

Multiple choice  
questions for  
Introduction  
to Business  
Management

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**Sharon Rudansky-Kloppers & Johan Strydom**

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**Chapter 1**

Questions	Solution	Explanation
1	4	The task of business management relates to the economic principle, namely to achieve the highest possible satisfaction of needs with scarce resources. More specifically, it entails an examination of factors, methods and principles that enable a business to function as efficiently and productively as possible in order to maximise its profits.
2	4	The question concerns the definition of the economic principle. The economic principle can be broadly defined as the achievement of the highest possible satisfaction of needs by means of scarce resources. In other words, it has to do with obtaining maximum output from existing scarce inputs. Statement 4 is therefore correct. Defining the economic principle in any other way would be wrong. This means that the other statements in the question are wrong.
3	4	Since there is no economic advantage to working harder, socialistic systems provide no inherent incentive to participate. Not more so than in state organisations. Typically health care and education starts to become unproductive.
4	3	The state or government keeps its interference in the system to a minimum. The government's role is limited to providing legislation to protect businesses and consumers and making sure no single business or organisation restricts competition. It also provides essential services (like police and defence) and ensures the country's money supply is stable.
5	4	Public relations are seen as a functional area within a business. The public relations function relates to the creation of a favourable and objective image of the business. Public relations must promote good relations and goodwill between the business and the external groups and other businesses that are directly and indirectly involved in the business.
6	3	<p>In a free market system most products and services are supplied by private organisations and individuals seeking profits in return for the productive investment and utilisation of their assets and capital. Therefore the driving force behind entrepreneurs and their businesses in a free market is profit. Therefore statement (a) is correct.</p> <p>In a command economy, individuals <i>cannot</i> own land, factories and equipment as the state owns and controls the community's resources or factors of production. Therefore statement (b) is incorrect.</p> <p>Under both the free-market system and socialism the state intervenes to help solve the economic problems and stabilise economic fluctuations. Therefore statement c is correct.</p> <p>Within the free-market economy, the economic environment is</p>

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Questions	Solution	Explanation
		unstable, and so statement (d) is also correct.
<b>7</b>	3	<p>Option 1 is incorrect because only in a free-market economy are farmers, factory owners, industrialists and individuals free to do what they like with their assets.</p> <p>Option 2 is incorrect. Socialism may be regarded as a compromise between a pure market economy and a pure command economy. Because the socialist system is a compromise, the state does not own and control all the businesses, as in a command economy, but only those undertakings which have strategic value, such as those concerned with fuel or energy and mass transport. Less important and smaller matters such as trade and construction, and the production of materials and services of lesser strategic importance, are left to private initiative.</p> <p>Option 3 is correct because in a socialistic system the state does own and control many of the country's principle industries such as transportation, health services and energy.</p> <p>Option 4 is incorrect because minimum state interference in markets is a characteristic of a free-market economy and not socialism.</p>
<b>8</b>	1	<p>Within socialism, the state controls general key industries, such as transportation and communication.</p> <p>Option 2 is incorrect, as the state keeps its interference in the system to a minimum, but is not entirely excluded from activity. The state ensures the proper maintenance of the system without excessive regulation of the business world.</p> <p>Option 3 is incorrect. Due to the limited impact of the state, and the free competition that exists in the free-market economy, it might occur that business organisations exploit the consumer for the ultimate drive in profit.</p> <p>Option 4 is incorrect. The statement belongs to the command economy and not socialism.</p>
<b>9</b>	2	Capital includes buildings, machinery, computers and cash registers that are not for human consumption, but rather used for making further production of final consumer products possible. Capital products usually have a long working life. The cash register and building are capital items.
<b>10</b>	3	The only correct description befits option 3, as the boxes and ribbons used by Nomsa are production factors and contribute towards the final product. Production factors are basic inputs in the production of products and services.
<b>11</b>	2	If there is more involvement from the state in a free market economy, it does not indicate a move towards a command

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Questions	Solution	Explanation
		economy or centrally controlled economy. An expanding entrepreneurial role by the state does not eventually lead to a democracy. The only correct options are (b) and (c).
<b>12</b>	1	The free-market economy functions on the following assumptions: members of the community may possess assets and earn profits on such assets; the allocation of resources is affected by the free market; members of the community have the free choice of products, services and careers and the state has minimum interference in the system.
<b>13</b>	3	In a market economy, most businesses are owned by private individuals or organisations. Consumers are also free to buy what they like and to follow whatever career they choose, therefore there is free competition in a market economy. Therefore both options (a) and (b) are correct. Members of the community in a free market economy are allowed to possess assets and earn profits on these; therefore option (c) is correct.  In a market economy, the members of the community are free to join unions and to strike and do not have limited right to strike in state enterprises; therefore statement (d) is incorrect.
<b>14</b>	4	Lower order needs are most commonly satisfied first before higher order needs, such as self-esteem is satisfied. Basic physical and psychological needs may also overlap. Thus making options (a) and (b) correct.  Survival needs need to be satisfied first before security needs will be addressed. Option (c) is thus incorrect.  Self-realisation is the highest ranked needs and is not a lower order need. Option (d) is also incorrect.
<b>15</b>	1	The economic principle refers to a business's endeavour to keep its input costs as low as possible. Option (b) is incorrect.  The highest possible amount of profit is what is sought after when businesses apply the economic principle. Option (c) is incorrect.  Economic systems are tried and tested means of communities to apply the economic principle. Option (d) is incorrect.
<b>16</b>	1	Lower order needs need to be met first before self esteem needs will be satisfied. Option (a) is correct. Social needs such as love and recognition need to be satisfied first before self-realisation needs will be satisfied. Option (b) is correct.  Survival needs have to be met before security needs will be satisfied. Option (c) is incorrect.  Self-realisation is a higher order need. Option (d) is incorrect.
<b>17</b>	2	In a command economy the state controls all industries and

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Questions	Solution	Explanation
		agriculture. Profit is not allowed. Options (a) and (b) are incorrect. The management environment within a command economy is the state. There is no freedom of choice or decision. Due to a system of communal ownership, the state makes all decisions regarding production of goods and services. The choice of products and services is thus limited to what the state offers. Individuals can take no initiative, thus leading to low productivity. Options (c) and (d) are thus correct.
<b>18</b>	1	<p>Concept (a) is paired with option (ii). Within a free-market profit and reward is a driving force based on individual ability.</p> <p>Concept (b) is paired with option (i). Within a command economy there is generally very low productivity. Planning within this economy is virtually impossible to achieve due to low productivity levels.</p> <p>Concept (c) is paired with option (iv). Employees are free to choose their own employment and they have a limited right to strike within government institutions.</p>
<b>19</b>	3	<p>Concept (a) is paired with option (iii). The marketing function of a business includes assessment of the market and the needs of the customers, as well as the development of a strategy to satisfy those needs profitably.</p> <p>Concept (b) is paired with option (v). The financial function within a business includes activities that will ensure maximum profitability without the danger of insolvency or liquidation.</p> <p>Concept (c) is paired with option (i). The purchasing function within a business is responsible for the acquisition of all products and materials required by the business to function profitably. These products and materials could include tools, equipment, raw materials, inventory, etc.</p> <p>Concept (d) is paired with option (iv). The production and operations function deals with the establishment and layout of the production unit, the conversion of raw materials and semi-finished products into finished products, as well as the scheduling of services that are produced for the market.</p>
<b>20</b>	1	Looking at the options available, you will see that under the free market economy only free competition and high social costs are correct. No profit is allowed under the command economy and there is low productivity and limited choice of a job. Within socialism employees have a limited right to strike. The only correct combination of options would be under option 1.

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**Chapter 2**

Questions	Solution	Explanation
1	3	<p>A SME in South Africa is any enterprise with one or more of the following characteristics:</p> <ul style="list-style-type: none"> <li>• Fewer than 200 employees</li> <li>• An annual turnover of less than R64 million</li> <li>• Capital assets of less than R10 million</li> <li>• Direct managerial involvement of the owners.</li> </ul> <p>Option 3 is correct, because it includes all the characteristics mentioned above.</p>
2	1	<p>The definition of a feasibility study states that it is the collection of data that helps forecast whether an idea, opportunity or a venture will survive. By researching his idea and collecting data to help forecast whether his idea and venture will survive, Jack is conducting a feasibility study. Option 2 is incorrect, because the entrepreneurial process of opportunity identification precedes the feasibility study. Market analysis (option 3) is incorrect, because it is not part of the entrepreneurial process as outlined in your prescribed book, although it may be included as a sub-process during business planning. The entrepreneurial process of business planning (option 4) follows the feasibility study and entails much more than the mere collection of data and information; therefore option 4 is also incorrect.</p>
3	2	<p>A feasibility study is done once an idea has been identified and defined. A feasibility study is done in order to determine whether an idea, opportunity or venture will survive. An entrepreneur can make a definite decision based on the outcome of a feasibility study.</p>
4	3	<p>Planning skills concern the ability to consider what the future might offer, how it might impact the business and what needs to be done now in order to prepare for it.</p>
5	1	<p>The statement is indeed true. A franchisor gives the franchisee the opportunity and right to operate a business using the franchise company's name, products, services and operating systems. The franchisee in turn pays the franchisor fees for the right to continue being in business. The franchisor is the entrepreneur and the franchisee is the intrapreneur, who initiates innovative ideas in the franchise system.</p>
6	1	<p>Potential entrepreneurs need knowledge about the particular environments and industries in which they want to operate, as well as considerable management skills, which include strategy skills, planning skills, marketing skills, financial skills, project management skills and human relations skills. The correct answer is therefore option 1.</p>
7	2	<p>All the statements provided describe what an entrepreneur is.</p>
8	2	<p>Statements (a), (b) and (c) are all advantages of purchasing an existing business. Option (d), although true, is not an advantage, but rather a disadvantage. When purchasing an existing business, employees might be very set in their ways and not open to change of management and management methods.</p>
9	2	<p>All the options provided are correct except for option (a). Franchisees do</p>

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		not have the freedom to experiment or operate the business based on their own vision of how things should be done. Franchisees need to follow strict guidelines as set by the franchisor.
<b>10</b>	2	<p>Small businesses are classified based on quantitative criteria, which include the number of employees, sales volume, value assets and market share. The requirements for a business to be classified as a small business include:</p> <ul style="list-style-type: none"> <li>• Having fewer than 200 employees</li> <li>• An annual turnover of less than R 64 million</li> <li>• Capital assets of less than R10 million</li> <li>• Direct managerial involvement from the owners.</li> </ul> <p>Being listed on the JSE (option a) is not a requirement for a small business.</p>
<b>11</b>	4	Purchasing an existing business has a number of benefits, which includes supplier relations that are already in place, planning and general management can be easier based on historical data and financing from the previous owner might be possible. Inheriting employees (option b) is deemed to be a disadvantage due to the fact that it is difficult to change old habits and methods that are entrenched in current employees.
<b>12</b>	1	Achievement motivation is characterised by prolonged, repeated and intense actions in an effort to accomplish something that is difficult. People driven by achievement will work single-mindedly at achieving their goals. It is said that achievement motivation goes hand in hand with ambition and competitiveness. People who are driven and motivated by achievement will also be in jobs where it is required of them to put their problem-solving skills and other abilities to the test.
<b>13</b>	1	Entrepreneurs generally do what they do because they seek opportunities that arise out of outsourcing, have experience in a particular industry, are comfortable with risk-taking and are achievement motivated. Thus the only correct option is Lucy who starts a company due to the fact that the insurance firm outsourced their cleaning to her.
<b>14</b>	4	<p>The entrepreneurial process involves the following phases:</p> <ul style="list-style-type: none"> <li>• <b>Abilities and skills.</b> Before entering the business world, any potential entrepreneur should first clarify whether he or she has the abilities and skills to do so. Nathan had to clarify whether he and his wife had all the abilities and skills it takes to start the Cat Hotel.</li> <li>• <b>Access to resources.</b> Without capital or the other resources necessary for the establishment, the new venture is doomed. Besides capital, Nathan had to determine whether they had time, energy and other resources to launch the Cat Hotel.</li> <li>• <b>Opportunity.</b> It is also important to assess the opportunity that the entrepreneur is pursuing. Nathan had to assess the opportunity of the Cat Hotel and determine whether it was a feasible idea.</li> <li>• <b>Feasibility.</b> Once the opportunity has been identified and defined, the entrepreneur needs to find out if it can be turned into a successful venture. After the opportunity was identified, Nathan had to determine whether it was a feasible idea.</li> <li>• <b>Business plan.</b> Once the entrepreneur has some certainty about the</li> </ul>



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		<p>feasibility of the venture, he or she needs to compile a business plan. Nathan had to compile a business plan in order to obtain finance from the bank.</p> <p><b>Manage the business.</b> Once feasibility has been established and resources have been acquired, the entrepreneur launches and manages the new business. Nathan had to launch the Cat Hotel and manage the new business.</p>
15	3	<p>Concept (a) is linked to option (i), because entrepreneurship refers to someone (an entrepreneur) who accepts the risks involved in providing products and services to start his/her own business.</p> <p>Concept (b) is linked to option (ii). Capital refers to cash or goods used to generate income by investing in a business or a different income property. It may be obtained from a bank or finance company, for example borrowing R100 000 from ABSA.</p> <p>Concept (c) is linked to option (iii). Natural resources refer to substances that exist naturally on earth and that are not made by human beings, such as air, land, water, coal and oil. A borehole on a farm allows a farmer to irrigate his/her vegetables. The water used to irrigate the vegetables is a natural resource.</p> <p>Concept (d) is linked to option (iv). Human resources include the mental and physical talents and skills of people employed to create products and services. A BCom degree will equip a person with a certain level of skill and ability to be able to produce the products and services required in that field.</p> <p>Concept (e) is linked to option (v). Managers have to decide what has to be done, how to do it, and what orders to give out to accomplish the goals – and they have to check that the orders have been carried out. These fundamental tasks are more specifically known as planning, organising, leading and control.</p>
16	2	<p>The question was quite straightforward and dealt with what banks look for when evaluating an application for a loan. Most banks look at the four Cs by which an application for a loan is evaluated, namely capital, collateral, character and conditions. Therefore option 2 is correct, as both collateral and capital are part of the four Cs. Capacity (statement (b)) and cash flow (statement (d)), however, are not part of the four Cs. Therefore options 1, 3 and 4 cannot be correct.</p>
17	4	<p>The skills an entrepreneur requires include: strategy-, planning-, marketing-, financial-, project management and human relations skills. All of the options provided in the question are skills which Thabang Molefi has shown to have applied in her business.</p>
18	2	<p>In this case study, the entrepreneurial process starts with Thabang Molefi realising that she no longer wanted to work on a cruise ship, but would rather want to start her own business in South Africa (option (d)). She realised that she lacked certain skills and has decided to enrol for a course in beauty therapy and spa management (option (b)). Thabang then decided</p>

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		to open the centre with her own personal savings and not a loan from the bank (option (e)). Once a feasibility study was conducted (option (a)), she drew up a complete business plan (option (c)).
<b>19</b>	4	<p>Concept (a) is linked with option (vi). Strategy skills refer to the ability to consider a business, in this case Mama's Kitchen, as a whole and to understand how it fits within the market place. How a business can organise itself and how it does so better than its competitors is also part of the strategy skill required by entrepreneurs.</p> <p>Concept (b) is linked with option (iv). Planning skills involve the ability to consider what the future might hold and what needs to be done now in order to prepare for it.</p> <p>Concept (c) is linked with option (i). Marketing skills involves the ability to determine the needs of customers and determining how these needs can be satisfied by the business. But this skill goes beyond just merely satisfying customer needs. It is about building continuous relationships with customers to ensure sustained profits and growth.</p> <p>Concept (d) is linked with option (ii). Project management skills looks at the ability of entrepreneurs to organise projects, set specific objectives and goals and to draw schedules and to ensure that the correct resources are available at the right place and the right time.</p>
<b>20</b>	1	Corporate entrepreneurship occurs in an existing business. Corporations introduce new and diversified products or services to an existing business. Internal processes as well as the corporation's resources are used.

**Chapter 3**

Questions	Solution	Explanation
<b>1</b>	2	A business plan is a valuable tool for the entrepreneur when establishing a new business. It provides a platform for arranging ideas and thoughts in a logical order, a strong dose of reality and aides in acquiring financial aid. Option (c) is thus incorrect.
<b>2</b>	4	Important factors when choosing a location for a business is the central government policy (this might encourage or discourage the establishment of certain types of businesses in specific areas), the climate (some production processes might require a particular type of climate) and the social environment (here provision of housing, education, medical services and shopping facilities for employees come into play).
<b>3</b>	3	<p>The continued existence of a close corporation is not influenced by the withdrawal or entry of members; therefore a close corporation does not cease to exist when a member dies. Statement 1 is incorrect.</p> <p>A company has a distinct advantage over a close corporation with regards to potential for capital acquisition; therefore statement 2 is incorrect.</p>

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Questions	Solution	Explanation
		<p>Although a partnership is not a juristic person, the law nevertheless regards a partnership as an entity and certain minimal legal requirements are imposed by the government. Therefore statement 3 is correct.</p> <p>Partnerships have no limited liability. A partnership does not have a legal personality, and it is the partners in their personal capacity who jointly enter into all transactions or contracts and are jointly liable for all the partnership's debts. Therefore statement 4 is incorrect.</p>
<b>4</b>	3	The most important objective of a business plan is to identify and describe the nature of the business opportunity or the new venture. Secondary objectives that complement the primary objective are: determining how to exploit the opportunity, identifying the key variables for the success of the new venture and providing a management instrument for comparing actual results with planned outcomes.
<b>5</b>	2	<p>The characteristics of a private company can be considered to be the following:</p> <ul style="list-style-type: none"> <li>• The number of shareholders is limited to 50 people</li> <li>• Members of the general public may not apply for shares in the company</li> <li>• There must be at least one director</li> <li>• The transferability of shares in the company is limited.</li> </ul> <p>Option 2 is thus incorrect and therefore the correct answer.</p>
<b>6</b>	4	Companies are subject to much more legal prescriptions than any other form of enterprise, including the close corporation. Where the members of a close corporation are not personally liable for debts of the close corporation, they do both own and control the close corporation. Members of a company also do not have personal liability, but there is a clear distinction between ownership and control. Companies then are owned by members or shareholders, but managed and controlled by managers and directors. Thus the owners of a company do not control it as is the case with a close corporation.
<b>7</b>	3	A private company is characterised by a limited number of 50 shareholders, the name will end with Pty (Ltd.) and the transfer of shares is limited. Members of the public are not allowed to purchase shares as this is limited to a certain group of people, making option (b) incorrect.
<b>8</b>	3	Both the sole proprietorship and partnership is influenced by the lifespan of the owners in terms of continuity of existence. Both business forms have liability of owners in the sense that owners are liable for all losses. Both forms have similar tax liabilities and implications for the owners.
<b>9</b>	1	The most important location factor for a newspaper publishing company will be proximity to the market. This is because the newspaper will need to be delivered to the market on a continuous basis and will constitute the biggest consideration for the distribution of their newspaper.
<b>10</b>	4	<p>The following are considerations when deciding on the form of enterprise:</p> <ul style="list-style-type: none"> <li>• The degree of direct control and authority which the proprietors must have over the activities and assets of the business</li> </ul>

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Questions	Solution	Explanation
		<ul style="list-style-type: none"> <li>• The possibilities of acquiring capital for the business upon establishment and for later expansion</li> <li>• The possibility for the transfer of ownership in the business</li> <li>• The legal requirements concerning the establishment and dissolution of the business.</li> </ul> <p>Option (b) is thus incorrect and not a consideration when choosing the form of enterprise.</p>
<b>11</b>	3	Companies in general are subject to many more legal prescriptions than the other forms of enterprises, which translates into higher cost for the business as well.
<b>12</b>	3	From the addition of Pty (Ltd.) to the business's name one can deduct that the new form of enterprise is a company. Because shares in the company are only sold to his employees and not the general public, it can be considered to be a private company. A further case in point is that shareholders will only have limited liability to the extent of their own investment in the company, another characteristic of the private company.
<b>13</b>	4	Factors that she would need to consider include availability of raw materials, access to human resources and ease of distribution of the final products. In this scenario the weather patterns of the location would have little or no effect on the organisation as will the central policy of the area. Therefore options (b) and (e) are not applicable.
<b>14</b>	1	<p>Option 1 is the only correct option that applies to a sole proprietorship. Dry Wonder can only exist as long as Tebogo is solvent and alive. As soon as Tebogo's legal personality is affected, Dry Wonder will cease to exist.</p> <p>If Dry Wonder was a close corporation or a company, it would have been a juristic person with its own rights, assets and liabilities. It would also be a separate taxpayer and liable for tax at a fixed rate.</p> <p>If Dry Wonder was a private company it would be able to transfer ownership through the unlimited and free transfer of shares.</p>
<b>15</b>	3	<p>Dry Wonder has more than two members and is allowed to enter into an association agreement that alters certain aspects of the internal functioning of the corporation such as who will manage the close corporation.</p> <p>If Dry Wonder was turned into a company ownership could have been transferred by making use of shares. The company would also make use of a memorandum of association to determine the main objective. Thus making options 1 and 2 incorrect.</p> <p>If Dry Wonder had stayed a sole proprietorship or had become a partnership, the three partners would have been jointly liable for all claims against Dry Wonder. Option 4 is thus also incorrect.</p>
<b>16</b>	2	A sole proprietorship's owner is personally liable for the debts of the business. The close corporation is created by the registration of the founding statement. A private company must have at least one director.
<b>17</b>	1	Close corporations are created with the registration of a founding

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Questions	Solution	Explanation
		statement. It will also have a separate legal personality. The other options are therefore incorrect.
<b>18</b>	4	All of the factors are important to consider when deciding on the location of a business.
<b>19</b>	4	<p>A close corporation has certain fundamental rights, as set out in the country's Constitution, as a separate tax payer. Member interest can be transferred from one person to another provided that it is contained within the association agreement.</p> <p>It they had a sole proprietorship or a partnership; they would have been personally liable for all debts and losses incurred. Option (a) is thus incorrect.</p> <p>If the business was a company, they would have made use of a memorandum of association to set the main objective, making option (e) incorrect.</p>
<b>20</b>	3	A close corporation would exempt them from having to appoint a director as well as personal liability for the organisation's debts and losses.

**Chapter 4**

Questions	Solution	Explanation
<b>1</b>	2	The market or task environment is considered to be the environment directly outside the organisation. It consists of the organisation's competitors, suppliers, consumers and intermediaries. The state and the technological environment do not fall within the sphere of the market environment and are thus incorrect options.
<b>2</b>	3	The micro-environment comprises of the organisation itself and includes the mission and vision statement, its management and its resources. The competitive strategy to be followed is compiled by management as is the public relations policy. The enterprise resources form an integral part of the micro-environment. Marketing opportunities can be considered to be part of the market environment and not the micro-environment as the market environment is primarily concerned with taking advantage of opportunities.
<b>3</b>	4	The most elementary form of scanning involves the collection and updating of the secondary information. More advanced forms of scanning involve the collection of primary information or special investigations, the establishment of a scanning unit and the use of industrial analysts to make market forecasts.
<b>4</b>	3	<p>The typical features of the business environment are:</p> <ul style="list-style-type: none"> <li>• Interrelatedness of environmental factors and variables</li> <li>• Increasing instability</li> <li>• Environmental uncertainty</li> <li>• The complexity of the business environment.</li> </ul> <p>Option (c) is thus incorrect.</p>

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Questions	Solution	Explanation
5	1	The economic growth rate has a direct effect on the income of the consumers of products and services. This is because the higher the growth rate, the more advanced the economy of the country. If a country's economy is in a healthy condition, consumers will be able to earn a higher income as there is more currency within the borders of the country to be spread around. Options 2, 3 and 4 can all be considered to be correct.
6	1	Staffing issues such as salaries and the loss of employees falls within the sphere of human resource management which functions within the micro-environment of an organisation.
7	2	Bank interest rates, fuel prices and the impact of HIV/Aids are all part of the macro-environment and fall under the economic environment and social environment, respectively.  Policy and programme development however form part of the organisation itself and will therefore be within the micro-environment. Option (d) is thus incorrect.
8	1	A new synthetic fuel can be considered a substitute for the current fuel product supplied by the fuel company and is therefore part of the task or market environment.
9	2	Competition in the market ensures that companies do not earn excessive profits and suppliers are responsible for the provision of material, capital and labour to businesses.  The buying power of a consumer can be considered as the disposable income of the consumer. Option (a) is thus incorrect.  The consumer market does not only embrace durable and semi-durable products, but also services. Option (b) is also incorrect.
10	4	All of the factors mentioned will determine the nature and intensity of competition in a particular industry.
11	3	Environmental scanning is important because of all of the reasons listed in the question.
12	3	Point (b) on the diagram is the direct influence of competitors, consumption and expenditure on the organisation.  Point (d) on the diagram is the indirect influence of the business environment on the business such as interest rates and legislation.
13	4	Experience is an intangible resource that cannot be seen or touched. Human resources form part of the micro-environment of a business.
14	1	A threat is an unfavourable condition or trend within the market environment. Sportman's Warehouse can be seen as direct competition and will therefore be within Andile's market environment and is seen as a threat.  Andile's loan application is unfavourable but is not part of the market environment, making option 2 incorrect.  The influx of tourist will be an opportunity for Andile as it is a favourable

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Questions	Solution	Explanation
		condition within the market environment and option 3 is also incorrect.  The absence of Andile's staff is part of the micro-environment and also incorrect.
15	3	The mission statement of the organisation falls within the micro-environment, competition for the organisation occurs in the market environment and legislation falls under the macro-environment.
16	4	The social environment deals with the social-cultural dimensions of a nation including the demographic aspects such as population figures and compositions.
17	1	The five competitive forces are current industry rivalry, new entrants, buyers, suppliers and substitutes.
18	3	All of the statements are correct except for option (c). The market environment does influence the micro-environment.
19	4	The inflation rate is part of the economic environment within the macro-environment. Individual businesses have no control over elements in the macro-environment despite being influenced by them.
20	3	Consumer purchasing power is part of Sasol's market environment and is represented by consumers' disposable income.

**Chapter 5**

Questions	Solution	Explanation
1	4	This question was quite straightforward and concerns the definition of corporate social responsibility. Corporate social responsibility is about proactive efforts by companies to make a positive contribution to society. It is important, because business needs to become involved in solving problems faced by society, such as poverty, unemployment and pollution.
2	2	Stakeholder engagement is at the heart of good corporate social responsibility. The stakeholder engagement process allows stakeholders to determine what they want from the company and what they consider to be the issues and culture of the company.
3	2	This question was quite straightforward and concerns the definition of sustainability reporting. Sustainable reporting refers to the increasing expectations for companies to publicly report not just on financial matters, but also on social and environmental issues.
4	3	Primary stakeholders are those stakeholders whose ongoing support of the company is vital to the company's survival. The executive board members, the government and the shareholders are all primary stakeholders of the company. Therefore options (b), (c) and (e) are correct.  Environmental NGOs and the media are part of the secondary stakeholders of the company as they have less of a direct impact on the organisation. Therefore options (a) and (d) are incorrect.
5	1	Secondary stakeholders are those that have less direct impact on the company, and include environmental NGOs or the media.
6	2	The triple bottom line refers to the need to consider not only its financial

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Questions	Solution	Explanation
		profit and loss, but also its social and environmental impacts. All of these are equal and interconnected.
7	1	Good corporate social responsibility practices can create market opportunities and responding to emerging niche markets allows companies to translate good corporate social responsibility into corporate social opportunity.
8	2	<p>This question is quite straightforward and concerns the theory regarding the concept of corporate social responsibility. In this question you needed to choose the <b>incorrect</b> statement about corporate social responsibility.</p> <p>Not all aspects of corporate social responsibility have an economic benefit for companies and that is why the business case for corporate social responsibility cannot be the only reason why companies should be good corporate citizens.</p>
9	3	<p>The stakeholder engagement process is not interchangeable with the company's public relations function, therefore option 3 is the incorrect statement. The stakeholder engagement process is at the heart of good corporate social responsibility.</p> <ul style="list-style-type: none"> <li>• It allows stakeholders to determine what they want from the company and what they consider to be the issues and culture of the company.</li> <li>• A company wishing to embark on a stakeholder engagement process should start by mapping all external and internal stakeholders, defining their role in and impact on the organisation and determining the most appropriate methods to engage with each stakeholder group.</li> <li>• The methods can include the use of questionnaires, focus group meetings, surveys, market research, personal visits and joining existing networks.</li> </ul>
10	3	The triple bottom line refers to the need to consider the social, environmental and economic impacts of a business and therefore statement (a) is incorrect. Stakeholder engagement is at the heart of good corporate social responsibility and therefore statement (b) is correct. Incorporating good corporate social responsibility practices can contribute to a company's profitability. However, it doesn't guarantee economic benefits for a company. Therefore statement (c) is correct and statement (d) is incorrect. Therefore option 3 (b c) is correct.
11	3	The King 3 Report is a very important and progressive document for corporate social responsibility for South African companies. It defines and substantiates concepts such as 'corporate citizenship', 'social responsibility' and 'the triple bottom line'.
12	4	The AA1000 Framework was launched in 1999 by AccountAbility, a UK-based membership organisation advising and advocating on corporate citizenship issues. The purpose of the framework is to help 'users to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure its effectiveness in overall organisational performance'.



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Questions	Solution	Explanation
<b>13</b>	3	<p>Corporate social responsibility is a concept whereby organisations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. The university's actions to raise funds for foreign students who lost their study material or books in the xenophobic attacks, is therefore indicative of the university fulfilling its corporate social responsibility. The correct answer is therefore option 3.</p>
<b>14</b>	1	<p>For this question, you were required to match the term with its appropriate description. This was a straightforward question and merely required you to read the theory about the different term which applies to corporate social responsibility.</p> <p>Sustainable development refers to the need to improve the lives of poor people and to protect the natural environment. Therefore (a) is linked to (iii).</p> <p>Corporate social investment refers to companies' philanthropic initiatives, such as sponsorships for students. Therefore (b) is linked to (iv).</p> <p>Sustainability reporting refers to the increasing expectations for companies to publicly report not just on financial matters, but also on social and environmental issues. Therefore (c) is linked to (i).</p> <p>Corporate governance refers to how a company's objectives, and strategy and decision-making structures are developed, implemented and monitored. Therefore (d) is linked to (ii).</p>
<b>15</b>	3	<p>Stakeholders that are found outside the organisation are known as external stakeholders, such as shareholders, customers/clients, suppliers and NGOs. Therefore option 3 is correct.</p>
<b>16</b>	5	<p>This question is quite straightforward and concerns the theory regarding the stakeholder engagement process. In this question you needed to choose the <b>correct</b> statement about corporate social responsibility.</p> <p>The stakeholder engagement process is at the heart of good corporate social responsibility.</p> <ul style="list-style-type: none"> <li>• It allows stakeholders to determine what they want from the company and what they consider to be the issues and culture of the company.</li> <li>• A company wishing to embark on a stakeholder engagement process should start by mapping all external and internal stakeholders, defining their role in and impact on the organisation and determining the most appropriate methods to engage with each stakeholder group.</li> <li>• The methods can include the use of questionnaires, focus group meetings, surveys, market research, personal visits and joining existing networks.</li> </ul> <p>Therefore statements (a), (b), (d) and (e) are correct.</p>

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Questions	Solution	Explanation
17	4	The triple bottom line refers to the need of a business to consider its social, environmental and economic impacts. By operating its mines in such a way that it contributes to the social well-being of its employees, protecting the environment as well as continuing to grow its profits, Dark Gems is considering the social and environmental impacts, as well as its financial profit or loss. Therefore option 4 is correct.
18	3	Stakeholders are those groups or people who are affected by or who can have an effect on a company. The CEO, local community, Isanda Diamonds as well as the international media all have an effect on Dark Gems as a company. Therefore options (a), (b), (c) and (d) are all correct.
19	1	Incorporating good corporate social responsibility practices has positive implications for the financial bottom line of a business and these benefits can come in a variety of forms. By using energy-saving technology, Themba's company experiences the benefit of cost savings by saving money on his monthly electricity bill. Therefore option (a) is correct. Through eco-efficiency such as using recycled materials and employing solar panels, Themba's company will save costs. Therefore option (c) is also correct. These are two examples of good corporate social responsibility practices being implemented in Themba's company. Options (b) and (d) are concerned with the human resource development function within a business and not with corporate social responsibility practices. Therefore options (b) and (d) are incorrect.
20	2	<p>Sustainability reporting refers to the increasing expectations for companies to publicly report not just on financial matters, but also on social and environmental issues. Therefore (a) is linked to (ii).</p> <p>The triple bottom line refers to the need to consider the social and environmental impacts as well as its financial profit or loss. Therefore (b) is linked to (iii).</p> <p>Corporate social responsibility can be considered as synonymous with corporate citizenship, therefore (c) is linked to (iv).</p> <p>Sustainable development refers to the need to improve the lives of poor people and to protect the natural environment. Therefore (d) is linked to (i).</p>

**Chapter 6**

Questions	Solution	Explanation
1	1	<p>If an existing plan of action does not succeed in accomplishing the predetermined goals, or if some new goal is established, management has to develop alternative plans. In developing such alternative plans, management must constantly bear the following in mind:</p> <ul style="list-style-type: none"> <li>• The influence of external factors</li> <li>• The strong and weak points of the business</li> <li>• The costs of each alternative plan.</li> </ul>

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Questions	Solution	Explanation
		Options (c) and (d) are incorrect. Rational decision making and strategic planning are not factors management should constantly bear in mind when it comes to developing alternative plans.
<b>2</b>	1	<p>Simply defined, management is a process followed by managers to accomplish an enterprise's goals and objectives. This process involves the activity of planning (statement (a)) which involves determining the mission and goals of the enterprise, which includes the ways in which the goals are to be attained and the resources needed for this task will be identified and obtained. It is clear that planning is the first task of management: no other tasks can take place before suitable plans have been made.</p> <p>Having set the enterprise's mission and goals, the next step is to develop a framework or organisational structure (statement (b)) to show how personnel, equipment and materials are to be employed to attain the predetermined goals. Since it will be people who will perform the various tasks and activities as set out in the organisational structure, the next step or task is to give the necessary orders to the human resources (the employees) of the organisation and to motivate them in such a way as to direct their actions to the achievement of the enterprise's goals. This task is referred to as leading (statement (c)).</p> <p>The final logical task is to determine whether the goals are being achieved or whether some factor is preventing their achievement. This control (statement (d)) is done by comparing the actual performance of the enterprise with the planned performance or goals. Any differences must be evaluated and corrective action taken in order to realign current performance with planned performance.</p> <p>So, the correct order of the tasks of a manager is planning, organising, leading and control.</p>
<b>3</b>	1	<p>Planning forms the basis of all the other tasks of management. It points out the direction in which the organisation should move and determines the actions of management.</p> <p>Planning is also important because it provides the norms and goals against which performance will be judged in order to determine whether corrective action should be taken or not. There are therefore a number of reasons why planning is important.</p> <p>Planning promotes cooperation between the various departments and people in the organisation. Plans provide the map by which management must steer the business, and they inform each department what needs to be done to ensure the smooth running of the business. So, statement (a) is correct.</p> <p>Because planning provides the map by which to steer the business, it gives direction to each of the departments in the business and to the business as a</p>

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Questions	Solution	Explanation
		<p>whole. In other words, planning provides the objectives of the business and also the plans for achieving them. Statement (b) is therefore correct.</p> <p>The size of the business does not alter the importance of planning. Both big and small businesses need to engage in setting their goals and deciding how to achieve them. So, statement (c) is wrong.</p> <p>Unless a business is a monopoly, there is little else that guarantees profits. Business risk is an ever present problem, and effective planning can at most only help to minimise the occurrence of risk. So, statement (d) is also wrong.</p>
<b>4</b>	4	<p>As a process, planning may be seen as the identification and formulation of the objectives of an organisation, the making of plans or the choice of alternative plans to achieve the objectives, and then the implementation of the selected plan or plans.</p> <p>The first step in planning is therefore setting goals, followed by developing relevant plans, and finally implementing the selected plan or plans. So, statement 4 is correct.</p>
<b>5</b>	5	<p>To the management of an organisation, objectives are the starting point of the management process, and represent the guidelines for developing plans, the organising required to implement those plans, and the guidance that the objectives have to offer. For this reason it is important that the objectives be clearly set out. To achieve this, certain requirements must be met.</p> <p>One requirement is that objectives should be measurable, so that managers can check whether the objectives are being attained by comparing performance results with the predetermined objectives. So, statement (a) is correct.</p> <p>Objectives should be set consistently, that is, they must not be in conflict with one another. In order to achieve this, there must be either horizontal consistency or vertical consistency. When objectives are consistently set, management will have a clear view of the way ahead. So, statement (b) is correct.</p> <p>Goal setting ought to be integrated with the remuneration system of the organisation in order to provide subordinates with a means of realising the organisational goals as well as their own. Statement (c) is also correct.</p> <p>Management must ensure that subordinates accept the objectives and are willing to cooperate in achieving them. One way of doing this is to allow subordinates to participate in setting the organisation's goals. Statement (d) is thus correct.</p>
<b>6</b>	4	<p>Strategic planning deals with the development of a broad long-term overall strategy to realise the mission of the business. There are a number of characteristics which distinguish strategic planning from functional and operational planning:</p>

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Questions	Solution	Explanation
		<ul style="list-style-type: none"> <li>• It is carried out by top management</li> <li>• It has a time frame of three to ten years or longer</li> <li>• It is focused on the business as a whole</li> <li>• It is future-orientated and is at all times on the lookout for changes in the environment</li> <li>• It includes constant adaptation to the environment</li> <li>• A long-term or strategic plan is not concerned with details, but is in the form of broad general guidelines to keep the business on its course</li> <li>• Management constantly endeavours to use it to deploy the resources and skills of the business among the opportunities and risks in the business environment.</li> </ul> <p>Statement (d) is incorrect, as strategic planning is not concerned with fine details and specifics, but is rather in the form of broad general guidelines to keep the business on its course. Statements (a), (b) and (c) are all correct as they are characteristics of a strategic plan.</p>
<b>7</b>	4	<p>Management must understand clearly the importance of goals, because goals provide guidance and unanimity in the business (statement (a)). Goals indicate to everyone in the business the direction in which they must direct their efforts in order to abide by the mission and achieve the objectives of the business. Furthermore, goals provide an effective means of evaluation and control (statement (b)). This means that actual performance by the business may be compared with the goals, and if there are any differences, then corrective action may be taken to get the business's efforts back on course again. By the same token, the goals must be realistic, otherwise goals which are too high will tend to discourage employees. Thus, realistic goals would tend to facilitate planning (statement (d)).</p> <p>Statements (a), (b) and (d) are correct statements in terms of the question.</p> <p>Goals which represent a burden to employees (statement (c)) indicate that such goals are impossible to attain and should not have been set. Likewise, statement (e) is wrong because the setting of a goal is no guarantee of success. If the goal is impossible to attain, it cannot lead to success.</p>
<b>8</b>	1	<p>Vertical integration occurs when the business's strategy is to take over suppliers, such as those providing raw materials, or businesses that buy from it. Therefore option 1 is correct. Product development entails the development of new products for existing markets, or existing products being modified, therefore option 2 is incorrect. Horizontal integration is a growth strategy where similar businesses are taken over, therefore option 3 is incorrect. Market development means that existing markets for the present products of the business are developed more intensively, or new markets are developed for existing products. Therefore option 4 is also incorrect.</p>
<b>9</b>	1	<p>The mission of the organisation is formulated by the owners and top management as they are responsible for the business as a whole and for determining its mission and goals. Therefore (a) is linked to (i). Middle</p>

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Questions	Solution	Explanation
		management is responsible for certain functional areas of the business. Middle management is therefore responsible for medium- and long-term planning and organising within its own functional areas. Functional goals are therefore set at middle management level and by managers in each functional area. Therefore (b) is linked to (ii). Operational goals are short-term goals set by lower level management. Therefore (c) is linked to (iii).
<b>10</b>	2	Horizontal integration is a long-term strategy in which similar businesses are taken over. This strategy gives access to new markets and gets rid of competition. Therefore an enterprise taking over a competitor in order to eliminate the competition is an example of horizontal integration.
<b>11</b>	4	This question dealt with strategic planning and, more specifically, growth through the acquisition of other businesses.  By acquiring one of the suppliers, Pick n Pay would be adopting a strategy of vertical integration. One can differentiate between vertical forward and vertical backward integration. This case is one of vertical backward integration, because Pick n Pay is acquiring a business backwards in its supply chain.
<b>12</b>	1	Functional goals focus on how to carry out tasks necessary to achieve strategic goals. They are medium-term or short-term goals derived from the long-term objectives, for example to increase market share from 10% to 20% over the next 5 years or sales will have to be increased by 20% a year. The goal set by Shoprite Checkers is therefore an example of a functional goal, which is formulated by middle management.
<b>13</b>	2	Product development involves new products being developed for existing markets, or existing products being modified to win greater approval among customers. Kellogg's decided to re-brand and re-launch their product through new packaging and pricing structures. This was done to improve sales and win greater approval by customers. Kellogg's therefore adopted a product development strategy in order to extend the life of the product.
<b>14</b>	4	By terminating unprofitable products, a business adopts a rationalisation strategy. Therefore, if Kellogg's decided to withdraw the product from the market, the company would be adopting a strategy known as rationalisation.
<b>15</b>	3	This question deals with strategic planning and, more specifically, with types of corporate growth strategies.  Horizontal integration is a long-term growth strategy whereby similar businesses are taken over. On the one hand, this strategy gives access to new markets and, on the other hand, gets rid of competition. By acquiring grocery retailers similar to it, Shoprite has embarked on a horizontal integration strategy.
<b>16</b>	2	This question dealt with goal setting at the different levels within the organisation and involved a certain degree of applying theory to a scenario.  In deciding to introduce a new product/service offering and to expand its current services, Kulula.com is taking a strategic decision in shaping the

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Questions	Solution	Explanation
		future of the organisation. The timeframe of the goal set by Kulula.com is indicative of the fact that it is a strategic goal. Strategic goals generally span a period of five to 10 years, whereas operational and tactical goals have shorter time horizons.
<b>17</b>	3	<p>This question deals with the requirements for setting goals in an organisation, more particularly with the requirement of consistency.</p> <p>The fact that Phindiwe plans to increase her expenditure on advertising by 20% over the next three years is a reasonable goal in the sense that it is both measurable and has a specific timeframe for achievement.</p> <p>However, the goal lacks horizontal consistency because of the fact that it is in conflict with the goal set by the Chief Financial Officer (CFO) to reduce expenditure on marketing. Horizontal consistency is the term given to the requirement that goals are compatible across the various departments of the organisation.</p> <p>Option 1 is incorrect because the goal set by Phindiwe is definitely measurable in that it has a timeframe and a specific target of 20%.</p> <p>Option 2 is incorrect because the goal is acceptable in terms of the fact that there is no evidence to suggest that employees would be unwilling to carry out the goal or align their actions with the goal.</p> <p>Option 4 is incorrect. Vertical consistency refers to consistency within different subsections, for example within the marketing department's hierarchy.</p>
<b>18</b>	3	<p>Strategic decisions deal with broad long-term overall strategies to realise the mission of the business. It is usually carried out by top management and has a time frame of three to ten years or more.</p> <p>Option (a) is correct. Woolworths' decision to concentrate its business on not only clothing, but also on the grocery market is an example of a diversification strategy.</p> <p>Option (d) is correct, as Kodak's decision to return to South Africa is an example of a market development strategy.</p> <p>Option (e) is correct. Nissan's decision to enter the small passenger car market by introducing the Nissan Micra is an example of an innovation or product development strategy.</p> <p>Options (b) and (c) are incorrect, as they are not examples of strategic decisions.</p>
<b>19</b>	3	<p>This question deals with strategic planning and, more specifically, with types of corporate growth strategies.</p> <p>Horizontal integration is a long-term growth strategy whereby similar businesses are taken over. On the one hand, this strategy gives access to</p>

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Questions	Solution	Explanation
		new markets and, on the other hand, gets rid of competition. By acquiring breweries in the US and the Czech Republic, SAB Miller embarked on a horizontal integration strategy.
<b>20</b>	3	<p>Question 20 deals with the different types of corporate growth strategies and, more specifically, growth through the acquisition of other businesses.</p> <p>By acquiring one of its suppliers of ingredients (raw materials), SAB Miller would be adopting a strategy of vertical integration. One can differentiate between vertical forward and vertical backward integration. In the case of this question, it is one of vertical backward integration because SAB Miller is acquiring a business backwards in its supply chain.</p>

**Chapter 7**

Questions	Solution	Explanation
<b>1</b>	2	This question was quite straight forward and concerns the definition of line authority which involves delegation down through the line of command. Therefore option 2 is the correct answer.
<b>2</b>	5	Like question 1, this question was also quite straight forward. Staff authority is an indirect and supplementary authority. Therefore option 5 is the correct answer.
<b>3</b>	3	<p>This question deals with the concept of span of management, and differentiates between a narrow and a broad organisational structure. Span of management refers to the number of subordinates who report directly to a manager. The greater the number of employees who report to a manager, the broader the span of management will be.</p> <p>A broad organisational structure will probably lead to many subordinates for each manager (option (c) is correct). This means managers have a greater span of management (option (b) is correct) and managers are utilised as such (option (a) is incorrect – underutilised managers can be regarded as a characteristic of a tall organisational structure). This however usually results in less intensive supervision of subordinates (option (d) is correct).</p>
<b>4</b>	3	<p>In a tall, narrow or high structure managers are usually being underutilised and there is excessive control over subordinates because there are few subordinates per manager. A tall organisational structure will probably lead to fewer subordinates for each manager. The correct answer is therefore option 3.</p> <p>Options 1, 2 and 4 are all incorrect, as they are characteristics of a broad or flat structure.</p>
<b>5</b>	3	<p>Departmentalisation does not take place according to resources, therefore option (c) is incorrect.</p> <p>The basic forms of departmentalisation include departmentalisation according to:</p> <ul style="list-style-type: none"> <li>• Function (used by businesses where activities belonging to each</li> </ul>



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Questions	Solution	Explanation
		<p>management function are grouped together)</p> <ul style="list-style-type: none"> <li>• Product (used by businesses where all activities concerned with the manufacturing of a product or group of products are grouped together in product sections) – option (a)</li> <li>• Location (used by businesses that manufacture and sell its goods in different geographical regions) – option (b)</li> <li>• Customer (used by businesses when concentrating on some special segment of the market or group of consumers) – option (d).</li> </ul>
<b>6</b>	4	<p>The design of jobs for employees is one of the fundamentals of organising. The point of departure of designing jobs is to determine the level of specialisation or the degree to which the overall task of the organisation is broken down into smaller, more specialised tasks. Therefore option 4 is the most correct option for this question.</p>
7	3	<p>If individuals concentrate on some simple small task, they acquire a certain degree of skill in that area and can perform the task as a specialist more quickly and better than anybody else (statement (a) is correct).</p> <p>Workers who do several jobs lose time when they switch from one job to another. Specialisation eliminates such non-productive transfer time (statement (b) is correct).</p> <p>Specialisation leads to the development of specialised equipment, which increases the productivity of each worker (statement (c) is correct).</p> <p>Division of labour reduces the costs of training, because workers are trained in a particular part of the total task (statement (d) is correct).</p> <p>Determination of an employee's role within an organisation is a reason which justifies job design, not specialisation, within an organisation (statement (e) is incorrect).</p>
<b>8</b>	4	<p>Options 1, 2 and 3 are all true statements regarding specialisation. Although specialisation has traditionally been applicable mostly at the operational level, option 4 is incorrect, as it is increasingly being applied at managerial levels also. Therefore option 4 is the correct answer.</p>
<b>9</b>	1	<p>The concept of span of management forms part of the organising task of management. A manager's span of management (sometimes also referred to as span of control) is determined by the number of subordinates who report directly to him/her; therefore, option 1 is the correct answer.</p> <p>Option 2 is incorrect because there can, for example, be 100 workers at a level lower than the manager; but only 10 may report directly to him/her, while the other 90 might report to other managers. In this case, the manager's span of management would be 10 subordinates and not 100.</p> <p>Option 3 is incorrect because the number of managers who are on the same level has nothing to do with span of management. Similarly, option 4 is incorrect because the size of the business is not a determinant of span of</p>

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Questions	Solution	Explanation
		management.
<b>10</b>	2	Span of management refers to the number of subordinates who report directly to a manager. A narrow span of management usually implies many management levels and therefore a tall structure; hence option (a) is correct and option (e) is incorrect. A tall organisational structure will also result in slow decision making and a long chain of command, hence options (b) and (d) are correct. A narrow span of management can also result in underutilised managers, hence option (c) is incorrect. The correct answer is therefore (a), (b) and (d).
<b>11</b>	2	<p>Organising is carried out in a context where many different factors need to be taken into account. Each of these factors may provide input in the design of the organisational structure.</p> <p>A stable environment in which a business operates may be taken as a basis for designing an organisational structure. If changes do occur in the environment, it should be designed to adapt to such changes (option (a) is correct).</p> <p>The strategy of a business provides a direct input in the design of the organisational structure (option (b) is correct).</p> <p>The structure of a business depends on the number of employees and managers to be coordinated, hence the size of the business (option (c) is correct).</p> <p>The location of the business is not a factor that will influence the organisational structure, but rather the type of departmentalisation chosen for an organisation (option (d) is therefore incorrect).</p> <p>The organisational culture, also known as the ‘personality’ of the business, plays an important part in the way the organisation is structured (option (e) is correct).</p> <p>Therefore the correct combination is option 2 (a, b, c, e).</p>
<b>12</b>	2	<p>You may have confused job design and specialisation. Job design is the determination of an employee’s responsibilities in an organisation and the compilation of a job specification.</p> <p>Sarah decided to divide the company’s labour by separating the different tasks into smaller units to take advantage of specialised knowledge or skills to improve the productivity of her sandwich company. This is known as specialisation, therefore, option 2 is correct.</p>
<b>13</b>	1	<p>In this question you are required to select the correct type of departmentalisation used by Thabo based on the information you were given in the mini case study.</p> <p>Thabo has departmentalised his company by grouping each management function together; this is considered the most basic type of departmentalisation. Activities such as sales, marketing, media, customer</p>

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Questions	Solution	Explanation
		insight and products and services are divided into various business units or functions. Therefore, option 1 is correct.
<b>14</b>	4	Line authority refers to authority that is delegated down through the line of command. The CEO therefore has line authority over the General Manager: Operations. Staff authority on the other hand refers to assisting, advising and recommending and is based on the specialised knowledge of an expert. The manager of computers and software who is giving instructions to the General Manager in the form of advice or recommendations based on his/her specialist knowledge, is thus exercising staff authority. Therefore, option 4 is correct.
<b>15</b>	4	<p>The matrix organisational structure was designed to overcome some of the inherent problems in organisational structures. The matrix structure is particularly suited to large organisations and the handling of many ad hoc projects.</p> <p>The other options are all examples of contemporary approaches to organising business.</p>
<b>16</b>	1	<p>This question required you to match the form of departmentalisation with the appropriate example.</p> <p>When activities belonging to each management function are grouped together, this is known as a functional organisational structure. For example, financial activities are grouped together, and marketing activities are also grouped together. So, option (a) is linked to example (iv).</p> <p>When a company has departments that sell its products in different geographical regions, for example in Gauteng and Kwazulu-Natal, and managerial autonomy is granted to these departments, this is known as location departmentalisation. So, option (b) is linked to example (ii).</p> <p>When a business concentrates on specific segments of the market or a specific group of consumers, it usually adopts customer departmentalisation. So, option (c) is linked to example (i).</p> <p>When departments are designed so that all activities concerned with the manufacturing of a product or group of products are grouped together in product sections, where all the specialists associated with the particular products are grouped, this is known as product departmentalisation. So, option (d) is linked to example (iii).</p>
<b>17</b>	2	<p>Before adopting a more team-based approach, Innovative Inc. Ltd. was structured predominantly according to function. Artists and writers were in separate departments and rarely spoke to one another; people who did the lettering were not even in the same building. It is clear from this statement that the employees were grouped in terms of tasks or functions. As such, we can state that the business was departmentalised according to function.</p> <p>You might have answered that the business was departmentalised according to location because some employees were situated in different buildings. However, this would be incorrect. Location departmentalisation</p>

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Questions	Solution	Explanation
		occurs when a business sells its goods in different geographical locations or regions, with the different regions having managerial autonomy. There is, however, no evidence to suggest that this was the case at Innovative Inc. Ltd.
<b>18</b>	4	<p>Following the introduction of the team-based approach at Innovative Inc Ltd., the business is now departmentalised predominantly according to product.</p> <p>The evidence from the case study that suggests this form of departmentalisation can be found in the following sentence:</p> <p><i>Now Innovative Inc. Ltd. puts teams of employees from every department in the same room and empowers each team to take charge of specific cards.</i></p> <p>When a business is departmentalised according to product, departments are designed so that all activities that are concerned with the manufacturing of a product or group of products are grouped together in product sections.</p>
<b>19</b>	3	<p>Thabo, the human resources manager at a factory, instructs the production manager to abide by certain human resources policies in the factory. Thabo demonstrates functional authority with his power over a specific subset of activities. Therefore, statement (a) is linked to statement (iii).</p> <p>Line authority is authority delegated down through the line of command. Sarah, the front office manager at Protea Hotel, displays line authority when she instructs the receptionists to inform guests about the special weekend rate. Therefore, statement (b) is linked to statement (i).</p> <p>Staff authority is an indirect and supplementary authority. This type of authority is illustrated when Sello, a university lecturer, approaches the Market Research Bureau at his university for advice and assistance regarding a research project he is busy with. Therefore, statement (c) is linked to statement (ii).</p>
<b>20</b>	2	<p>Responsibility is an obligation or commitment to carry out tasks in accordance with instructions received, and it also means that subordinates must be able to account for what they have done. Therefore, statement (a) is linked to statement (ii).</p> <p>Line authority refers to authority that is delegated down through the line of command. The managing director thus has line authority over the marketing manager, who has line authority over the advertising manager. So, statement (b) is linked to statement (iv).</p> <p>Staff authority refers to assisting, advising and recommending and is based on the specialised knowledge of an expert. The marketing research department, who make recommendations based on their specialised knowledge of the research results, are thus exercising staff authority. So, statement (c) is linked to statement (iii).</p>

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Questions	Solution	Explanation
		The span of management is the number of subordinates who report directly to a manager. So, statement (d) relates to statement (i).

**Chapter 8**

Questions	Solution	Explanation
<b>1</b>	1	<p>Authority, one of the main components of leadership, entails the formal right of a leader to give instructions (a), allocate resources and demand action from subordinates (b). Therefore, option 1 (a, b) is correct.</p> <p>Motivation, not authority (c) or responsibility (d), denotes the ability of a leader to influence the behaviour of others without necessarily using his or her authority (therefore statements (c) and (d) are incorrect).</p>
<b>2</b>	1	<p>Leadership, motivation and communication (options (a), (c) and (e)) are components of the leadership task of management. Therefore the correct answer is 1.</p> <p>Option (c) is incorrect because productivity does not have anything to do with leadership. Productivity forms part of the operations function of the business.</p> <p>Option (d) is stated incorrectly because it states 'knowledge of individual behaviour' when it should state 'knowledge of group behaviour'.</p>
<b>3</b>	1	<p>Employees' performance is determined mainly by:</p> <ul style="list-style-type: none"> <li>• Their desire to do the job (motivation)</li> <li>• Their capability to do the job (ability)</li> <li>• The resources to do the job (work environment).</li> </ul> <p>Willingness is not one of the identified criteria.</p>
<b>4</b>	1	<p>Social loafing refers to the tendency for individuals to put in less effort when working in a group than when working individually.</p>
<b>5</b>	3	<p>Leadership is the ability to influence others to cooperate willingly. Being a successful leader therefore means having the undisputed ability to influence others in a positive and cooperative manner. This does not necessarily mean that a good leader would avoid using his or her formal authority in a difficult situation; however, such a leader would probably avoid using it as far as possible, preferring to exert influence in positive and reinforcing ways. So, statement 3 is correct.</p> <p>Formal authority (statement 1) may be likened to military authority where orders are not questioned, but carried out without protest or question. Statement 1 is therefore wrong.</p> <p>Similarly, the activation of subordinates (statement 2) may be achieved in more than one way, for example through fear or by persuasion, but neither of these will guarantee success for a leader. So, statement 2 is wrong.</p>

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Questions	Solution	Explanation
		Legitimate power (statement 4) refers to the authority granted by a business to a particular position. A manager with this power therefore has the right to insist on the execution of certain duties by subordinates, and to dismiss them if warranted. This is not the kind of power a successful leader would apply in the normal run of events. So, statement 4 is also wrong.
<b>6</b>	5	Legitimate power refers to the authority granted by a business to a particular position. Therefore, when an employee is appointed to a certain managerial post, he/she will have been given the legitimate power associated with that particular position. A manager with this power therefore has the right to insist on the execution of certain duties by subordinates, and to dismiss them if warranted.
<b>7</b>	5	<p>There are five different types of power that managers can possess, namely:</p> <ul style="list-style-type: none"> <li>• Legitimate power</li> <li>• Coercive power</li> <li>• Referent power</li> <li>• Expert power</li> <li>• Power of reward.</li> </ul> <p>Referent power refers to a manager's personal power or charisma. Employees (subordinates) obey managers with referent power simply because they like them, respect them, and identify with them.</p>
<b>8</b>	1	<p>A group comprises two or more individuals who regularly interact with one another and who work for a common purpose.</p> <p>There are two main types of groups, namely:</p> <ul style="list-style-type: none"> <li>• Formal groups (including command groups and task groups)</li> <li>• Informal groups (including interest and friendship groups).</li> </ul> <p>When a group is established by management to carry out specific duties, tasks or projects in the organisation, a task group is created.</p>
<b>9</b>	4	<p>Trust has become a vital component of effective leadership. Managers cannot be effective leaders if their employees do not perceive them as being trustworthy. The five dimensions of trust include the following:</p> <ul style="list-style-type: none"> <li>• Integrity – a manager's honesty and truthfulness (a)</li> <li>• Competence – a manager's technical and interpersonal knowledge and skills (b)</li> <li>• Loyalty – a manager's willingness to protect another person (d)</li> <li>• Openness – one can rely on a manager to tell the whole truth (e)</li> <li>• Consistency (not mentioned in the question, but it is one of the dimensions of trust) – is a manager's reliability, predictability and good judgement in handling situations.</li> </ul> <p>Friendliness (c) is incorrect, as it is not considered to be a dimension of trust.</p>
<b>10</b>	3	Blake and Mouton's 'Managerial Grid' is an instrument that identified various leadership styles on a two-dimensional grid. This grid measured concern for people and concern for production.
<b>11</b>	4	The characteristics of a group are as follows:

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Questions	Solution	Explanation
		<ul style="list-style-type: none"> <li>• Group size affects the group's overall performance (statement (a) is correct).</li> <li>• Group composition can influence a group's performance (statement (b) is therefore incorrect).</li> <li>• Status in groups can be formal or informal (making statement (c) incorrect).</li> </ul> <p>Norms are standards shared by members of a group and develop from interaction between the members (statement (d) is therefore correct).</p>
<b>12</b>	3	<p>Subordinates in an organisation do not work only as individuals with certain needs and goals, but also as members of groups that may on occasion influence the behaviour of individuals. A group consists of two or more individuals in regular interaction, who works towards a common purpose. Groups are formed for various reasons, but they are usually related to the needs of individual members.</p> <p>A group will always have a leader, and the success of the group will depend on the leadership qualities the leader possesses. So, statement (a) is correct.</p> <p>The success of the leader of a group depends on whether its members are willing to accept his or her leadership. When this happens, the leader will be a successful leader, and statement (b) is therefore correct.</p> <p>The interaction between the members of a group will tend to create group norms or generally accepted standards of behaviour. As a result, group pressure will tend to keep individual behaviour in conformity with group norms. Statement (c) is also correct.</p> <p>Group solidarity is the degree of influence that the group is able to exert on individual members. Groups may have either strong or weak senses of solidarity, depending on the success of the leader and the attitudes of the members. So, not all groups will necessarily have a strong sense of solidarity, making statement (d) incorrect.</p>
<b>13</b>	3	<p>This question required you to choose the leadership style which was NOT one of the three basic leadership styles identified by the University of Iowa.</p> <p>The University of Iowa researchers identified three basic leadership styles, namely autocratic leadership, democratic leadership and laissez-faire leadership. Therefore the correct answer is option 3, as participative leadership is not one of the basic leadership styles identified by the University of Iowa.</p>
<b>14</b>	2	<p>Legitimate power refers to the authority granted by a business to a particular position. Therefore, when an employee is appointed to a certain managerial post, he/she will have been given the legitimate power associated with that particular position. A manager with this power therefore has the right to insist on the execution of certain duties by subordinates, and to dismiss them if warranted. This is a form of positional</p>

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Questions	Solution	Explanation
		power. So option 2 is correct.
<b>15</b>	4	When subordinates obey their manager simply because they like, respect and identify with their manager, the manager is known to have referent power. Referent power is identified as personal power on the power continuum.
<b>16</b>	1	Legitimate power is the power an organisation grants to a particular position, for example, as CEO of a company, Peter Mashiba is granted such power. With such power, Peter Mashiba has the right to insist that employees do their work and the right to discipline or dismiss them if they fail to comply. As an organisation grants legitimate power to a particular position within the company, it is considered a form of positional power.
<b>17</b>	4	<p>Communication is the transfer of information or messages from one person to another. Effective communication entails unimpeded receipt of the sender's message by the receiver. Briefly, the communication process is the following: The sender (managing director) is the source of the message and, to communicate effectively, he or she has to know what he or she wishes to transmit. The communication channel, or the means by which the message is sent, may assume any form that is perceptible to any of the receiver's (employee's) senses, for example language or the spoken word, and therefore able to be understood by him or her. The receiver of the message (employee) should understand the message and must acknowledge its receipt, and that he or she understands it. In other words, when the receiver (employee) grasps the message in accordance with the sender's (managing director's) intentions, then effective communication has been achieved.</p> <p>Therefore, the communication channel must suit the employees/receivers (statement (a)), the message must be interpreted or understood by the employees/receivers (statement (b)), the sender/managing director must determine whether the message has been received and interpreted correctly by the employees/receivers (statement (c)), and the employees/receivers must both receive the message and understand what the managing director/sender was conveying to them (statement (d)).</p>
<b>18</b>	3	<p>This question required you to match the leadership component presented in Block A with the correct description in Block B thereof.</p> <p>Authority (option (a)) is linked to description (iv) as Mr Ndluvo's position as manager of a restaurant gives him the right to give instructions, allocate resources and demand action from his subordinates, thereby displaying authority.</p> <p>Power (option (b)) is linked to description (i) as it is described as the influence that leaders exert over their subordinates.</p> <p>Responsibility (option (c)) is linked to description (ii) as the CEO, Mr Smith, displays such characteristics, by ensuring the required activities are performed to achieve the organisational goals.</p> <p>Finally, delegation (option (d)) is linked to description (iii). Delegation is</p>



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Questions	Solution	Explanation
		described as the process of assigning responsibility and authority for achieving organisational goals.
<b>19</b>	4	<p>This question required you to identify types of power that are exhibited by well-known individuals or groups of people. You first had to understand the different types of power before you could match them to the individuals identified in the question.</p> <p>Option (a) (legitimate power) is linked to option (iv) (CEO of a company). The CEO of a company is granted legitimate power over his/her subordinates by virtue of his/her position in the organisation. Remember that legitimate power is a form of positional power and is granted to all managers in the organisation.</p> <p>Option (b) (referent power) can best be linked with option (iii) (Nelson Mandela). As the former President of South Africa, Mr Mandela is no longer in a 'position' of power because he holds no particular position in government or industry. Yet Mr Mandela still has great influence over the people of South Africa, both the decision makers and the general public. This influence is largely based on referent power that is derived from the morals, values and actions that he displays and with which people are able to align themselves.</p> <p>Option (c) (coercive power) is linked to option (i) (gangsters). Gangsters use fear tactics to coerce people into doing what they want them to do. Small groups of gangsters often hold influence over entire communities through their use of fear and coercive power. Of course, this type of power is not conducive to effective leadership in organisations.</p> <p>Option (d) (expert power) is linked to option (ii) (Bill Gates). As the founder of Microsoft, Bill Gates is widely known for his intelligence and brilliance in terms of computer programming and software development. Much of his power is derived not from his wealth or position, but rather from his expert knowledge.</p>
<b>20</b>	2	<p>This question required you to match the different types of teams in Block A with the relevant description in Block B.</p> <p>Problem-solving teams (option (a)) consist of employees from the same department who meet regularly to discuss ways of improving quality, efficiency and the work environment (option (iii)).</p> <p>Self-managed work teams (option (b)) take on the responsibilities from their former managers and address problems in the work process (option (ii)).</p> <p>Cross-functional teams (option (c)) comprise employees at the same hierarchical level, but from different work areas, who come together to accomplish a task (option (v)).</p>

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**Chapter 9**

Questions	Solution	Explanation
1	2	This was a very straight forward question and you should not have had difficulty in answering it. Control as a management task is the process by which management tries to ensure that the enterprise's objectives are attained, and therefore to see to it that the results come as close as possible to the objectives.
2	5	Control should focus on the effective management of the following resources: <ul style="list-style-type: none"> <li>• Physical resources</li> <li>• Human resources</li> <li>• Information resources</li> <li>• Financial resources.</li> </ul> These resources are known as the focal points or key areas of control.
3	2	There are many characteristics of control, namely: <ul style="list-style-type: none"> <li>• <i>Integration</i></li> <li>• <i>Flexibility</i></li> <li>• Accuracy</li> <li>• Timeliness</li> <li>• <i>Unnecessary</i> complexity.</li> </ul> Therefore option 2 (integration and flexibility) is correct.
4	1	The control process comprises of four steps. The first step in the control process is to <i>establish performance standards</i> (option 1) at strategic points.
5	3	The control process comprises of four steps. The last or final step in the control process is to <i>take corrective action</i> (option 3) to ensure that deviations do not recur.
6	4	Statement (a) is incorrect. As the size of a business grows over time, it becomes more complicated and usually more difficult to spot areas of weak performance. Having effective control, however, helps companies cope with the increasing size and complexity of the organisation.  Statement (b) is correct. Managers and subordinates are capable of making poor decisions and committing errors. It is correct that control helps identify problems and limits the accumulation of error before it becomes critical for the organisation.  Statement (c) is incorrect. Globalisation and increasing competition faced by organisations does not result in ineffective cost and quality control; but rather necessitates stricter cost and quality control. Such measures will ensure that the organisation remains competitive.  Statement (d) is correct. An organisation needs a control process as even the best-laid plans may go wrong. When implemented properly, control results in better quality.
7	3	Option (a) is incorrect. Control does not refer to applying strict discipline to subordinates. The word 'control' does not refer to 'being in charge of' or, for example, 'controlling a crowd'; hence, control does not refer to

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Questions	Solution	Explanation
		<p>applying strict discipline to subordinates. Also, do not confuse this statement with the control of human resources by means of performance management because this is an entirely different concept.</p> <p>All of the other options (b, c, d) in the question are indeed correct.</p>
<b>8</b>	5	<p>The design of a control system may be very complex and would depend on such factors as the nature of the business (statement (a)). The design of the control system in a manufacturing business would be different from that of a retailing business.</p> <p>Another factor would be the activities of the business (statement (c)). The design of the control system in an auditing business would differ from that of the purchasing department of a manufacturing business.</p> <p>The design of the control system in a big international corporation would differ from that of a small one-man proprietorship. So, size of the business is another important factor (statement (d)).</p> <p>A business which has a decentralised structure (statement (e)) would require a differently designed control system from a business which has a centralised structure where, for example, purchasing of raw material would be carried out by a head office instead of by regional offices in a decentralised business.</p> <p>The complexities in a business (statement (b)) have nothing to do with the complexities which would necessarily occur in the design of a particular control system. So, statement (b) is wrong.</p>
<b>9</b>	4	<p>A control system should be flexible, which means that it must be able to adjust to changes that take place. Statement (a) is thus correct.</p> <p>The JIT or just-in-time system is an inventory control system and not a characteristic of a control system. So, statement (b) is wrong.</p> <p>A control system is more effective when it is integrated with planning since it complements planning and provides valuable inputs to planning. Therefore statement (c) is correct.</p> <p>Another characteristic of an effective control system is accuracy, which means that objectivity is important and that errors should not be concealed. Statement (d) is thus correct.</p>
<b>10</b>	3	<p>A control system should provide data regularly and when required, thus timeliness is very important in the design of an effective control system. Therefore, statement (a) is correct. Control systems should be free of unnecessary complexity and should not hamper managers with red tape and other obstacles. Therefore, statement (b) is incorrect.</p> <p>A control system is more effective when it is integrated with planning because it complements planning and provides valuable inputs to planning. Therefore, statement (c) is correct.</p>

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Questions	Solution	Explanation
		<p>Another characteristic of an effective control system is accuracy, which means that objectivity is important and that errors should not be concealed. Statement (d) is therefore also correct.</p> <p>A control system should be flexible, which means that it should be able to adjust to changes that take place. Statement (e) is therefore incorrect because rigidity is the opposite of flexibility.</p>
<b>11</b>	1	<p>Control is intimately linked to planning, organising and leading.</p> <p>Planning is therefore the first step in control, and without control, planning is pointless. With a constantly and rapidly changing environment, it becomes vital for careful control to be exercised to ensure that the business's performance results remain as close as possible to the planned results. If strict control is not exercised, the business could experience serious problems, especially in a rapidly changing environment. Statement (a) is therefore correct.</p> <p>As a business grows, more staff will be employed, for example, and the activities of the organisation will expand into other regions. Over time, the organisation will become an extensive network of activities in all its functional areas, for example in production and financing. Without an effective system of control, it would be very difficult to detect weaknesses in this complicated network. As the business grows in size, so the role of control will become increasingly important. And so statement (b) is correct.</p> <p>Subordinates are human beings, and human beings tend to make mistakes. To prevent mistakes and possible poor decisions, there must be an effective control system in operation. If this is not done, these mistakes could become hazardous to the business. So, statements (c) and (d) are correct.</p> <p>Subordinates are led and not organised, but they may be placed into positions created by the organisational structure. So, statement (e) is wrong.</p>
<b>12</b>	3	<p>This question focuses on the different key points which need to be controlled within an organisation; these include physical, human, information and financial resources. By concentrating on these strategic points the organisation's main activities are exposed to control.</p> <p>Physical resources (option 1) is considered to be a key area as it includes inventory control, quality control and control of equipment.</p> <p>Not only do the financial resources of an organisation need to be controlled (option 2), but most control measures or techniques are quantified in financial terms.</p> <p>Accurate market forecasting, adequate environmental scanning and</p>

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Questions	Solution	Explanation
		<p>economic forecasting are made possible through the control of information resources (option 4).</p> <p>Promotional resources, however, is not considered to be a key area of control within an organisation (option 3 is therefore the correct answer).</p>
<b>13</b>	2	<p>In exercising control over the physical resources of the organisation, management uses various control systems or tools.</p> <p>Inventory control is introduced to keep inventory and the costs involved as low as possible without causing shortages that may delay the manufacturing process or other transactions.</p> <p>The three control systems relevant for inventory control are:</p> <ul style="list-style-type: none"> <li>• The concept of economic ordering quantity (EOQ)</li> <li>• Material requirement planning system (MRP)</li> <li>• Just-in-time (JIT) system.</li> </ul> <p>Therefore options (b) and (c) are correct.</p> <p>Total quality management (TQM) is the management approach which emphasises the management of quality and not the control of inventory. Therefore option (a) is incorrect.</p> <p>An operational budget is used as an instrument of control of financial resources and not physical resources, therefore option (d) is incorrect.</p>
<b>14</b>	3	<p>In exercising control over the human resources of the organisation, management makes use of various systems or tools. The main instrument used to control an organisation's human resources is performance measures. This entails evaluating employees and managers in the performance of the organisation. Therefore option (b) is correct.</p> <p>Other human resources control instruments include specific ratio analyses that can be applied in respect of labour turnover, absenteeism and the composition of the labour force. Therefore options (d) and (e) are also correct.</p>
<b>15</b>	1	<p>In exercising control over the financial resources of the organisation, management makes use of two key tools/systems: a number of ratio analyses and a budget.</p> <p>Options (b), (d) and (e) are all incorrect because they are systems that are used in the control of quality and productivity within the organisation. They fall under the broader category of control over physical resources.</p>
<b>16</b>	2	<p>The main instrument that is used to control an organisation's human resources is performance management, whereby the performance of individuals or groups of individuals is assessed and compared to predetermined standards.</p> <p>Note the use of lettering in the question, emphasis should be given to the</p>

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Questions	Solution	Explanation
		<p>word ‘main’.</p> <p>All the other options are instruments that are used for controlling the organisation’s human resources; however, the question asked you to identify the <b>main</b> instrument. Performance management is therefore the correct answer. If you answered this question incorrectly, it is probably because you read the question incorrectly or too hastily.</p>
<b>17</b>	3	<p>Sophie would like to have effective inventory control at her manufacturing company. Sophie is looking for the best systems or tools to exercise such control over the physical resources of her company.</p> <p>Inventory control is introduced to keep inventory and the costs involved as low as possible without causing shortages that may delay the manufacturing process or other transactions. There are three control systems relevant for inventory control. These are:</p> <ul style="list-style-type: none"> <li>• The concept of economic ordering quantity (EOQ)</li> <li>• Material requirement planning system (MRP)</li> <li>• Just-in-time (JIT) system.</li> </ul> <p>Therefore options (a) and (d) are correct.</p>
<b>18</b>	4	<p>This question deals with the control process and is quite straightforward. It is important that you understand the steps in the control process and also the order of the steps; hence the format of this question.</p> <p>It is imperative that you understand that the control process always begins with the setting of performance standards. In this regard, the control function is intricately linked with the planning function.</p> <p>In the figure provided in the question, (a) represents the first step in the control process (establishing standards), while (b) represents the third step (determining the performance gap).</p>
<b>19</b>	1	<p>Like question 18, this question also deals with the control process. Please read the comprehensive model answer given for question 18.</p> <p>As mentioned in the description above, in the figure provided in the question, (b) represents the third step (namely determining the performance gap), while (a) represents the first step in the control process (namely establishing standards).</p>
<b>20</b>	1	<p>Thabo needs to make use of the four steps of the control process. The steps arranged in the correct order are presented as follows:</p> <ul style="list-style-type: none"> <li>• Thabo revises some of the company’s strategies in an attempt to accomplish the standards that were not met (Step 1 – statement (b)).</li> <li>• Thabo measures the actual performance (step 2) of the company to indicate whether there are disparities between performance standards and actual performance of the company (statement (d)).</li> <li>• When Thabo is concerned to see that current sales are 10% lower than the previous year, he decides to investigate why (step 3 – statement (c)).</li> </ul>

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Questions	Solution	Explanation
		<ul style="list-style-type: none"> <li>Thabo then decides to take corrective action (step 4) to monitor the company's strategies and goals (statement (a)).</li> </ul>

**Chapter 10**

Questions	Solution	Explanation
<b>1</b>	5	The first step is the selection of the process type while the second and third steps are selection of the basic layout type and detailed design of the layout.
<b>2</b>	4	The network layout (option (b)), is the only option which is not a basic layout type.
<b>3</b>	3	The quality characteristics of the product and service are defined first, while the second step entails the measuring of these quality characteristics. Thirdly, standards are set for each quality characteristic, and this is then followed by the control of quality against the set standards. Step five entails identifying and rectifying the causes of poor quality.
<b>4</b>	1	Historical standards, target performance standards, competitors' performance standards and absolute performance standards are used to measure operational improvement.
<b>5</b>	4	All the failures mentioned in the question are typical failures occurring in operational processes.
<b>6</b>	2	<p>Project systems (option 1) represent operations processes which are highly individual, unique and normally performed on a large scale. Examples are construction projects such as for the 2010 FIFA World Cup. Therefore option 1 is incorrect.</p> <p>Jobbing systems (option 2) normally represent operations processes conducted on a small scale with a low volume output. The nature of the work is the same throughout, but the specific requirements differ from one task to the next. An example is the process whereby a goldsmith manufactures jewellery (each piece of jewellery is usually unique and takes the unique design preferences of the client into consideration). Therefore option 2 is correct.</p> <p>In a job-lot system (option 3), a limited range of products is manufactured by the business and production occurs in lots of batches. Examples are the manufacture of domestic appliances such as toasters and fridges. Therefore option 3 is incorrect.</p> <p>Continuous or repetitive systems (option 4) represent operations systems in which the output volume is high. These processes provide the same product on a continuous basis without a break other than an occasional need for maintenance or plant upgrading, for example a wheat mill (Sasko). Therefore option 4 is incorrect.</p>
<b>7</b>	4	'Mass processes' is a well-known term for the production of products in high volumes but with relatively low variety. While there may be some

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Questions	Solution	Explanation
		variants to the product itself, the basic operational process stays the same.
<b>8</b>	4	A jobbing process normally represents operational processes conducted on a small scale with a low volume output. An important feature of this process is that there is wide variety, but small volumes of products. Therefore option 4 is correct as two wedding invitations to two different people are usually not the same in all respects.
<b>9</b>	1	Continuous processes are a step beyond mass production as the volumes are even greater, but there is very little variety in the type of product. At a poultry farm the products are chickens, which do not vary at all.
<b>10</b>	2	The World Cup is a once off event in South Africa. It is a very unique and individual process, but occurs on a large scale; therefore it is a project process.
<b>11</b>	4	Inputs used in the transformation process comprise both the resources that are to be processed, changed or converted and the resources required to make the transformation possible. A wide variety of material can be used as inputs in the transformation process. A motor manufacturer will use mainly processed material such as steel, glass and plastic. Therefore option 4 is correct.
<b>12</b>	3	<p>In a job-lot system (option 1), a limited range of products is manufactured by the business and production occurs in lots of batches. Examples are the manufacture of domestic appliances such as toasters and fridges. Therefore option 1 is incorrect.</p> <p>Continuous or repetitive systems (option 2) represent operations systems in which the output volume is high. These processes provide the same product on a continuous basis without a break other than an occasional need for maintenance or plant upgrading, for example a wheat mill (Sasko). Therefore option 2 is incorrect.</p> <p>Jobbing systems (option 3) normally represent operations processes conducted on a small scale with a low volume output. The nature of the work is the same throughout, but the specific requirements differ from one task to the next. An example is the process whereby a goldsmith manufactures jewellery (each piece of jewellery is usually unique and takes the unique design preferences of the client into consideration). Therefore option 3 is correct.</p> <p>Project systems (option 4) represent operations processes which are highly individual, unique and normally performed on a large scale. Examples are construction projects such as for the 2010 FIFA World Cup. Therefore option 4 is incorrect.</p>
<b>13</b>	1	<p>Doing things right the first time means that the operations function should not make mistakes. By providing error-free products and services ready and suitable for use by clients, the business will have a quality advantage which means producing a high-quality product and providing a high-quality service. Statement (a) is therefore linked to statement (i).</p> <p>When the operations management function operates cost-effectively, it</p>



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Questions	Solution	Explanation
		<p>gives the business a cost advantage. By operating effectively, the operations function will be producing products at the lowest possible cost. Statement (b) is therefore linked to statement (ii).</p> <p>By doing things fast, the period of time that lapses between the demand for a product or service and the delivery thereof is as short as possible, which in turn provides a short lead time. The short lead time gives the business a speed advantage. Statement c is therefore linked to statement (iii).</p> <p>The operations management function should be able to adapt or change activities if unforeseen circumstances make it necessary to do so. This adaptability gives the business an adaptability advantage. Statement (d) is therefore linked to statement (iv).</p> <p>Error-free products and services that satisfy set specifications should always be provided to clients. This gives the business a high reliability or low variability advantage. Statement (e) is therefore linked to statement (v).</p>
<b>14</b>	4	<p>Inputs used in the transformation process comprise both the resources which are processed or changed <b>and</b> the aids/resources required to make the transformation possible. The first three items in the question, namely materials (a), clients (b), and information (c) are resources.</p> <p>The last two items, namely personnel (d) and technology (e) are aids in the transformation process. All five items therefore constitute inputs.</p>
<b>15</b>	3	<p>The operations manager is responsible for performing three activities. The first is the design of the product or service (statement (a)), which is considered a 'passive' activity. The design of a product or service means far more than merely determining the physical appearance of the product or the nature of the service. It also includes the design of the component processes used in manufacturing the product or providing the service. Statement (a) is therefore correct.</p> <p>The planning and control of the operations process (statement (b)) focus on all the activities required to put the operations process into action efficiently and on a continuous basis in order to meet the clients' expectations and requirements. This activity is known as an 'activating' activity, and takes place within the limits imposed by the design of the operations process. Statement (b) is therefore correct. The third activity for which the operations manager is responsible is to improve the operations process (statement (d)).</p> <p>To determine whether the operations process needs to be improved, the operations manager may compare the level of current performance with four other standards, namely historical standards, target performance standards, competitors' performance standards, and absolute performance standards. The operations manager would seek to improve the operations process if he or she found significant deviations between these standards and current performance. Statement (d) is therefore correct.</p>

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Questions	Solution	Explanation
		It would be the responsibility of the financial manager to determine the profit accruing to the operations process. Statement (c) is thus wrong.
<b>16</b>	3	<p>Deloitte and Touche's management services (a) and Doctor John Doe (e) provide a professional service (ii) as they have formal qualifications and it is a high client-contact basis service.</p> <p>ABSA banking services (b) and the Sheraton Hotel (c) in Pretoria qualify as a service shop (i).</p> <p>South African Airways (d) provides a largely standardised service to thousands of customers every day – therefore it is a mass service (iii).</p>
<b>17</b>	4	<p>Professional services represent operational processes provided on a high client-contact basis, where the client is present during the service delivery process. The nature of this service takes the specific needs of people into consideration. It is more people orientated than equipment orientated. People providing professional services usually have a formal qualification.</p> <p>According to this definition options (c) and (e) are wrong, as the accountant does not focus on individual needs and the sangoma does not have any formal qualifications.</p>
<b>18</b>	3	<p>Outputs are the result of the transformation process and assume the form of products or services. At a bank the 'product' of the service is the statements that customers receive, therefore option 3 is correct.</p> <p>Options 1 and 4 are merely activities in the transformation process and option 2 is part of the human resources of the process.</p>
<b>19</b>	1	A fixed position layout is used for construction sites as the product (the stadium) cannot be shifted during the process. The resources, such as cranes, bricks, people, etc. must be taken to the receiver of the processing. All of the other layout types require the product to be able to move.
<b>20</b>	3	<p>Option 1 is wrong, as a level capacity plan is a plan in which the capacity levels are kept constant and demand fluctuations ignored.</p> <p>Option 2 is wrong, as a chase-demand plan is a plan in which the capacity levels are adjusted according to fluctuations in demand.</p> <p>Option 3 is correct, as a demand-management plan is a plan in which demand as such is adjusted to tie in with available capacity. Hotels use this capacity plan, as the demand is different in different seasons and periods of the year.</p> <p>Option 4 is wrong, as it is not an example of a capacity plan.</p>

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**Chapter 11**

Questions	Solution	Explanation
<b>1</b>	3	<p>The steps in the HR planning process are as follows:</p> <ol style="list-style-type: none"> <li>1 Job analysis</li> <li>2 Job description</li> <li>3 Job specification</li> <li>4 HR forecasting and planning.</li> </ol> <p>Option 3 is correct as the first phase is to determine the nature of the work being done. During the job analysis one must describe and record information about job behaviours and activities. The other options are incorrect statements.</p>
<b>2</b>	1	<p>The crux of the equity theory is that employees compare their efforts and rewards with other employees in similar situations. This motivational theory is based on the assumption that people are motivated by the desire to be treated equitably in the marketplace. The other options contain incorrect statements.</p>
<b>3</b>	3	<p>The crux of Maslow's hierarchy of needs is that needs are arranged in a hierarchy of five levels, and a person will attempt to satisfy the lower level needs first before progressing to the next level of needs.</p>
<b>4</b>	4	<p>Statement 1 is a correct statement, but is not the correct answer because the question requires a wrong statement. Statement 1 correctly states that the selection process can vary from a short interview to an intensive assessment process.</p> <p>In contrast, the selection process used for senior management posts would be more involved and may be divided into three phases, namely preliminary screening, intensive assessment and final selection. A lower management post would not be a senior one and would not be divided into the more involved three phases, as mentioned. So statement 4 is a wrong statement, but the correct answer to the question.</p> <p>Statement 2 refers to intensive assessment, which is the second phase mentioned above in the selection process for senior management posts. Intensive assessment involves two steps, namely psychological testing and diagnostic interviewing. So statement 2 is a correct statement but the wrong answer.</p> <p>Although psychological testing can provide valuable information on an applicant, such testing can never predict accurately which applicant will be successful or unsuccessful. Such test results provide only a general indication that may be considered along with other factors. Statement 3 is also correct but is the wrong answer to the question.</p>
<b>5</b>	3	<p>A manager who regards any training as valuable is following the shotgun approach to training (statement 3). By sending employees on various training courses, the manager hopes that some of the training will contribute to the development of the employee. Training, however, should be done with a specific purpose in mind and it is therefore important that managers conduct a training needs analysis. By means of the training needs analysis, managers are able to determine which employees need</p>

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Questions	Solution	Explanation
		training and what type of training will benefit both the employee and the organisation.
6	3	In a job specification the personal qualifications an employee must possess in order to perform the duties and responsibilities are described.
7	2	In this type of training an employee does not receive a formal qualification. The most common form of this type of training is a course offered inside the company. Induction courses also fall under this type of training.
8	1	Content approaches determine those things that actually motivate people to do their jobs, or the 'what' of motivation. Process theories try to explain the 'how' of motivation.
9	3	With informal training an employee does not receive a formal qualification. The most common form of this type of training is a course offered inside the company. Induction courses, a senior person mentoring a newcomer and job rotation also fall under this type of training. Therefore Option (d) is the only incorrect answer as a person from outside of the organisation is doing the training.
10	4	In the preliminary selection, the HR manager should learn the following about the applicant: <ul style="list-style-type: none"> <li>• Does the applicant comply with the minimum requirements as given in the job specification?</li> <li>• What type of jobs did the applicant hold in the past?</li> <li>• How quickly did he or she progress?</li> <li>• How often has he or she changed jobs?</li> </ul> Therefore all the statements are correct as they are all questions which the HR manager should ask applicants during the preliminary screening phase of the selection process.
11	4	Performance appraisals are done to provide a basis for financial rewards, to determine whether employees should be promoted and to provide employees with feedback on their performance. It indicates whether employees comply with the requirements of the job, and whether or not they have performed well.
12	2	The kind of position being filled determines the recruitment technique that is used. This company would want as large a pool of applicants as possible for a position such as an engineer. Referrals (option 1) would therefore not be sufficient. The scenario sketched indicates that there are not enough qualified persons; therefore recruiting from inside the organisation (option 3) will not be adequate. Although a university may provide a large pool of soon-to-be-qualified engineers (option 4), this would not be the correct choice, given the urgency of the matter. In the circumstances, advertising in <i>The Sunday Times</i> (option 2) would therefore be the best option.
13	3	Job analysis and job description identifies the work being done in the business at present. Job specification entails identifying the type of employees needed to do the work. Human Resource Forecasting is about identifying the number of employees who will be needed in the future.
14	2	Indirect compensation includes benefits that an employee receives for his or her membership to an organisation. Examples are leave benefits,

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Questions	Solution	Explanation
		insurance benefits, housing benefits, car benefits, pension plans and medical aid.
<b>15</b>	4	Option (a) concerns the job analysis and description (step 1). Option (b) is about job specification (step 2), and option (c) concerns human resource planning.
<b>16</b>	2	<p>Performance criteria should meet certain requirements, such as being specific, measurable, accountable, realistic and timely. In addition, they should also be accepted by managers and employees as performance criteria and should allow management to distinguish between good and poor performers.</p> <p>With regard to friendliness as a performance criterion for a receptionist's job, it is relevant (1), it is acceptable as a performance criterion (3) and it will allow management to distinguish between good and poor performers (4). It is not, however, possible to measure friendliness and it is therefore a very subjective measurement for evaluating a receptionist's performance.</p> <p>The receptionist can thus object to the use of 'friendliness' as a performance criterion because it is not measurable (2).</p>
<b>17</b>	2	<p>Internal motivation results from the satisfaction that occurs when a task is executed or a duty is performed. Peter enjoys his job and does not want to do anything else even though his salary is low. This is internal motivation. External motivation occurs when a person anticipates that a reward of some kind will be given for certain performance. David hates working on the mines but does it because the salary he receives for it is more than he would receive for any other job he can do with his current level of education. This is external motivation.</p>
<b>18</b>	3	<p>Productivity may be defined as the ratio between goods and services produced (output) and resources (input) used to produce the relevant outputs. Productivity improvement from one period to the next is represented by an increase in the output/input ratio in the second period as against the first. There are five basic ways in which productivity improvement may be achieved. These include the three ways reflected in the question. These are:</p> <ul style="list-style-type: none"> <li>• Increased output being achieved with fewer inputs (statement (a))</li> <li>• Increased output being achieved with the same inputs (statement (b))</li> <li>• A larger output being produced from more input, but the marginal increase in output being larger than the marginal increase in inputs (statement (d)).</li> </ul> <p>Statement (c) is wrong because no improvement would result if a certain input produced the same, unchanged output.</p>
<b>19</b>	2	John was not satisfied with the situation regarding Thabo. He felt that he was not being treated as he should be. Dissatisfied workers can be very bad for the company, due to low production and negative word of mouth.
<b>20</b>	2	<p>The four assumptions of Vroom's expectancy theory are:</p> <ol style="list-style-type: none"> <li>1. Behaviour is a combination of forces controlled by the individual</li> </ol>

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Questions	Solution	Explanation
		<p>and the environment</p> <p>2. People make decisions about their own behaviour in organisations</p> <p>3. Different people have different goals, needs and desires</p> <p>The tendency to act in a certain way depends on the strength of the expectation that the action will be followed by a given outcome</p>

**Chapter 12**

Questions	Solution	Explanation
1	3	<p>Consumers' perception determines what they pay attention to and what excites their interest. Consumers hear only those things that they want to hear and see only what captures their interest. It is clear that the advertisement for traditional Indian bridal wear captured Nirvashni's interest, but the advertisement on burial services did not. She therefore excitedly told her mom only about the first advertisement. Nirvashni subconsciously chose to pay attention to the first advertisement concerning the bridal wear and not to the advertisement following it. Nirvashni has therefore shown that <i>perception</i> plays an important role in customer behaviour.</p>
2	1	<p>New product development is planned and executed step by step, and the new product idea goes through various phases until the product is eventually introduced into the market. The phases of new product development are as follows:</p> <p>Phase 1: Development of product ideas</p> <p>Phase 2: Screening of product ideas according to financial criteria</p> <p>Phase 3: Elimination of product ideas that do not appear to be viable</p> <p>Phase 4: Physical product development by the production division during which a prototype is manufactured</p> <p>Phase 5: Development of marketing strategy</p> <p>Phase 6: Test marketing in a specific small segment of the market</p> <p>Phase 7: Introduction into the market</p> <p>The marketing team of Toyota South Africa have already gone through the first three phases, as their idea for the new vehicle has been developed and screened, and their unprofitable product ideas have been eliminated. The next step in the new product development process would therefore be to develop a prototype of the new electric two-seater vehicle (phase 4). Therefore option 1 is correct.</p>
3	1	<p>The public relations department is responsible for preparing carefully formulated news releases on a regular basis to the news media. The decision to give coverage to these releases depends on whether the editor of the newspaper considers them newsworthy. This means that the decision about whether or not to publish a news release lies entirely with the editor of the newspaper. So option 1 is the correct answer.</p> <p>The other three options in the question are wrong.</p>
4	1	<p>Option 1 is wrong because re-usable packaging relates to the concept of</p>

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Questions	Solution	Explanation
		<p>different kinds of packaging, and does not relate to the choice of packaging design. In the choice of packaging design, marketing management has to decide on the kind of packaging material, the shape and the size of the packaging, which also includes the graphic design on the label. So, the relevant factors in the choice of packaging design are the following:</p> <ul style="list-style-type: none"> <li>• Packaging materials (option 2) best suited to the product are chosen by marketing management. These would include such materials as glass bottles, cans, and cardboard boxes, depending on the product to be packaged.</li> <li>• The shape of the package (option 3) may have symbolic value. For example, square packaging is supposed to influence males whereas a softly flowing shape would influence females.</li> <li>• Another important factor in packaging design is the size of the package (option 4). The size of the package would be influenced by the sizes used by competitors. Furthermore, unusual sizes would draw the consumer's attention.</li> <li>• The label (option 5) is an important factor because it carries the brand name and differentiates the product from other products. The colours on the label and its graphic design help to create a product image which would attract the consumer's attention.</li> </ul>
5	1	Sampling is a sales promotion method. Sales promotion is often used to introduce a new product to the market.
6	2	Rebecca has used geographic (women who live in the Western Cape), demographic (unmarried women between 18 and 25 years of age, income of more than R130 000) and psychographic (liberal) criteria to segment the market. Behavioural segmentation criteria were not used at all.
7	3	Rebecca uses skimming pricing because it is a new range of clothing with prestige value which is sold at a high price. She does not use penetration and bait prices, as these two methods involve setting low prices. Leader pricing is not used either, since this involves special offers, or 'specials', which Rebecca has not used.
8	2	Rebecca uses exclusive market coverage because she purposely limits the outlets that distribute her new range of clothing. She has chosen to use only Boutique 4U and Boutique Michelle in the Western Cape to distribute her clothing.
9	3	Q Jewellery sells jewellery, which is a shopping product. In the case of a shopping product, consumers can compare suitability, quality, price and style before buying. Q Jewellery makes use of unique blue and silver packaging which gives an image of the product's exclusivity. This is fairly unique and is called speciality packaging. Market penetration prices are used, whereby the initial prices of the products are quite low and the marketer hopes to penetrate the market rapidly, discouraging competitors in the process.
10	2	Perception determines what consumers pay attention to and what excites their interest. Subconsciously consumers choose whether to pay attention

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Questions	Solution	Explanation
		to marketing communication, such as television advertisements, or not. A very important aspect about perceptions is that consumer perceptions might cause them to attach certain interpretations to a message; in the given scenario Joey attached a view of masculinity for a product.
<b>11</b>	2	The marketing concept is the pillar for not only the marketing department of an organisation, but also other functional management areas. The marketing concept concerns, consumers, the internal processes of the organisation, creation of a profit and social responsibility. Social responsibility refers to the behaviour of an organisation towards its internal and external stakeholders. It is about 'giving back' to communities on which business is done and ensuring fair and ethical business practice. Pick n Pay sponsoring sporting events like the Cape Argus Cycle Tour and the Comrades marathon is one of the ways in which Pick n Pay acts socially responsible.
<b>12</b>	3	Group factors and individual factors influence the consumer decision making process. Individual factors include aspects such as attitude, perception, learning abilities and personality. Group factors include the family, reference groups, opinion leaders and culture groups. An opinion leader is someone who is deemed as a professional in a particular consumer area of concern and is seen as a go-between, among the consumers on the one end and the organisation on the other. Beyoncé is seen as someone with impeccable style and fashion sense. When she gives her stamp of approval to the perfume, her admirers will consider it when looking for a new fragrance.
<b>13</b>	3	Decisions by marketing management involve four variables known as marketing instruments. These four variables combine to form the market offering which consumers purchase to satisfy their needs. These variables are also known as the 4 P's of the marketing mix. The 4 P's are product, place, promotion and price. Decisions about the use of the 4 P's result in the marketing strategy, which is directed at specific consumers in a specific environment. The 4 P's may be identified in the question as the product itself (statement (b)), the distribution of the product or place (statement (c)), the marketing communication methods to be used, or promotion (statement (d)) and the value of the product to the consumer, or price (statement (e)). Raw materials (statement (a)) have no connection with marketing (more likely with production or purchasing), therefore statement (a) is wrong.
<b>14</b>	5	Having reduced the total market into smaller homogeneous segments, the marketer must identify a segment which appears promising as a target market. In addition, the objectives and resources of the business must be considered carefully before a target market can be selected (statement (a)). Furthermore, the abilities and expertise of the business must be linked with the characteristics of consumers in different market segments. A market offering is thus developed for each target market chosen in this manner (statement (b)). It therefore appears that the selection of a target market can reach many individual target markets (statement (c)). Even though marketing management have selected and claimed certain target markets for themselves, it does not mean that the business owns these markets, because of the presence of competitors (statement (d)). If a business does



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Questions	Solution	Explanation
		not give its clients due attention, competitors may lure them away, and so there is never any question of owning any target market.
<b>15</b>	2	Consumer orientation means, among other things, that the consumer must be supplied with adequate and correct information about the business's market offering. Without this information, the consumer may not make the purchase. So statement (a) is correct. The business attempts to satisfy as many of the consumers' needs as possible in its marketing effort, but there is a limit beyond which the business cannot go because of costs and its incapability to manufacture certain products. Consumer satisfaction can therefore be given only within the constraints of the profit objective and the resources of the business. Statement (c) is therefore correct. As stated above, the business cannot satisfy all of the consumers' needs, therefore statement (b) is wrong. A business will make every attempt to satisfy its consumers' needs as far as possible and it is even obliged to contribute to the welfare of the community in which the consumers live — although this is not part of consumer orientation. Therefore statement (d) is also wrong.
<b>16</b>	4	<p>Concept (a) is linked with (iv). Demographic segmentation uses easily obtainable information such as age, gender, family size, income occupation and education.</p> <p>Concept (b) is linked with (i). Geographic segmentation relates to a place of residence, such as region, city or town and climate.</p> <p>Concept © is linked with (ii). Psychographic segmentation includes variables such as lifestyle factors, personality factors and social class.</p> <p>Concept (d) is linked with (iii). Behaviouristic segmentation refers to aspects such as product usage, brand loyalty, price sensitivity and product benefits.</p>
<b>17</b>	4	The first five steps in conducting a survey are a description of the problem to be investigated, formulation of probable explanations for and causes of the defined problem, investigating the hypotheses, compiling the questionnaire and testing the questionnaire.
<b>18</b>	2	<p>One of the sets of criteria used in establishing a market segment is the behavioural criteria which, in turn, consist of their own individual criteria. The first of these is product usage (statement (a)) which is linked to the demand for a certain product by consumers. Usage therefore depends on whether consumers purchase big or small amounts of the product. When consumers consistently purchase a product having a particular brand, they are exhibiting brand loyalty (statement (b)). When a business has brand-loyal consumers, that business can depend on regular sales to its consumers.</p> <p>Reverse price sensitivity (statement (d)) means that consumers react negatively when a price is perceived to be too low: they conclude that the product is cheap and lacks quality, and consequently refrain from purchasing it.</p> <p>When consumers doubt that they have made a wise purchase, they perform</p>

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Questions	Solution	Explanation
		or undergo a post-purchase evaluation of the wisdom of their purchase. This is not the same as reverse price sensitivity. Make sure that you understand the difference between the two concepts. Statement (c) is therefore wrong.
<b>19</b>	3	The only marketing communication methods that Beauty Care do not make use of are advertising and direct marketing. Beauty Care do not advertise their products in any of the media such as newspapers, television and magazines, and they also do not make use of direct marketing methods such as catalogues, mail orders and telesales.
<b>20</b>	2	<p>The consumers a business serves are usually members of the community in which the business operates. Marketing management therefore have a responsibility to take care of the community (statement (a)) in which the marketing task is performed.</p> <p>One way in which businesses fulfill their social responsibility is by spending money on projects aimed at creating a stable economic, social and political environment in which future profits can be optimised. It is the responsibility of marketing management (not public relations) to initiate sponsorship projects, because of management's close relationship with the public and its ability to evaluate projects in terms of marketing benefits (hence statements (b) and (c) are incorrect). Marketing management, however, require the help of public relations for a sponsored event.</p> <p>Marketers who abide by the principles of the marketing concept are proud of their product and their methods of marketing, and would not purposely exploit their consumers for higher profits. Statement (d) is therefore also incorrect.</p> <p>Profitability is the primary objective of both the business and marketing management. A business is thus entitled to this profit to offset the risks involved in developing products for the market. Statement (e) is correct.</p>

**Chapter 13**

Questions	Solution	Explanation
<b>1</b>	2	Shareholders interest consists of owners' equity (made up of ordinary share capital reserves, and undistributed profits) and in some instances, preference share capital.
<b>2</b>	2	The cost of goods sold involve costs such as direct material costs, direct labour costs and indirect manufacturing costs. These costs should be subtracted from the net sales in order to determine the gross profit.
<b>3</b>	3	The speculative motive implies that the business must be able to capitalise on good opportunities such as unexpected bargains and bulk purchases.
<b>4</b>	1	The profit objective involves keeping the lowest possible supply of stock and keeping the stock turnover as high as possible. Options (c) and (d), namely keeping as much stock as possible to ensure that the

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Questions	Solution	Explanation												
		business is never without stock, and ensuring that production interruptions never occur refer to the operating objective.												
5	2	Liquidity provides an indication of the ability of a business to meet its short-term obligations as they become due, without curtailing or ceasing its normal activities.												
6	2	<p>Net working capital is the difference between current assets and current liabilities of a company.</p> <p>Calculation:</p> <p>NWC = Current assets – Current liabilities</p> <p><u>Total current assets</u>                      R15 000 + R250 000 + R420 000 = R685 000</p> <p><u>Total current liabilities</u>                      120 000 + 280 000 = R400 000</p> <p>NWC = R685 000 – R420 000 = R285 000</p>												
7	3	<p>The current ratio reflects the relationship between current assets and current liabilities.</p> <p>Calculation:</p> <p>Current ratio = Current assets/Current liabilities</p> <p style="text-align: center;">R685 000/R400 000 = 1, 71:1</p>												
8	4	<p>Quick ratio = Current assets – Inventory/Current liabilities</p> <p style="text-align: center;">R685 000 – R420 000/R400 000 = 0,7:1</p>												
9	3	Variable cost is the proportion of total cost that changes according to the volume that Teba Ltd produce. If Teba produce more or less soccer balls, the material cost will change. Therefore material is a variable cost.												
10	4	<p>The profit/loss of Teba Ltd can be calculated as follows:</p> <p>Calculation:</p> <p style="text-align: center;">Profit/loss = (Selling price x number of units) – cost                      = (17 x 2 500) – 37 500                      = R5 000</p>												
11	4	Total fixed cost is constant, irrespective of the volume produced. Total cost of a business comprises a fixed and a variable cost component.												
12	2	This is indicated on the graph, where (a) crosses the y-axis (cost) at R300.												
13	1	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Year</th> <th style="text-align: left;">Cash flow</th> <th style="text-align: left;">PVF (10%)</th> <th style="text-align: left;">Present value</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>R3 000</td> <td>0,9091</td> <td>R2 727,30</td> </tr> <tr> <td>2</td> <td>R2 000</td> <td>0,8264</td> <td>R1 652,80</td> </tr> </tbody> </table>	Year	Cash flow	PVF (10%)	Present value	1	R3 000	0,9091	R2 727,30	2	R2 000	0,8264	R1 652,80
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<b>14</b>	2	<p>(a) Number of units sold</p> <p>Total fixed cost/fixed cost per unit</p> <p><math>R600/R3 = 200</math> units</p> <p>(b) Total profit</p> <p><math>P = \text{Income} - \text{Cost}</math>  <math>P = (N \times SP) - [N \times V] + F</math></p> <p><math>(R20 \times 200 \text{ units}) - (R1\ 000 + R600) = R2\ 400</math></p> <p>(c) Number of units to break even</p> <p><math display="block">N = \frac{F}{SP - V}</math></p> <p><math display="block">\frac{R600}{R20 - R5^*} = 40 \text{ units}</math></p> <p>(d) Marginal income per units</p> <p><math>SP - V</math>  <math>R20 - R5 = R15</math></p>																		
<b>15</b>	1	<p>There is more than one way to calculate the answer to this question. In this calculation, we shall begin by determining the periods involved.</p> <p>1 January 2006 to 31 December 2008 = 3 years              1 January 2008 to 31 December 2008 = 1 year              1 January 2009 to 31 December 2010 = 2 years</p> <p>In the question we are dealing virtually with three separate investments over three separate periods. From the table for compounding factors in the text book, we use the appropriate factors, that is factors for three years and one year at 10%, and then for two years at 15%.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%;">Period</th> <th style="width: 20%;">Amount</th> <th style="width: 10%;">x</th> <th style="width: 15%;">Factors</th> <th style="width: 10%;">=</th> <th style="width: 30%;">Future value</th> </tr> </thead> <tbody> <tr> <td>3 years</td> <td>R3 000</td> <td>x</td> <td>1,3310</td> <td>=</td> <td>R3 993,00</td> </tr> <tr> <td>1 year</td> <td>R1 000</td> <td>x</td> <td>1,1000</td> <td>=</td> <td><u>R1 100,00</u></td> </tr> </tbody> </table>	Period	Amount	x	Factors	=	Future value	3 years	R3 000	x	1,3310	=	R3 993,00	1 year	R1 000	x	1,1000	=	<u>R1 100,00</u>
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<b>16</b>	2	<p>To get the after-tax cost of debt, one has to remove the effect of tax by using the following formula:</p> <p>Calculation:  <math>k_d = 12 (1 - 0,35)</math>  <math>= 7,80\%</math></p>								
<b>17</b>	1	<p>Combine the cost of each capital structure with the weight of these forms to calculate the WACC.</p> <p>Calculation:  <math>WACC = 17 (0,3) + 7,8 (0,7)</math>  <math>= 5,1 + 5,46</math>  <math>= 10,56\%</math></p>								

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<b>18</b>	4	<table border="1" style="margin: auto; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="3">Project X</th> <th colspan="3">Project Y</th> </tr> <tr> <th>Year</th> <th>Cash flow</th> <th>PVIF</th> <th>PV</th> <th>Cash flow</th> <th>PVIF</th> <th>PV</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(100 000)</td> <td>1</td> <td>(100 000)</td> <td>(R180 000)</td> <td>1</td> <td>(180 000)</td> </tr> <tr> <td>1</td> <td>20 000</td> <td>0.9091</td> <td>18 182</td> <td>R90 000</td> <td>0.9091</td> <td>81 819</td> </tr> <tr> <td>2</td> <td>30 000</td> <td>0.8264</td> <td>24 792</td> <td>R150 000</td> <td>0.8264</td> <td>123 960</td> </tr> <tr> <td>3</td> <td>50 000</td> <td>0.7513</td> <td>37 565</td> <td>R60 000</td> <td>0.7513</td> <td>45 078</td> </tr> <tr> <td>4</td> <td>10 000</td> <td>0.6830</td> <td>6 830</td> <td>R30 000</td> <td>0.6830</td> <td>20 490</td> </tr> <tr> <td>NPV</td> <td></td> <td></td> <td>-R12 631</td> <td></td> <td></td> <td>91 347</td> </tr> </tbody> </table>		Project X			Project Y			Year	Cash flow	PVIF	PV	Cash flow	PVIF	PV	0	(100 000)	1	(100 000)	(R180 000)	1	(180 000)	1	20 000	0.9091	18 182	R90 000	0.9091	81 819	2	30 000	0.8264	24 792	R150 000	0.8264	123 960	3	50 000	0.7513	37 565	R60 000	0.7513	45 078	4	10 000	0.6830	6 830	R30 000	0.6830	20 490	NPV			-R12 631			91 347
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<b>19</b>	3	Accept project Y and reject project X.																																																								
<b>20</b>	4	<p>Step 1: Calculate the after-tax cost of debt.</p> <p style="text-align: center;">After-tax cost of debt = <math>K_d (1-t)</math>  <math>= 10(1-0.3)</math>  <math>= 7\%</math></p> <p>Step 2: Calculate the proportions of each individual cost of capital.</p> <p style="text-align: center;">Owners' equity = <math>\frac{R400\,000}{R800\,000} = 0.5</math></p> <p style="text-align: center;">Preference shares = <math>\frac{R100\,000}{R800\,000} = 0.125</math></p> <p style="text-align: center;">Long-term debt = <math>\frac{R300\,000}{R800\,000} = 0.375</math></p> <p>Step 3: Calculate the weighted cost of each individual cost of capital.</p> <p style="text-align: center;"><math>0.5 \times 0.15 = 0.075</math>  <math>0.125 \times 0.1 = 0.0125</math>  <math>0.375 \times 0.07 = 0.02625</math></p> <p>Step 4: Add the individual weighted cost of capital for each form of capital.</p> <p style="text-align: center;"><math>0.075 + 0.0125 + 0.02625 = 0.1138 = 11.4\%</math></p>																																																								

**Chapter 14**

Questions	Solution	Explanation
<b>1</b>	1	Benchmarking is a tool used by purchasing and supply managers to lay down standards for setting objectives and measuring performance. The other options are also used by purchasing and supply managers, but not specifically for measuring the performance of the function.
<b>2</b>	3	All the listed options are reasons for holding inventory, except option d. Warehouse capacity utilisation has nothing to do with the reasons for

**Solutions to *Multiple-choice questions for Introduction to Business Management***  
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Questions	Solution	Explanation
		holding inventory.
3	2	Choosing suppliers, warehousing of products purchased and determining the quality of materials are all activities of the purchasing function. Comparing prices of the business with those of competitors in the same field are the activities of the financial and marketing function.
4	2	A decentralised purchasing structure is best suited for the scenario given. A centralised purchasing structure is used where standardisation is important and where different business units are much the same, such as Pick n Pay.
5	2	Statements 1, 3 and 4 are wrong. Timing plays an important role here. If a printing company, for example, receives its packaging material for Valentine's Day late, its products will not be ready for Valentine's Day and it will lose sales and money. After Valentine's Day these products will not have the same value and will be obsolete.
6	4	The listed activities are all purchasing and supply management activities, except option b which is a marketing activity. The purchasing and supply function is not responsible for the advertising campaigns which introduce or market the products or services to customers. This is the task of the marketing specialists.
7	4	The fixed order quantity system is based on the principle that each time new inventory is required, a fixed quantity is ordered. The other options are all more flexible and it is never a fixed amount.
8	5	All of the listed options are correct with regards to purchasing planning.
9	2	All of the listed options are disadvantages of too much inventory, except for option (c). The fact that there is more inventory than needed will not result in more urgent orders.
10	1	There are a number of tools available to purchasing and supply management which help facilitate the execution of the management tasks of planning, organising and control, namely: <ul style="list-style-type: none"> <li>• Benchmarks</li> <li>• Purchasing and supply budgets</li> <li>• Purchasing and supply policy.</li> </ul> Therefore option 1 is correct as it lists all the above tools.
11	4	Productivity is not the amount or value of products produced and services rendered in a period, but rather the ratio between products produced and services rendered and the resources used to produce them. Statement 4 is therefore wrong. Productivity is the successful application of the economic principle (statement 1), which in essence states that the output of products and services must exceed the input of scarce resources in the satisfaction of needs. Similarly, the essence of statements 2 and 3 is nothing more than the economic principle expressed in different ways, which in turn define productivity.
12	1	Inventory-carrying costs are all those costs involved in holding the inventory, for example insurance costs and opportunity costs.
13	1	During the order phase the purchasing and supply function will check all documentation, assess the newness of the purchase, contact suppliers, order, receive and inspect materials and acknowledge their receipt.

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Questions	Solution	Explanation
		During the post-order phase the purchasing and supply function has to sort out discrepancies, process and handle documentation, pay suppliers and keep sound relationships with suppliers.
<b>14</b>	4	In the development and description of a need, requisition documents are used, and when issuing the order, specification documents are used. During the payment of the order a proof of receipt is required, and when closing the order, a cheque is needed.
<b>15</b>	3	The steps in the purchasing cycle are: <ul style="list-style-type: none"> <li>• Development and description of need</li> <li>• Choice of suppliers</li> <li>• Research on prices and availability</li> <li>• Issuing the order and concluding a contract</li> <li>• Follow-up and expediting</li> <li>• Receipts, distribution and inspection</li> <li>• Handling errors and discrepancies</li> <li>• Paying for the order</li> <li>• Closing the order.</li> </ul>
<b>16</b>	1	The three phases in the purchasing cycle are the notification phase, the order phase and the post-order phase.
<b>17</b>	5	<p>Option 1 is incorrect. In the system of fixed order quantities attention is focused only on a specific item when the inventory level reaches the ordering point, and the same quantity is ordered every time. Therefore this system will not be suitable for ABC Fashions.</p> <p>Option 2 is incorrect. The materials requirements planning system uses a computer to calculate the total need for materials that may be required by an operations process in a given period. This system only works if suppliers are extremely reliable with their delivery and quality. Therefore this system will not be suitable for ABC Fashions.</p> <p>Option 3 is incorrect. The JIT system works properly only if the supplier is extremely reliable and is integrated into the business's production or operations system. Therefore this system will not be suitable for ABC Fashions.</p> <p>Option 4 is incorrect. The QR system is a vertical strategy in which the manufacturer strives to provide products and services to its retail customers in exact quantities on a continuous basis with minimal lead times, resulting in minimum inventory levels throughout the retail apparel supply chain. Therefore this system will not be suitable for ABC Fashions.</p> <p>Option 5 is correct as the cyclical ordering system is suitable for seasonal materials or materials used on an irregular basis, but where the acquisition of these materials can be planned far in advance on the basis of sales forecasts, for example in a clothing store.</p>
<b>18</b>	1	All four policies affect the scheduling or timing of purchases. Scheduling of purchases at the right time can reduce costs. Therefore it is necessary to



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Questions	Solution	Explanation
		apply these policies in the scheduling of purchases at the right time when purchasing is to be done.
19	5	The materials list, order chart, specification list and requisition are all documents which are used by the other functional departments in the business to inform the purchasing department of their needs. The economic order quantity is a fixed amount of inventory ordered in terms of the fixed order quantities system. Consequently, the fixed order quantity is not a document as such.
20	4	The sub-policies of the purchasing policy include: <ul style="list-style-type: none"> <li>• Policy in respect of ethical purchasing activities</li> <li>• Policy in respect of internal purchasing and supply matters</li> <li>• Supplier policy.</li> </ul>

**Chapter 15**

Questions	Solution	Explanation
1	3	Strategic management is the process whereby top management scans the business environment. In the scanning process the strengths, weaknesses, opportunities and threats (SWOT) as it relates to the business are ascertained. Option (a) is therefore correct. Obviously it guides the company, thereby giving direction and intent, which refers to option (b). The SWOT analysis identifies the most suitable ways to create value for the shareholders (option (c)). Without business intelligence no strategic management process could be successful (option (d)).  Therefore all four options are correct, making option 3 (a, b, c, d) correct.
2	3	The objective at corporate level is to create shareholder value. The goal at operations management level is production efficiency. The responsibility at operations level is with first-line management. The creation of a sustainable competitive advantage occurs at business level.
3	2	All of the statements, except option (e), are correct as stated, e.g. must inspire, must identify, and must be forward looking and forms together with the mission statement the strategic intent of the business. It is however a specific statement which must be short enough to remember and is not generic in nature.
4	2	The main purpose of strategic management is to ensure consistency. The business is always aiming to obtain consistency between resources and capabilities and the strategy (i.e. dynamic consistency). The consistencies of the external and internal environment occur respectively through external and internal consistency. The correct answer is therefore option 2.
5	4	The vision statement is inspiring. It is definitely short and it indicates where it wants to be in future (a, b and c). It is not clearly identifiable with the bank though!
6	1	Competitive Intelligence helps with all environmental scanning as well as the suppositions upon which the forward strategy is based.
7	2	Data mining is an extremely important management information tool.
8	2	It fulfils all the characteristics except for the issue of conciseness, as it is

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<b>Questions</b>	<b>Solution</b>	<b>Explanation</b>
		too long to memorise.
<b>9</b>	3	Corporate level manage three to five years and longer, and the goal is to create shareholder value; business level three to five years, and the goal is to create a sustainable competitive advantage; functional level manage one year at a time, and the goal is the effective implementation of strategy; at operational level the goal is about production efficiency.
<b>10</b>	4	Information on the public domain is available to everyone and cannot be considered a sustainable competitive advantage. Spying is considered unethical, but is still used.