



CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.4: BUSINESS MANAGEMENT, ETHICS AND
ENTREPRENEURSHIP

DATE: MONDAY NOVEMBER 25, 2024

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE

Marking guide

Qn	Description	Marks	Total Marks
a	FOUR benefits of decentralized form of decision making Award 1 mark for each clearly stated benefit of decentralized decision making. At least 4 benefits should be stated.	1	4
b	FOUR main functions of management Award 1 mark for each correctly mentioned function of management. Award 1 mark for each correctly discussed function of management.	4 4	8
c	FOUR measures for a successful organizational change Award 1 mark for any correct measure of resistance to change stated. Award 1 mark for each correctly discussed measure of resistance to change.	4 4	8
Total			20
<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>			

Model answers

a) State any FOUR benefits of decentralized form of decision making

- Top management are free to concentrate on their strategic responsibilities.
- It speeds up operational decisions as they can be made nearer to where they apply.
- It allows local management to be flexible.
- It can contribute to staff motivation
- It serves as a way of training for middle and front managers to take bigger job tasks
- It encourages responsibility among junior managers.
- It helps middle management to apply their expertise as they know technicalities on the ground.

b) Discuss FOUR main functions of management

1) Planning

Planning involves anticipating potential problems or opportunities and designing plans to deal with them. Planning takes place in all organizations either formally or informally. It is important that organizations know where their future lies and that they have planned for it. Planning is future oriented and involves selecting from a number of possible courses of actions. The rapid rate of change that faces all firms makes planning more difficult but also more important.

Levels of planning

- **Strategic Planning**

Strategic planning is concerned with determining the major goals and mission of an organization and crafting a strategy to achieve them. Strategic planning is normally carried out at the senior management level. A strategic plan is a long-term plan that will stretch from three to five years. All other planning in an organization is derived from the strategic plans.

- **Tactical Planning**

Tactical planning takes place at the middle management level and is concerned with the various component parts of the organization. A tactical plan is normally a medium term plan covering a period of up to 1 year. Tactical plans will be focused on achieving the overall objectives of the organization.

- **Operational Planning**

Operational planning is concerned with the short-term, day-to-day functions of the organization. It is concerned with achieving the operational targets set out in the tactical plans. Operational planning is normally undertaken by front line managers and supervisors within the different functions of the business including sales, production, human resources and finance.

2) Organizing

The organization of a firm is closely linked to the planning process; it creates the structure in which the firm fits its strategy. The organizational structure is one of the tools that management uses to get work done.

Organizing function of Managers involves designing jobs and specifying tasks, creating organizational structure, allocating Staff into positions, coordinating work activities of different staff, setting policies and procedures and allocating resources (staff and financial resources).

3) Leading

Leading involves leading and motivating employees to accomplish organizational goals. It involves also communicating with employees with clear instructions to do a specific task. Leading involves resolving conflicts among employees or other stakeholders. Lastly but not least, managing change requires strong leadership.

Leadership can be defined as the capacity to achieve the objectives of the organization, by showing what needs to be done and by showing how to do it.

Leading involves:

- Creating a vision for others to follow
- Establishing values
- Transforming the efficiency and effectiveness of the organization
- Organizing and motivating employees by means of workgroups, teams and

- departments
- Organizing resources in the most effective manner
- Resolving conflicts that may arise

4) Controlling

Organizational control can be defined as the process through which managers regulate organizational activities to make them consistent with present performance standards.

Management control is designed to provide information on progress against present performance targets. Control is crucial to managers as it enables them to:

- Prevent problems for growing and becoming crises
- Standardize output in terms of quality and quantity
- Carry out performance assessment of employees
- Update plans - actual progress against planned progress
- Protect assets by preventing inefficiency and waste

The basic activities involved in a control process are:

- Setting Performance Standards
- Performance Measurement
- Corrective Action

c) Suggest FOUR measures for a successful organizational change

1. Education and communication

Education and communication are appropriate where problems and resistance are caused by insufficient information or misinformation. Such a style requires an atmosphere of trust between the sides involved. Education and communication are generally more effective if they take place before the change is implemented. However, this style is costly and time-consuming as it involves mass briefings. Organizations dealing with large numbers of employees can use small group briefings to ensure effective communication.

2. Participation

Participation is appropriate where the commitment and participation of employees is vital to the success of the change programme. It is an effective way of overcoming resistance based on lack of awareness or a narrow focus of change. Employees who are involved in the change process are also more likely to accept changes. Participation usually involves project teams or task forces who generate ideas and give advice on implementing change. Once again, this style is time-consuming and costly.

3. Support and facilitation

Support and facilitation are appropriate management styles when employees are experiencing difficulty in coming to terms with the new changes. Support and facilitation help to overcome resistance arising from a fear of the unknown and the need for security. Schneider et al. (1996) have argued that creating the correct climate and culture for change determines whether change

will be successful. This style of management involves providing support mechanisms for employees to help them cope with change. Most frequently organizations provide additional training or extra emotional support while employees get used to the changes. A problem associated with this style is that while it may help people through the change process, it does not necessarily win their commitment and support. It is also time-consuming and can fail.

4. Negotiation and agreement

Negotiation and agreement is a useful management style when groups or key individuals are negatively affected by the change, and have sufficient power to resist and interrupt the introduction of change. A good example is a Trade Union whose primary concern is to protect the welfare of its members. Trade unions resist any change that negatively affects their members. By engaging in negotiation before implementation, the organization may find the change process runs more smoothly. If any other problems arise during the course of implementation, then both sides can refer to the written agreement to sort out these problems.

This method is most appropriate for overcoming resistance to change arising from threatened expertise, power, resources and group factors. The possibility of rewards, such as increased wages or perks, can also be examined to reinforce the direction of change (Nadler, 1981).

5. Manipulation

Manipulation of the situation by the agent can make it easier to introduce change. For example, it has been established that crisis situations are more likely to motivate people to change. So organizations can attempt to exaggerate the extent of the situation facing the organization, to make it appear as if the organization is in a crisis. This style is often used when resistance is caused by habit, re allocation, economic and group factors.

6. Coercion

Coercion involves the explicit use of power by issuing directives to employees about the changes being implemented. Managers or the change agent resort to coercion if all other methods have failed to reduce resistance to change. It is generally recognised as the least successful method of introducing change. Even when coercion is applied, and employees accept change, it can have long-term negative effects on employee attitudes and behaviour.

QUESTION TWO

Marking guide:

Qn	Description	Marks	Total Marks
a	SIX circumstances which may cause conflict of interest Award 1 mark for each clearly identified circumstance of conflict of interests. At least 6 benefits should be stated.	6	6
b	Importance of whistleblowing policy Award 1 mark for each correctly mentioned role of whistleblowing policy	3	

- **To protect whistleblowers**

A good whistleblowing policy should have a non-retaliation clause whereby employees blowing a whistle to denounce non-compliances are protected from any threat.

- **To meet expectation of some regulators**

Highly regulated companies are required to have in place strong whistleblowing cultures. PNG Ltd being an audit firm bound by ICPAR, it should have a mechanism for identifying, analyzing and reporting non-compliances with laws and ethics through whistleblowing.

- **To convey clear expected behavior to employees**

Whistleblowing policy sets in place behaviors or actions on which whistleblowing covers and hence sets clear expected behaviors or actions among employees and to the outsiders.

- **To act as early warning system on malpractices and non-compliances for early resolution of issues.**

Strong whistleblowing will identify issues the company is facing in terms of malpractices behaviors and actions and put in place measures to improve the situation.

- **To meet stakeholders' expectations**

With whistleblowing policy, different external stakeholders expect consistent and fair treatment by internal stakeholders of the company. Clients will be happy for the fair treatment and hence increased value to the company.

c) Examine any FOUR opportunities and FOUR challenges Entrepreneurs would enjoy or face in Rwanda.

Below are some of the prevailing opportunities Entrepreneurs would enjoy in Rwanda:

- **Ease of Doing Business:** Rwanda ranks highly in the World Bank's Doing Business Report due to its streamlined processes, including online registration and one-stop service centres, reducing the time and cost to start a business. Business Registration is 100% an online process and free of charge. For those in Rwanda, a registration support team is availed by the Office of the Registrar General to assist clients who meet difficulties during online registration.
- **Political Stability and security:** The country's political stability and low corruption levels create a secure environment for businesses, bolstered by the government's commitment to good governance and transparency.
- **Strong Economic Growth:** With consistent economic growth in sectors like technology, tourism, and agriculture, Rwanda presents numerous opportunities for new businesses. Rwanda is among few economies on the African continent with lower inflation rates and accelerated economic growth.
- **Incentives and Support for Investors:** The Rwandan government offers various incentives such as tax and import duty exemptions for priority sectors, along with comprehensive support from the Rwanda Development Board (RDB).
- **Strategic Location:** Rwanda's central location in Africa provides access to the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), reaching an ample target market.

- **Efficient Infrastructure:** Significant investments in infrastructure, including water and electricity, roads, airports, and telecommunication networks, support business operations and connectivity.
- **Skilled Workforce:** With a young and increasingly educated population, Rwanda ensures a steady supply of skilled labour through its investments in education and vocational training.
- **Supportive Government Policies:** The government promotes entrepreneurship and innovation through policies and programs like the Kigali Innovation City and the Rwanda Innovation Fund, Kigali Norrsken Innovation hub and hence boosting the startup ecosystem.
- **Access to finances:** though government initiatives BDF, business owners with no collaterals can access finance through BDF which offers them guarantees.

Below are some of the prevailing challenges Entrepreneurs would face in Rwanda:

- **High operating costs:** Rwanda being a landlocked country, the cost of imported inputs is high. The fuel prices continue to influence the operating costs of any business due to lack cheap means of transport like marine transport.
- **High housing costs:** The fixed costs like housing costs remain high due to increased cost of construction materials and some of imported items used in building. The demand for affordable housing continues to increasing and hence increasing the cost of rent in the country. The transport of local materials also increases the cost of constructions materials.
- **Unfavorable foreign exchange:** Though Rwandan francs remain strong compared to other African countries; the currency has suffered a depreciation compared to hard currencies like USD & EUR. These currencies are used for importations and hence affecting lives of citizens and businesses.
- **Problems with certification of products:** Rwanda Standards Bureau has not been existent and hence there are a number of conformity standards under review. The Establishment and publication of national standards remains key work of the office. For business to export their products and services, it has to meet international standards and this remains under development as the country continues to advance.
- **Business capacity and development:** capacity building and business development services remain limited to government initiatives. The limited number of entrepreneurship/innovation hubs remain a key priority to support start ups.
- **Limited access to finance:** Despite government initiative like BDF, the access to finance remains a challenge to small and medium enterprises in Rwanda. The appetite for start-ups and agri-related project remains low for financial institutions and hence a struggle for start ups in Rwanda.
- **High funding costs:** High interest rates, issues of collateral, and limited banking products adapted to farming activities all impede agriculture investment.
- **Shortage of specialized skills** like professional accountants, engineers, developers and the like. This lends to increase in the operating and production costs which will eventually lead to an expensive output to the market.

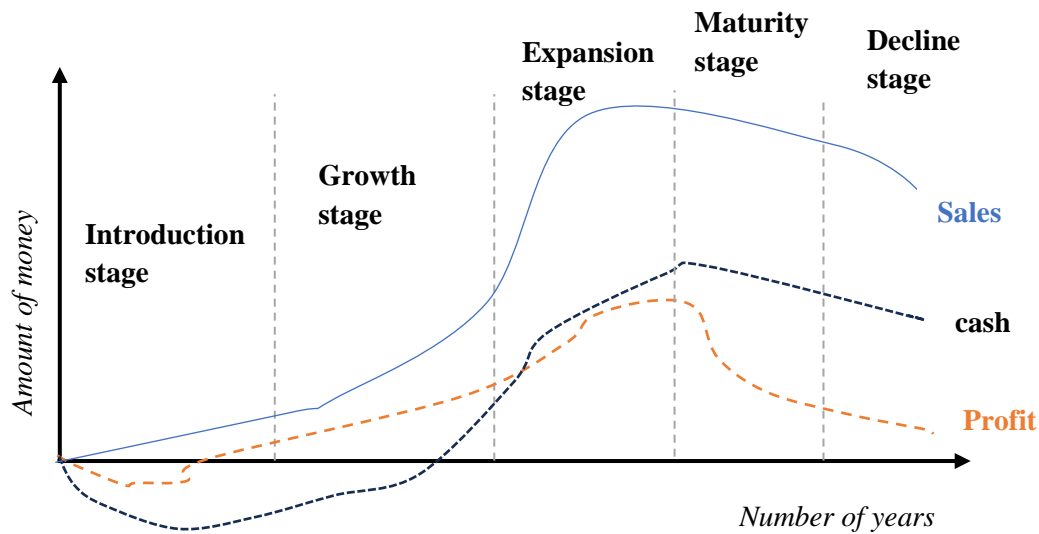
QUESTION THREE

Marking guide

Qn	Description	Marks	Total Marks
a	<p>Illustration of business life cycle</p> <p>Award 1 Mark for each stage of business life cycle well illustrated and explained.</p> <p>Only stated stages award 1 mark.</p> <p>There are 5 stages.</p> <p>Award 1 mark for identifying that Ultimate Processors Ltd is in Growth stage.</p> <p>Award 1 mark for each challenge of growth stage clearly indicated. At least 4 challenges should be indicated.</p>	<p>5</p> <p>1</p> <p>4</p>	<p>10</p>
b	<p>Advantages and disadvantages of franchise</p> <p>Award 1 mark for clear definition of franchise</p> <p>Award 1 mark for each advantage and disadvantage of franchise. At least 2 advantages and 2 disadvantages should be clearly explained.</p> <p>Advantages and disadvantages of mergers & acquisition</p> <p>Award 1 mark for clear definition of merger & acquisition</p> <p>Award 1 mark for each advantage and disadvantage of merger & acquisition. At least 2 advantages and 2 disadvantages should be clearly explained.</p>	<p>5</p> <p>5</p>	<p>10</p>
	Total		<u>20</u>
	<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>		

Model answers

a) Business life cycle



Introduction Stage

The introduction stage starts when the new product is first launched. Therefore, this stage is also known as 'start-up stage.' Introduction stage takes time; production takes place in limited scale; sale is apt to be slow and that too limited to a small area.

The enterprise is not faced with any type of competition during this stage. In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Even profits may not be earned during the start-up stage.

Growth Stage

If the new product satisfies the market, then the product enters into the next stage called 'growth stage.' During this stage, the enterprise is known to and accepted by the market. The early adopters keep continuing to buy the product and the prospective buyers start following their lead, especially if they hear favourable word of mouth from the existing buyers.

As a result, production increases and sales start climbing quickly but supply falls far short of demand for the product produced by the entrepreneur. More production provides the benefit of economies of scale by reducing per unit cost of the product.

Expansion Stage

This is the stage in which the entrepreneur makes efforts to expand his / her business by way of opening its branches and introducing new product lines. The enterprise is transformed from a single-line enterprise operating in a limited market to a multi-line company penetrating new markets with new products and services. Product and service lines are broadened through innovation and development.

Maturity Stage

At some point of product life cycle, the product's sale starts slowing down mainly due to increasing competition. As a result, profits tend to decline. Such a stage is called 'maturity stage.' The maturity stage normally lasts longer than the previous stages. As such, majority of enterprises are found in maturity stage.

In such stage, marginal enterprises which find difficult to withstand the competition start dropping out and finally leave the market. Different enterprises adopt different marketing strategies to overcome the challenges posed by the maturity stage. Some enterprises adopt methods such as 'trading in' to survive for some more time in the market.

Decline Stage

This is the final/last stage of product life cycle of an enterprise. At this stage, the enterprises find it difficult to survive either due to the gradual replacement of enterprise product or due to some new innovations on account of change in customer behaviour. The sales of the most of the products abruptly falls and brands eventually dip.

Business life cycle stage of Ultimate Processors Ltd

The Ultimate Processors Ltd is in the growth stage as the business has already started and the company's products are available to the market and the sales started increasing which means an uptake of the company's products to the market.

Challenges of growth stage

- **Necessity for increased funding:** Companies at the growth stage seek more and more capital as they wish to expand their market reach and diversify their businesses. The business evidence increasing pressure on debts as it grows its business.
- **Increasing customer demands:** The corporations' products or services have been proven to provide value in the marketplace.
- **Increased competition due to new market entrants:** other business perceive the business idea and they want to produce the same products and maybe with innovation and hence rival. Attracted by the opportunities for profit, the new competitors enter the market.
- **Increased operating costs especially payroll cost:** as the company grows, there shall be a complex work environment which will necessitate more competent and qualified staff to serve increasing demand and therefore, those skilled resources will come at a higher cost. During growth stage, promotional expenses remain high to booster sales and brand and products awareness of the business.
- **Risk of liquidity:** due to heavy investments in capital expenditure, the company may face liquidity issues to meet short term obligations.
- **Increased research and development (R&D) costs:** As more competitors enter the business, the business invests a lot of money in R&D for survival.

b) Advantages and disadvantages of franchise, and mergers & acquisition

i) Franchise

The franchiser licenses the rights to its name, operating procedure, designs, and business expertise to another business called the franchisee.

Advantages of franchise

- Access to trade names, operating procedures, designs and expertise for a fee
- Easy way of doing business with an existing and proven business model
- Franchise assist in accessing technology know-how from the franchiser

Disadvantages of franchise

- Franchise agreement is expensive, a monthly percentage fee is paid
- Conditioning of following centrally decided procedures
- Purchasing all supplies centrally from the Franchiser or conditions on the supplies to use.

ii) Mergers and acquisition

Mergers happen when two or more companies join together: one of the businesses usually wants to purchase a controlling interest in the other company, or both business have combined interests.

Acquisition refers to the takeover of one entity by another. An acquisition involves one firm buying only a portion of another firm. The purchasing company acquires more than 50% of the shares of the acquired company, and both companies survive. The acquisition may happen to acquire assets or an altogether different segment of the other firm.

Advantages of mergers and acquisition

- **Higher growth:** When one company in the transaction is strong at marketing skills which the other is rich in financial optimization, it would lead to growth to the newly formed company.
- **Tax benefit:** if a one company is loss making while the other is profit making, the new business can take the tax benefit from the loss making company and hence lower the tax liability due.
- **Expansion:** with merger, the merging companies shall share tangible and intangible resources of the two or more companies merging.
- **Penetration of new market or geographies:** acquisition can assist a strong company to penetrate a new market. Penetration of new market without starting from scratch, the acquirer acquires an existing business already with clients' base.
- **Reach a broader customer base:** acquisition can be used by a successful company to acquire another company specialized in another customer base.
- **Diversification:** acquisition may assist the acquirer to diversify into another industry and hence multiplying its impact.

Disadvantages of mergers and acquisition

- **Increased debt financing:** business mergers will lead to combination of liabilities of the businesses. If one business is solvent but another one is not, the funds shall be used for paying the debts of the loss-making company.

- **Threat of monopoly:** merging two or more companies can lead to monopoly in the market and hence can hamper competition in the market which will disadvantage consumers. There would also be no choices left amongst consumers; compelling them to buy even at higher prices.
- **Threat to employees:** Merging business can lead to different cost cutting measures which can swipe out some of the repeated jobs. A company with labor intensive can be merged by a capital-intensive company and hence some employee may be forced out of the newly formed business.
- **High diligence costs:** the acquirer spends a big budget on the assessment of the value of the identified business.
- **High legal cost:** acquisition involves legal documentations and lawyers' fees with high costs.
- **Staff retrenchment:** the Acquirer may reduce number of staff as a cost cutting mechanism.

QUESTION FOUR

Marking guide:

Qn	Description	Marks	Total Marks
a	FOUR risks of Iwacu Nursery School Award 1 mark for any correct risk identified Award 1 mark for analysis of the risk rating. Do not award marks for definitions.	4 4	8
b	FOUR benefits of outsourcing accounting services Award 1 mark for each correct benefit of outsourced accounting service Award 1 mark for brief explanation of the benefit of outsourced accounting service.	4 4	8
c	Steps for problem solving Award 0.5 mark for each correct step of problem solving outline.	4	4
	Total		<u>20</u>
	<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>		

Model answer

(a) Analyze and indicate the level (high, medium or low) of any FOUR risks Iwacu Nursery School is facing

#	Risk	Analysis of the risk	Risk rating
1	Financial risk	Financial risk is a risk that a company may face to credit risk (risk that the company will incur a loss because clients fail to discharge their contractual obligation) and liquidity risk (risk that	High This risk is rated high because: <ul style="list-style-type: none"> • High level of debtors 70% of

#	Risk	Analysis of the risk	Risk rating
		<p>the company may not be able to pay short term maturing obligations).</p> <p>Iwacu Nursery School is facing credit risk as more parents are yet to clear the due school fees.</p> <p>Iwacu Nursery School is facing liquidity risk as it is facing issue of availability of funds to meet short term liabilities like salaries to staff.</p>	<p>school fees arears are too much.</p> <ul style="list-style-type: none"> • Liquidity risk remains high as the school was not able to pay key staff like Teachers for the last 6 months. • Lack of accounting records keeping
2	Operational risk	<p>Operational risk is the uncertainty about the company's operations including availability and delivery of products and services.</p> <p>Iwacu Nursery school is facing operational risk. The company experienced a high ration of students drop-outs. The school does not have qualified teachers and even the Manager of the school is not qualified.</p>	<p>High</p> <p>This risk is rated high because:</p> <ul style="list-style-type: none"> • High dropout ratio of students. • High employee resentment as a result of late payment of salaries.
3	Legal and compliance risk	<p>Legal and compliance risk is the uncertainty of the company as a result of non-compliance of laws, regulations, policies and procedures.</p> <p>Iwacu Nursery school is facing a legal and regulatory compliance risk as it has failed to comply with government regulations for nursery school. The government inspection temporarily closed the school in addition to charged fines.</p>	<p>High</p> <p>This risk is rated high because:</p> <ul style="list-style-type: none"> • The government temporary closed the school and even charged fines to the company due to non-compliances of laws, regulations and rules. • Lack of necessary policies and procedures.
4	IT risk	<p>The IT risk is the uncertainty for the company to achieve its objectives to due to lack of adequate technology.</p> <p>Iwacu Nursery School is facing IT risk as the school is not having adequate technologies for smooth knowledge transfer.</p>	<p>Medium</p> <p>This risk is rated medium because:</p> <ul style="list-style-type: none"> • The government recommended to improve the school technologies in term

#	Risk	Analysis of the risk	Risk rating
			of knowledge transfer <ul style="list-style-type: none"> • Lack of accounting records keeping. There is an issue of data generation and data storage.
5	Strategic risk	<p>The strategic risk s the uncertainty that the company may grow and prosper in the future.</p> <p>Iwacu Nursery School is facing a growth risk and the Owner is looking for a partner to grow the business. The company is facing a competition risk as many kids drop to other school.</p>	High This risk is rated medium because: <ul style="list-style-type: none"> • The company loss making • The owner struggles to raise funds • The business is not attractive to business partners to finance its grow.

b) Briefly Explain any FOUR benefits that may accrue to Iwacu Nursery School to outsource accounting services

- **Helps to save on payroll and operating costs:** outsourcing accounting services, the nursery school will be able to leverage on the expertise of accounting firms at an affordable rate. In-house accountants will need other staff related costs (insurance, training, recruitment and refreshments costs) and employment taxes.
- **Access to a robust accounting system:** if the accounting services are outsourced, the nursery school will not have to buy an accounting software; instead, the school will leverage on the system of the accounting firm. Modern bookkeeping is often done through cloud based automated system that allows the school and other experts to view the accounting records anytime and anywhere.
- **Ability to concentrate on the main objective of the company:** accounting being a support service, the management of the school shall be able to concentrate on the education related matters without spending energy on accounting records.
- **Saving time and minimizing paper work:** with outsourced accounting services, the nursery school will be able to save on the time and paper costs. The accounting firm will take over the issue of paper work and time needed to produce accounting reports.
- **Reduces errors:** having outsourced accounting services, the accounting firm is experienced in records keeping and hence reducing errors.
- **Valuable insights from professional accountants:** the outsourced accounting services to an accounting firm will help the school to get periodical reports from the accountants with insights on the financial reports of the school.

c) Indicate problem solving steps in an organization like Iwacu Nursery School

- **Identify and define the problem.** This involves recognizing that there is an unsatisfactory situation that need to be improved. State the problem clearly and be specific about the timing, circumstance or behaviour that make it a problem.
- **Think of possible solutions.** List down all possible solutions to the problem identified. Do not narrow the solutions instead get more alternatives to the problem.
- **Eliminate non-workable solutions.** Once you've got your list, go through the options. Some simply won't work and now's the time to eliminate them. Order the remaining solutions in order of preference. Under this stage, compare multiple solutions and figure out which one is most effective.
- **Make a decision.** Decide on a solution and specify how it will be implemented, by whom and when. The decision should be clear on how well any solution will solve the problem. Choose the solution which will optimize the results.
- **Implement the solution:** once the solution is chosen, now it is the time to implement it. During implementation, day to day monitoring should be activated to check whether the problem is being solved as per the plan.
- **Evaluate the outcome.** Evaluate how effective the solution was to help you decide whether the existing plan needs to be revised, or whether a new plan is needed to better address the problem (in which case, go back to step two and repeat the process).
- **Don't worry if it didn't work.** Everything is a learning curve and some of the biggest lessons can be learned when things don't go according to plan.
- **Redo the process:** If the solution chosen does not work, restart the process over and over till the problem is solved.

QUESTION FIVE

Marking guide:

Qn	Description	Marks	Total Marks
a	FIVE principles of management Award 0.5 mark for any correct principle of management stated Award 0.5mark for brief explanation.	2.5 2.5	5
b	Causes of resistance to change Award 1 mark for each correct cause of resistance to change discussed. At least 5 causes should be discussed. Consequences of poorly managed change Award 1 mark for each correct consequence of poorly managed change. At least 5 consequences should be discussed.	5 5	10
c	Benefits of confidentiality clause	5	5

Qn	Description	Marks	Total Marks
	Award 1 mark for each correct importance of confidentiality clause discussed. At least 5 importances should be discussed.		
	Total		<u>20</u>
	<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>		

Model answer

(a) Briefly explain any FIVE principles of management as per Henry Fayol theory of administrative management

During his career Fayol developed the following fourteen principles of management, which he believed could be applied to any organization:

- **Division of Work:** Specialization leads to efficiency as workers develop practice and familiarity.
- **Authority and Responsibility:** The right to give orders should not be considered without reference to responsibility.
- **Unity of command:** Employees should only receive orders from one superior or a manager.
- **Discipline:** Clear defined rules and procedures to ensure order and proper behaviour.
- **Unity of direction:** One head and one plan for group activities.
- **Subordination:** Subordination of the individual interest to group interest.
- **Remuneration:** Pay should be fair and satisfactory to both the employee and the firm.
- **Centralisation:** May be present depending upon the quality of management and size of the organization.
- **Scalar chain:** This is the line of authority from the top of the organization to the bottom.
- **Order:** A place for everything and everything in its place.
- **Equity:** A combination of kindness and justice to employees.
- **Stability of tenure:** Employees need time to settle into their jobs and feel secure.
- **Initiative:** All levels of the organization's staff should be encouraged to show initiative.
- **Espirit de corps:** Teamwork and team spirit should be encouraged.

(b) Discuss causes of resistance to change and consequences of poor organizational change management in ABC Manufacturing Ltd

Causes of resistance to change in an organisation

Individual Sources of Resistance

- **Habit/Security**

As people do their jobs they develop habits in the way they work. They also develop routines that help get them through the week. They develop a sense of security in their job and also in their lives. If there are any changes in their work they can become insecure. Pressure to change habits and routines can lead to resistance particularly if the individual does not see any

advantage in changing. One method of overcoming this resistance is to offer rewards linked to the change.

- **Selective Perception**

Individuals tend to selectively perceive or view issues and events in a way that matches their understanding of their work environment and the world. In resisting change the individual will often filter and misunderstand things they do not agree with. Communication is one way of addressing this type of change.

- **Economic Factors**

Changes in work practices that affect skills learned over a number of years could affect the income of the individual in the long term or the short-term while they learn the new skills.

- **Security**

Individuals like to feel comfortable and secure in completing things in the same way. In doing so, they gain a degree of security in their jobs and in their lives. When the status quo is threatened by change, employees feel their security is at risk, and consequently they resist such change. Confronting any form of the unknown makes the individual anxious and insecure. Insecurity arises not only from the change itself but also from the prospective outcomes of such change; for example, employees may turn down a promotion due to insecurity and fear of the unknown.

- **Social Factors**

Individuals are affected by group pressure or group norms. An individual may wish to embrace change but could resist it because of group pressure. Conversely, they may accept change because the group accept it even though as an individual they are inclined to resist it.

- **Lack of Understanding**

If an individual does not fully understand the reason the change is necessary, he or she may resist the change. Therefore, communication is an important element of any change program.

Organizational Sources of Resistance

- **Organizational Structures**

Organizational structures such as roles, policies, rules and procedures are designed to maintain stability and continuity. However, these same structures can by their nature act as a form of “structural inertia” that will slow the progress of change.

- **Narrow Focus of Change**

Change programs that have to narrow a focus may fail to take account of the interdependencies between elements in an organization. In this situation segments of an organization may resist the change.

- **Group Inertia**

Group inertia occurs when a group refuses to change its behaviour patterns because of a desire to maintain the status quo.

- **Threatened Expertise**

If the expertise of an individual or group is threatened by the introduction of new technology or job re-designs, resistance to change is likely. This is common in traditional industries such as manufacturing.

- **Threatened Power and Influence**

The introduction of change within organizations often involves loss of power for some individual. The loss of power increases resistance to change.

- **Threatened Resources**

The loss of power associated with change can often be accompanied with the loss of resources such as personnel, money and information. Individuals or groups who currently enjoy favourable allocations of resources will resist change to the status quo.

Consequences of poorly managed organizational change.

- **Resistance to change**

Poorly managed change can lead to employees of the company to resist to change. This can slow the pace of the change within an organisation. Employees can revert back to old behaviors **if they don't believe into the new normal.**

- **Less team work**

Individuals can become focused on their own interests and as a result teamwork and cooperation can suffer.

- **Affects staff motivation**

Poorly managed change can lead to staff resentment and low employee morale. The staff motivation will reduce to the lower level if they are not engaged. Employees will feel fear and pressures on the newly introduced change and feel unhappy for the new change.

- **Reduction in company's overall performance**

The performance of the company in the market suffers if it loses competitiveness. With poor management of organizational change, the employees may feel disengaged and hence affecting adversely the performance of the company. Unhappy employees will bring about unhappy clients and other stakeholders and hence affecting the company in all corners.

- **Less appetite for future changes**

Employees may oppose change programs in the future if they feel that a previous change initiative was not a success.

- **High costs and waste of resources**

Some change management will involve changes of structures or infrastructures that will require heavy management. With poor management of the change, company's resources will be invested in vain and hence causing waste of resources.

- **Delays in customer and supplier service delivery**

Poor change management cost service delivery to the clients. Some staff are not yet used to the new systems or structures and it will bring about delays in project deliveries which adversely will affect satisfaction of the clients or suppliers.

- **Employees turnover**

With poorly managed changes, experienced employees will start looking outside in a fear of the new changes. The company may face high turnover, and hence new recruits will join the company without prior knowledge of the clients. Poorly managed change will bring about employee confusion, frustration, and fatigue which result in a lot of resignations. With new changes, some employees skill maybe outdated and hence some part of the workforce can be forced out of the new normal.

(c) Discuss the importance of confidentiality clause in an employment contract to an organization.

- **To comply with laws, regulations and rules**

Confidentiality is important because failure to keep information secure and protected can lead to the loss of a client.

- **To avoid or minimize exposure to lawsuits**

Information could be misused which can result in costly lawsuits. The leak of confidential information can lead to different crimes like insider dealing and hence affecting the company's exposure to legal fees.

- **To win stakeholders' trust and loyalty**

Disclosure of information can lead to a loss of trust and loyalty. This will result in a loss of productivity. Failure to properly secure and protect confidential information may lead to loss of clients or other key stakeholders like Lenders...

- **To increase staff accountability**

With confidentiality clause in employment contracts of the staff, the staff shall share accountability role with the employer as far as many stakeholders are concerned.

- **To protect company reputation and image**

Making sure that the employees know their responsibilities as far as confidentiality clause is concerned, it will lead to protection of company image and reputation. One confidential information is leaked; it can lead to serious risks to the company including but not limited to damage of its image.

- **To protect company trade secrets and sensitive information**

The confidentiality clause in an employment contract is to protect the company from the disclosure of their trade secrets and sensitive financial information.

QUESTION SIX

Marking guide:

Qn	Description	Marks	Total Marks
a	Principles of ICPAR code of ethics that are in breach by MNB Award 1 mark for each correct principle ICPAR code of ethics mentioned. There are 5 principles. Award 1 mark for each correct principle ICPAR code of ethics examined with supporting arguments. Do not award marks for principles defined only.	5 5	10
b	FIVE qualities of a successful entrepreneur Award 1 mark for each correct quality of successful entrepreneur mentioned. Award 1 mark for each correct quality of successful entrepreneur well explained in brief.	5 5	10
	Total		<u>20</u>
	<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>		

Model answer

(a) Examine principles of ICPAR code of ethics that are in breach by MNB

#	Principle code of ethics	Meaning	MNB Breach
1	Integrity	To be straightforward and honest in all professional and business relationships.	The company has not exercised the integrity code of principle. Bahirwe lies qualification when bidding to impress existing and potential clients.
2	Objectivity	To exercise professional or business judgment without being compromised by: <ul style="list-style-type: none"> • Bias; • Conflict of interest; or • Undue influence of, or undue reliance on, individuals, organizations, technology or other factors 	The company has not complied with objectivity/independence code of ethics as Among MNB audit clients include Muhire General Supplies Ltd, a company dealing with construction materials owned and run by Mahirwe's twin. This will create conflict of interest.

#	Principle code of ethics	Meaning	MNB Breach
3	Professional Competence and Due Care	<ul style="list-style-type: none"> To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and To act diligently and in accordance with applicable technical and professional standards. 	<p>The company is in breach of professional competence and due care principle, as Mahirwe of the Partner has not attended required number of CPD hours. Secondly, Bahirwe does not have necessary qualifications to head an advisory service in MNB.</p> <p>Thirdly, the company does not invest in the training and development of audit and accounting staff. It is noted that staff have secondary school diploma which is inadmissible.</p>
4	Confidentiality	<ul style="list-style-type: none"> To respect the confidentiality of information acquired as a result of professional and business relationships. 	<p>The company has not respected the confidentiality of its clients' information as documentations are filed in a room accessible by every staff and client.</p> <p>Lack of computerized filing system undermines the confidentiality of clients' information.</p>
5	Professional Behavior	<ul style="list-style-type: none"> To comply with relevant laws and regulations; To behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and To avoid any conduct that the professional accountant knows or should know might discredit the profession. 	<p>Bahirwe misrepresents his credentials for the purposes of misleading current and potential clients.</p> <p>This is against the law and will even lead clients to taking wrong decisions.</p>

(b) Explain briefly any FIVE qualities for a successful entrepreneur

Below are common qualities of a successful entrepreneur:

- **Inner Drive to Succeed**

Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

- **Strong Belief in themselves**

Successful entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often be seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

- **Search for New Ideas and Innovation**

All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

- **Openness to Change**

If something is not working for them, they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

- **Competitive by Nature**

Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

- **Highly Motivated and Energetic**

Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated.

- **Accepting of Constructive Criticism and Rejection**

Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

- **Execution Intelligence**

The ability to fashion a solid business idea into a viable business is a key characteristic of successful entrepreneurs.

- **Product/Customer Focus**

An entrepreneur's keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.

QUESTION SEVEN

Marking guide:

Qn	Description	Marks	Total Marks
a	Steps for market research Award 1 mark for each correct market research step given. Award 1 mark for each correct market research step discussed.	5 5	10
b	Arguments for corporate social responsibility Award 1 mark for each correct advantage of CSR. At least 5 advantages should be given. Arguments against corporate social responsibility Award 1 mark for each correct disadvantage of CSR given. At least 5 disadvantages should be given.	5 5	10
Total			<u>20</u>
<i>Note: Marker must consider other valid points identified by students not captured in the model answer</i>			

Model answer

(a) Analyse FIVE steps you will undertake to come up with a market research report to Irene.

Define the Problem

The first step is to define which problem to solve. Irene to establish a fashion shop business in Rwanda. The industry and geographic area of concern are known.

The following questions shall be asked to Irene to precise the market segment the Entrepreneur is willing to penetrate:

- Who are your target customers?
- What method could be implemented to reach these customers?
- Who are your customers and what advantages and disadvantages do they have over your business?
- What size is the consumer market you are trying to engage?

Collect the Data

There are two types of market research that can be performed:

- Primary research - involves collecting information from sources directly from Irene by conducting interviews and surveys, and by talking to customers and established fashion businesses in Rwanda.
- Secondary research - involves collecting information from sources where the primary research has already been conducted. Secondary data shall be collected from RDB, RRA, Rwanda immigration office and the like.

During data collection, there is need to collect both qualitative and quantitative data. The qualitative data shall include quality of clothes Rwanda likes, the color, the location for easy access, location with security, etc. on the side of quantitative data, data like prices per unit shall be needed. The quantitative data shall assist in financial projections.

Analyze and interpret the data

The data collected shall be analyzed to make sense of it and to develop financial projections for the business.

The knowledge gained through market research shall be applied to design a winning strategy to Irene.

Reach a conclusion

With analyzed data, a cost-benefit analysis of the feasibility study of the market shall be laid down. Potential opportunities and challenges shall be reported to Irene for decision making. A market research report shall be compiled and shared to the Entrepreneur for their consideration.

If need be, a further investigation into fashion shop business ideas may be needed to arrive at the best decision meet consumer demands.

Implement your research

After market research analysis, Irene will have to go through the report and implement the findings and recommendations of the market research report into practice.

(b) Argue for and against corporate responsibility with an organization

Arguments for Corporate Social Responsibility in an organisation

- Like individuals, corporations are citizens so they should contribute to society.
- Since businesses create some problems like climate change, environment destruction, they should solve them.
- Organizations have enough resources to help society. Some organizations are too big and they earn much from the community and hence they have to give back to the community.
- Businesses, government and the general public are partners in society. Corporations don't operate in an isolated environment instead they serve the communities and work hand in hand with governments. Social responsibility is an easy for an organization to get in touch with the communities they serve.
- Businesses owes society for supply of resources. The society supplies labor to corporations, the society provides raw materials to corporations. The supply relationship between the business and society gives a social responsibility to the companies.
- Corporate responsibility programs build trust. When society sees a company participating in social activities, the community will believe in the company and associate themselves to the mission of the company.
- Corporate social responsibility acts as a marketing tool to companies. Corporations have used CSR activities as a way of marketing their products and services.
- Benefits from social responsibility will finally accrue to the business. Social responsibility initiatives will attract the trust of the society towards the company's product and services.

Arguments against Corporate Social Responsibility in an organisation

- Social responsibility will decrease profits thus contradicting the real reason for firms' existence. Social responsibilities activities will consume costs and time and hence reducing the company's profitability.
- Social responsibility gives corporations too much power. Some organizations may control the society through their CSR activities. They may use the activities to communities around as soft power.
- Corporations are not accountable for the results of their actions. Some organizations like manufacturing and mining companies may degrade the environment more than what they give back in terms of saving environment. Their CSR activities may blind their accountability towards degradation of environment.
- Corporations may lack the necessary expertise to be socially responsible. Corporate social responsibility is a new field of management and hence some organisations are still learning how best to give back to the community.
- Conflicts of how money set aside for social responsibility should be used, could arise. The adequacy of budget allocation into corporate social responsibility remains controversial. Some companies set aside a percentage of sales, while other may set a percentage of profitability while other may set a precise amount. On another hand there even companies which don't consider CSR into their budget.
- Companies might be too busy dealing with hard times than dealing social responsibility. A company maybe a start up with little or no resources to spend on social responsibility. A company be in financial distress issues on which it should focus on to survive the business hardship.
- Some corporations think that it is the responsibility of government to deal with social issues. Some company argue that they paid taxes for the government to take care of social responsibilities.
- Corporate social responsibility is considered as a waste of time. The activities from planning to execution will involve company resources who will concentrating more on CSR activities instead of main core business activities of the company.

End of marking guide and model answers