

## The Examiner's Answers – November 2010

### E3 - Enterprise Strategy

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#### SECTION A

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#### Answer to Question One

##### Requirement (a)

Porter's model of competitive advantage is predicated on the following concepts:

- Overall cost leadership
- Differentiation
- Focus

These concepts are combined to give the following strategic options:

1. Overall cost leadership
2. Differentiation
3. Cost focus
4. Differentiation focus

Porter maintains that the model is *generic*, in that it provides a systematic means of classification which can be applied to all firms and all strategies. If the model is applied successfully in the development of strategy it can lead to long-term or *sustainable* competitive advantage where the firm outperforms others in its industry.

Applying these ideas of Porter to the situation of DEF Airport gives the following:

(i)

##### **Overall cost leadership**

This option would require DEF to be the lowest cost airport operator with respect to its competitors. TUV airport which is approximately 100 kilometres away is regarded by DEF as being its major competitor and there are three other airports within 80 kilometres of DEF which are lesser competitors. It would be useful for the Board to commission a competitor analysis for DEF if this has not been done recently. The Board would also have to consider the nature of the competition which it faces because its competition will not be monolithic, that is, there is not one competitor competing on one basis against DEF. This is because DEF is competing in a number of different markets as shown by the analysis of its revenue which is made up of the following components:

- Aviation income
- Retail concessions
- Car parking
- Other income (including property income, cargo handling and other fees and charges)

It is likely that competitor analysis will show that DEF has a range of competitive performance when compared against the different aspects of the revenue stream, for example, it may be very successful in respect of its retail concessions because it has total control over the granting of these concessions. However, as regards car parking, this may not be as profitable because of the competition from parking operations outside, but close to, the airport boundaries.

In order to apply successfully a strategy of overall cost leadership, DEF needs to analyse the cost structures of its various activities, identify those which are most competitive and where this is likely to be sustainable. It would also benefit from analysing its competitors' cost structures where this is possible. Where the market in which it competes is mature and the competition is intense, it is unlikely that DEF will be successful in pursuing a policy of overall cost leadership because it will not possess any unique cost advantage.

(ii)

### **Differentiation**

This strategy depends upon creating something that is regarded as being unique or special and, because of this, customers are willing to pay a premium price. There are many ways in which differentiation can be achieved but before pursuing it DEF needs to consider the factors explained in (i), namely that it is unlikely to be able to apply this strategy to every aspect of its business. However, DEF does possess some unique aspects: the first is its geographical position and secondly, within the airport's boundaries, it has a degree of monopoly power in that every airline, retail outlet and service agent is only present at the airport by agreement with DEF. No one has a right to trade at DEF without DEF's permission.

One area of possible sustainable competitive advantage for DEF is offered by the findings of the recent survey of European air passengers. The survey revealed that business and first class passengers valued 'distinctiveness'. Business and first class passengers are analogous to 'customers willing to pay a premium price'. If DEF could provide a service to these passengers which is 'distinctive' or as one respondent expressed it, 'Offering something which nobody else offers', DEF could achieve long-term competitive advantage. The survey identified the characteristics of 'distinctiveness': having the leading airlines operating from the airport not the low-priced airlines, luxury passenger lounges, high class restaurants and extensive duty free shops with the best exclusive brands. If this strategy is to be chosen it is likely to involve DEF in significant capital expenditure as it would need to up-grade its facilities.

DEF could use Johnson and Scholes 'three tests' to evaluate the suitability, acceptability and feasibility of following a strategy of differentiation based on 'distinctiveness' designed to deliver sustainable competitive advantage. However, a differentiation strategy within Porter's model has a broad scope: it should be directed to the entire industry's business and first class passengers: this may not be feasible. (See Differentiation focus below).

(iii)

### **Cost focus**

This strategy would involve DEF offering services at a lower cost to a particular segment of a market. As it serves a number of markets, as evidenced by the components of its revenue stream, this gives the possibility of successfully pursuing a cost focus strategy in one or more segments. A cost focus, or *niche* strategy, implies that DEF can provide a service better to a particular market segment than rivals who are attempting the whole of the market. Aviation income is the single most important component of DEF's revenue and DEF already has one low-cost carrier as a client. It may be possible to offer a cost focus strategy to one or more low-priced airlines but there will be a limit to the number to which this can apply. The lower costs extended by DEF to its clients need to be outweighed by benefits, such as higher turnover and complementary business if its overall profitability is not to be adversely affected. There is also the danger that the pursuit of a cost focus strategy could change into overall cost leadership as clients who have not been offered the low cost deal ask for it to be extended to themselves also.

A further problem could arise if DEF decides to pursue a differentiation strategy based on the concept of 'distinctiveness'. One aspect of distinctiveness identified by the recent passenger survey was that it meant 'having the leading airlines operating from the airport not the low-priced airlines' and this is in direct contradiction to a cost focus strategy embracing low cost airlines.

This dilemma was anticipated by Porter who warned of the dangers of being 'stuck in the middle': that is, a business should decide whether it will compete by low costs or by differentiation. To attempt to follow both strategies is likely to end in failure.

### **Differentiation focus**

Like the cost focus strategy, differentiation focus relies on DEF being able to address itself better to a market segment than its broader scope rivals can. DEF should identify market segments where it can provide services that its rivals do not. This could be within its region, say within a 20 mile radius of the airport, or to a particular buyer group, for example, dedicated cargo handling service for exporters. A differentiation strategy based on 'distinctiveness' was discussed above. It may not be feasible for DEF to offer this strategy to the entire industry, for example, it may not be attractive to all its customers if DEF is not located near the country's capital city. However, the strategy may be feasible as a focus strategy when it addresses the market segment that live within commuting distance of the airport.

### *Requirement (b)(i)*

The Board has produced a development plan which '... reviews the development of DEF Airport and its forecast growth in passengers for the next two decades'. Clearly, the Board is taking a long-term view of the airport and its strategy.

It is also stated that 'future development of the airport will be phased and gradual in order not to create unexpected consequences for the local communities and local industry. The development plan has also introduced the concept of 'Sustainable Aviation' which is designed to reduce the effects of flying on the environment' and which restricts night-time flying operations. The mission statement also makes reference to 'conform(ing) to the highest ethical standards'. These policies indicate the Board's acceptance of its responsibilities to its various stakeholders rather than solely to its shareholders.

Another important environmental aspect influencing the development plan is that the existing four shareholders are local state governments (LSGs) and the Board's Non-Executive Chairman is always drawn from one of the four LSGs. It is likely, therefore, that the Chairman is a local politician and that the LSGs will be interested in the Airport as a means of promoting their social and economic objectives. The Airport is not listed on a stock exchange and is not, consequently, directly responsible to financial markets.

### **IVB**

The culture and objectives of IVB are very different to those of The Board. The manner of working of the Board and its objectives and strategy are likely to be challenged by IVB. IVB, the investment bank, describes itself as 'the business turnaround experts'. It looks for businesses which have underperformed in terms of profits and changes these businesses by severe cost-cutting which boosts their profitability. Its severe cost-cutting has led to large scale job losses in the businesses it has turned around. At the conclusion of the turnaround process IVB 'rapidly' sells its businesses to third parties. IVB is a short-term investor as evidenced by its track record since 2007 whereas the Board, as evidenced by its published mission statement and strategic development plan are long-term investors. The Board has also expressed its concern for 'Sustainability' and its desire to be a 'good corporate citizen'. Neither of these concerns has been expressed by IVB whose sole concern, judging by its track record, is to make good short-term profits for its shareholders; it seemingly has no long-term interest in developing any of the businesses which it buys into.

### *Requirement (b)(ii)*

The Board of DEF Airport has established six strategic objectives in its development plan and IVB's likely attitude to each of these as follows:

1. *Create a planning framework which enables DEF Airport to meet the demands of the forecast passenger numbers;* This objective does not appear to be too contentious. Such a framework will be a requirement to help the Board deal with the expansion in passenger numbers. It may be the case that IVB will not be too interested in this objective as it is not normally a long-term investor. However, IVB would be interested if the creation of the planning framework impacts upon the Airport's short-term profits due to any increase in costs.
2. *Reduce to a minimum the visual and audible impacts of the operation of the airport on the local environment;* This objective may be open to challenge by IVB as it implies that the Board will have to invest to achieve the objective. IVB's emphasis has always been on cost-reduction to enable it to boost profitability with a view to a rapid realisation of its investment. Any expenditure by the Board with respect to this objective will depress profit in the short-term and so IVB is likely to oppose this. However, if the objective could be realised successfully in the short-term it might be a factor in IVB achieving a higher price when it resells its investment and so it would not oppose it.
3. *Ensure that the airport is financially secure;* No shareholder would oppose this objective. However, it is very general and the way it is interpreted operationally may lead IVB to challenge it.
4. *Improvement in land based access to the airport;* IVB's attitude to this objective will be similar to its attitude to objective 1. IVB will only be interested in this objective's effect on profitability in the short-term.
5. *Minimise the pollution effects of the operation of the airport;* One feature of the development plan is the requirement for 'Sustainable Aviation' which is reflected in objective 5. As a short-term investor IVB's attitude to this will reflect its attitude to objectives 2, 3 and 4.
6. *Maintain/increase employment opportunities for people living close to the airport;* This objective is most likely to be strongly challenged by IVB. IVB's 'raison d'être' is cost-cutting by large-scale job losses in order to increase profitability. This is directly contrary to objective 6 which it will, therefore, oppose.

### *Requirement (b)(iii)*

If IVB buys the shareholding of one or more of the LSGs, it will become a significant shareholder in DEF Airport and a member of the Board. There are many potential consequences for the Airport which include the loss of a long-standing shareholder (whichever LSG sells out to IVB). The complexion of the Board will change and, as discussed in (b)(ii) above, IVB is likely to challenge some of the strategic objectives established in the development plan. IVB is also likely to propose its own objectives, for example cost-cutting in the form of job losses and sale of the Airport to a third party. However, it should be noted when IVB becomes a shareholder, it will be a minority shareholder, albeit a significant one. Therefore, it will not have control of the Board and cannot insist on anything but must rely on persuasion.

An important factor which could have significant consequences will be the price which IVB pays for its shareholding. If the remaining shareholders consider the price paid to be an attractive one they may also consider selling their shareholdings to IVB and so it is possible that IVB could secure control of DEF Airport. In that case, the Board and the Airport would be subject to radical change. IVB would try to implement its 'turnaround' philosophy which would involve severe cost-cutting and job losses and a rapid resale.

If IVB does not have control it is unlikely that it would accept or strongly support the development plan in its entirety. This could have some positive benefits to DEF Airport as IVB could bring a modernising influence to bear on the Board and its strategy for the Airport. IVB may also be able to introduce the Board to sources of finance which had not been available to it previously.

*Requirement (c)*

DEF Airport	Contribution margin	Contribution margin	Contribution margin	
	40%	30%	25%	<b>Total</b>
				<b>D\$</b>
Year ended 30 June	<b>2014</b>	<b>2014</b>	<b>2014</b>	
Cargo handling income	2,196,150	2,196,150	2,196,150	
Contribution margin	878,460	658,845	549,038	
<b>Fixed costs</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	
<b>Profit</b>	478,460	258,845	149,038	
Probability	0.1	0.2	0.7	
<b>Expected value</b>	47,846	51,769	104,326	203,941

The expected value of the increased profits resulting from the introduction of cargo handling services is 2% above the criterion of D\$200,000 suggested by the Finance Director. However, in the context of a forecast result this difference is marginal. It is not clear in the case how binding or formal the D\$200,000 criterion is: the context suggests that this is an informal criterion and so may not be adhered to rigidly.

The expected value is dependent upon numerous forecasts, namely:

- The theoretical amount of cargo handling income in 2010 and its subsequent growth rate
- Fixed costs
- The three levels of contribution margin
- The probability estimates

The expected value does not give clear accept/reject guidance. It is likely that the decision will be made on other grounds, for example, the Director of Facilities Management's credibility, alternative projects for profit improvement and the project's fit with the airport development plan.

However, as the project does just satisfy the profitability criterion it is recommended for acceptance.

## Answer to Question Two

### *Requirement (a)*

#### **DLC's control system's usefulness**

In order for DLC to operate a traditional budgetary control system it must engage in forecasting and, following on from this, planning. This then results in a system in which budgeted expenditure is compared to actual expenditure. The system imposes discipline within DLC as regards its future plans and also in the collection of data regarding actual expenditure and the monthly reporting thereon. In order to produce DLC's budgets there will be internal consultation and discussion which should result in a coherent and co-ordinated operating plan. The targets inherent within this system will also provide a degree of motivation for DLC's budget managers. DLC also computes its Return On Capital Employed (ROCE) monthly. ROCE attempts to capture the totality of the business's performance and provides a view of the effectiveness of DLC's investments.

#### **DLC's control system's limitations**

Traditional control systems have been widely criticised in recent years. Budgeting is frequently done on a 'Historic Cost plus inflation' basis which means that it is backward-looking. It is not clear how frequently, if at all, DLC revises its budget estimates, for example, by use of quarterly plans. Neither does DLC appear to flex its budget for actual levels of activity nor take account of seasonal variations in expenditure patterns. Although DLC reports on its sales achievement against budget in aggregate, given the size of DLC's revenue, \$24 million, this is unlikely to yield sufficient information for detailed management control.

X relies heavily on the use of ROCE to reflect DLC's performance. However, a number of flaws are manifest within ROCE. It is arguable that ROCE is not suitable for an organisation like DLC which is not yet mature. DLC will have had start-up costs which would depress ROCE but which will not recur. Therefore, historic comparisons of ROCE achievement are liable to suffer distortion. Another problem arises because of DLC's substantial level of capital investment. New capital investment will also depress ROCE which might restrict managers' willingness to invest. However, this would be a mistake as DLC requires substantial and continued capital investment to be successful.

DLC has no system for reporting upon the two critical areas of Technological Innovation and Customer Service. This is a serious omission as these two areas are the basis of DLC's success. They, therefore, should be reported upon explicitly, regularly and contemporaneously. Although ROCE reflects DCL's success in the areas of Technological Innovation and Customer Service it too is aggregated and probably too late to act as a control measure.

The final omission concerns DLC's customers. DLC is now too large for X to know everything about every customer and contract and she has recognised that this is a weakness. It would be expected that a company like DLC would have systems to report contract and customer profitability. DLC's lack of these is a weakness.

### *Requirement (b)*

Although X has not articulated a formal strategy she has an implicit one based upon the following objectives: expansion within the same market/business segment, personal enrichment and the provision of secure well paid jobs for DLC's staff. It is also implicit that DLC will endeavour to achieve these objectives by excellence in Technological Innovation and Customer Service. As DLC's control system is exclusively a financial one it is unable to capture the richness of DLC's business experience and enable it to maintain and improve its performance in the two areas critical for its success.

X would, therefore, be assisted in the achievement of her strategic objectives by formalising excellence in Technological Innovation and Customer Service as Critical Success Factors

(CSFs) and then developing Key Performance Indicators (KPIs) which would indicate the extent to which the CSFs are being achieved. KPI's can be both financial and non-financial: a range of non-financial KPI's could provide a creative measure of feedback about DLC's performance which is not currently available from the financial control system.

The KPI's should be reported upon within a time-scale which is appropriate to the parameter which is being measured. Thus, for example, it may be appropriate to report against a KPI for customer complaints (which would be supporting the CSF excellent Customer Service) daily. However, a KPI measuring innovation in the installation time for a telephone exchange (which would be supporting the CSF excellent Technological Innovation) would be more appropriately reported upon against a longer timescale. The KPI's should not be too numerous otherwise X is likely to be overwhelmed by them: she should also continually keep their usefulness under review. If DLC is continually meeting or beating a KPI it may be appropriate to discard this one and introduce a new one so that X may make the best use of her time.

X has acknowledged that the lack of control information which she has about sales is a weakness. Non-financial performance measures could address this weakness and contribute towards X achieving her strategic objectives. KPI's could also be constructed for sales performance as they are for CSF's.

#### *Requirement (c)*

Currently X does not know the profit which DLC makes from each customer. As the annual revenue in 2010 is \$24 million, this is too large for one person to know every detail about it as she did when the business started.

One of X's aims is for her business to continue expanding within the same market/business segment: it is implicit that she wants this expansion to be profitable. In the present circumstances X is not aware which of her current customers are profitable and which ones unprofitable. When DLC expands there is a risk that some new customers will also prove to be unprofitable ones and, possibly, that she might turn away profitable business.

Customer Profitability Analysis (CPA) is defined by CIMA as the 'Analysis of the revenue streams and service costs associated with specific customers or customer groups'. If X introduces CPA to her company it will reveal which customers are profitable and, therefore, should be retained and nurtured. Conversely, CPA will suggest which customers DLC should consider ceasing to do business with. As X wants to expand her business within the same market segment CPA could give insights as to the attractiveness of this segment and guidance as to which new customers and contracts she should accept. CPA could also help X to evaluate whether other market segments may provide more attractive expansion prospects in the future.

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### **Answer to Question Three**

#### *Requirement (a)(i)*

##### **Organic growth**

JKL has chosen in its strategy to grow organically. It has been influenced in this choice because of its recent experience with an acquisition which resulted in failure. It could be argued that organic growth is less risky than growth by acquisition. This is substantiated by the empirical evidence which demonstrates in the majority of cases when a company is acquired, it is the acquired company that benefits financially to the detriment of the acquiring company. Organic growth is usually achieved by reinvestment of profit which is then applied to the development of the company's strengths. Therefore, organic growth will happen at a pace commensurate with the organisation's ability to absorb and benefit from it. However, if organic growth is achieved by reinvestment then the speed of growth will be constrained to an extent by the amount of profits available for reinvestment. Organic growth will be suitable for a company where the culture is one of gradualism rather than radicalism: Evolution rather than Revolution.

#### *Requirement (a)(ii)*

##### **Acquisition**

In many ways, an evaluation of growth by acquisition is the opposite of organic growth. Growth by acquisition can be fast, radical and transformational. It can offer opportunities to a company which otherwise would not be available. Thus, an acquisition target may have unique competences and capabilities, for example, it may own patents, licences and commercial and brand franchises, which are otherwise unavailable. Acquisition gives JKL the possibility of eliminating a competitor. However, the biggest downside to any acquisition is the empirical evidence which demonstrates that most acquisitions do not benefit the acquirer.

#### *Requirement (b)*

##### *1. JKL and LMN had very different accounting and control systems and these had not been satisfactorily combined*

Although at the start of the acquisition process the accounting and control systems of the two companies will be different they must be made to converge as soon as possible. This is necessary to preserve the integrity of the published financial statements, for example, it would not be acceptable for the two companies to value their stocks on different bases. If managers are subjected to different control systems in the two companies, for example, JKL pays a bonus if a manager meets her budget targets but XYZ does not, there would be motivational problems if this continued. JKL would need to review the two systems, identify the differences and plan for their convergence. The change agent could facilitate this with the help of the Management Accountant.

##### *2. JKL and LMN had very different corporate cultures and this had posed many difficulties which were not resolved*

In any acquisition JKL will encounter a different culture to its own in the target company. JKL needs to survey and explicitly recognise the cultural differences and categorise those which are vital for the success of the acquisition. It should then outline an operational strategy to reconcile or accommodate these differences. Achievement against the plan should be regularly reviewed. This process of reconciliation and accommodation could be managed by the change agent.

##### *3. JKL had used an autocratic management style to manage the acquisition and this had been resented by the employees of both companies*

An autocratic management style implies that there is no delegation of responsibility: everything is driven from the centre. JKL's use of this style had led to resentment and this, in turn, would probably lead to resistance. There are a number of alternative management styles that JKL could use, for example, participation, negotiation and facilitation. JKL should use a contingency approach and not assume that one management style will be suitable for all situations and all times.

### *Requirement (c)*

A change agent is a person, or a group of people, who help an organisation to achieve strategic change. In the matter of JKL acquiring a French company, XYZ the change agent could carry out the following useful tasks:

#### *1. Define any possible difficulties presented by the proposed acquisition*

One obvious difficulty presented by the proposed acquisition consists of the potential problems in communication between the two companies as none of JKL's staff speak fluent French or are able to correspond in French. XYZ is in a similar position as only a small number of its staff speak English fluently: none are able to correspond in English. The change agent would be able to highlight this difficulty for the attention of JKL's management and to point to the areas of communication which are likely to cause the most problems: for example, phone conversations may be most problematic because of their ephemeral nature, e-mails a lesser problem because of their more permanent nature.

#### *2. Examine what causes the problem and diagnose how this can be overcome*

In this particular example, the change agent would have no difficulty in diagnosing the cause of the problem: it is the lack of complementary language skills in both companies. The solution would be to increase the language skills in both English and French in both companies.

The more creative role for the change agent in this situation is to propose ways in which this problem could be overcome. Depending on the background of the change agent he/she may have to seek expert advice from a linguist experienced in both the English and French languages. There are a variety of ways to achieve the desired solution that the change agent could propose. One possible way would be for JKL to employ a language tutor to work with both companies.

#### *3. Arrive at alternative solutions*

In order to give the management of JKL some alternative ways of overcoming the lack of relevant language skills in the two companies the change agent could suggest alternative solutions, such as:

- JKL could specify that all new appointments at senior management level are bi-lingual in French and English.
- JKL could use the English speaking members of staff at XYZ to coach their counterparts in JKL in the French language.
- JKL could send its senior managers at both companies to external language training.

#### *4. Implement solutions*

Once the management of JKL, after consultation with the change agent, have arrived at their preferred solution it will need to be implemented. The change agent could usefully take the lead in this process as he/she will be very well-informed about the preferred solution and the reasons why it has been chosen. If JKL's chosen solution is to employ a language tutor to work with both companies the change agent could draft the job specification and assist with the recruitment and induction of the tutor.

#### *5. Transmit the learning process that allows the organisation to deal with change on an ongoing basis by itself in the future*

The change agent should document the learning process and discussions which JKL has undergone whilst resolving the lack of foreign language skills in both companies. This experience should be disseminated throughout both companies and the change agent should take the lead in this by organising workshops for managers and information sessions for employees.

## **Answer to Question Four**

### *Requirement (a)*

The opportunity offered by the hotel contract can be characterised as a transformational change. Johnson, Scholes and Whittington defined transformational change as change that is radical and will move the organisation outside its existing paradigm (way of thinking). This implies a significant cultural shift for Y which she is going to have to deal with.

Y has operated her business on a small scale in order to give her a particular lifestyle and she has not been interested in growth so she has turned away new business. As her personal circumstances are due to change, and she has no other options, she is trying to win the hotel contract. If she is successful she will have to employ at least 4 staff. She will then have responsibilities to, and for, four other people. Her business will, therefore, be more complex and her current administrative systems inadequate. However, her income will increase.

The lifestyle that Y has enjoyed will change if she obtains the hotel contract and she will no longer be able to maintain her lifestyle business strategy.

### *Requirement (b)*

#### **Information systems strategy (ISS)**

An information systems strategy should define the long-term use of information within Y's business. The ISS will enable Y to specify the systems that will facilitate the use of information to support her in her new business strategy.

When Y has decided what her new long-term goals are then the ISS can express what systems (in the broadest sense of the word) are needed to support those goals. The ISS is a long-term approach expressing how information will be used to support Y's business strategy and/or create new strategic options. The process of defining her ISS will be an interactive one with that of defining her new business strategy: each strategy should inform the other. A benefit of Y looking at information strategically is that it may give her ideas about new ways of doing business and could lead to her securing a competitive advantage.

Y will also benefit from an ISS as she will have an overall context for the development of how she will use information within her business. Previously, although she had a number of sources of business information, for example, her diaries, she made no attempt to exploit this resource. She could, for example, have analysed the cost structure of different jobs and revealed her clients' profitability. When Y is operating the hotel contract she will have a need for real-time information to ensure she stays within the contract's specifications. An ISS should define how she will do this.

#### **Information technology strategy (ITS)**

Currently, Y has very little Information Technology (IT) to support her business. She, therefore, has to move from a position where she relies on her mobile phone to a much more complex business where she will have to have real-time control information regarding the hotel contract and also have to administer and pay her four employees. Clearly, Y's diary and mobile phone will be inadequate in these circumstances.

Y has little experience of using IT within her business and the acquisition of such technology will involve her in expense. She will benefit from developing an ITS rather than acquiring IT at random. As IT will become an important part of her business, Y needs to make sure that what she purchases is reliable, adequate for her needs and will be compatible with her client's requirements. The latter is particularly important in the case of software. Y's IT requirements will increase and by drafting an ITS, Y would define what computers, peripherals, communication links and software she would use in her new expanded business.

As the acquisition of IT will involve Y in increased investment in technology her ITS will enable her to define her technological needs and identify how and where these will be met. Part of her ITS will be a budget which she can use to control expenditure and provide 'feedforward' information for future acquisitions. This will benefit her in the future as lessons

learnt from IT acquisition should help make better acquisition decisions.

### **Information management strategy (IMS)**

An information management strategy will enable Y to define her approach to managing data and information within her business and how data and information should be stored and accessed. She will also use the IMS to describe the roles of the people involved in the use of information, systems and technology in the larger organisation. As Y will no longer be solely responsible for the business administration, she should use the IMS to demarcate responsibilities between herself and the new administrative assistant. Y could also use the IMS to guide her in the recruitment process for the administrative assistant.

Y will also require real-time information about the hotel contract and the IMS should specify who will collect this and how it will be done. Potentially, Y, her three gardeners, her administrative assistant and some of the hotel staff could be involved in this process. The benefit of an IMS is that it will bring clarity by stating the responsibilities of the different parties. On the assumption that Y buys a computer for her administrative assistant, the IMS should define who has access to it and who is responsible for maintaining and up-dating files and records.

The over-arching benefit of the IMS will be the clarity it gives to the roles and responsibilities regarding IT within Y's business.

### *Requirement (c)*

In the case of all three strategies Y may be unable to develop them herself due to her lack of experience. She could seek assistance from her accountant and she may find it necessary to use an IT consultant to help her develop the strategies.

### **Information systems strategy**

In order for this strategy to be produced Y will have to articulate her new business strategy as she moves away from managing a lifestyle business. Although she does not have any employees who will be affected by the new strategy it would be appropriate to discuss it with her husband who will be affected by it.

In producing the ISS she should examine how information could contribute to her long-term success. Y has details of all the work she has done in the past three years recorded in her diaries. She should analyse this data to discover for example, trends in customers' demands, profitability of customers, and seasonality of demand. Y's success has been built on creativity and reliability. In her ISS she should specify how these attributes could be recorded and acted upon as they will also be important for her future success.

### **Information technology strategy**

In the future, as well as her current customer base, Y will be dealing with a demanding customer, the hotel, which expects very close adherence to its contract specification. Therefore, the scale and complexity of Y's business is going to change in such a way that her current information technology, a mobile phone and a diary, will be inadequate. Y will need to budget for her technological requirements.

Y will need to purchase at a minimum:

- A wireless enabled computer for her administrative assistant
- (Possibly) a laptop for herself
- A router
- A printer
- Software comprising programs for email, word processing, data base and spreadsheet
- A landline

It may be useful for Y to establish an Intranet.

**Information management strategy**

Y now has a number of information users to consider, herself, her administrative assistant, her three gardeners, her accountant and the hotel. She will need to specify the degree of connectivity for the various users: for example, instead of passing her diary over to her accountant at year end she could allow the accountant access to her information systems. Similarly, with her new customer, the hotel, which closely monitors performance against contract specification, she will have to establish how she will exchange information. It may be that the contract has provision for this in which case Y will have to follow the contract requirement and incorporate this into the IMS.

Y will also need to describe in the IMS the roles and responsibilities of herself and the administrative assistant.

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