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CIMA

Enterprise Pillar

E3 – Enterprise Strategy

22 May 2012 – Tuesday Morning Session

Instructions to candidates

You are allowed three hours to answer this question paper.
You are allowed 20 minutes reading time **before the examination begins** during which you should read the question paper and, if you wish, highlight and/or make notes on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).
ALL answers must be written in the answer book. Answers written on the question paper will **not** be submitted for marking.
You should show all workings as marks are available for the method you use.
The pre-seen case study material is included in this question paper on pages 2 to 8. The unseen case study material, specific to this examination, is provided on pages 10 and 11.
Answer the compulsory questions in Section A on page 13. This page is detachable for ease of reference.
Answer TWO of the three questions in Section B on pages 16 to 21.
Maths tables and formulae are provided on pages 23 and 24.
The list of verbs as published in the syllabus is given for reference on page 27.
Write your candidate number, the paper number and examination subject title in the spaces provided on the front of the answer book. Also write your contact ID and name in the space provided in the right hand margin and seal to close.
Tick the appropriate boxes on the front of the answer book to indicate the questions you have answered.

E3 – Enterprise Strategy

TURN OVER

Pre-seen case study

Introduction
B Supermarkets (B) was founded as a grocery retailer in a European country in 1963. Its sales consist mainly of food and household items including clothing. B now owns or franchises over 15,000 stores world-wide in 36 countries. The company has stores in Europe (in both eurozone and non-eurozone countries), Asia and North America. B's head office is located in a eurozone country. B has become one of the world's largest chains of stores.

B's Board thinks that there are opportunities to take advantage of the rapid economic growth of some Asian countries and the associated increases in demand for food and consumer goods.

Structure
The B Group is structured into a holding company, B, and three subsidiary companies which are located in each of the regions of the world in which it operates (Europe, Asia and North America). The subsidiary companies, referred to as "Regions" within B, are respectively B-Europe, B-Asia and B-North America.

Store operations, sales mix and staffing
B operates four types of store: supermarkets, hypermarkets, discount stores and convenience stores. For the purpose of this case study, the definition of each of these types of store is as follows:

A ***supermarket*** is a self-service store which sells a wide variety of food and household goods such as washing and cleaning materials, cooking utensils and other items which are easily carried by customers out of the store.

A ***hypermarket*** is a superstore or very large store which sells the same type of products as a supermarket but in addition it sells a wide range of other items such as consumer durable white goods, for example refrigerators, freezers, washing machines and furniture. Hypermarkets are often located on out-of-town sites.

A ***discount store*** is a retail store that sells a variety of goods such as electrical appliances and electronic equipment. Discount stores in general usually sell branded products and pursue a high-volume, low priced strategy and aim their marketing at customers who seek goods at prices which are usually less than can be found in a hypermarket.

A ***convenience store*** is a small shop or store in an urban area that sells goods which are purchased regularly by customers. These would typically include groceries, toiletries, alcoholic beverages, soft drinks and confectionery. They are convenient for shoppers as they are located in or near residential areas and are often open for long hours. Customers are willing to pay premium prices for the convenience of having the store close by.

B sells food products and clothing in its supermarkets and hypermarkets at a higher price than many of its competitors because the Board thinks that its customers are prepared to pay higher prices for better quality food products. B also sells good quality consumer durable products in its supermarkets and hypermarkets but it is forced to sell these at competitive prices as there is strong competition for the sale of such goods. B's discount stores sell good quality electrical products usually at lower prices than those charged in its supermarkets and hypermarkets, B only sells electronic equipment in its discount stores. Customers have a greater range from which to choose in the discount stores as compared with supermarkets and hypermarkets because the discount stores specialise in the goods which they sell. B's convenience stores do not have the availability of space to carry a wide range of products and they charge a higher price for the same brand and type of goods which it sells in its supermarkets.

Although B owns most of its stores, it has granted franchises for the operation of some stores which carry its name.

Nearly 0.5 million full-time equivalent staff are employed world-wide in the Group. B tries when possible to recruit local staff to fill job vacancies within its stores.

Value statement and mission
In recognition of the strong competitive and dynamic markets in which it operates, B's Board has established an overall value statement as follows: "We aim to satisfy our customers wherever we trade. We intend to employ different generic competitive strategies depending on the market segment in which our stores trade."

The Board has also produced the following mission statement:

"B practises sustainable investment within a healthy ethical and thoughtful culture and strives to achieve customer satisfaction by giving a courteous and efficient service, selling high quality goods at a reasonable price, sourcing goods from local suppliers where possible and causing the least damage possible to the natural environment. By this, we aim to satisfy the expectations of our shareholders by achieving consistent growth in our share price and also to enhance our reputation for being an environmentally responsible company."

Strategic objectives
The following objectives have been derived from the mission statement:

1. Build shareholder value through consistent growth in the company's share price.
2. Increase customer satisfaction ratings to 95% as measured by customer feedback surveys.
3. Increase commitment to local suppliers by working towards achieving 40% of our supplies from sources which are local to where B stores trade.
4. Reduce carbon emissions calculated by internationally agreed measures by at least 1% per year until B becomes totally carbon neutral.
5. Maximise returns to shareholders by employing different generic competitive strategies depending on the market segment in which B stores trade.

Financial objectives
The Board has set the following financial objectives:

1. Achieve consistent growth in earnings per share of 7% each year.
2. Maintain a dividend pay-out ratio of 50% each year.
3. Gearing levels as measured by long-term debt divided by long-term debt plus equity should not exceed 40% based on book value.

Governance
The main board comprises the Non-executive Chairman, the Chief Executive and nine Executive directors. These cover the functions of finance, human resources, corporate affairs (including legal and public relations), marketing, planning and procurement. There is also one executive director for each of the three regions, being the Regional Managing Directors of B-Europe, B-Asia and B-North America. There are also nine non-executive main board members in addition to the Chairman.

The main Board of Directors has separate committees responsible for audit, remuneration, appointments, corporate governance and risk assessment and control. The Risk Assessment and Control Committee's tasks were formerly included within the Audit Committee's role. It was agreed by the Board in 2009 that these tasks should be separated out in order not to overload the Audit Committee which has responsibilities to review the probity of the company. B's expansion has been very rapid in some countries. The expansion has been so rapid that B has not been able to carry out any internal audit activities in some of these countries to date. The regional boards do not have a committee structure.

Each of the Regional Managing Directors chairs his or her own Regional Board. All of the Regional Boards have their own directors for finance, human resources, corporate affairs, marketing, planning and procurement but their structure is different for the directors who have responsibility for the stores. In B-Asia, one regional director is responsible for the hypermarkets and supermarkets and another is responsible for discount stores and convenience stores. In B-North America, one regional director is responsible for the hypermarkets and supermarkets and another is responsible for discount stores (B does not have any convenience stores in North

America). In B-Europe there is one regional director responsible for supermarkets and hypermarkets, one for discount stores and one for convenience stores. In all regions the regional directors have line accountability to their respective regional managing director and professional accountability to the relevant main board director. There are no non-executive directors on the regional boards. Appendix 1 shows the main board and regional board structures.

Treasury
Each of B's three regions has a regional treasury department managed by a regional treasurer who has direct accountability to the respective Regional Director of Finance and professional accountability to the Group Treasurer. The Group Treasurer manages the central corporate treasury department which is located in B's head office. The Group Treasurer, who is not a main board member, reports to the Director of Finance on the main board.

Shareholding, year-end share prices and dividends paid for the last five years
B is listed on a major European stock exchange within the eurozone and it wholly owns its subsidiaries. There are five major shareholders of B, including employees taken as a group, which between them hold 25% of the 1,350 million total shares in issue. The major shareholders comprise two long term investment trusts which each owns 4%, a hedge fund owns 5%, employees own 5% and the founding family trust owns 7% of the shares. The remaining 75% of shares are owned by the general public.

The year-end share prices and the dividends paid for the last five years were as follows:

	2007	*2008*	*2009*	*2010*	*2011*
	€	€	€	€	€
Share price at 31 December	47.38	25.45	28.68	29.44	31.37
Net Dividend per share	1.54	1.54	1.54	1.62	1.65

Planning and management control
B has a very structured planning process. Each regional board produces a five year strategic plan for its region relating to specific objectives set for it by the main board and submits this to the main board for approval. The main board then produces a consolidated strategic plan for the whole company. This is reviewed on a three yearly cycle and results in a revised and updated group five year plan being produced every three years.

B's management control system, which operates throughout its regions and at head office, is well known in the industry to be bureaucratic and authoritarian. Strict financial authority levels for development purposes are imposed from the main Board. There is tension between the main Board and the regional boards. The regional board members feel that they are not able to manage effectively despite being located much closer to their own regional markets than the members of the main Board. The main Board members, on the other hand, think that they need to exercise tight control because they are remote from the markets. This often stifles planning initiatives within each region. This tension is also felt lower down the organisation as the 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.

Competitive overview
B operates in highly competitive markets for all the products it sells. The characteristics of each of the markets in which it operates are different. For example, there are different planning restrictions applying within each region. In some countries, B is required to operate each of its stores in a partnership arrangement with local enterprises, whereas no such restriction exists within other countries in which it trades. B needs to be aware of different customer tastes and preferences which differ from country to country. The following table provides a break-down of B's stores in each region.

	B Europe	*B Asia*	*B North America*
Supermarkets and hypermarkets	3,456	619	512
Discount stores	5,168	380	780
Convenience stores	4,586	35	

B is one of the largest retailing companies in the world and faces different levels of competition in each region. B's overall market share in terms of retail sales for all supermarkets, hypermarkets, discount stores and convenience stores in each of its regions is as follows:

	Market share
Europe	20%
Asia	1%
North America	1.5%

The following table shows the sales revenue and net operating profit earned by B in each of its regions for the year ended 31 December 2011:

	B Europe	*B Asia*	*B North America*
	€ million	*€ million*	*€ million*
Revenue	89,899	10,105	9,708
Net Operating Profit	4,795	743	673

B is constantly seeking other areas of the world into which it can expand, especially within Asia where it perceives many countries have an increasing population and strengthening economies.

Corporate Social Responsibility (CSR)
B is meeting its CSR obligations by establishing environmental targets for carbon emissions (greenhouse gas emissions), careful monitoring of its supply chain, undertaking sustainable investments and investing in its human capital.

Environmental targets for carbon emissions:
B's main board is keen to demonstrate the company's concern for the environment by pursuing continuous improvement in the reduction of its carbon emissions and by developing ways of increasing sustainability in its trading practices. A number of environmental indicators have been established to provide transparency in B's overall performance in respect of sustainability. These published measures were verified by B's statutory auditor and are calculated on a like-for-like basis for the stores in operation over the period measured.

In the year ended 31 December 2011, B reduced its consumption of kilowatt hours (kWh) per square metre of sales area as compared with the year ended 31 December 2008 by 9%. The target reduction for that period was 5%. In the same period it reduced the number of free disposable plastic bags provided to customers per square metre of sales area, by 51% against a target of 60%. Its overall greenhouse gas emissions (measured by kilogrammes of carbon dioxide per square metre of sales area) reduced by 1% in 2011 which was exactly on target.

B provides funding for the development of local amenity projects in all of the countries where B stores operate. (An amenity project is one which provides benefit to the local population, such as providing a park, community gardens or a swimming pool.)

Distribution and sourcing:
Distribution from suppliers across such a wide geographical area is an issue for B. While supplies are sourced from the country in which a store is located as much as possible, there is nevertheless still a requirement for transportation across long distances either by road or air. Approximately 20% of the physical quantity of goods sold across the group as a whole are sourced locally, that is within the country in which the goods are sold. These tend to be perishable items such as fruit and vegetables. The remaining 80% of goods are sourced from large international manufacturers and distributors. These tend to be large items such as electrical or electronic equipment which are bought under contracts which are set up by the regional procurement departments. B, due to its size and scope of operations, is able to place orders for goods made to its own specification and packaged as under its own brand label. Some contracts are agreed between manufacturers and the Group Procurement Director for the supply of goods to the whole of the B group world-wide.

B's inventory is rarely transported by rail except within Europe. This has resulted in lower average reductions in carbon emissions per square metre of sales area by stores operated by B-

Asia and B-North America than for those stores operated by B-Europe. This is because the carbon emission statistics take into account the transportation of goods into B’s stores.

Sustainable investments:
B aspires to become carbon neutral over the long term. The Board aims to reduce its carbon emissions by investing in state of the art technology in its new store developments and by carrying out modifications to existing stores.

Human Resources:
B prides itself on the training it provides to its staff. The training of store staff is carried out in store by specialist teams which operate in each country where B trades. In this way, B believes that training is consistent across all of its stores. In some countries, the training is considered to be at a sufficiently high level to be recognised by national training bodies. The average number of training hours per employee in the year ended 31 December 2011 was 17 compared with 13 hours in the year ended 31 December 2010. In 2011, B employed 45% more staff with declared disabilities compared with 2010.

Information systems and inventory management
In order to operate efficiently, B’s Board has recognised that it must have up-to-date information systems including electronic point of sale (EPOS) systems. An EPOS system uses computers or specialised terminals that can be combined with other hardware such as bar-code readers to accurately capture the sale and adjust the inventory levels within the store. EPOS systems installation is on-going. B has installed EPOS systems in its stores in some countries but not in all its stores world-wide.

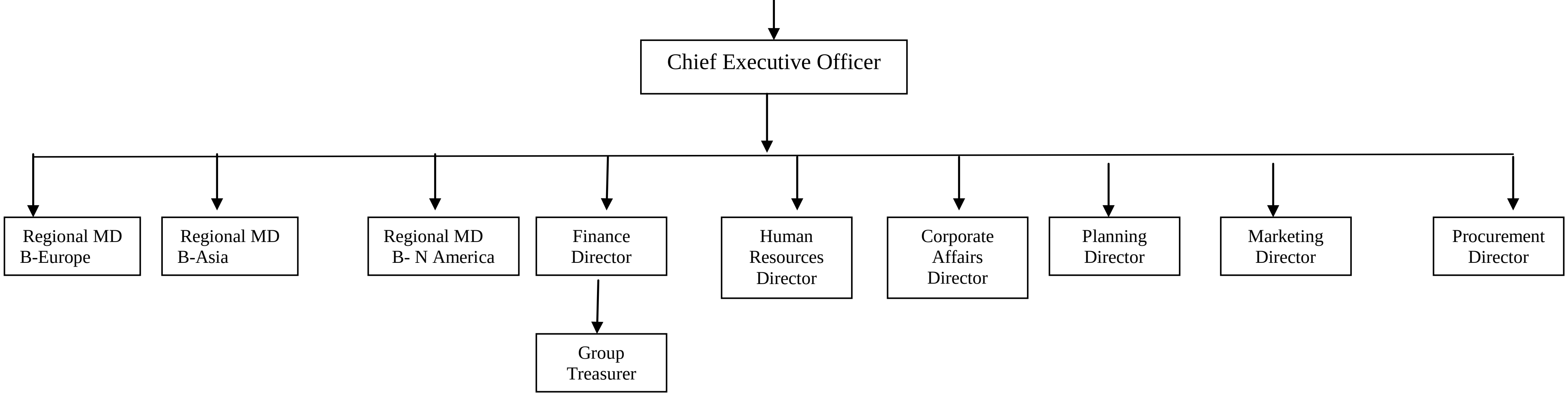
B’s information systems are not perfect as stock-outs do occur from time-to-time, especially in the European stores. This can be damaging to sales revenue when stock-outs occur during peak sales periods such as the days leading up to a public holiday. In Asia and North America in particular, B’s information technology systems sometimes provide misleading information. This has led to doubts in the minds of some head office staff about just how robust are B’s inventory control systems.

As is normal in chain store groups, there is a certain degree of loss through theft by staff and customers. Another way that loss is suffered is through goods which have gone past their “sell-by” date and mainly relates to perishable food items which are wasted as they cannot be sold to the public. In most countries, such food items which cannot be sold to the public may be sold to local farmers for animal feed.

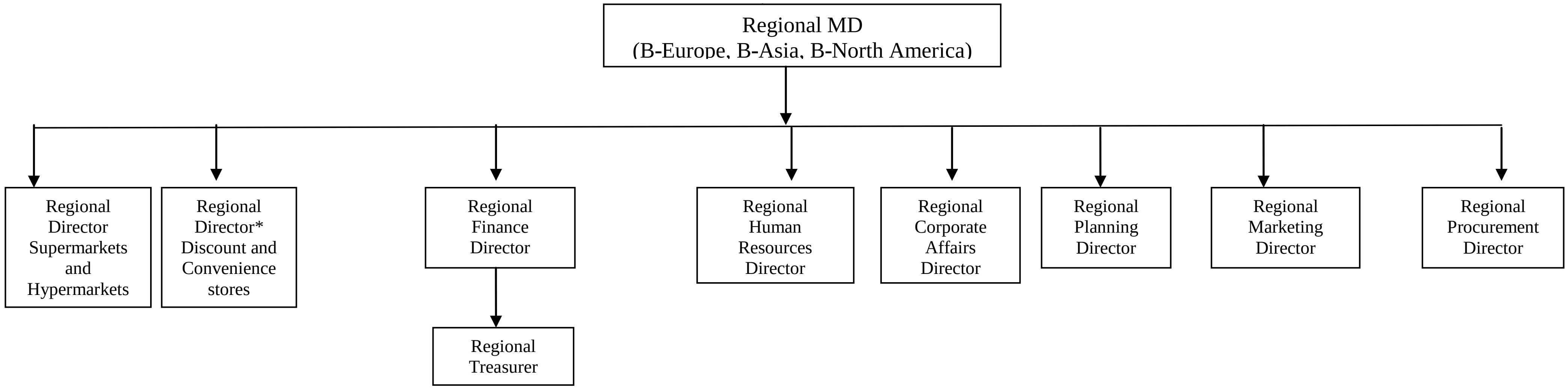
Regulatory issues
B’s subsidiaries in Asia and North America have sometimes experienced governmental regulatory difficulties in some countries which have hindered the installation of improved information systems. To overcome some of these regulatory restrictions, B-Asia and B-North America have, on occasions, resorted to paying inducements to government officials in order for the regulations to be relaxed.

Appendix 1

B Main Board Structure



B Regional Board Structure



*Applies to B-Asia only. In B-North America, where there are no Convenience stores, there is a Regional Director responsible for Discount stores as well as the Regional Director responsible for Supermarkets and Hypermarkets. B-Europe's structure has three Regional Directors responsible for the stores, one each responsible for Supermarkets and Hypermarkets, Discount Stores and Convenience Stores.

Extract of B's income statement and statement of financial position.

Income statement for the year ended 31 December 2011

	Notes	*€ million*
Revenue		109,712
Operating costs		(103,501)
Net operating profit		6,211
Interest income		165
Finance costs		(852)
Corporate income tax		(1,933)
PROFIT FOR THE YEAR		3,591

Statement of financial position as at 31 December 2011

		€ million
ASSETS		
Non-current assets		57,502
Current assets		
Inventories		7,670
Trade and other receivables		1,521
Cash and cash equivalents		3,847
Total current assets		13,038
Total assets		70,540
EQUITY AND LIABILITIES		
Equity		
Share capital	1	2,025
Share premium		3,040
Retained earnings		18,954
Total equity		24,019
Non-current liabilities		
Long term borrowings		15,744
Current liabilities		
Trade and other payables		30,777
Total liabilities		46,521
Total equity and liabilities		70,540

Notes:

1. There are 1,350 million €1.50 shares currently in issue. The share price at 31 December 2011 was €31.37.

End of Pre-seen Material

The unseen material begins on page 10

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SECTION A – 50 MARKS

[You are advised to spend no longer than 90 minutes on this question]

ANSWER THIS QUESTION

Question One

Unseen case material

Franchising discount stores within Country P

B Supermarkets (B) is evaluating the possibility of expanding its business into Country P which is in Europe. Country P has an underdeveloped economy. However, it was described by a leading international bank as a 'Global Growth Generator': that is, one of the countries with 'the most promising growth prospects for 2010-2050'.

B does not currently conduct any business within Country P. B would like to test the market there. B's Marketing Director has suggested that one possible way of doing this would be to introduce discount stores within Country P by granting franchise agreements to local entrepreneurs (the franchisees) within Country P. This would also have the advantage for B of limiting its capital investment in Country P, as the entrepreneurs would be responsible for providing the premises so B will not incur any capital costs for buildings relating to any franchise. The equipment will be supplied by B.

B has had success when it has granted franchises in many countries. This experience has enabled B to establish the following fee structure which it would apply to franchises in Country P.

Country P fee structure: charged by B per franchise

'One-off' fees: charged at the start of the franchise	**€**
Franchise fee	60,000
Training fee	20,400
Equipment fee	150,000
Annual fees (payable at the end of each financial year)	**€**
Royalty fee	15% of revenue
Service fee	5% of revenue
Marketing contribution fee	5% of revenue

To justify the launch of discount store franchises in Country P, B's Marketing Director has set a minimum required income of €3 million per year for B, to be earned from the annual fees charged to the franchises (that is, from the royalty fee, the service fee and the marketing contribution fee).

B's Marketing Director estimates that the cost of capital for entrepreneurs in Country P is 12%.

In addition to the one-off fees and the annual fees, B has estimated the following average monthly operating costs and revenues for each discount store franchise:

Per month	**€**
Revenue	100,000
Fixed costs	2,000
Variable operating costs	65% of revenue

The variable operating costs are additional to the annual fees which are payable to B.

Sustainability

In its mission statement (pre-seen page 3) B claims to 'Practise sustainable investment'. B also aspires to '...enhance our reputation for being an environmentally responsible company'. B is also keen to demonstrate its concern for the environment by pursuing continuous improvement in the reduction of its greenhouse gas emissions and by developing ways of increasing sustainability in its trading practices. B has developed a number of environmental indicators to provide transparency in its overall performance in respect of its sustainability (pre-seen page 5).

If B does undertake expansion into Country P, 90% of its products will have to be imported into Country P: half by road, half by air. The distribution of the imported products within Country P will be done by road transport. If the discount stores are opened they will be in new purpose built premises which will be designed to be energy efficient. B's Marketing Director believes that it will be possible to operate the discount stores in Country P as 'carbon-neutral' businesses. B will expect the discount store franchises in Country P to comply with all aspects of its corporate social responsibility policy (pre-seen pages 5 and 6). Each discount store will be able to operate without giving its customers free disposable plastic bags.

Planning and management control

B has a very structured planning process. (pre-seen page 4). Its management control system is 'bureaucratic and authoritarian' (pre-seen page 4). B's Planning Director is aware of the internal tensions within the company regarding the planning and management control systems.

If the discount store franchises proceed within Country P, B's Planning Director sees it as an opportunity to introduce a substantial degree of reform to the planning and management control systems currently operating within B. Country P would function as a test site for planning and management control system reform for B. If this experience proves to be successful then the Planning Director would suggest to B's main Board that reform should be extended throughout the company. The Planning Director has suggested to B's Board that if the reform of the planning and management control systems is introduced then B Europe's Regional Director for Discount Stores (pre-seen page 7):

- could use a reformed planning and management control system in Country P.
- would be responsible for achieving a profit target for discount stores in Country P which would be agreed with B's Chief Executive Officer.
- would be able to employ whatever planning and management control systems he preferred in Country P. He would be required to submit a monthly return to the Finance Department at B's Head Office.
- could use whatever Information System he wanted in Country P. However, this would have to be compatible with B's management control system for data entry and reporting purposes. The design and operation of the reporting systems used within Country P would be the exclusive responsibility of the Regional Director for Discount Stores.
- would have the authority to decide which products are sold in Country P's discount stores and source them from anywhere.
- would have sole responsibility for making all decisions about the entrepreneurs in Country P; such as appointment, renewal and cessation.

The Corporate Affairs Director has reacted strongly against the Planning Director's proposals for reform of the planning and management control system. He said 'In my opinion this is not how we do things. Our procedures have served us well in the past. Tinkering with our culture in this way is a waste of money and could be dangerous.'

End of unseen material

The requirement for Question One is on page 13

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Required

(a) **Calculate** the number of discount store franchises that need to be granted in Country P to earn the minimum required income of €3 million per year.

(4 marks)

(b) (i) **Advise** the minimum period for which a franchise should be granted in Country P to make it financially worthwhile for an individual franchisee.

You should ignore the capital cost to the franchisee of providing the premises.

(4 marks)

(ii) **Advise** which additional factors are likely to influence entrepreneurs about the desirability of investing in a discount store franchise in Country P.

Your answer should include factors under the following headings:

- Marketing/Branding
- Risk
- Franchise implementation and operation

(17 marks)

(c) **Evaluate** how Country P's discount store business could assist B Supermarkets in achieving 'sustainable investment' and increased sustainability in its trading practices.

(10 marks)

(d) **Advise** B's Chief Executive, of the advantages AND disadvantages for B which might arise if the reforms to the planning and management control system within Country P, that have been suggested by the Planning Director, were introduced throughout B Supermarkets.

(15 marks)

(Total marks for Question One = 50 marks)

(Total for Section A = 50 marks)

End of Section A
Section B starts on page 16

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TURN OVER

SECTION B – 50 MARKS

[You are advised to spend no longer than 45 minutes on each question in this section]

ANSWER *TWO* OF THE THREE QUESTIONS – 25 MARKS EACH

Question Two

RGG plc (hereafter RGG) was incorporated in 1902 and operated as a pesticide manufacturer owned by a Western European Government. In 1992 RGG was privatised and its Articles of Association restricted its operations to countries within Europe.

This restriction is reflected in RGG's mission statement which states 'In accordance with our tradition RGG will only sell pesticides to customers in European countries'. In 1992 this stance was very popular with investors and many people bought shares in RGG because of it.

Since 2005, RGG has experienced declining profits, a depressed share price and its finance director believes it is vulnerable to a take-over. In the financial year ended 31 March 2012 it had revenues of £50 million, made a loss of £1 million and employed a total of 1,505 full-time and part-time staff.

RGG's managing director, S, who is a CIMA member, has received a suggestion from a member of staff of RGG that its mission statement is out-dated and restricts business expansion. S would like to abandon the mission statement and sell pesticides wherever it is profitable to do so. S believes that RGG could get a substantial amount of business from markets outside Europe which would mean better job security for RGG employees.

When S proposed, at a recent Board meeting, that RGG abandon its mission statement, a non-executive director objected because 'this is not what our shareholders want. They have bought their shares in RGG because of our mission statement and like the idea of restricted sales. It would be wrong for the Board to go against their wishes'.

S asserted 'We have over 5,000 shareholders, most of whom own no more than 250 shares. Nobody knows what our shareholders want or why they invest in us, but I doubt they want to artificially restrict our sales. Our mission statement reflects 1992 not 2012 and so it should be abandoned.'

The requirement for Question Two is on the opposite page

Required

(a) **Explain** TWO methods that S could use to form an understanding of RGG's external environment.

(4 marks)

(b) **Discuss** if it is consistent with Corporate Social Responsibility for RGG to abandon its mission statement.

Your answer should address the following aspects of this proposal:

RGG's Economic, Legal and Ethical responsibilities.

(16 marks)

(c) **Recommend**, using Mendelow's model, strategies that RGG could adopt to manage its relationships with different types of stakeholder with regard to the suggestion that it should abandon its mission statement.

Note: In your answer to part (c) you are not required to draw Mendelow's diagram.

(5 marks)

(Total for Question Two = 25 marks)

Section B continues on page 18

TURN OVER

Question Three

WAL is a manufacturer of biscuits which it sells to retailers. Its current year's revenue of £120 million represents approximately 3% of the UK market. WAL has a centralised marketing information system based on a software package bought in 2005. This package is financial accounts orientated: the only management information provided to support the marketing staff consists of reports showing revenue, profit, inventory value, receivables and payables balances. WAL's marketing staff and the Marketing Director, M, have complained that they are not provided with information such as customers' profitability, market share and market growth which would support their strategic decision-making. They consider the inadequacies of the current marketing information system to be so serious that they would like a Big Bang* change which would mean moving straightaway to a new marketing information system that would give them the information they need. They feel WAL is being left behind by its competitors and is losing customers.

The Company Secretary, R, manages WAL's IS/IT staff. R was responsible for buying the existing marketing information software in 2005 and he would also be responsible for the procurement of its replacement. R has identified three possible solutions to meeting the marketing staff's needs: the first two are evolutionary, the third would be a 'Big Bang'.

Solution 1

Modification: the existing marketing information system would be redesigned by WAL's in-house IS/IT staff to meet the needs of the marketing staff. Although WAL's IS/IT staff have limited experience of the type of work which would be required, they are confident the redesign could be done within a year. The IS/IT staff are unsure of the cost.

Solution 2

Development: WAL's in-house IS/IT staff would develop new bespoke software to meet the marketing staff's needs. The IS/IT staff 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'.*

Solution 3

Purchase: WAL could purchase the biscuit industry standard marketing information system software: this would be an expensive purchase but the product is well proven. 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 and if you buy it we guarantee to have it working inside WAL within three months of you buying it'.

R believes that he represents the majority of opinion within the IS/IT staff who very much prefer that change should be evolutionary. They would be very resistant to change if it was carried out in any other way. R also pointed out that WAL has experience of 'Big Bang' organisational change in the recent past which failed because WAL's culture didn't change to reflect this.

R stated, 'It looks straightforward to go out and buy a software package but it's a lot more complicated than people think and it's my department that would have to do all the work.

* ***'Big Bang'****: any sudden forceful beginning or radical change*

The requirement for Question Three is on the opposite page

Required

(a) **Explain** the circumstances in which it would be appropriate to use

(i) evolutionary change.

(ii) 'Big Bang' change.

(4 marks)

(b) (i) **Evaluate** each of the three solutions proposed by R.

(9 marks)

(ii) **Recommend**, with reasons, which of the three solutions identified by R should be adopted.

(3 marks)

(c) **Advise** how WAL could overcome the resistance to change which would arise if Solution 3, the ***purchase*** solution, were to be adopted.

(9 marks)

(Total for Question Three = 25 marks)

Section B continues on page 20

TURN OVER

Question Four

T is the Chief Executive Officer of a motor car insurance company, CCC. T, together with the Board of Directors, developed a mission statement in 2011 following a detailed analysis of the company's operations and market place. The mission statement states that ‘CCC wants to continually grow through its commitment to quality and delivering value to its customers’. CCC has developed a complementary vision statement which aspires to:

- Provide superior returns to our shareholders
- Continually improve our business processes
- Delight our customers
- Learn from our mistakes and work smarter in the future

CCC’s overriding objective, also developed in 2011, is to double the size of its revenue by the end of 2015.

T has identified the following areas of concern:

- Poor customer service has led to CCC losing 15% of its customers in 2011/2012. The customer sales manager had sponsored an initiative to reward customers with a discount if they renewed their motor insurance. However, most of the sales executives were not familiar with the details of this scheme and did not mention it to customers considering renewing their insurance. The discount scheme had not affected the rate of loss of customers.

- The average age of CCC’s personal computers (PCs) was five years. There have been many complaints from CCC’s staff that their PC’s are not adequate for the demands of 2012. The last time an initiative had been undertaken to bring PCs up to date was in 2009.

- CCC’s internal auditors had conducted performance reviews in three departments during 2011. They found a common pattern in all three departments: many of the staff had only minimal educational qualifications which were inadequate for the jobs they were doing. This resulted in an unacceptable level of errors being made. No initiatives had been undertaken to address this problem.

- Investors have been critical of the low dividend yield on their CCC shares.

T is worried because, despite the time and effort put into the development of the mission and vision statements and the overriding objective, CCC is not making sufficient progress towards achieving its revenue target. Its revenue growth rate in 2011 was 10%.

CCC’s shortfall against its revenue target was discussed at a recent Board meeting. The Corporate Affairs Director stated that "the Board is 100% behind our strategy and vision but it’s just not happening. I have experience in my previous company of working with an integrated model, the Balanced Scorecard. Could the Balanced Scorecard help CCC?"

The requirement for Question Four is on the opposite page

Required

(a) **Advise** T how a Balanced Scorecard could assist in delivering CCC's vision and strategy.

(5 marks)

(b) Assume that CCC has adopted a Balanced Scorecard approach to help it achieve its vision. **Recommend** FOUR perspectives and for each perspective show:

- An objective
- A measure
- A target
- An initiative

(16 marks)

(c) **Discuss** briefly TWO drawbacks of the Balanced Scorecard.

(4 marks)

(Total for Question Four = 25 marks)

End of Question Paper

Maths Tables and Formulae are on Pages 23 and 24

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MATHS TABLES AND FORMULAE

Present value table

Present value of $1, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (*n*)	Interest rates (*r*) 1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (*n*)	Interest rates (*r*) 11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

Cumulative present value of $1 per annum, Receivable or Payable at the end of each year for *n* years

$$\frac{1-(1+r)^{-n}}{r}$$

Periods	Interest rates (*r*)									
(*n*)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods	Interest rates (*r*)									
(*n*)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	7.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870

FORMULAE

Annuity

Present value of an annuity of $1 per annum, receivable or payable for *n* years, commencing in one year, discounted at *r*% per annum:

$$PV = \frac{1}{r}\left[1 - \frac{1}{[1+r]^n}\right]$$

Perpetuity

Present value of $1 per annum, payable or receivable in perpetuity, commencing in one year, discounted at *r*% per annum:

$$PV = \frac{1}{r}$$

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LIST OF VERBS USED IN THE QUESTION REQUIREMENTS

A list of the learning objectives and verbs that appear in the syllabus and in the question requirements for each question in this paper.

It is important that you answer the question according to the definition of the verb.

LEARNING OBJECTIVE	VERBS USED	DEFINITION
Level 1 - KNOWLEDGE		
What you are expected to know.	List	Make a list of
	State	Express, fully or clearly, the details/facts of
	Define	Give the exact meaning of
Level 2 - COMPREHENSION		
What you are expected to understand.	Describe	Communicate the key features
	Distinguish	Highlight the differences between
	Explain	Make clear or intelligible/State the meaning or purpose of
	Identify	Recognise, establish or select after consideration
	Illustrate	Use an example to describe or explain something
Level 3 - APPLICATION		
How you are expected to apply your knowledge.	Apply	Put to practical use
	Calculate	Ascertain or reckon mathematically
	Demonstrate	Prove with certainty or to exhibit by practical means
	Prepare	Make or get ready for use
	Reconcile	Make or prove consistent/compatible
	Solve	Find an answer to
	Tabulate	Arrange in a table
Level 4 - ANALYSIS		
How are you expected to analyse the detail of what you have learned.	Analyse	Examine in detail the structure of
	Categorise	Place into a defined class or division
	Compare and contrast	Show the similarities and/or differences between
	Construct	Build up or compile
	Discuss	Examine in detail by argument
	Interpret	Translate into intelligible or familiar terms
	Prioritise	Place in order of priority or sequence for action
	Produce	Create or bring into existence
Level 5 - EVALUATION		
How are you expected to use your learning to evaluate, make decisions or recommendations.	Advise	Counsel, inform or notify
	Evaluate	Appraise or assess the value of
	Recommend	Advise on a course of action

Enterprise Pillar

Strategic Level Paper

E3 – Enterprise Strategy

May 2012

Tuesday Morning Session