

UNIVERSITY OF BOLTON RAS AL KHAIMAH

BUSINESS AND CREATIVE TECHNOLOGIES

BUSINESS MANAGEMENT PATHWAY

SEMESTER 2 EXAMINATIONS 2010/2011

BUSINESS MANAGEMENT

MODULE NO: ACC2510RAK

Date: 6th June 2011

Time: 1:00pm – 4:00pm

INSTRUCTIONS TO CANDIDATES:

There are **SIX** questions on this paper.

Answer Questions 1 and 2

Then any **THREE** from Questions 3 to 6

Calculators may be used

You can bring one piece of A4 Paper with hand written notes on the previously issued case study, but no text books or class handouts.

Case Study

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There follows information on Pickering Limited a manufacturer of car components.

Location

The business is carried out at three locations.

Burnley
Warrington
Huddersfield

The company started has a family firm in Burnley in 1948. It later acquired larger premises in Warrington. Around 10 years ago it acquired a rival competitor based in Huddersfield. Each site has a production and administrative facilities.

The Burnley site is has no spare capacity and transport networks are poor.

The Warrington site acquired in the 1950 s has good motorway links. However the plant and equipment are in desperate need of improvement.
Like the Burnley premises there is no spare capacity apart from a plot of land adjacent to the site that is currently being leased.

The Huddersfield site most recently acquired is on a large plot with ample room for expansion, although transport links are not as beneficial as the Warrington Site.

Products

Group product sales over the last 12 months are as follows

	£million
Car batteries	50
ABS Braking Systems	90
Lighting Systems	65
Clutches	80
Engine Cooling Systems	45
Suspension Systems	30
Exhaust Systems	<u>40</u>
Total	400

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The business has suffered in line with the recent world wide economic crisis. Sales of Suspension and Exhaust systems have fallen dramatically.

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The reduction in production has been achieved by not replacing leavers and not renewing short term contracts.

Also there has seemed to be a large number of machine breakdowns at the Warrington site during the year which has resulted in a reduction in production.

Because of the general state of the market Pickering Limited have kept their prices down to a minimum over the past year in order to sell products. Management believe that if they increased prices, business would be lost to competitors.

The best selling lines are Braking Systems and Clutches. Management expect that they could sell more of these at the current selling price, but the production lines running at the moment cannot realistically increase output.

Workforce

The company employs 6,520 people over the three sites. This number was just over 8,000 a year ago, but because of the poor economic situation some staff reductions have taken place during the year .However, so far Management has not resorted to making staff redundant. Most production workers are members of the General Municipal Workers and Boilermakers.

A mixture of unskilled and skilled labour is required on each of the production lines. The more modern the technology the less unskilled labour is required.

It is possible to retrain unskilled workers to do skilled workers jobs.

At the present time the most high tech site is Huddersfield which has the most highly skilled workers. Warrington with oldest production line has the least skilled workforce.

Any further capital investment in new machinery at any one of the sites would undoubtedly result in a change in the required mix of workers which would follow the following effects:

- 1 Fewer Unskilled Workers would be required
- 2 More skilled workers would be required

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- 3 If a large capital investment programme is undertaken (replacing more than 50% of the old production facilities) overall staff losses would be required, forcing redundancies.

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It is the opinion of Management that a programme of redundancy could provoke industrial action.

In Burnley redundancies could lead to 70% of staff taking Industrial action.

In Warrington it could lead to 50% and in Huddersfield 30%.

Redundancies at one site are not likely to cause Industrial Action at other sites.

The costs of Industrial Action are estimated at between £500,000 to £2,000,000 depending on the type and duration of the action.

Any new capital expenditure would also result in decommissioning costs of the old machines, but these could be expected to be recouped by the increased productivity achieved from the new machines within about the first six months of production.

The work force has generally received very little training in the last 5 years. This has resulted in an increase in wastage of materials on production lines, currently estimated at 6 % on average. A normal level of wastage in the industry is 3 %.

An instance of a particularly high level of wastage due to inadequate staff training occurred at Burnley this year.

Management estimate that the implementation of a comprehensive training programme at all sites would cost up to £180,000 in the first year and £100,000 per annum thereafter.

Staff morale is generally quite low, and rumours of impending job losses circulate from time to time.

Management Structure

The organisation structure of senior management is shown in the Appendix.

All major decisions are taken by the Board of Directors at Head Office in Burnley and implemented by the Operational Managers.

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There appears to be very little consultation between staff at Head Office and line management at the factories.

Each factory has its own management team, headed by an Operational Manager, but at the present time they have little decision making authority.

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Budgets are set centrally once a year with each production facility expected to achieve the same level of productivity.

The Huddersfield plant appears to be able to achieve productivity but the other two plants have not met their monthly targets for two years.

The attitude of staff who are supposed to be monitoring performance against budget is very poor at these two plants, and they appear to have given up trying to achieve their targets.

Profit and performance related incentives are paid to Directors; all other employees have fixed salaries.

Overtime is paid if necessary to production workers if authorised by their supervisors, but very little overtime has been worked in the last year due to low demand for products.

Some overtime was worked at the Warrington following plant downtime, premium payments amounted to £60,000.

Other Income

In addition to the core business Pickering receives rental income from the land adjacent to the Warrington premises.

Last year they received rent of £200,000. The lease is due to expire in six months time and the estimated value of the land is £2 million.

The operations manager at Warrington is opposed to the idea of selling the land as it would preclude any possibility of further expansion.

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Premises

The factory at Huddersfield had a minor fire 5 years ago but the damage was fully covered by insurance and all repairs were carried out.

Huddersfield is therefore in a good state of repair.

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Due to economic pressure Management decided that all non essential repairs and maintenance should be deferred, therefore Burnley and particularly Warrington are in need of investment.

It is estimated that Burnley needs £400,000 and Warrington £1 million spending on routine repairs within the next six months.

Impending Legal Action

Pickering Limited is currently being sued by a former employee who lost his right arm while operating on a machine on the production line in Warrington for which he was not trained for.

The matter has been reported to the Health and Safety Executive and Pickering Limited have just commenced their own internal investigation.

It has been common practice for workers to operate on machines they have not been trained for so the management are extremely concerned at the fine that may arise if this comes to light.

Management consider that spending money on training is a waste of money in the present economic climate.

There is also a potential Equal Pay Claim for women who have not been receiving a bonus that has historically been paid to men.

Also causing concern is the fact that the female Financial Accountant is currently being paid less than her counterpart the male Management Accountant.

In addition the Chief Executive has just received a letter from the local authorities, Environmental Health Department with regard to the pollution of a local stream. The Chief Executive intends sharing the letter at the next Management Team.

Cash Position

Pickering currently has a positive cash balance of £800,000. They have also arranged finance of up to £10,000,000 if required, but they would pay 5% above the bank base rate in interest (currently .5%).

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If Pickering were to invest in completely modernising the production lines in their factories, the costs including retraining would be in the region of £1,000,000 Huddersfield, £20,000,000 Burnley and £ 30,000,000 Warrington.

The savings that would be expected to accrue would be a reduction in staff costs of 10% and a reduction in material costs of 2%.

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Management Accounts

Total	Burnley	Huddersfield	Warrington	Total
	£ million	£ million	£ million	£ million
<u>Income</u>				
Sales	90	240	70	400
Other	2	3	1	6
Total	92	243	71	406
<u>Expenditure</u>				
Materials	27	53	25	105
Employees	63	72	28	163
Energy	11	24	10	45
Rates	6	7	9	22
R and M	5	4	6	15
Bad Debts	6	3	8	17
Other	3	2	1	6
Total	121	165	87	373
Profit(Loss)	(29)	78	(16)	33

	Burnley	Huddersfield	Warrington	PLEASE TURN THE PAGE....	
				Total	
Number of Emps		2,520	2,880	1,120	6,520
Amount		£80,000	£150,000	£20,000	£250,000

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Spent on
 New Mach.
 In last year

In Last 5 Years	£400,000	£950,000	£ 120,000	£ 1,470,000
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Profit By Product Line

	£ million	£ million	£ million
Car batteries	5	28	3
ABS Braking Systems	3	9	4
Lighting Systems	6	12	6
Clutches	(30)	(8)	(19)
Engine Cooling Systems	6	18	7
Suspension Systems	7	23	(8)
Exhaust Systems	(20)	(4)	(9)
Total	(29)	78	(16)

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Question 1

Compulsory

Marks 20

After having given due consideration to the information presented in the case study give your recommendations with appropriate reasons as to whether:

a Which of the operational centres should be closed? **(6 marks)**

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b Which of the products should cease to be sold? **(6 marks)**

c Where any future investment should be made? **(8 marks)**

(Detailed Financial Calculations are not required)

Question 2

Compulsory

Marks 20

Analyse the company's position using established management principles and processes taking into consideration any internal and external challenges facing the company.

Answer 3 from the next 4 Questions

Question 3

Marks 20

Assess why it is important that companies have a clear understandable mission statement and demonstrate the importance of good business planning in the achievement of this goal.

Question 4

Marks 20

Discuss any social or ethical issues that can be identified from the case study and discuss the benefits or otherwise of a robust corporate governance.

Question 5

Marks 20

Discuss and evaluate the importance of communication within an organisation. Consider the employee and management perspective.

Question 6

Marks 20

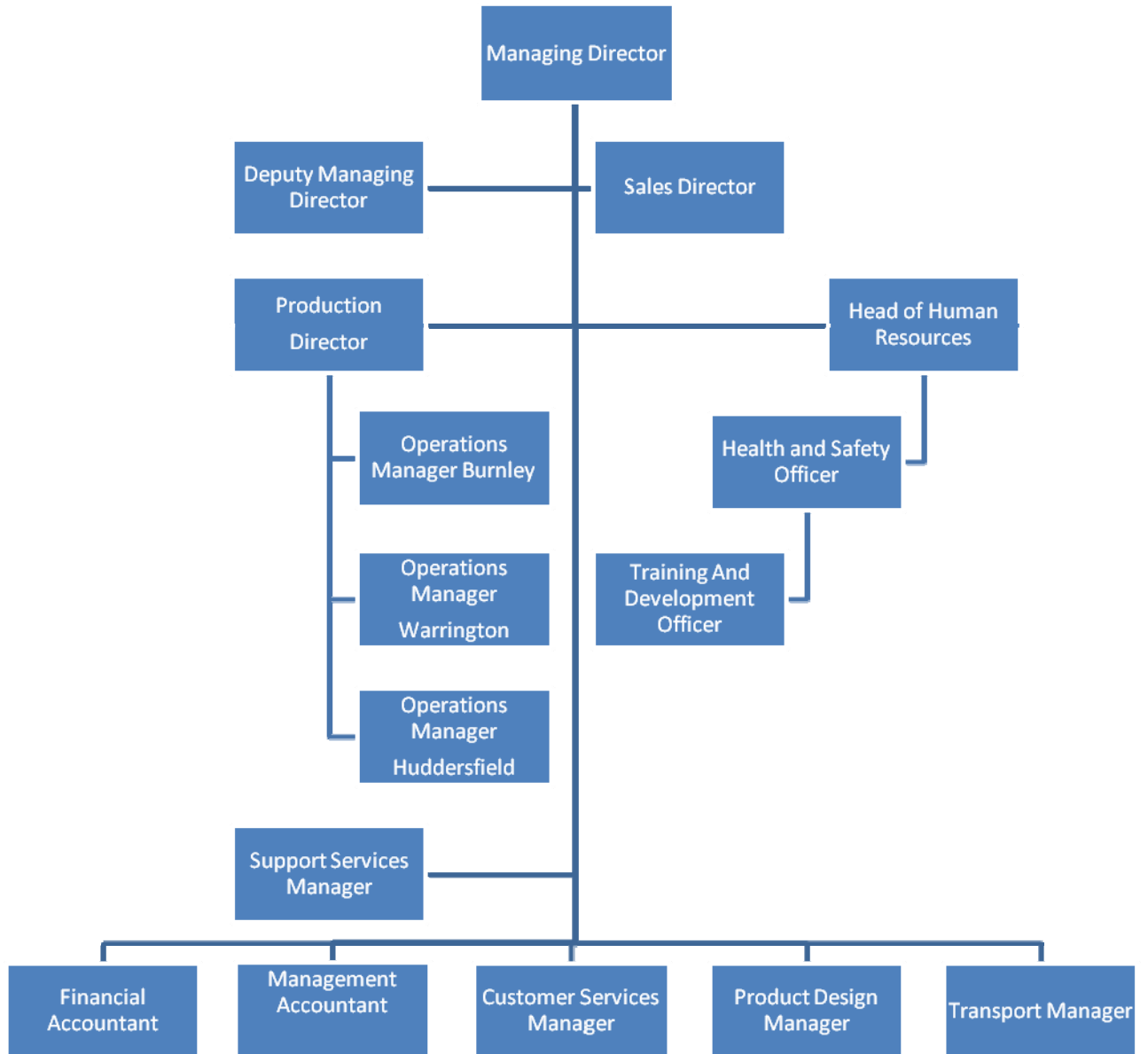
In addition to those described in the Case Study identify other challenges that businesses may face and describe and evaluate the processes that can be embedded into the organisation to mitigate the impact of those challenges.

END OF QUESTIONS

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Appendix

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