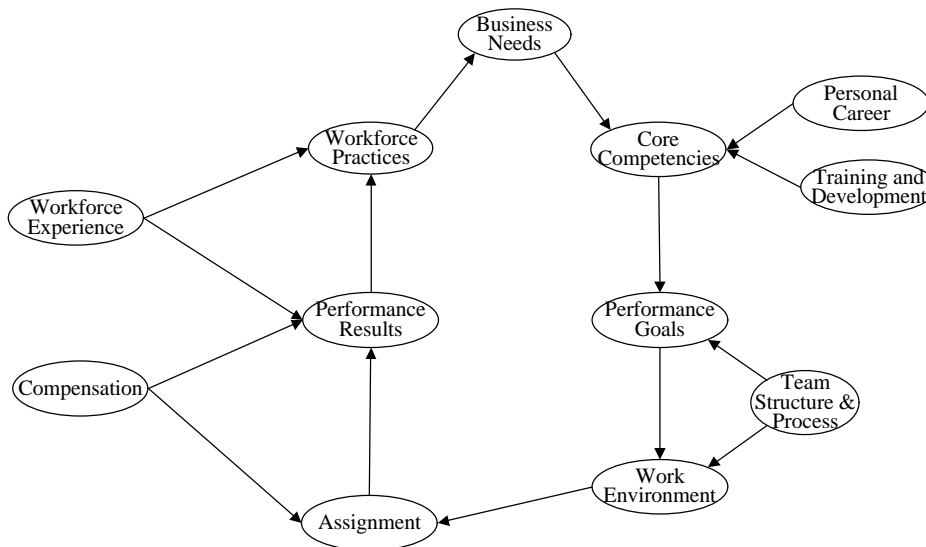
*A satisfactory answer will describe a balance between risk and reward. Over the long term, any level of risk may be economically sustainable, provided that the risk premium is set at an appropriate level. The importance of a proper balance will be described from an economic, social or ethical point of view.*

*An above-average answer will discuss at least two of the economic, social and ethical considerations. It might talk about favourable and unfavourable market conditions – good times and bad times. We might also expect some discussion of the social/market effects of financial services that select the low-risk ventures. If some banks are reluctant to fund high-risk ventures, then this will reduce supply of such funding, thus increasing the market rate (and therefore profitability) for those that are willing to accept such risks.*

*An excellent answer will discuss the question in terms of economics, sociology **and** ethics. It may discuss these socio-economic phenomena in terms of chaos and catastrophe – the distorting effect of rare events. We might expect an excellent answer to include an intelligent discussion of ethical issues. There are ethical issues for the bank employee, whose personal risk/reward equation may*

not be aligned with that of the whole organization. There are also ethical issues for the bank, whose risk/reward equation may not be aligned with the intentions of the banking regulator and the socio-political needs of society.

**Question 3**



Discuss the structure and likely dynamics of the model shown in the diagram. Identify any loops (positive or negative), and predict the likely or possible behaviour around these loops. (40 marks). Identify an intervention to improve the system (30 marks). How might the system respond to such an intervention (30 marks)?

**Answer**

*A satisfactory answer will identify the positive/negative feedback loops, and predict convergence, divergence or oscillation. An intervention will be identified.*

*An above-average answer might identify the factors that influence convergence, divergence or oscillation. The student at this level could be expected to show some awareness of the phenomenon of system resistance – that the system may counteract the intervention.*

*In addition to this, an excellent answer might frame the system model, question its perspective and purpose, and indicate how a differently scoped, configured or motivated model might lead the analysis to different results.*

## Question 1

What is feedback (20 marks)? Give an example of a feedback loop within a business organization (30 marks).

How do managers use feedback loops to achieve company goals (30 marks)? Give an example (20 marks).

### Answer

*A satisfactory answer will define feedback as a loop, which may reinforce or control the behaviour of the system. Monitoring and control against financial or other targets may be cited as examples of goal-directed behaviour.*

*An above average answer will describe positive and negative feedback, provide an example of each, and show their different effects. Mention of system effects such as delay and oscillation will earn extra marks.*

*An excellent answer should discuss a number of system effects associated with feedback, and show how these may support or interfere with management activity.*

## Question 2

What is the basic structure of a decision (20 marks)? Why are managers paid to make decisions (30 marks)? Why do different managers decide things differently (40)?

### Answer

*A satisfactory answer will use a simple decomposition of the decision process – for example, Herbert Simon's split into Search, Design and Choice. (Any similar breakdown will be acceptable.) The student should show some appreciation of the difficulty and subjectivity of decision-making.*

*An above average answer might mention the rationality of decision-making, and would discuss and illustrate at least one reason why two managers decide things differently (e.g. different preferences or motivations, different knowledge or experience, different attitude to risk).*

*An excellent answer might provide a coherent account of management rationality, and justify the concept of bounded rationality/satisficing.*

### Question 3

Following recent corporate scandals in America and elsewhere, the US Government proposes tough new laws against business executives who mislead investors. Why are such laws necessary (40 marks)? What would be required for such laws to be effective (30 marks)? What could be the overall effect of such laws (30 marks)?

#### **Answer**

*A satisfactory answer will indicate the possible conflicts of interest between executives and other stakeholders – including investors and employees.*

*An above average answer will make the ethical issues explicit, with reference to agency theory and moral hazard, and will explore the positive or negative implications of tougher legislation and regulation – including the extra costs of greater regulation.*

*An excellent answer might analyse both positive and negative effects of regulation on ethical issues, and may be able to cite examples of clumsy or counter-productive regulation.*

## Question 1

In the Republic of Smartland, the government advisers have proposed a new law that would force banks to operate a new and complicated procedure when issuing loans to its customers. This law would add significantly to the operating costs of all banks. The Smartland People's Bank may respond to this proposal in a number of ways. In this question, we are going to explore two specific options.

- Option 1 Form a committee with other banks to try and persuade the government not to pass this law.
- Option 2 Develop an IT system that would execute the new procedure if the law is passed, thus reducing the additional operational costs by 80%.
- Are these options mutually exclusive? Does it make sense to invest in two contrary actions, when you know in advance that only one of them will be successful? (20 marks)
  - Who are the relevant stakeholders in this system? Are there any not mentioned in the question? (20 marks)
  - How does the IT system create value for the Smartland People's Bank? Does the value depend on whether if the law is passed? (30 marks)
  - Show how this decision fits into a general decision-making framework. What do the managers of the Smartland People's Bank need to know? Do you have any specific recommendations? (30 marks)

## Answer

*A satisfactory answer (>40%) will identify the potential value of the IT system in terms of a reduction in operating costs. It will explain why this might be a useful investment even if the IT system is never used, appealing to some notion of risk management, contingency planning and/or business continuity. The student should clearly show some awareness of the relevance of uncertainty in relation to decision-making.*

*An above average answer (>55%) should discuss the relationship between value and uncertainty, and mention alternative measures of value. May also mention the importance of timing in such a decision. May mention that the scope of competition and the scope of the potential legislation is an important factor.*

*An excellent answer (>70%) should integrate all these issues into a well-articulated decision framework, and should indicate a way of valuing the IT system that deals with the key uncertainty.*

*Participation in the lobbying exercise may depend on a judgement about the other banks. If lobbying is successful, then banks who have not participated may also benefit (game theory: free rider). It is therefore useful to include other banks as stakeholders.*

*Some students may offer a range of arguments against developing the IT systems, including the possibility that taking such an initiative may actually increase the chance that the law is passed – because it weakens some of the arguments that could be used against the law. While such arguments may demonstrate insight and some aptitude for systems thinking, and will be duly rewarded if placed in a proper context and counter-balanced by arguments to the contrary, they do not stand alone as a sufficient answer to the question.*

The question clearly states that the new IT system is designed to reduce the **additional** operating costs. There is no reason to suppose that the IT system will have any effect on the **current** operating costs. However, even if the legislation is dropped, the IT system may possibly have some relevance for some **future** legislative change.

- a) *Correct reasoning. Not mutually exclusive, could be worth doing both. Lobbying may weaken or delay the legislation, rather than eliminating it entirely. IT development involves a timelag, and you may not have time to develop the system properly after the outcome of the lobbying exercise is known.*
- b) *Stakeholders include this bank, other banks, customers (individual and corporate), voters. Answer should explain why stakeholders added, what is the nature of their stake/interest.*
- c) *Simple answer: value depends on whether law is passed. Sceptical of arguments that claim that IT development will generate value in any case. Sophisticated argument – value of unexercised contingency derives from reducing risk.*
- d) *Decision framework based on Vickers allows you to match the decision taken with the ethics and culture of the bank (typically cautious, risk averse). Decision framework based on Lacan allows you to discuss the timing of the decision – when to start developing any IT solution.*

## Question 2

The Canny McCann Canning Company (CMCCC) makes cans, which it supplies empty to major food manufacturers. It has some long term relationships with its customers for the cans but increasingly cans are being seen as a commodity item to be bought on price and quality alone. CMCCC is now considering a proposal to get into food production itself, and supply full cans of food direct to supermarkets.

- a) *What are the possible advantages of this move? What are the possible disadvantages? What alternative strategies might have been considered? (50 marks)*
- b) *How is this likely to affect CMCCC's relationships with the external environment (20 marks)?*
- c) *What recommendations do you have for CMCCC in implementing this proposal? Base your recommendations on relevant theory. (30 marks).*



**Answer**

Possible Advantages	Possible Disadvantages
<ul style="list-style-type: none"> <li>• CMCCC is now using cans as well as selling them. This potentially means greater economies of scale, and greater stability or demand, in the production of cans.</li> <li>• CMCCC now has greater visibility over the food supply chain, and is therefore better able to predict and respond to fluctuations in demand.</li> <li>• CMCCC now has access to the profits generated by food production as well as can production.</li> <li>• CMCCC now has new opportunities to grow by acquisition - it could take over one of the smaller food producers.</li> </ul>	<ul style="list-style-type: none"> <li>• CMCCC may not have a sufficient volume of food production (at least initially) to be able to compete with established firms.</li> <li>• CMCCC may need to buy in expertise in food production.</li> <li>• CMCCC's entry into food production may hurt its relationships with existing food producers with which it may now be competing. These companies may be less willing to share information, and may even consider taking their business to one of CMCCC's competitors.</li> </ul>

A satisfactory answer (>40%) should indicate at least one advantage, and at least one disadvantage, and should show some awareness and understanding of the difference between internal (hierarchical) and external (market) relationships.

An above average answer (>55%) may indicate several advantages and disadvantages. Should note the possible (probably negative) response by existing food producers to the proposal, and the consequent threat to CMCCC's viability.

In addition, an excellent answer (>70%) might discuss alternative strategies - such as joint ventures - and place these in a sound theoretical framework. Should demonstrate a clear understanding of economic and social notions of viability.

A mergers or joint venture may have some advantages over direct entry into food production. However, if recommending this option, it is important to acknowledge its possible disadvantages. Mergers can fail for a variety of reasons. Furthermore, a merger would share some of the disadvantages of direct entry - in particular, the possible damage to relationships with other food producers.

### Question 3

Since the fall of Enron and other corporate scandals, there is much interest at present in corporate governance and related issues.

- a) Identify a range of stakeholders with an interest in the quality of management and corporate governance. What are their primary concerns? (30 marks)
- b) It is possible that the level of interest may diminish over time. Alternatively, it is possible that a continuing stream of scandals could reinforce the level of interest. Draw a system diagram to show how feedback loops could operate here. (30 marks)
- c) How can the quality of management and corporate governance be assessed and improved? (40 marks)

### Answer

*The following feedback loops could be identified. There is a possibility of oscillation following (with some delay) the general economic cycle.*

- *Discovery of a scandal increases public and media attention to corporate governance, which increases the chance of further scandals being discovered.*
- *If further scandals are not discovered, even with a heightened level of concern and attention, this will reassure stakeholders, leading to a reduced level of concern and attention.*
- *Corporate governance issues are exposed in lean times, and concealed in prosperous times. Scandals reinforce the perception that we are currently in a lean time. Lack of scandal would reinforce the perception that we are back in prosperous times.*
- *In lean times, managers may become more desperate, and this may increase the motivation to cheat. In lean times, people count the pennies, and are far less tolerant of vagueness and warm feelings, in areas ranging from business relationships to management accounting.*
- *Excessive attention to issues of corporate governance could distract managers from other important management issues, and could also affect willingness to take risk. This could have an impact on corporate viability.*

*A satisfactory answer (>40%) will identify the ethical issues of corporate governance, and the potential conflict of interest between the directors of a company and its shareholders and other stakeholders, illustrating this in terms of Enron or some other example. Will show some awareness of the relationship between economic and ethical issues.*

*In addition, an above average answer (>55%) should show some awareness of social mechanisms for maintaining the quality of corporate governance, such as board structures, external audit and media attention. Will be able to produce a reasonable system diagram, with at least one meaningful feedback loop identified, and draw some conclusions.*

*An excellent answer (>70%) must produce a clear and well-argued system diagram. Could use such system concepts as attenuation and delay to illustrate the social and ethical issues. Should show how ethical concerns may have to be balanced pragmatically against other business concerns, and could reference the theory of decision-making and rationality to show finite limits to the pursuit of the perfectly ethical solution.*

## Question 1

Young entrepreneur Peter Parker is currently raising capital for a new web-based business venture. The venture has excited interest because its business model is different from anything else and it may enhance the value of other related web businesses. He has a detailed business plan, which shows the company making a financial loss for at least three years.

- a) What is the incentive for investors to support this venture? (50 marks)
- b) How should investors and other stakeholders assess the viability of the venture? (50 marks)

## Answer

*A satisfactory answer (>40%) will discuss the possibility of financial rewards after year 3. Should indicate that investors will only participate if the estimated long-term rewards exceed the investment. Investors will expect a good return, to compensate for the delay and risk.*

*An above average answer (>55%) should show a clear understanding of the relationship between investment and risk. May talk about cash burn, the possible need for further injections of capital, and how investors would judge this. May also indicate that the venture will have an ongoing positive value even before profitability is reached. Should be aware of the difficulties of assessing the value of a company. Reference to real-life examples of high tech ventures will be suitably rewarded.*

*In addition, an excellent answer (>70%) might discuss this from the perspective of various stakeholders, such as employees and suppliers, who can be regarded as investing something other than hard cash (e.g. effort, goodwill, trust) in the venture. Should show some appreciation of the system environment – for example the prevailing investment climate.*

## Question 2

It is often argued that recent developments in Information & Communication Technology (ICT) (especially internet) have caused a trend away from hierarchical, centralised structures and towards decentralised, market structures. One of the main differences between these structures is how costs are generated and how they are allocated between the parties. In particular there is a different trade-off between the cost of coordinating actions between the parties and the costs associated with a particular business transaction.

- a) Explain and illustrate how ICT can affect transaction and coordination costs. (30 marks)
- b) Explain and illustrate how transaction and coordination costs can influence structure. (30 marks)
- c) Do you think that all business relationships will or should be based on market structures? Explain your reasoning. (40 marks).

### Answer

*A satisfactory answer (>40%) will show an understanding of hierarchical/market structures and the different transaction/coordination costs involved in each structure, and will explain how these costs may be reduced by ICT. Should show awareness of some of the social and ethical reasons why market structures have not, should not, and probably will not completely replace hierarchical structures in all situations.*

*An above average answer (>55%) should offer a clear account of transaction costs and their expected effects on structure, with some well-chosen examples. Should note the limitations of the expected shift towards market structures, and explain the various forces preserving hierarchical structures.*

*An excellent answer (>70%) should offer a critical evaluation of the argument presented in the question. Should show a clear appreciation of ethical as well as socio-economic issues,*

**Question 3**

The Canny McCann Canning Company (CMCCC) has commissioned a new management information system. This is supposed to increase the quality and quantity of information available to management to support a range of planning and control decisions. Most managers in the company are eager to use the information the new system will provide, but some are concerned that it may deflect attention from more important concerns.

- a) Identify specific ways in which **increasing** the quantity and quality of information may **increase** management effectiveness. (40 marks)
- b) Identify ways in which **increasing** the quantity or quality of information may actually **reduce** management effectiveness. (20 marks)
- c) How could the Canny McCann Canning Company (CMCCC) assess the benefits of the new system? Use one or more specific examples to illustrate your answers. (40 marks).

**Answer**

<i>Possible Improvements</i>	<i>Possible Problems</i>
<ul style="list-style-type: none"> <li>• <i>Information Supply. The information system should make it much easier for CMCCC management to obtain reliable information. This could either reduce the amount of time they have to spend obtaining information they need, or increase the amount of relevant information available to them.</i></li> <li>• <i>The information system should make it more likely that relevant risks and issues are identified and properly addressed.</i></li> <li>• <i>One aspect of information quality is to be fit for purpose – properly selected, filtered &amp; presented. Higher quality in this sense may address disadvantages identified opposite.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Information Overload. As the quantity of available information increases, it becomes harder to analyse and interpret it, and to use it effectively.</i></li> <li>• <i>Information Complexity. As the breadth and detail of available information increases, the overall complexity increases. This complexity may cause confusion and stress.</i></li> <li>• <i>Control Sensitivity. If information is used for control purposes, too much sensitivity may cause controls to oscillate or go unstable. (As a heating system constantly switching itself on and off.) Excess information may trigger management meddling.</i></li> </ul>

*A satisfactory answer (>40%) will identify at least one improvement. Will be able to make intelligent connections between management information and the responsibilities of managers, including decision-making and control. Will be able to articulate some benefits.*

*An above average answer (>55%) will identify both improvements and problems, and will be able to illustrate the answer with well-chosen examples. Should show some awareness of the fact that the benefits of the management information system will depend on the management’s ability to use the information effectively. May show some understanding of the concept of bounded rationality, and the need for “just enough” information.*

*An excellent answer (>70%) will demonstrate a clear understanding of the situation as a socio-economic system where the capabilities of the managers are at least as important as the quality and quantity of the information. Will argue clearly that an evaluation of a management information system must view it in its organizational context, and will indicate some of the relevant considerations for such an evaluation.*