

# **BAFS** *in the* **NEW WORLD**

*(Business, Accounting and Financial Studies)*

## **Business Environment & Introduction to Management**

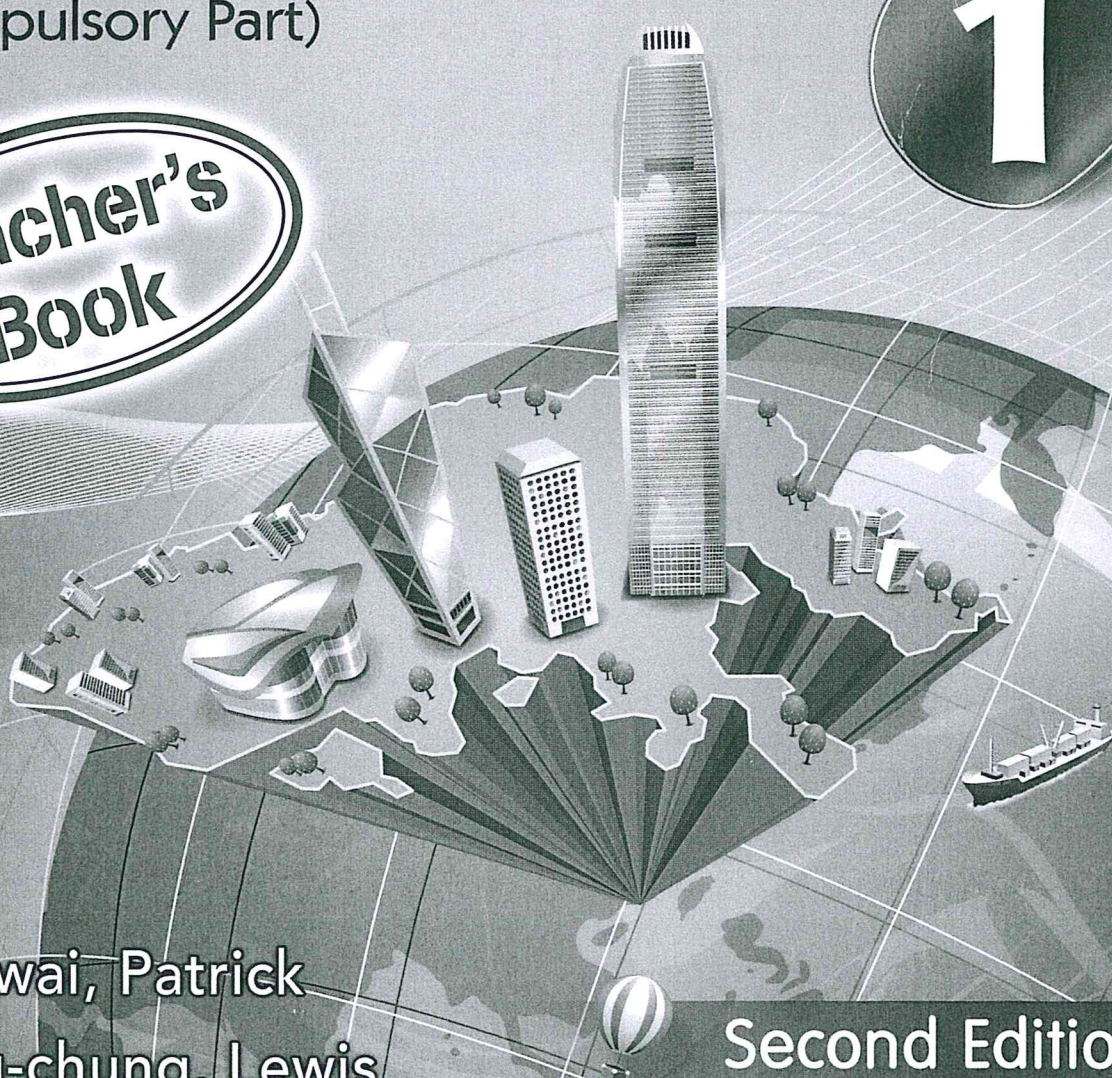
*(Compulsory Part)*

**1**

**Teacher's  
Book**

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**Second Edition**





## Chapter 5 Management Functions II

### Business Aids 1

#### Qualities of a Successful Manager

Some experts suggest that successful managers should know how to manage themselves in order to gain respects from subordinates and build up a good relationship with them.

In addition to the skills for handling daily tasks, the experts think that time management skills are essential to managers. Managers have to set targets and schedules for the tasks and finish the work one by one. They should prioritise the tasks and handle the urgent ones first. This can avoid disruption to other tasks due to delay of the urgent tasks. The experts also point out that some managers only specialise in their own professions and have no idea about things happening around them. So, managers should equip themselves with up-to-date knowledge and skills through continuing education. Besides, managers should broaden their horizons by participating in activities outside their own professions.

A successful manager needs to have high Emotional Quotient and stay calm under difficulties. All problems can be solved if they are persistent.

#### Questions:

1. (a) According to the above information, what are the advantages of having good time management skills?

If managers have good time management skills, they would be able to set up a schedule and assign the subordinates to finish the tasks according to the schedule. They will be able to prioritise the tasks and handle the urgent ones first to avoid work delay.

- (b) According to the above information, briefly explain why managers need continuing education.

If managers do not continue to equip themselves with other knowledge, they may neglect the things that are beyond their professions. This may affect their decision-making. Therefore, continuing education enables managers to remain alert and broadens their horizons.

2. According to the above information and your knowledge, what is the relationship among time management skills, conceptual skills and human skills?

Managers who have conceptual skills and time management skills can set appropriate work schedules and arrange tasks to subordinates. It enables managers to earn the respect of the subordinates and builds up a good relationship with them.

3. How can a manager improve his/her self-management skills? Discuss with your classmates.

Any reasonable answers.

## Business Aids 2

### Division of Work and Job Rotation

Many management experts used to advocate division of work due to its effectiveness in enhancing productivity. However, as the operation of business has been changed, division of work is being replaced by job rotation gradually.

Job rotation is an approach that employees are moved through different positions in a planned manner. Under job rotation, employees are assigned to work in different departments to expose to a wider variety of skills and build a network. Therefore, the employees can better co-operate with colleagues from different departments. Besides, job rotation can reduce boredom and increase motivation. Since employees have to carry out different tasks in different departments, they can demonstrate their talents and strengths in specific areas. This enables the management to allocate human resources more flexibly in the future.

In recent years, many multinational corporations have been practising job rotation in order to enhance employees' skills and efficiency. However, job rotation may bring extra costs or other negative effects if it is not implemented properly.

#### Questions:

1. According to the above information, what is the major difference between division of work and job rotation?

Under division of work, employees are assigned to perform a particular task repetitively. However, under job rotation, employees have to perform different tasks in different departments.

2. According to the above information, suggest two advantages of job rotation to an organisation and to the employees respectively.

Advantages to the employees: Job rotation can reduce boredom and increase motivation.

Employees can learn different skills and it facilitates their career development. Employees can shift through different positions and expand their social network. (Any two)

Advantages to the organisation: Job rotation keeps employees interested in the job. It helps businesses retain talent. Employees will know more about the operation of different departments. This enhances coordination between departments. Employees' talents and strengths can be revealed, which enhances coordination and allocation of human resources. (Any two)

3. What are the potential problems caused by job rotation? Discuss with your classmates.

Any reasonable answers.

## Answers to Short Questions

18. (a) Division of work is the practice of breaking down a job into several tasks, which will be assigned to different employees. Each employee performs the same task repetitively. (1)

**(Total: 1 mark)**

- (b) Under division of work, each employee is responsible for a specific task. It saves the time for training and moving from one job to another job. (1)

Under division of work, each employee will become more skilful since he/she specialises in one task only. Productivity increases as a result. (1)

After implementing division of work, managers can choose the most capable person to perform each task. (1)

Under division of work, it is easier to introduce the use of machines in each stage as the production process is divided into separate tasks. (1)

(Any two)

**(Total: 2 marks)**

19. (a) Unity of command means that each subordinate should report to one superior only. (1)  
It ensures that the command for each subordinate is from one source only. This assists in clarifying the relationship between a superior and his/her subordinates. (1)

**(Total: 2 marks)**

- (b) Confusing instructions from different superiors can be avoided. The subordinates will know exactly what they should finish and it improves communication between the superior and subordinates. (1)

Unity of command can ensure that the superior knows the subordinates' workload, and arranges appropriate tasks for them to avoid work delay. (1)

Each subordinate only reports to one superior, so it is easier for the superior to monitor and guide the subordinates. It facilitates internal control. (1)

*(Any two)*

**(Total: 2 marks)**

20. Delegation can reduce manager's workload. He/She can concentrate on developing long-term plans and strategies for the business. (1)

Delegation helps improve subordinates' ability. Subordinates can develop their skills and talents through training opportunities. (1)

Delegation can enhance subordinates' job satisfaction. Subordinates can be motivated if they have higher autonomy in the workplace. (1)

Delegation strengthens subordinates' sense of responsibility. Since managers will check the work progress, this reminds subordinates about the responsibilities to finish the tasks. (1)

*(Any two)*

**(Total: 2 marks)**

21. (a) Effective delegation means that managers delegate authority to subordinates in a planned manner and are accountable for the subordinates' work. It ensures that subordinates complete the work properly. (1)

**(Total: 1 mark)**

- (b) When managers delegate authority to the subordinates, the authority should be in line with the responsibilities assigned. (1)

When managers delegate authority and assign responsibilities, they should consider the ability and workload of the subordinates and ensure that subordinates possess the required resources and ability. (1)

Managers should provide sufficient resources and training for the subordinates to finish the tasks. (1)

Managers should monitor the work progress of the subordinates regularly. (1)

*(Any two)*

**(Total: 2 marks)**

22. Division of work may not be applicable to every industry nor increase productivity of every industry. (1)  
Generally, the less automated and standardised the work process is, the lower the degree of division of work will be. (1)

If the work process is not standardised, it would be difficult to divide the work process into simple tasks. It is thus not possible to practise division of work. (1)

If the work requires creativity, the practice of division of work may worsen product quality. For example, in the art industry, the practice of division of work may result in artworks being standardised and monotonous in style. People do not admire artworks without uniqueness and will not buy such products. (1)

**(Total: 4 marks)**

23. Tracy is correct. (1)  
Under free-rein leadership, authority is given to subordinates so that they can make decisions and decide how to finish the tasks on their own. (1)

Dennis is incorrect. (1)  
Although responsibility is assigned to subordinates, accountability is not delegated. (1)  
Leaders are still accountable for the outcome of the work done by the subordinates. Leaders have to make sure that the work is done properly. (1)

**(Total: 5 marks)**

24. I agree with Philip's comment. (1)  
The implementation of MBO takes lots of time for the superiors and subordinates to discuss and reach a consensus about the goals. (1)  
If a business needs to take prompt action, MBO is not applicable because the business may miss other opportunities or face other problems. (1)  
MBO is not applicable to organisations in which their employees lack the sense of responsibility. (1)  
Since subordinates are involved in setting work objectives, they may set simple goals in order to achieve the goals easily or reduce workload. Therefore, MBO is not suitable for organisations where employees have a poor sense of responsibility. (1)

OR

I disagree with Philip's comment. (1)  
MBO allows employees to take part in the objective-setting process. (1)  
The employees can have a better understanding of the organisational goals. It also motivates them to finish the job. (1)

MBO can strengthen communication between subordinates and superiors. (1)  
Superiors can collect subordinates' opinions and improve the operation of the organisation. (1)

**(Total: 5 marks)**

25. (a) Unity of command is violated. (1)  
There are two sales managers in the marketing department and all employees of the department need to report to the two managers at the same time. (1)

If unity of command is absent, subordinates may be confused as they may receive conflicting instructions from the two managers. (1)

In addition, they may be overloaded if the two managers assign work to them at the same time. (1)

The supervision may be weakened. Keith and Fiona may shift the responsibility to each other when they encounter problems. They may shirk their duties easily. (1)

**(Total: 5 marks)**

- (b) Andy practised delegation of authority to Keith and Fiona. (1)  
Delegation is assigning authority and responsibility from a manager to his/her subordinates in order to finish specific activities or tasks. (1)

Delegation can reduce the workload of Andy. (1)

As a marketing manager, Andy may be loaded with work and unable to finish all the tasks by himself. Delegation allows him to focus on the long-term plans and strategies for the business. (1)

Delegation provides training opportunities for subordinates to develop their skills and talents when carrying out tasks. (1)

This can help Keith and Fiona develop their skills and realise their talent. (1)

*(Or other reasonable answers)*

**(Total: 6 marks)**

26. (a) Unity of direction is applied. (1)

**(Total: 1 mark)**

- (b) Applying unity of direction helps set up a common and clear goal for employees engaging in the plan. (1)

With a clear goal for the plan, the management can evaluate the plan accordingly. It also enables subordinates to understand the common goal and avoids any deviation from the plan. Time and resources can be used effectively as a result. (1)

Unity of direction helps build up team spirit. (1)

It ensures that employees are directed to work for the common goals. It facilitates co-ordination among employees and helps build up team spirit. (1)

Applying unity of direction can save resources. (1)

It avoids the confusion caused by conflicting views among managers and ensures that the tasks assigned to employees are in line with a common goal. Resources can be fully utilised to meet the goal. (1)

*(Any two)*

**(Total: 4 marks)**



27. (a) Ms. Chan planned to adopt division of work. (1)  
 Under division of work, employees can save time from shifting roles and position. (1)  
 Since employees specialise in their roles, they need not shift their roles and move from place to place. Time can be saved and customers can be better served. (1)

Performance of employees can be enhanced in such arrangement. (1)  
 Managers can arrange employees to the roles they are most suitable for. Employees can be more skilled in their task as they practise the same task repeatedly. (1)

**(Total: 5 marks)**

- (b) The decision of practising division of work leads to monotonous work. (1)  
 The waiters perform the same tasks repeatedly every day. They may get bored and lack motivation to work hard. Staff morale will thus be affected. (1)

There will be bottleneck when providing services. (1)  
 If employees cannot freely switch their roles, the restaurant may not be able to fully utilise its workforce. For example, the receptionist would usually be busy in peak hours, and the kitchen cleaner would be busy after peak hours. (1)

The restaurant is probably too small to practise division of work precisely. (1)  
 For example, having one employee to specialise in serving customers at the reception may be too much for a restaurant with 40 seats only. The receptionist may become idle often. (1)

*(Any two)*

**(Total: 4 marks)**

- (c) Hire part-time waiters during peak hours. (1)  
 Offer discounts to customers who visit the restaurant during non-peak hours, in order to shift the demand from peak hours to non-peak hours. (1)  
 Provide training for waiters to enhance the efficiency of serving customers. (1)

*(Any one)*

**(Total: 1 mark)**

28. (a) The form of business ownership of the supermarket chain is partnership. (1)

**(Total: 1 mark)**

- (b) Partnership enables partners with different skills and expertise to practise division of work. (1)  
 Ann and Betty may be skilful in management while Benny is not. Therefore, they can specialise in the tasks that they are good at to run the chain. (1)

Under partnership, the risk of running the chain can be shared among Benny, Ann and Betty. (1)

They share profits and losses equally and thus business risk can be reduced. (1)

*(Or other reasonable answers)*

**(Total: 2 marks)**

- (c) Unity of direction is violated. (1)

Violating unity of direction causes conflicts. (1)

The goals set by Ann and Betty are contradictory. This may make the employees feel confused about whether they should strive to expand the business or close down unprofitable stores. Operational efficiency will therefore be reduced. (1)

Violating unity of direction may lower motivation of employees. (1)

Without common goals, it is difficult to unite employees to work. It is also difficult to build team spirit among employees because they do not share common goals and values. (1)

*(Or other reasonable answers)*

**(Total: 5 marks)**

- (d) I disagree with Ann's comment. (1)

Management by Objectives refers to the setting up of goals and developing plans by superior and subordinates. However, both Ann and Betty are owners of the partnership. They are not in a superior-subordinate relationship. (1)

**(Total: 2 marks)**

## Chapter 6 Key Business Functions

### Business Aids 1

#### Photo Printing Chain Offering New Services to Follow the Trend

In recent years, photo printing companies appear to be diminishing. Since social networking websites have become popular, people could share photos with their family and friends by uploading the photos right after taking them. The demand for photo printing services began to fall. Although people may print out some photos to keep, the number of photo printing companies continues to decrease.

A spokesperson of a photo printing chain said that the company tried to explore different areas of business in its early years. During the mid 1990s, the company introduced movie rental services when VCDs and DVDs were popular in Hong Kong. It was until the end of the decade when the trend ended, the chain decided to focus on its photo printing service again. Later, the company saw that there was a rising popularity for digital photos. Therefore, it invested a lot on the equipment for digital photo printing. Many competitors without the equipment failed to continue to operate in the end.

Despite a decrease in the number of competitors, the company has to attract customers with new services in order to keep the business running. As mentioned by the spokesperson, rental costs and wages have increased a lot but the company could not adjust the price of photo printing services to a large extent because customers do not accept the price change. Thus, the company introduced a mobile app and an online printing webpage. After uploading photos to the company, the customer can get the photos from the store four hours later. The company also allows customers to order items such as calendars, stickers and mugs with selected photos printed on them. The company hopes to create an image of “preserving memory in the best way for customers”.

#### Questions:

- Using the above photo printing chain providing movie rental service as an example, suggest TWO functions of marketing management.

Conducting market analysis: Manager of the photo printing chain has to conduct a marketing research to understand the demand for movie rental service before launching the service.

Developing marketing mix: After having decided the marketing strategies, the marketing manager has to develop a marketing mix, such as what kinds of movie to be provided, the price of the rental service and the locations where customers can rent the movies.

Carrying out control and review: The marketing manager has to monitor the implementation of marketing activities. For example, if the demand for movie rental service drops, he/she has to decide whether to continue the existing marketing strategies or not.

*(Any two or other reasonable answers)*

2. According to the above information and your knowledge, how does the photo printing chain demonstrate its image of “preserving memory in the best way for customers” through its products and services?

It introduces online printing services through its website and mobile app. Customers can quickly print the photos they want. Moreover, the company allows customers to create unique gifts with their own photos printed on different items.

3. What changes would the photo printing chain need in other key business functions apart from marketing management when the new services are provided?

Any reasonable answers.

## Business Aids 2

### **AAHK Introduced RFID Technology**

With Information and Communication Technology (ICT), organisations can build a comprehensive information system which facilitates information processing. ICT also benefits organisations and customers by raising operational efficiency.

In 2008, the Airport Authority Hong Kong (AAHK) introduced the integrated radio frequency identification (RFID) to boost baggage handling efficiency. The airport had been using barcode-only tags which could only be read when the scanner was in close proximity. When the barcode-only tags were blocked, ground staff would need to rearrange the baggage to let the scanner read the tags. The new RFID tags combine an embedded RFID chip with a barcode. The RFID tags can be read from a distance and at an angle.

The spokesperson of the AAHK said that the read rate increased significantly with the use of RFID tags. The AAHK could reduce the number of ground staff handling baggage. The speed of handling baggage was also increased. At present, many international airports have already introduced the RFID technology.

#### **Questions:**

1. According to the above information, what are the characteristics of the new baggage handling system?

Under the new system, the barcode-only baggage tags are being replaced by the RFID baggage tags. The RFID baggage tags can be read from a distance and at an angle. The read rate of baggage tags improved.

2. According to the above information and your knowledge, what are the benefits of the new baggage handling system to the airport and passengers?

To the airport, the new baggage handling system raises the read rate of baggage tags. The airport can reduce the number of ground staff handling baggage. In addition, the speed of handling baggage is increased. The airport can process more baggage in one day than before. Operational efficiency is thus improved.

To passengers, the new baggage handling system lowers the possibility of mishandling baggage. The chance of baggage delay can also be reduced.

3. How can government departments and businesses improve operations by ICT? Discuss with your classmates.

Any reasonable answers.

## Answers to Short Questions

18. Human resources management helps a business perform manpower planning. (1)  
The business can use manpower planning to assess its present human resources. It may need to hire employees and allocate duties to employees appropriately to cope with the corporate development. (1)

Human resources management helps a business carry out recruitment and selection process. (1)

It enables the business to recruit capable and suitable staff to fill the vacancies. (1)

Under effective performance management, managers can monitor employees' performance. (1)

They can give appropriate comments and suggestions to staff through appraisal report. This helps the business increase the quality of staff and ensure that their performance meets the requirements of the business. (1)

The business can manage the remuneration and benefits of the employees through human resources management. (1)

The business can increase the motivation of the employees by adjusting their remuneration based on their performance. (1)

By adopting human resources management, a business can provide training and development to employees through seminars and professional training. (1)

It enables employees to acquire relevant knowledge and skills. They can apply these knowledge and skills at work to increase productivity. (1)

Adopting human resources management can help a business maintain employee relations. (1)

It enables the business to listen to employees' opinions on employment policies and resolve labour disputes. The business can therefore understand employees' needs and implement policies which employees are satisfied with. (1)

*(Any three)*

**(Total: 6 marks)**

19. Financial management enables a business to control the cash inflows and outflows through working capital management. (1)

This can ensure that there are sufficient funds for repaying short-term debts and upcoming operational expenses. It also enables a business to use excess funds to invest and earn a higher return. (1)

The business can use capital budgeting to evaluate the resources needed for long-term investments and the benefits brought by the investments. (1)

It helps business make appropriate investment decisions and ensures effective use of funds. (1)

Financial management facilitates financial planning. (1)

A business can use financial planning to prepare budgets in order to allocate expenditure allowed to specific departments. This ensures the funds are used properly and sets a standard for monitoring the use of funds by the departments. (1)

The business can control the expenditures through financial control to ensure that funds are effectively used to increase profits and efficiency. (1)

Financial control checks whether the actual financial performance matches with the budget. It helps the management review the use of funds and develop improvement measures. (1)

*(Any three)*

**(Total: 6 marks)**

20. Operations management helps a business develop a good operations system and production planning to ensure a smooth production process. (1)

This reduces the possibility of disruption to production caused by problems in other production departments. It can increase the efficiency of the operations system continuously. (1)

Moreover, operations management aims to continuously improve the operations of a business to reduce production costs and increase the quality of goods and services. It enhances the competitiveness of the business. (1)

**(Total: 3 marks)**

21. The goals of marketing management are to identify, anticipate and satisfy customers' needs profitably. (1)

Marketing management helps a business generate profits so as to maintain its own survival in the market. (1)

A business makes a profit through selling products and service to customers. Marketing management enables a business to develop ways to cater for customers' needs. Thus, it can generate more profits in order to survive in the market. (1)

In order to survive in the market, a business needs to adapt to market changes promptly. (1)  
Marketing management helps a business develop and implement marketing strategies. It also evaluates and modifies the existing marketing strategies according to the business environment. This enables the business to adapt to new market environment and thus survives in the market. (1)

**(Total: 5 marks)**

22. The first common risk-tackling strategy is risk avoidance. It refers to an approach in which a business avoids taking a risk by not participating in certain activities. (1)

The second common strategy for tackling risks is risk assumption. It means that a business chooses not to take any measures and bears risks although it realises that certain risks may occur. This approach will be adopted when the possibility of occurring risks is low or the loss is insignificant. (1)

The third common risk-tackling strategy is risk reduction. It means that a business takes measures to reduce the likelihood of a risk and thus the risk of loss. (1)

The last common strategy for tackling risks is risk transfer. It refers to the approach in which a business shares risk with a third party. (1)

**(Total: 4 marks)**

23. Capital budgeting is the process of determining whether to pursue long-term investments. (1)

Since a long-term investment involves a large amount of cash outflows over a long period of time, a business may be indebted heavily or even go bankrupt if the cash outflows exceed its repayment ability. Therefore, it is important for a business to evaluate the risk and return on investment through capital budgeting. (1)

Financial planning assists businesses in reaching their goals by making sure that sufficient financial resources are available to support the achievement of goals. (1)

It enables businesses to anticipate the revenue that they will receive and thus allocate funds for different uses effectively. (1)

**(Total: 4 marks)**

24. An effective information management system allows a business to collect and store different sources of information. (1)

It is easier for employees to retrieve information in the future. The business can effectively organise, process and analyse the data and information. It helps the management make appropriate decisions. (1)

Information management can facilitate the exchange of information among different departments in a business. (1)

It allows employees to obtain information at different time and places. It speeds up the process of decision-making and increases business responsiveness. (1)

**(Total: 4 marks)**

25. Information management assists a supermarket to handle sales and practise inventory control by updating the volume of inventory at the time of selling products. (1)

Nowadays, most supermarkets have installed the point of sale (POS) system. Cash registers at the checkout counter are connected with the information system. When the cashier scans the barcode of the goods sold, the cash register will show the price of the product and calculate the total of products sold. It saves time for checking out products. (1)

At the same time, the sale of products will be recorded in the centralised information system and updates the figures of inventory. Inventory keeper can keep the inventory level in check with the aid of information system. (1)

The sales record can also aid the managers to make decisions on inventory control, such as keeping more inventory in particular months. (1)

**(Total: 4 marks)**

26. (a) Operations management (1)  
Financial management (1)

**(Total: 2 marks)**

- (b) The company can review and improve the design of the department store. Express checkout counters can be set up to serve customers who only buy a few items. (1)  
The company can introduce Octopus card payments and vending machines to reduce the time needed for paying bills. (1)

**(Total: 2 marks)**



27. The marketing department can prepare a budget for the promotion campaign and control the resources and capital used in the campaign. (1)  
 The finance department will evaluate the budget according to the financial position of the business and make adjustments if needed. The marketing department can then allocate resources based on the approved budget. (1)

Marketing department may propose to lower product prices to attract customers in the marketing campaign. (1)  
 It needs to apply financial management to estimate the expected profits after the price cut to determine the optimal price level. (1)

The business needs to monitor the sales before and after the implementation of the campaign and evaluate if the sales performance meets the target set by financial management. (1)  
 If there is any deviation from the target, the business needs to modify the marketing strategy to enhance the effectiveness of the marketing campaign. (1)  
*(Any two)*

**(Total: 4 marks)**

28. (a) The preferred flavours of customers. (1)  
 The price that customers are willing to pay for new ice cream flavours. (1)  
 The existing flavours in the market. (1)  
*(Any two)*

**(Total: 2 marks)**

- (b) Information management helps collect and store information in a tidy manner. (1)  
 The up-to-date information of existing branches and the overall sales figure of different flavours are collected and are available to managers for their reference. (1)

Information management organises information for specific uses. (1)  
 Information is sorted and organised according to its nature, such as the sales volume of different flavours for marketing purpose. Managers can easily obtain the information that is relevant to the decision-making process. (1)

Information management can analyse information for making decision. (1)  
 Information system can sort and present the information for comparative purpose, such as listing the unprofitable branches and the most popular flavours. Managers can save time analysing information and make prompt decision. (1)

**(Total: 6 marks)**

- (c) The company can conduct more in-depth marketing research to grasp consumers' preference on ice cream flavour. (1)

The company can launch samples of new ice cream flavour to see consumers' response before producing new flavour in mass. (1)

The company can share the risks by forming joint venture with other companies to develop the new flavours. (1)

*(Any two)*

**(Total: 2 marks)**

29. (a) The situation reflects the function of manpower planning. (1)  
As the company developed new software, it foresaw a need of more salespeople to promote the software. Therefore, it carried out manpower planning to prepare for such need. (1)

The situation reflects the function of recruitment and selection. (1)

The company recruited and selected salespeople for the promotion of new software. It received 100 applications for the open positions and selected 15 people out of 100 interviewees to fill the vacancies. (1)

The situation reflects the function of training and development. (1)

Since the newly-employed salespeople lacked experience and performed poorly, the company decided to provide a training programme for them. This helped employees to acquire more knowledge and techniques required for the job. (1)

**(Total: 6 marks)**

- (b) Knowledge of the product (1)  
Experience of being a salesperson (1)  
Interpersonal skills (1)  
*(Or other reasonable answers)*

**(Total: 3 marks)**

- (c) The training programme can be separated into two sections. The first part is a workshop that salespeople learn how to use the software. (1)  
The target of this section is to get salespeople familiar with the products so that they can present the properties of the software and share their experience of using the software during promotion. (1)

The second section is the role play on different situations that salespeople may face when they promote the product. (1)

This section aims to improve salespeople's skills to promote the software. They can also be more prepared for the situations demonstrated during the role play. (1)

*(Or other reasonable answers)*

**(Total: 4 marks)**

- (d) The marketing manager is responsible for delivering the information of the product including the marketing mix. (1)  
The sales team can then have a better understanding of the product and they can explain clearly to customers. (1)

The marketing manager is responsible for designing the situations in the role play. (1)  
The sales team can have a chance to face situations it may face when it promotes the products. (1)

*(Or other reasonable answers)*

**(Total: 4 marks)**

## Chapter 7 Small and Medium Enterprises in Hong Kong

### Business Aids 1

#### **Employers Said Standard Working Hours May Bring Financial Burden to SMEs**

The chairman of the SME committee of a chamber of commerce said he worried that if the law for standard working hours is legislated, SMEs may face heavy financial burden and may not be able to survive.

He mentioned that since the manpower and sources of funds of SMEs are limited, it is difficult for the owners to outsource their working procedures. If standard working hours increase the cost of SMEs, employers may have to employ more part-time and temporary staff members. Moreover, some jobs require employees to work outside working hours. Legislation on standard working hours may increase the risk of employment disputes.

He added that SMEs face difficulties in retaining talent. The lack of manpower may adversely affect the service quality and daily operations of SMEs.

#### **Questions:**

1. According to the above information and your knowledge, what difficulties do SMEs face in surviving in the market?

Rental and wage levels in Hong Kong have been increasing in recent years. As SMEs have limited funds and little bargaining power, it is difficult for them to reduce costs by outsourcing or negotiating with the landlord for lower rental. Moreover, from employees' perspective, the remuneration packages and career prospects of large businesses are generally better than those of SMEs. As a result, SMEs usually face the problem of high staff turnover.

2. As the employees of an SME, apart from standard working hours, what areas of concern do they have?

Salaries and fringe benefits, working environment, training and promotion opportunities and job security.

3. What can SMEs do to maintain a balance between profitability and social responsibility?

Any reasonable answers.

## Business Aids 2

### The Founder of Skywalk

The U-shaped Grand Canyon Skywalk, a famous tourist attraction, is located on the Grand Canyon in America. It was open to the public in March 2007. The Grand Canyon Skywalk was financed by a Chinese American, David Jin, who had planned the project for ten years. David Jin was born in Shanghai. He moved to America at the age of 25. At first, he was a waiter of a restaurant. After years of efforts, David Jin is now the CEO of a company.

Many years ago, he set up a travel agency and organised tours to the Grand Canyon. However, his business partner gambled the capital of the company away. He was forced to end the business.

Later, he started another travel agency and tried many new things. For example, his agency was the first to provide helicopter tours to the Grand Canyon. Some time later, he thought of building a glass walkway on the Grand Canyon, giving visitors a bird's-eye view of the landscape. As the Grand Canyon was a reservation of the Indian Tribe, David had to get the tribe's approval before starting the construction.

At first, the tribe did not consent to the project because they wanted to build a casino. However, David tried to prove to the tribe that the project was feasible. He hired a professional consultancy firm to assess to what extent the construction materials could sustain wind. He finally persuaded the tribe into approving the project after eight years.

#### Questions:

1. According to the above information, what characteristics of a successful entrepreneur does David Jin have? Explain.

He set up two travel agencies to provide tours to the Grand Canyon. Although one of them closed down at the end, he was still willing to take risks and set up another business.

He was innovative. He planned to build the Skywalk on the Grand Canyon to allow visitors to enjoy the scenery in a new way.

He had good interpersonal skills. He persuaded the Indian tribe who had not consented to the construction into approving the project.

2. What difficulties did David Jin encounter when he planned to build the Skywalk? How did he overcome these difficulties with his aptitudes?

At first, the Indian tribe opposed to the construction plan. David spent eight years communicating with the tribe.

David has good interpersonal skills. He hired a consultancy firm to do research and drew up a detailed plan to prove to the Indian tribe that the construction of the Skywalk was feasible. Finally, he got the approval from the tribe.

3. What inspirations do you have after reading the above article? Would you do what he did to carry out your business plan? Why?

Any reasonable answers.

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## Answers to Short Questions

15. An SME has simpler organisational structure because of its relatively small number of employees. (1)

An SME has fewer layers of management and the owner has to make most of the business decisions. (1)

An SME has higher flexibility due to its simple organisational structure. (1)

It is easier for an SME to make changes in view of the market trends because it has a shorter decision-making process. It can provide suitable services to customers. (1)

**(Total: 4 marks)**

16. SMEs can attract customers through developing their products and services with unique features. (1)

SMEs can produce tailored products which satisfy customers' requirements to attract customers. (1)

**(Total: 2 marks)**

17. The decision-making process of an SME is usually shorter than that of a large business. (1)

Compared with a large business, an SME has fewer layers of management and the owner makes most of the decisions. Therefore, an SME usually has a shorter decision-making process and thus enjoys greater flexibility. (1)

On the other hand, the simpler organisational structure of an SME also leads to a more efficient control over employees. (1)

Since there are less employees and fewer layers of management, an SME usually has a flat organisational structure. Managers or even the owner can directly communicate with front-line staff members and monitor their work, leading to a more efficient control over employees. Hence, the owner of an SME is easier to lead his/her staff to execute his/her plan. (1)

An SME is usually not as specialised as that of a large business, leading to a higher management flexibility. (1)

Since the scale of an SME is smaller, it may not have enough employees to carry out division of work extensively. Employees get used to shifting duties during their work and are more prepared for changing roles in the workplace. Therefore, an SME enjoys higher flexibility in arranging employees' work. (1)

**(Total: 6 marks)**

18. An entrepreneur should be willing to take risks. (1)  
 An entrepreneur should be willing to take risks so as to lead his/her subordinates to overcome difficulties. (1)
- An entrepreneur should be willing and able to make decisions. (1)  
 An entrepreneur has to make business decisions and is responsible for the operation of the business. Therefore, an entrepreneur must be able to evaluate the alternatives available and makes appropriate decisions accordingly. (1)
- An entrepreneur should be creative. (1)  
 An entrepreneur must be able to provide new and unique products or services in order to earn profits. Otherwise, he/she will be eliminated from the market. (1)
- An entrepreneur should be disciplined and ambitious. (1)  
 An entrepreneur has to be ambitious to run the business efficiently and motivate employees to work. (1)  
*(Any three)*

**(Total: 6 marks)**

19. Entrepreneurship provides more job opportunities. (1)  
 When an entrepreneur sets up a business, he/she may hire employees to carry out different tasks. In this way, job opportunities are provided. (1)
- Entrepreneurship provides new products and services. (1)  
 If an entrepreneur wants to open up a new market or enter an existing market, he/she has to provide unique products and services. In this way, existing and new enterprises are encouraged to develop new products and provide new services. The number of consumption choices is increased. (1)
- Entrepreneurship stimulates economic growth. (1)  
 Businesses provide job opportunities and new products to an economy. People can earn income and are more willing to make consumption. This in turn stimulates economic growth. (1)  
*(Any two)*

**(Total: 4 marks)**

20. Entrepreneurs take the risk of product failure when they introduce new products or services. (1)  
 Entrepreneurs introduce new products in order to build up the competitive advantages of their own businesses. However, it is possible that the products are not welcomed by consumers and the sales revenue cannot cover the cost. (1)
- Entrepreneurs take the risk of increasing operating cost which affects the profitability of their businesses. (1)  
 It is unavoidable that operating costs, such as rent and raw materials, fluctuate at times. When the operating costs rise unexpectedly, the business model that the entrepreneur developed may not be sustainable and the business may fail. (1)

Entrepreneurs take the risk of bankruptcy when they start or expand their businesses. (1)  
Entrepreneurs may not have sufficient personal savings to start or expand their businesses.  
They may acquire personal loans to finance their businesses. If their businesses cannot  
generate enough profit to repay the debts, entrepreneurs have to repay the debts by their  
own properties. They may even go bankrupt if they cannot repay the debts. (1)

*(Any two)*

**(Total: 4 marks)**

21. Employees generally think that the remuneration packages and career prospects of large  
businesses are better than those of SMEs. (1)

Large businesses can provide better remuneration to employees as they have more financial  
resources. There are more rooms for promotion in large businesses as the organisational  
structure is more complex and more vacancies are available. Employees may have better  
chance to be promoted to management level and earn more income if they work in large  
businesses. (1)

It is difficult for SMEs to raise funds because they usually operate on a small scale. (1)

Banks are not willing to lend money to SMEs because the repayment ability of SMEs is not  
as good as large businesses. They also lack security for the loans. Banks are likely to avoid  
the risk of bad debts and may not finance SMEs. (1)

**(Total: 4 marks)**

22. (a) Janice may have difficulty in borrowing a bank loan. (1)

Janice operates the snack shop on a small scale. Banks may not be willing to lend  
money to her since the risks are higher and banks cannot make sure that Janice has  
the ability to repay the loan. (1)

Janice may face high operating costs. (1)

The rental and wage levels in Hong Kong are very high. Since her shop is small in  
scale, it is difficult for her to practise automation to reduce cost. She also has not  
enough bargaining power to negotiate with the landlord for lower rental. (1)

Janice may face heavy competition. (1)

She will face fierce competition from chained supermarkets. They have well-  
established market shares and can lower their cost through economies of scale. Janice  
has neither financial resources nor fame in the market. It is hard for her to compete  
with chained supermarkets in the market. (1)

*(Any two)*

**(Total: 4 marks)**

- (b) Janice's business can focus on small markets which large businesses cannot take care  
of. (1)

Since the capital investment of large businesses is large, they tend to focus on large  
market in order to cover their capital investment. In contrast, the investment of Janice's  
business is relatively small. It can cover its cost by focusing on small market only. (1)



Janice's business can respond to market demand more quickly. (1)  
 The decision-making process of Janice's business is shorter since Janice can make all the decisions on her own. She can lead her business to respond to market demand such as selling new snacks. Compared with Janice's business, the decision-making process of large supermarket chains is slower as more managers are involved. (1)

Janice's business can maintain a close relationship with customers and build up a group of loyal customers. (1)

As there are fewer employees, Janice has to participate in daily operations of the snack shop and contact customers directly. This gives Janice chances to build up personal relationship with customers. They may become loyal customers of the shop and provide market information to Janice. On the contrary, the top management of supermarket chains will not participate in the daily operations. It is unlikely for customers to build up personal relationship with the managers of supermarket chain. (1)

(Any two)

**(Total: 4 marks)**

23. (a) Johnson's factory helped rehabilitated persons integrate to society. (1)  
 Community was affected. (1)

**(Total: 2 marks)**

- (b) SMEs can provide employment opportunities. (1)  
 Since owners of SMEs need employees to support daily operations, they provide employment opportunities. In Johnson's factory, Johnson employed 20 workers including rehabilitated persons who may have hard time in finding jobs. (1)

SMEs can support large businesses by providing goods and services. (1)  
 Large businesses often rely on the goods and services provided by SMEs. They may subcontract some of the production stages to SMEs to save cost. Johnson's factory supported the operations of a Chinese restaurant chain by providing roasted meat. (1)

**(Total: 4 marks)**

- (c) Johnson's factory may lack sources of capital for its operations. (1)  
 Since the scale of Johnson's factory is small, banks are not willing to take the risk and lend money to it. Therefore, Johnson can only rely on personal savings and loans from friend and relatives. He may not have enough funds to improve the operations of the factory such as installing sewage treatment system. (1)

Johnson's factory faces increasing operating costs. (1)  
 The operating costs of the factory are increasing as the rental and wage levels rise. Moreover, the strict environmental protection regulations in Hong Kong may force Johnson's factory to invest more in environmentally friendly facilities, resulting in a higher operating cost. (1)

**(Total: 4 marks)**

24. (a) The business must have at least two partners and there is no maximum number of partners. (1)  
The business is not a separate legal entity. (1)  
Owners bear unlimited liability of the business. (1)  
Owners usually take part in the management of the business. (1)  
(Any two)

**(Total: 2 marks)**

- (b) SMEs have a simple organisational structure. (1)  
The number of employees in SMEs is small. They usually have fewer layers of management and are directly led by the owner. In George's restaurant, there are only 15 employees. The major business decisions, such as the dishes provided to customers, are made by George himself. This shows a simple organisational structure. (1)

SMEs tend to develop products and services with unique features. (1)  
It is common for SMEs to develop small market to avoid the competition from large businesses. This helps them maintain a group of loyal customers. For example, George's restaurant uses food ingredients imported from France to maintain the quality of dishes. Therefore, the restaurant can attract customers who love French cuisine and are willing to pay for high quality food. (1)

**(Total: 4 marks)**

- (c) The business may not be able to keep the quality of dishes in the branch. (1)  
The business relies heavily on George to maintain the quality of dishes. However, he is not able to cook and make all the decisions for the two restaurants on his own. If the business fails to recruit another talented chef, the quality of dishes in the branch is likely to be unsatisfactory. This may damage the reputation of the business. (1)

The business may not be able to recruit another talented chef. (1)  
Large businesses, such as multinational hotel chains, compete for chef who can cook French cuisine. As a small business, George's restaurant may not be able to provide a remuneration package which is comparable with that provided by large businesses. Therefore, it is difficult for the restaurant to recruit a talented chef to share George's workload. (1)

The business may not be able to withstand increasing operating cost. (1)  
The business has to employ more staff and pay for the rent in the new branch, which means an increase in operating cost. Since the rental and wage levels are high, the financial burden of the business will increase significantly for the new branch. If the revenue of the new branch is not satisfactory, the business may not be able to withstand the additional operating cost. (1)