

EASTERN UNIVERSITY, SRILANKA

Faculty of Commerce and Management

First Year/First Semester Examination in Bachelor of Business

Administration & Bachelor of Commerce (2007/2008) Proper/Repeat

MGT 1024- Principles of Management

Answer all questions

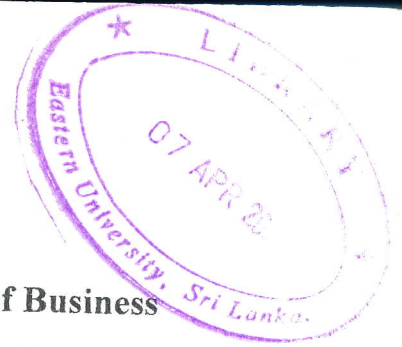
1.

American Express Manages Its Environment

In 1845 Henry Wells formed an express delivery company in Buffalo, New York, to deliver mail more cheaply than the federal government. He joined with two competitors in 1850 to form a new company, American Express. Shortly thereafter, in a dispute with the board of directors, Wells and his vice president, William Fargo pulled out of American Express and in 1852 formed Wells Fargo & Company in San Francisco. American Express continued to prosper despite these losses in personnel.

Today, American Express (AmEx) is one of the best-known corporate names in the world. The main reasons for its high visibility and name recognition are that over 30 million people worldwide have American Express cards and travel-related services are the company's major source of revenue (about 40 percent) and profit (about 54 percent). Another reason for AmEx's visibility is the continued strong growth of this diversified financial-services corporation—from a net income of around \$200 million in 1977 to over \$1,100 million in 1987. AmEx's bank business accounts for about 12 percent of revenues and 10 percent of profits, and its Shearson Lehman Hutton operations account for about 32 percent of revenues and 28 percent of profits.

By 1988, American Express Travel Related Services Company (TRS) was regularly yielding an earnings increase of 15 percent per year and had a return on equity of about 28 percent. However, this spectacular level of organizational effectiveness was beginning to be challenged by other bank-card companies. Visa, MasterCard, and Sear's Discover card were beginning to make inroads into the business-travel niche, which for years had been the almost exclusive domain of AmEx's TRS. Other bank-card companies were issuing premium cards, and expanding their markets.



AmEx responded by redoing itself. It introduced a variable-rate, revolving-credit bank card, the Optima, specifically designed for people who have large monthly charges and travel abroad a great deal. It expanded its AmEx Travelers Cheques, despite grumbling from the banking industry, and by 1988 had over 50 percent of the market in travelers checks. AmEx began to wire money around the world to compete with Western Union, CitiCorp, and even the U.S. Postal Service.

In addition to these changes, TRS began to try to increase its base of cardholders from 30 million to over 60 million and its base of merchants from 2 million to over 6 million. TRS also began to sell more merchandise directly to its cardholders, including electronics gear, furniture, jewelry, luggage, mutual funds, mortgages, and insurance. The goal is to have these sales account for about 25 percent of TRS's profits by the year 2000. Travel Management Services (TMS) was introduced. TMS offers the bank card, travel and consulting services, and savings in corporate travel costs to corporations that become corporate sponsors. To ensure that all of this works efficiently, AmEx is expending over \$100 million on a computer network that will tie all information about all customers together worldwide.

The computer information system promises to be a major factor in AmEx's ability to continue to be effective. The information can be made available to merchants who use their AmEx cards, and it can be sold to any merchant. The information that is available is continually being improved. An analysis of cardholder purchasing patterns could reveal preferences for food, merchandise, and entertainment so that these could be more precisely targeted by merchants.

Clearly, privacy issues, the potential for fraud, and the routine errors that normally occur could be major problems in such a system. AmEx is moving to use the latest technology, including artificial intelligence and handwriting recognition systems, in efforts to reduce such problems. Even so, a 99 percent accuracy rate for someone with 200 charges a year would still mean a problem every six months for that customer.

European banks and merchants appear to be moving toward a common payments system that will exclude American Express. That would be a major blow to AmEx and make signing up European merchants even more difficult. Further, the expansion of banking deregulation portends complicated times for AmEx. For the first time, more and more major banks will be able to offer services offered by AmEx. This increase in competition will increase the challenge facing American Express in the years ahead.

Questions:

a) Describe the general environment of American Express. Cite specific examples of each dimension. How does each one impact upon the firm?

(08 Marks)

b) Identify a specific example of each dimension of the task environment of American Express. Describe the impact of each one on AmEx.

(08 Marks)

c) What do you think of AmEx's responses to its changing environment?

(06 Marks)

d) Do you think that they will enable AmEx to continue to dominate its market? Why or why not?

(06 Marks)

(Total 28 Marks)

2.

a) Define the term Management, and explain what is meant by the "management process".

(06 marks)

b) Explain the principal functions of management.

(06 marks)

c) Would you attach different levels of importance to these principal management functions at various levels of management? Discuss.

(06 marks)

(Total 18 marks)

3.

a) Define the term planning, and explain the process of planning.

(06 marks)

b) Identify and explain the importance of planning

(06 marks)

c) Explain the principal barriers to communication and suggest measures to make communication more effective

(06 marks)

(Total 18 marks)

4.

- a) Explain the important steps in the process of organizing. (04 marks)
- b) What do you mean by departmentalization, and briefly explain different types of departmentalization. (06 marks)
- c) Some people argue that the matrix structure should be adopted only as a last resort because the dual chains of command can create more problems than they solve. Do you agree or disagree? Explain. (08 marks)
- (Total 18 marks)

5.

- a) Briefly explain the importance of leadership. (04 marks)
- b) Identify and explain the difference between trait theories and behavioural theories of leadership. (04 marks)
- c) "Some experts believe that leadership is more important than ever in a learning organization". Do you agree? Explain. (06marks)
- d) Briefly explain the Maslow's needs hierarchy theory. (04 marks)
- (Total 18 marks)