



Strategic Level Paper  
**E3 - Enterprise Strategy**  
**May 2012 Examination**

Examiner's Answers

*Some of the answers that follow in Sections A and B are fuller and more comprehensive than would be expected from a well-prepared candidate. They have been written in this way to aid teaching, study and revision for tutors and candidates alike.*

These Examiner's answers should be reviewed alongside the question paper for this examination which is now available on the CIMA website at [www.cimaglobal.com/e3papers](http://www.cimaglobal.com/e3papers)

The Post Exam Guide for this examination, which includes the marking guide for each question, will be published on the CIMA website by early August at [www.cimaglobal.com/e3PEGS](http://www.cimaglobal.com/e3PEGS)

## SECTION A

### Answer to Question One

#### Rationale

This question examines learning outcomes from across the syllabus. Requirement (a) is designed to test candidates ability to quantitatively evaluate the strategic option of opening franchises in Country P and examines learning outcome C1(b) 'evaluate strategic options'. Requirement (b)(i) examines learning outcome C1(a) 'evaluate the process of strategy formulation' and tests candidates' ability to quantitatively evaluate the minimum franchise period, (b)(ii) examines learning outcome C2(b) 'recommend appropriate changes to the product portfolio of an organisation' and tests understanding of the qualitative influences on strategy formulation. Requirement (c) tests candidates' understanding of the external demands placed on organisations for responsible business practice and examines learning outcome B3(b) 'evaluate ethical issues and their resolution'. Requirement (d) examines learning outcome D1(a) 'recommend appropriate control measures' and is designed to test candidates' understanding of the advantages and disadvantages of different forms of control systems.

#### Suggested approach

Requirement (a) should have been a straightforward calculation. Candidates were required to undertake a break even calculation, based upon a required income of €3 million per year to be earned from the annual fees charged to the franchises i.e. the royalty fee, the service fee and the marketing contribution fee. Therefore candidates should have calculated the royalty fees and the service and marketing fees to be earned per franchise and then calculated the number of franchises needed to earn these fees to cover the €3m income required.

### **Suggested approach cont.**

For requirement(b)(i) candidates were required to calculate the minimum period of investments for an individual franchise before payback occurred. Therefore candidates should have identified the discounted total costs and revenues for each year in order to identify the point at which payback occurs. This involved identifying the timings of the costs and revenues and the appropriate discount rate.

Requirement(b)(ii) required candidates to consider and discuss the factors which would influence a potential entrepreneur in Country P, either positively or negatively, to invest in a discount store franchise. Candidates were provided with three headings to structure their discussions. Candidates should have considered a wide range of potential influencing factors, focusing specifically upon the desirability of investing in a discount store franchise. Candidates were not expected to discuss the desirability of investing in Country P or to discuss the financial or cost considerations which were already covered in their previous analysis.

For requirement (c) B has developed a number of environmental indicators to provide transparency in its overall performance in respect of its sustainability (pre-seen page 5) and candidates were expected to use these indicators to evaluate whether the discount store business could assist in achieving these sustainability targets. Therefore candidates were expected to use the pre-seen and the un-seen material to answer this requirement. Candidates should have identified from the un-seen that the information provided relating to sustainability was directly related to the targets presented in the pre-seen and should have been prepared to assess how the discount stores business could assist B in achieving sustainable investment.

Requirement (d) was a straightforward question, requiring candidates to discuss a range of advantages and disadvantages to B supermarkets of a reformed planning and management control system. Much of the necessary information to answer this question was given within the un-seen information and candidates were merely required to analyse and discuss this information. Candidates were not required to make recommendations for alternative planning and management control systems nor were they required to provide a detailed discussion of the information systems requirements of a new planning and management control system.

### *Requirement (a)*

	Month	Year	Inflow to B per year
	€	€	€
<b>Revenue</b>	<b><u>100,000</u></b>	<b><u>1,200,000</u></b>	
Variable operating costs	65,000	780,000	
Royalty fee	15,000	180,000	180,000
Service fee	5,000	60,000	60,000
Marketing contribution fee	5,000	60,000	60,000
Fixed costs	<u>2,000</u>	<u>24,000</u>	
<b>Total costs</b>	<b>92,000</b>	<b>1,104,000</b>	
<b>Profit</b>	<b>8,000</b>	<b>96,000</b>	<b>300,000</b>

B's minimum return is €3 million.

Each Country P franchise will produce €300,000 per year.

Therefore, the number of franchises required to satisfy B's minimum return is 10.

### Requirement (b)(i)

#### Franchisee's costs and returns

Year		€	Present value (PV) factor	€ PV
0	Franchise/Training/Equipment fees	230,400	1	(230,400)
1 - 3	Yearly inflow	96,000	2.402	<u>230,400</u>
			Net Present Value	<u>0</u>

The estimated cost of capital for franchisees in Country P is 12%.

The Present Value annuity factor for 12%/3 years is 2.402

Therefore, the minimum period for which a franchise should be granted in Country P to make it financially worthwhile, in terms of wealth, for an individual franchisee is 3 years (to the nearest year).

Alternatively, this investment if evaluated in terms of Payback shows the payback period to be (€230,400/€96,000) 2 years 5 months.

### Requirement (b)(ii)

If an entrepreneur becomes a franchisee within Country P he/she will be operating within the following context:

*'A franchisee is an individual who purchases the rights to use a company's trademarked name and business model to do business. The franchisee purchases a franchise from the franchisor. The franchisee must follow certain rules and guidelines already established by the franchisor, and in most cases the franchisee must pay an ongoing franchise royalty fee to the franchisor.'*

The factors which are likely to influence such an entrepreneur include the following:

#### Marketing/Branding

##### *B Supermarkets (B) trademarked name and business model*

B is a multi-national grocery business and has traded since 1963. B has a total of 5,168 discount stores within Europe. Therefore, B has extensive experience of discount store retailing which is a strength. However, B 'needs to be aware of different customer tastes and preferences which differ from country to country' (pre-seen page 4). B does not have any discount stores in Country P and so may lack the necessary awareness of tastes and preference which is a possible weakness.

B is 'one of the largest retailing companies in the world' which suggests that consumers in Country P should recognise B's trademarks and business model which is a strength. However, there is no information as to the reputation of B so this could be either a strength or a weakness.

##### *Competition*

'Country P's retailing sector does not have any discount stores'. This has several implications for the entrepreneur considering a franchise. B's approach to discount retailing will be innovative within Country P which could give a competitive advantage. If this is the case, the entrepreneur will want to assess the benefit of such a competitive advantage and its likely durability. Therefore, the entrepreneur is likely to want to assess the strength and speed of competitive reaction to the introduction of discount stores. Alternatively, B's approach to discount retailing may not be popular within Country P. Therefore, an entrepreneur considering a possible investment in a franchise would want to examine market research findings about its attractiveness.

##### *Exclusivity*

As well as a franchise giving the right to use B's brand identity it would be normal for the individual franchise agreement to give some rights regarding exclusivity. Thus, for example, a

franchise may be given the exclusive right to operate within a five mile radius. The wider the boundary is set for exclusivity the more attractive the franchise will be to the entrepreneur.

## **Risk**

### *Franchise purchase*

In order to purchase the franchise the entrepreneur will need to invest €230,400. In terms of investor wealth, the franchise must have a minimum period of 3 years to produce an NPV of €0.

The answer to (b)(i) shows that the minimum period for a franchise to payback is 2 years 5 months. However, an individual entrepreneur is unlikely to want to undertake such an investment merely to be 'Paid-Back'. Therefore, the length of the franchise is likely to be a crucial factor in the decision to invest. How many years after payback is the franchisee likely to continue earning €96,000?

A franchise period of 20 years will be significantly more attractive than one of 5 years.

### *Equipment*

The entrepreneur will have to pay €150,000 as an equipment fee. Therefore, the expected lifespan of the equipment and whether it will have any disposal value will be an important consideration. The responsibility and arrangements for servicing the equipment may also be an influence in the franchise decision.

### *Opportunity cost*

As well as considering the opportunity cost of financing a franchise, an entrepreneur in Country P is likely to consider this investment in comparison to other investment opportunities.

## **Franchise implementation and operation**

### *Rules and guidelines already established by the franchisor*

Franchisors take care to ensure that their brand and corporate identity is not compromised by any of their franchisees. To this end, B will require rules and guidelines to be followed by its franchisees within Country P. There may also be some regulations within Country P that are a government requirement. The entrepreneur will incur costs in complying with these requirements. If the requirements are too onerous this may deter the entrepreneur from the investment. However, if the requirements seem reasonable and justified the entrepreneur should accept these as a part of doing business with B.

### *Ongoing franchise royalty fee*

As part of the franchise agreement, B imposes a 15% royalty on each franchisee's revenue in Country P. (This has been taken into account in the calculations above.) The royalty is incurred irrespective of the level of revenue attained by any franchisee who could regard it as a tax and this might prove a disincentive. However, it could be argued that this 'tax' is paid out of incremental revenue and the higher the 'tax' the higher the profit. The payment of a royalty based on revenue is a normal feature of franchised businesses.

### *Service fee and marketing contribution fee*

These fees are directly related to revenue just as the royalty is. Therefore, the same arguments apply as did in the case of royalties. The entrepreneur is likely to want to ensure that he receives value for money from the 'Service' and 'Marketing' for which he will be paying. Therefore, he would expect that any agreement entered into with B should state the purpose and benefits of these two fees.

### *Requirement (c)*

B states in its mission statement that 'it practises sustainable investment'. (pre-seen page 3). Sustainability has been defined as 'using resources in such a way that they do not compromise the needs of future generations.' Sustainability is about implementing strategies that contribute to long-term success. This includes not polluting the environment at a rate faster than the environment can cope with.

B has established a number of environmental indicators in respect of sustainability: (pre-seen pages 5 and 6).

**Consumption of kilowatt hours**

B has set a target to reduce kWh per square metre of sales area. The discount stores will operate from new purpose built energy efficient premises. This should contribute positively to sustainability.

**Number of free disposable plastic bags**

B has set a target to reduce the number of free disposable plastic bags given to customers. The discount stores will operate without plastic bags being given to customers which will contribute positively to sustainability.

**Greenhouse gas emissions**

B has set target to reduce greenhouse gas emissions. The discount stores should function as carbon neutral businesses. This will contribute positively to sustainability.

**Local amenity projects**

B provides funding for local amenity projects in all the countries where it operates. There is no mention of such funding within Country P. In this aspect of the discount stores there is not a contribution to sustainability.

**Distribution/Transport**

B sources 20% of its requirements locally whereas Country P's discount stores will only source 10% locally. The discount stores in Country P will import 45% of their requirements by road and 45% by air. The distribution of products within Country P will be by road transport. When B uses rail transport in Europe this leads to lower greenhouse gas emissions than that experienced in America and Asia which use road and air transport exclusively. Thus, because of its higher requirement for imports and the use of road and air transport the discount stores within Country P are unlikely to contribute positively to sustainability.

*Requirement (d)*

**Advantages**

B's management control system is bureaucratic and authoritarian. The reforms will introduce a significant degree of delegation and counteract these tendencies. The essence of the reforms is localism which is the belief that decisions are best made by people closest to operations.

The reforms would be very empowering for B's Regional Director for Discount Stores and would contribute to his personal development. He would agree a profit target with B's Chief Executive Officer. This would give the Regional Director access to B's most important decision-maker and also enable the Chief Executive Officer to better understand the discount store operation in Country P and to build a relationship with the Regional Director.

If the reforms are introduced throughout B they could assist the management development of B's executives.

B's current inventory management system leads to stock-outs and sometimes produces misleading information. The reforms enable the Regional Director to opt out of B's generic systems and construct his own. These could provide more accurate information for the Regional Director which would be of benefit.

If the reform was introduced throughout B then other executives could implement their own information systems and avoid the problems currently experienced within B's generic system.

Currently, 'The main Board members .....often stifle planning initiatives within each region' (pre-seen page 4). The reforms might remove 'stifling' as local managers are given greater autonomy.

B currently has a complicated organisational structure: (Appendix 1, page 7). This structure

emanates from the scope and size of its business. However, it may, in part, be due to its current arrangements for planning and management control. If the reforms are implemented throughout B it might be possible to simplify B's organisational structure. This could lead to lower costs, better decision-making and increased responsiveness to the external environment.

### **Disadvantages**

Even if the reforms led to the successful operation of Country P's discount stores there is no guarantee that they could be successfully extended throughout B.

B Europe's Regional Director for Discount Stores may not have the personality and experience to thrive in the reformed environment.

As B's executives have operated in a bureaucratic and authoritarian environment they may not have the personal skills to flourish in the new environment.

Localism could lead to many different operating styles and B would lose uniformity and possibly control.

If the reforms were introduced B could find that a great number of diverse information systems were in use. This could lead to problems in co-ordinating and reporting on its global operations. If local information systems were introduced this would involve B in additional cost.

Due to the demands placed on the Chief Executive Officer's time it might not be possible to allow every executive of the Regional Director's standing the opportunity to agree a profit target with the Chief Executive Officer. If this is the case, the arrangement between the Regional Director and the Chief Executive Officer might cause resentment among other executives who could feel excluded.

'Regional board members exercise strict financial and management control over operational managers in their regions in order to ensure that the main Board directives are carried out'. If the reforms are implemented within B, the regional board members would find that their strict control had been reduced. This could cause anxiety to these board members: it might also mean that main Board directives were not carried out.

The Corporate Affairs Director believes that B's procedures have 'served us well in the past'. There is a risk that the introduction of the reforms throughout B could be costly due to extra expenditures on information systems and training. It is likely that a number of B's employees would not have the skills to work in the new environment and so there would be costs associated with redundancy and recruitment.

The Corporate Affairs Director has also pointed out that 'In my opinion this (the reforms) is not how we do things.' The introduction of the new practices would involve a degree of cultural change which has its own costs and is difficult to achieve.

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## SECTION B

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### Answer to Question Two

#### Rationale

This question examines Section A of the syllabus. Requirement (a) tests candidates' knowledge of environmental analysis and examines learning outcome A2(a) *'evaluate the impact and influence of the external environment on an organisation and its strategy'*. Requirement (b) examines learning outcome A1(c) *'discuss the drivers of external demands for corporate social responsibility and the organisation's response'* and tests candidates' understanding of the impact of CRS upon an organisation's mission statement. Requirement (c) examines learning outcome A1(d) *'recommend how to manage relationships with stakeholders'* and tests candidates' understanding of managing key stakeholder relationships.

#### Suggested approach

Requirement (a) was a straightforward question, requiring candidates to identify two appropriate environmental analysis methods that could be used to form an understanding of RGG's external environment. Candidates were expected to identify the model and also to explain how it could be used to understand RGG's environment. Therefore application of the methods rather than just mere description of them was required to obtain maximum marks for this requirement.

For requirement (b) candidates were expected to demonstrate a sound understanding of CSR and link this knowledge directly to the scenario information relating to the proposal to abandon the existing mission statement. Candidates were not required to discuss the concept of CSR in any depth, rather evaluate whether it would be consistent with the three aspects of CSR to abandon the mission statement. Candidates were also not expected to present an alternative mission statement.

Requirement (c) was a straightforward question, requiring candidates to demonstrate their knowledge and understanding of stakeholder management strategies, using the Mendelow model. It was important that candidates applied their answers directly to the strategies required by RGG to manage its own stakeholders. A description of RGG's stakeholders or the Mendelow model was not required.

#### Requirement (a)

There are a number of approaches that could be used to assist in forming an understanding of the external environment.

One well known model used for environmental analysis is SWOT: the acronym refers to Strengths, Weaknesses, Opportunities and Threats. Threats and weaknesses are defined in relation to the external environment. RGG plc (hereafter RGG) is **threatened** by a take-over and has an **opportunity** to expand its business into other countries.

There may be other threats and opportunities in RGG's external environment and RGG could form an understanding of these by the use of market research which also could be used to investigate shareholders' views about pesticide sales.

RGG could use the PEST model to examine its macro-environment and identify key drivers of change, sources of risk and opportunities and threats. RGG could research whether there would be any Political obstacles to widening its area of sales. An analysis of RGG's Economic environment could support the belief that the removal of the restriction would lead to increased sales. RGG could examine Social attitudes towards pesticide sales to establish if these have changed since 1992 when the Mission Statement was formulated. An awareness of developments within pesticides related technology would also enhance RGG's understanding of market opportunities. All the factors explored within PEST could be influential in RGG's

shareholders' investment decisions.

### *Requirement (b)*

Corporate Social Responsibility (CSR) has been defined as the firm's obligation to maximise its positive impacts upon stakeholders while minimising the negative ones.

Although CSR has not been uniquely defined it is usual to consider the economic, legal and ethical aspects of a business as falling within the scope of CSR.

With regard to the proposed abandonment of the mission statement, RGG has the following responsibilities to consider:

#### **Economic**

The primary motivation for the discarding of the mission statement is economic in that RGG's managing director, S, believes that the mission statement restricts business expansion. He believes that RGG could get a great deal of business from selling pesticides to countries outside its current area. RGG has been in slow decline since 2005 and in its most recent financial year it made a loss of £1 million. Therefore, S has a duty within CSR to try to reverse the decline.

If S is right then the economic performance of RGG will be improved when the mission statement restriction is removed. This means that the economic welfare of RGG's shareholders will be enhanced and is, therefore, socially responsible.

#### **Legal**

RGG's Board of Directors, which includes S, has a duty to act in the best interests of its shareholders. The proposed abandonment of the mission statement has been discussed by the Board and at least one non-executive director was not in favour of the new strategy.

The Board is not obliged to consult with the shareholders about every decision it makes: this would not be feasible. The shareholders have appointed the Board to run RGG and the Board is accountable to them. If the shareholders have a substantial disagreement with any of the Board's policies the shareholders have the right to replace the Board. What S has proposed; to sell pesticides to a wider market, is legal and because of its positive economic impact upon the shareholders could be considered as socially responsible behaviour.

#### **Ethical**

S, as a member of CIMA, must have regard to CIMA's Code of Ethics as regards his personal behaviour. The main sections of the Code are concerned with:

- Integrity
- Objectivity
- Professional competence
- Confidentiality
- Professional behaviour.

However, the proposal which he is considering does not fall under any of these headings and so, from a professional point of view he is acting ethically.

As far as RGG is concerned, it would be legal to widen its area of sales and so, to this extent, the new policy would be ethical. However, an ethical issue arises because the shareholders have not been consulted. Given that the Board is supposed to act in the best interests of the shareholders, if the majority of shareholders were opposed to the removal of the restriction the new policy is clearly not in their best interests. In these circumstances, to persist with the abandonment of the mission statement would not be socially responsible corporate behaviour.

The argument could be widened further because, although increasing the area of sales would be legal for RGG, it could have bad effects if its customers used the pesticides irresponsibly. If RGG was to facilitate the irresponsible use of pesticides by its customers, for example, by selling pesticides to totalitarian states or to politically unstable countries this would not be socially responsible behaviour. As such, RGG would be acting unethically.



### *Requirement (c)*

Stakeholders are any individuals or groups that have an interest in the organisation. RGG could classify its stakeholders in relation to the power and interest they hold in relation to S's proposal. Mendelow has provided a model which suggests the following strategies:

#### **Low power/Low interest:**

Minimal effort: their lack of power and interest makes these stakeholders open to influence. They are more likely to accept what they are told and follow instructions.

#### **High power/low interest**

Keep satisfied: this group needs to be kept satisfied so that its interest is kept low and it does not move into the **key players** quadrant. This could involve these stakeholders being reassured about the outcome of S's proposal well in advance.

#### **Low power/high interest**

Keep informed: although these stakeholders are interested in S's proposal they do not have the power to impact upon it. However, efforts should be made to persuade any opponents of the proposal of its merits to avoid them seeking power by joining with stakeholders with high power but low interest.

#### **High power/high interest**

Key players: these stakeholders have the ability to thwart S's proposal. Their consent is vital if the proposal is to be implemented. S needs to communicate well with the key players and take their views into account.

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### Answer to Question Three

#### Rationale

This question examines Section B of the syllabus. Requirements (a) and (b) examines learning outcome B2(a) '*evaluate approaches to managing change*' and test candidates knowledge of different styles of change, ability to evaluate change management options in a scenario context and recommend a change management solution. Requirement (c) examines learning outcome B1(b) '*recommend techniques to manage resistance to change*' and tests candidates' ability to advise on the most appropriate methods to overcome resistance to change in a given scenario context.

#### Suggested approach

Requirement (a) required candidates to consider the **circumstances** where evolutionary or big bang change would be most appropriate. Candidates were not expected to describe these two styles of change, but explain the circumstances where they would be most appropriate. Limited marks were available for description of the two types of change.

For requirement (b)(i) candidates were expected to evaluate each of the three solutions proposed by R. No marks were available for a mere description of the three solutions and therefore candidates should have ensured that their answer evaluated all of the factors presented within each solution, in terms of whether these were positive or negative issues for each. Candidates were not expected to make a recommendation within this requirement.

Requirement (b)(ii) required candidates to recommend with an appropriate justification, a suitable solution that R should adopt. Answers should have been consistent with their analysis in the previous answer.

Requirement (c) required candidates to consider and discuss the methods that WAL could use to overcome the resistance that may occur should solution 3 be chosen. Candidates were expected to apply their answers to WAL's proposed purchase solution and the likely resistance from R and the IT/ IS staff, using the Kotter and Schlesinger framework. Application to WAL was required in this answer. Answers based on Lewin's change management model were credited, as long as an appropriate focus was put on dealing with resistance to change.

#### Requirement (a)

The case for change to WAL's software-based marketing information system seems to have been accepted by the two main parties which will be affected by the change: the marketing staff and the Company Secretary, R. What is in dispute is the speed of the required change. The marketing staff want change to be revolutionary: to happen straightaway. R is opposed to revolutionary change and has suggested three possible solutions: modification, development and purchase. The first two of these would be evolutionary, i.e. not be immediate: purchase would be revolutionary, i.e. quick, but R is sceptical about its effectiveness.

(i)

**Evolutionary change** is appropriate when it's a proactive response to anticipated changes in the environment. However, in the case of WAL's marketing information system the changes in the environment have already happened: WAL is 'being left behind by its competitors and is losing customers'. Further, according to the software supplier, 90% of WAL's competitors are using biscuit industry standard software which implies that WAL is at a competitive disadvantage.

(ii)

**Big Bang/Revolutionary change** is likely to be forced and reactive because of changing competitive conditions which is the situation in which WAL finds itself.

The case for revolutionary change to WAL's marketing information system seems to be dominant, that is, it should happen. However, a caveat needs to be noted because of R's opposition and WAL's previous experience of failed change.

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

The three solutions proposed by R are:

#### **Solution 1 - Modification**

This solution relies upon WAL's in-house IS/IT staff who have limited experience of the work which would be required and they are 'unsure of the cost.' Despite their lack of relevant experience the IS/IT specialists are confident that they could complete the work within a year.

The judgement that this project could be completed within a year is questionable because of the staff's lack of experience. The staff's uncertainty about the cost means that WAL may pay excessively for this project's completion.

As this solution relies upon modifying what is an inadequate system, the final result may not meet WAL's marketing staff's needs: neither will it present them with a quick enough remedy to the current system's inadequacies.

An important advantage of this solution is that it would fit the preference of R and the IS/IT staff for evolutionary change. As these are people who would be closely affected by the change to the marketing information system their views should be taken into consideration.

#### **Summary**

This solution is not recommended because the lack of certainty about its duration, cost and ability to meet its users' needs.

#### **Solution 2 - Development**

WAL's IS/IT staff would like the opportunity to develop new bespoke software themselves to meet the marketing staff's needs. If this solution was adopted it could have a positive motivational effect on the IS/IT staff. This solution would also meet the preference expressed by R for evolutionary change although it would not satisfy the marketing staff's need for a rapid change.

They have stated that 'because WAL's needs are unique, costs can only be roughly estimated. However, this solution is likely to be considerably more expensive than the 'Modification' solution. The final cost would be dependent upon the length of the project. It should take a minimum of six months to develop new software but it might take as long as two years. 'We have little experience of software development but are very enthusiastic about trying'.

#### **Summary**

This solution has an uncertain duration and cost. It is dependent upon WAL's IS/IT staff who have little experience of software development. For these reasons, this solution is not recommended.

#### **Solution 3 - Purchase**

WAL could buy the biscuit industry standard software. This software is expensive but there would be a boundary put upon its cost which would be its contractual price. This provides WAL with certainty.

The software is a proven product and some of WAL's marketing staff have experience of using this software in other companies, are very appreciative of its benefits and believe it would help them considerably in their jobs. The software supplier claims that '90% of the biscuit industry uses our product'. This suggests that this software would be readily accepted by its users. If the supplier's claim about having the software working within three months is a valid one, this solution would meet the need of the marketing staff for a revolutionary, rapid change.

As WAL does not currently use the biscuit industry marketing information software it may be operationally at a competitive disadvantage: the Purchase solution would put WAL on an equal footing, in this respect, with its competitors.

However, R is resistant to the Purchase solution and has indicated that the majority of IS/IT staff prefer evolutionary change and would be resistant to this solution. R was responsible for buying the current marketing information system and may feel that its proposed replacement is a criticism of the decision he made in 2005.

As R would make the decision about Purchase he would not want to be responsible for a failure. Although there is a high failure rate for software projects this would be a consideration for all three options so it should not preclude the Purchase option.

R also believes that many of his staff would be resistant to this option and he would have to deal with the problems this would create.

### **Summary**

The Purchase option would give WAL the biscuit industry standard marketing information software. It would have a known cost and a guaranteed time span for implementation. This software should be readily accepted by marketing staff and would remove a possible source of competitive disadvantage.

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

Although the Purchase solution is likely to provoke some resistance to change within WAL it is the recommended solution because of its speed, known cost and its proven ability to meet the needs of WAL's marketing staff.

### *Requirement (c)*

R, who has an influential position as Company Secretary, appears to be resistant to change, in general, unless it is done slowly and incrementally. He claims that this view is shared by a sizable body of opinion within WAL. He has also pointed out that WAL has experience of change in the recent past which failed because WAL's culture didn't change and also that it would be his department that would have to do all the work. R has expressed serious anxieties based on his past experience, the amount of work a new software package represents and, if he is right, some of these anxieties are shared by others within WAL.

Unless R's views are taken into account he may prove a serious obstruction to the change process and prevent it happening. Two of the solutions which R has proposed, Modification and Development, may not be genuine responses to the marketing staff's requirements but may be ways of postponing change.

Kotter and Schlesinger proposed the following six point approach for dealing with resistance to change.

### **1. Education and communication**

R and his IS/IT colleagues need to be convinced that the limitations of the existing software package are a serious constraint upon WAL. Given that R and his staff are likely to be concerned for WAL's success, if they can be persuaded that the old software is obsolete then they might be prepared to accept a faster rate of change, and, purchase the industry standard software. R's point about the need for cultural change is also valid and WAL needs to take this into account.

R's concerns, and those of people who think like him, should be acknowledged and provision made within the replacement project plan to deal with the issues raised by them.

### **2. Participation and involvement**

Because of R's position he would be intimately involved in the **Purchase** solution. This means he would have every opportunity to be involved with the project. R could use his position to involve other members of his staff. The impetus for the change has come from outside R and his IS/IT colleagues: such a change cannot be imposed but will necessarily require the active participation and involvement of R and the IS/IT staff. If they are given opportunities to participate in the purchase of the new software this should increase their commitment to the change and make it more likely to work.

### **3. Facilitation and support**

R was responsible for buying the original software program in 1985 and will be responsible for buying the replacement one. It could be that the source of R's resistance is because he anticipates he will have problems implementing the new software and adjusting to the new demands inherent within it. R may be helped by having some of the responsibility for the project being shared with other staff within WAL. He may also need to be reassured that his personal position will not be jeopardised. Similarly, support could be offered to any of the IS/IT staff who need it, if, for example, they lack skills to deal with the new software. In such a case they could be offered training.

### **4. Negotiation and agreement**

R's resistance could be reduced if he is allowed to negotiate the degree of his involvement in the project. If R can be made to feel empowered rather than threatened his attitude could change. The IS/IT staff may also feel threatened by the forthcoming change: R has reported that a majority of these staff prefer change to take place incrementally. The Purchase solution represents revolutionary change but it may be possible for IS/IT staff to be reconciled to this change. For example, based on what R has reported there is a minority of IS/IT staff who are not opposed to revolutionary change: perhaps these could be tasked with the introduction and implementation of the new marketing information system software. The majority of staff who prefer evolutionary change could be used in parts of WAL's business where either no change or gradual change is contemplated.

### **5. Manipulation and co-optation**

This approach can be used when other approaches won't work or are too costly. However, CIMA members should be very cautious in case this conflicts with CIMA's 'Code of Ethics' or with general business ethics. Further, WAL may be trying to conduct its business ethically and may feel that manipulation and co-optation lie outside the scope of ethical business.

This approach may work in the short-term but may have adverse long-term consequences. Further, although it might be possible to manipulate R into accepting the changes this could rebound on WAL later if R realises he has been manipulated.

### **6. Explicit and implicit coercion**

This method relies on the use of power, or the threat of force to enforce change. This method would not generally be recommended for a CIMA member as it conflicts with the spirit of the Code of Ethics although not any particular written section. However, there may be occasions where coercion is justifiable as with any ethical dilemma a choice has to be made between the lesser of two evils.

Kotter and Schlesinger published their model in 1979 since when it is arguable that what is acceptable business behaviour has changed.

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## Answer to Question Four

### Rationale

This question examines learning outcome D1(b) '*evaluate alternative models of performance measurement*'. Requirements (a) and (b) tests candidates' knowledge of the Balanced Scorecard and its link to organisations' vision and strategy. Requirement (c) is designed to test the understanding of the weaknesses of the Balanced Scorecard.

### Suggested approach

For requirement (a) candidates were expected to identify the aspects presented within CCC's vision statement and explain how these could be aligned with the four perspectives of the balanced scorecard.

Requirement (b) required candidates to present a detailed balanced scorecard analysis for CCC, including an objective, measure, target and initiative for each of the four BSC perspectives. Candidates were expected to use the information provided in the scenario to assist them in identifying the main priorities and objectives for CCC. Much of the information necessary to answer this question was presented in the scenario information.

Requirement (c) was a straightforward question, requiring candidates to discuss two drawbacks of using the balanced scorecard. This should have been a simple knowledge demonstration question, requiring candidates to discuss drawbacks specifically relating to the use of the balanced scorecard and not relating to the use of performance measures in general.

### Requirement (a)

In a widely published model, Johnson and Scholes characterise the strategic management process as consisting of three inter-related elements:

strategic analysis  
strategic choice  
strategic implementation.

CCC has developed both mission and vision statements and an overriding objective so they have dealt with the first two elements. However, the comments of the Corporate Affairs Director that 'our strategy and vision ..(are)..not happening' indicate that CCC has been unsuccessful in strategic implementation. This is not an unusual situation as firms often experience a disjunction between the three elements. This is one of the reasons that the Balanced Scorecard (BS) was developed by Kaplan and Norton 'to assist strategic policy formation and achievement'.

The BS (See diagram below) comprises four perspectives surrounding the organisation's vision and strategy. Each of these perspectives can be associated with an aspect of CCC's vision statement.

### Vision and Strategy

Our **vision** aspires to:

- \* provide superior returns to our shareholders
- \* continually improve our trading methods
- \* delight our customers
- \* learn from our mistakes, work smarter in the future

Our strategy is to double the size of our revenue by 2015

<b>Customer perspective</b> To achieve our vision how should we appear to our customers? <b>Delight our customers</b>	<b>Financial perspective</b> To succeed financially how should we appear to our shareholders? <b>Provide superior returns to our shareholders</b>
<b>Learning and growth</b> To achieve our vision, how will we sustain our ability to change and improve? <b>Learn from our mistakes and work smarter in future</b>	<b>Internal business process</b> To satisfy our shareholders and customers, what business processes must we excel at? <b>Continually improve our business processes</b>

### *Requirement (b)*

The Balanced Scorecard can be made operational by using:

**Objectives:** what CCC wants to achieve

**Measures:** these will express the progress made towards an objective

**Targets:** these give specific values and timescales for the achievement of the measures

**Initiatives:** these are the actions taken to achieve a target

Examples of these four aspects are given in the table below:

	<b>Objective</b>	<b>Measure</b>	<b>Target</b>	<b>Initiative</b>
<b>Perspectives</b>				
Financial	Provide increasing dividend returns	Dividend yield	6% dividend yield by end 2012	Cost cutting exercise to increase profits
Customer	Increase customer satisfaction	Customer complaints	Reduce customer complaints to 1% of transactions by mid 2013	Increased training for sales executives
Learning and Growth	Raise the educational level of staff	Number of graduates	50% of staff to be graduates by 2014	Sponsor staff on degree courses
Internal processes	Be at the forefront of the use of Information technology	Replacement rate for PCs	All PCs to be no older than 2yrs by the end of 2012	Seek new PC suppliers

*The examples given above are not exhaustive: candidates were given credit for other appropriate examples.*

### *Requirement (c)*

#### **Potential drawbacks**

It is possible that the pursuit of one perspective may adversely affect another one. For example, if customer satisfaction was to be increased by increased investment in inventory, the financial perspective could be damaged. In this case, CCC would have to prioritise one of the perspectives even though both of them were helping to deliver the vision and strategy.

As CCC has not used the BS before there may have to be a cultural change for it to work successfully: cultural change can be hard to achieve.

The BS may require substantial investment in dedicated software and training costs.

The BS does not provide a single overall view of performance. Managers and analysts often favour measures such as R.O.C.E. which capture overall performance.

*Any other appropriate drawbacks identified by candidates would be given credit.*

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