

Business Management by Portfolio

MNB2601

Semester 2

Department of Business Management

IMPORTANT INFORMATION

This tutorial letter contains comments on Assignment 1 for the second semester.

BAR CODE

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1 INTRODUCTION

This tutorial letter seeks to provide guidelines on how you were expected to answer the multiple-choice questions set for this assignment as per tutorial letter 101 for semester two, 2018. There are twenty multiple-choice questions in this assignment. The purpose of these questions is to cover a wide range of the material that appears in the prescribed textbook and study guide. You are urged to study these guidelines together with the corresponding references in your textbook and study guide. Should you have any queries, please take the liberty of contacting your lecturers.

2 COMMENTS ON ASSIGNMENT 01

The answers provided in this tutorial letter confirm the correct answer for each question and point you to the relevant material in the textbook and study guide, which justifies the choice of the correct distractor in each. You must, therefore, be comfortable with the respective answers and the corresponding motivation for the choice of the particular answer, per question.

3 SOLUTIONS TO ASSIGNMENT 01

Question 1

When following the bottom-up approach of Business Management by Portfolio, (i) _____ need to support the portfolio and strategic goals of the organisation; whereas (ii) _____ need to be planned to a sufficient level of detail that will ensure that project goals, program goals and strategic goals are realised.

Answer: Section 1.2 of the textbook discusses the bottom-up approach of Business Management by Portfolio. Therefore, distractor number **4** is correct - when following the bottom-up approach of Business Management by Portfolio, (i) **projects** need to support the portfolio and strategic goals of the organisation; whereas (ii) **deliverables** need to be planned to a sufficient level of detail that will ensure that project goals, program goals and strategic goals are realised.

Question 2

Which of the following statements describe the characteristics of a business portfolio?

- A A portfolio is complex in nature and requires a decomposition of the work to make it more manageable.
- B A project sponsor is the portfolio owner and accountable for the success of the portfolio.
- C A portfolio funds various approved projects.
- D Portfolio's search for business opportunities, managed as programs or projects that contribute to the achievement of organisational goals.
- E Each portfolio in a project is prioritised and activated based on its contribution to the weighted organisational goals.

Answer: Section 1.2.3 of the textbook highlights the characteristics of a business portfolio. Therefore, distractor number **3** is correct – the characteristics of a business portfolio include: A portfolio funds various approved projects; portfolio's search for business opportunities, managed as programs or projects that contribute to the achievement of organisational goals.

Question 3

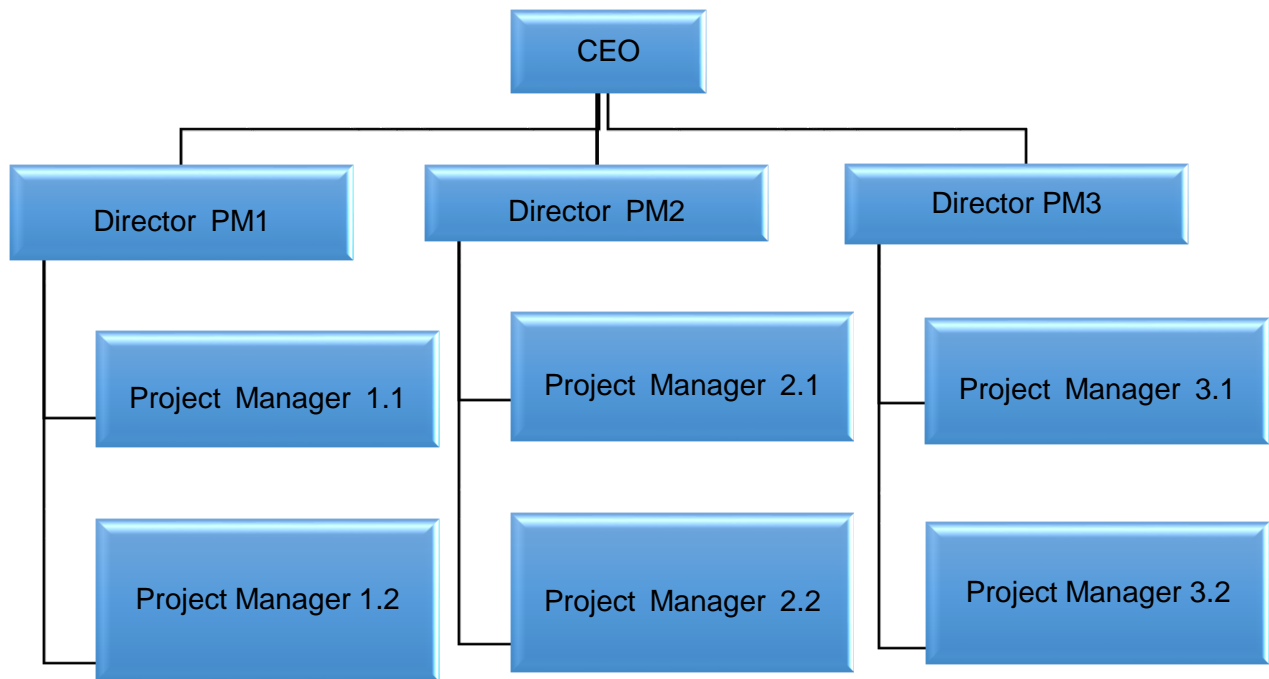
Obeng developed a model of project classification.

Which of the following quadrants of this model is associated with organisations that have mature business processes and tools, with an uncertain outcome, typically associated with business development strategies?

Answer: Section 1.2.4. of the textbook provides details on Obeng's model of project classification. Distractor number **2** is, therefore, correct – *Movie* is associated with organisations that have mature business processes and tools, with an uncertain outcome, typically associated with business development strategies.

Question 4

Study the following organisational structure.



The organisational structure depicted in the figure above can be associated with a _____ organisation.

Answer: Section 1.3 of the textbook provides a detailed discourse on the various organisational structures. Therefore, distractor number **2** is correct – The figure provided can be associated with a **projectised** organisation.

Question 5

According to Wenstop and Myrmel, _____ values are corporate values that leaders expect from their followers in return for their contribution to the organisation and its employees.

Answer: Section 2.2.1 of the textbook offers a discourse on the various leadership profiles including the corporate values as classified by Wenstop and Myrmel. Therefore, distractor **1** is correct - According to Wenstop and Myrmel, **created** values are corporate values that leaders expect from their followers in return for their contribution to the organisation and its employees.

Question 6

The _____ profile of an individual revolves around the individual's willpower and perseverance.

Answer: Section 2.2.1 of the textbook offers a discourse on the various leadership profiles including the conative profile. Therefore, distractor **1** is correct - the **cognitive** profile of an individual revolves around the individual's willpower and perseverance.

Question 7

_____ identified three basic leadership styles, namely autocratic, democratic and laissez-faire leadership styles.

Answer: Section 2.2.2 of the textbook provides a discourse on the various leadership styles including the Lewin's leadership style model. Therefore, distractor **3** is correct - **Kurt Lewin and his associates at the Univeristy of Iowa** identified three basic leadership styles, namely autocratic, democratic and laissez-faire leadership styles.

Question 8

The suggested ratio between practising leadership and management is (i) _____ leadership as opposed to (ii) _____ management at the beginning of the business cycle. By the end of the business cycle, the suggested ratio is (iii) _____ leadership and (iv) _____ management.

Answer: Section 2.3.2 of the textbook provides details on the suggested ratio between practicing leadership and management. Therefore, distractor **4** is correct. The suggested ratio between practising leadership and management is (i) **80%** leadership as opposed to (ii) **20%** management at the beginning of the business cycle. By the end of the business cycle, the suggested ratio is (iii) **20%** leadership and (iv) **80%** management.

Questions 9 and 10

Study the following information pertaining to ZZZ-Manufacturers in order to answer questions 9 and 10.

Table 1 (on the following page) lists the business goals of ZZZ-Manufacturers with the associated weight of each goal:

Table 1: Business goals of ZZZ-Manufacturers

Business goal	Weight
Increase in market share	50%
Corporate citizenship	30%
Decrease in production costs	10%
Improve customer satisfaction	10%
Total	100%

ZZZ-Manufacturers is considering investments in Projects A, B, C and D. The portfolio manager took a decision to only activate those projects that contribute a weighted score of at least 800 to the business goals of ZZZ-Manufacturers. The portfolio manager determined the contribution of each of the projects towards the business goals listed in Table 1. Table 2 indicates these scores.

Table 2: Contributions of projects to the business goals of ZZZ-Manufacturers

Business goal	Project A	Project B	Project C	Project D
Increase in market share	7	10	8	6
Corporate citizenship	8	10	9	5
Decrease in production costs	5	9	7	3
Improve customer satisfaction	9	8	6	1

Question 9

The project/s that will be accepted for activation, based on the contribution towards the business goals, is/are _____.

Answer: Section 3.1.2 of the textbook illustrates how to calculate which projects will be accepted for activation based on their contribution towards business goals. Therefore, distractor number **4** is correct. The project/s that will be accepted for activation, based on the contribution towards the business goals, is/are **projects B and C**. The calculation is shown below.

Business goal weights	Score Project A	Weighted score project A	Score Project B	Weighted score project B	Score Project C	Weighted score Project C	Score Project D	Weighted score Project D
50%	7	350	10	500	8	400	6	300
30%	8	240	10	300	9	270	5	150
10%	5	50	9	90	7	70	3	30
10%	9	90	8	80	6	60	1	10
Total weighted score		730		970		800		490

Question 10

The project that will make the highest contribution towards the business goals of ZZZ-Manufacturers is Project _____.

Answer: Section 3.1.2 of the textbook illustrates how to calculate which projects will make the highest contribution towards the goals of the business. Therefore, distractor **2** is correct. The project that will make the highest contribution towards the business goals of ZZZ-Manufacturers is Project **B**.

Question 11

The _____ scopes the project deliverables and develops the project plan to include all capacity requirements.

Answer: Section 3.1.6 of the textbook highlights the duties of the project manager. Therefore, the correct distractor is number **3**. The **project manager** scopes the project deliverables and develops the project plan to include all capacity requirements.

Questions 12 and 13

In the table below, Column A lists various stages in planning the scope of work (the second step in business planning by portfolio), whereas Column B provides a description of these stages. Match the stage in planning the scope of work in Column A with a description thereof in Column B.

Column A Stage	Column B Description
12 Develop the business scope	1 The development of a business charter (at portfolio and program levels); a high-level work breakdown structure that is associated with a work breakdown structure dictionary; and a completed business statement of work
13 Develop and approve the business case	2 The formulation of portfolio and program objectives and boundaries
	3 The testing of identified opportunities through the determination of feasibility criteria and comprehensive market research
	4 The development of a weighted multi-criteria algorithm from the strategic business goals identified by organisational leadership

Question 12

Answer: Section 3.4.4. of the textbook provides details on the development of the business scope. Therefore, distractor number 1 is correct. The “develop the business scope” stage in business planning by portfolio, can be described as “the development of a business charter (at

portfolio and program levels); a high-level work breakdown structure that is associated with a work breakdown structure dictionary; and a completed business statement of work”.

Question 13

Answer: Section 3.6 of the textbook provides details on the development of and approval of the business case. Therefore, distractor number **4** is correct. The “develop and approve the business case” stage in business planning by portfolio, can be described as “the development of a weighted multi-criteria algorithm from the strategic business goals identified by organisational leadership.”

Question 14

The portfolio manager at ZZZ-Manufacturers considers an investment in Project A that gives the opportunity to produce the following income stream:

0	1	2	3	4	5
	R100	R200	R200	R200	R200

At a 6 percent discount rate, what is the maximum amount that ZZZ-Manufacturers should invest in the project?

Answer: Section 4.3 of the textbook illustrates how the present value of money is calculated. Therefore, distractor number **4** is correct - at a 6 percent discount rate, the maximum amount that ZZZ-Manufacturers should invest in the project is **R 738.77**.

Question 15

ZZZ-Manufacturers invests R78.35 in a project at an interest rate of 5 percent. How long will it take the investment in this project to grow to R100?

Answer: Section 4.2.2 of the textbook illustrates how the time period of the investment can be calculated. Therefore, distractor number **2** is correct – if ZZZ-Manufacturers invests R78.35 in a project at an interest rate of 5 percent, the investment in this project will take 5 years to grow to R100.

Question 16

ZZZ-Manufacturers has the opportunity to invest R100 per year for three years in a project, at an interest rate of 12 percent. The investments can either be made at the beginning or at the end of each of the three-year life cycle of the project. The future value of the project, should the investments be made at the beginning of each year, is _____.

Answer: Section 4.2.4 of the textbook illustrates how the future value of a project can be determined should the investments be made at the beginning of each year for the duration of the project. Therefore, distractor number **1** is correct. The future value of the project, should the investments be made at the beginning of each year, is **R 377.93**.

Question 17

The portfolio manager at ZZZ-Manufacturers need to consider an investment in two projects, namely Projects A and B. The acceptance of Project A has no influence in the acceptance of Project A.

In this scenario, Projects A and B are _____ projects.

Answer: Section 5.1 provides a definition of independent projects. Therefore, distractor number **2** is correct. In this scenario, Projects A and B are **independent** projects.

Questions 18, 19 and 20

ZZZ-Manufacturers invest in Project S with the following timeline:

0	1	2	3	4
-R1 000	R500	R400	R300	R100

Question 18

The discounted payback period of Project S at a discount rate of 10 percent is ____ years.





Answer: Section 5.2.2 of the textbook illustrates how the discounted payback period can be calculated. Therefore, distractor number 4 is correct - the discounted payback period of Project S at a discount rate of 10 percent is 2.95 years. The calculation is shown below:

Time	0	1	2	3	4
Cash flow	-1 000	500	400	300	100
Discounted cash flow @ 10% discount rate	-1 000	455	331	225	68
Cumulative discounted values	-1 000	-545	-214	11	79

Question 19

At a discount rate of 10 percent, the net present value of an investment in Project S is ____.

Answer: Section 5.2.3 of the textbook illustrates how the net present value of a project can be calculated. Therefore, distractor number **3** is correct - at a discount rate of 10 percent, the net present value of an investment in Project S is **R78.82**. The calculation is shown below:

Time	0	1	2	3	4
Cash flow	-1 000	500	400	300	100
Present values:	-1 000				
	454.55				
	330.58				
	225.39				
	68.30				
NPV of Project S	78.82				

Question 20

The IRR of an investment in Project S is _____ percent.

Answer: Section 5.2.4 of the textbook illustrates how the internal rate of return can be calculated. Therefore, distractor number **3** is correct - the IRR of an investment in Project S is **14.5** percent.

4 CONCLUSION

We do wish you well as you prepare for the forthcoming semester examination, trusting that the outcome will be successful.

Sincerely yours

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