



Strategic Level

E3 - Enterprise Strategy

November 2012 Examination

The 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

The Post Exam Guide for this examination, which includes the marking guide for each question, will be published on the CIMA website by early February at www.cimaglobal.com/e3PEGS

SECTION A

Answer to Question One

Rationale

This question examines learning outcomes from across the syllabus. Requirement (a) examines learning outcome C1(a) 'Evaluate the process of strategy formulation' and is designed to test the candidates knowledge and understanding of the merits of different approaches to organisational strategy development. Requirement (b)(i) examines learning outcome A1(e) 'recommend how to interact with suppliers and customers' and is designed to test candidates ability to undertake an analysis of product profitability. Requirement (b)(ii) examines learning outcome C2(b) 'recommend appropriate changes to the product portfolio to support the organisation's strategic goals' and is designed to test candidates understanding of the importance to V in managing its product portfolio. Requirement (c) (i) examines learning outcome A1(d) 'recommend how to manage relationships with stakeholders' and is designed to test candidates' understanding of the impact on V of using customer relationship marketing. Requirement (c)(ii) examines learning outcome A1(d) 'Evaluate the tools and processes of strategy implementation' and is designed to test candidates' understanding of V's use of e-business.

Suggested approach

In requirement (a) candidates are expected to explain the benefits of an emergent approach to strategy development. This should be a straightforward question requiring candidates to demonstrate their knowledge and understanding of strategic development approaches.

Requirement (b)(i) requires candidates to calculate the operating profit achieved by the three different holiday products, taking into account the overhead apportionment rates provided. This question also requires candidates to calculate the operating profit split by online holidays and in-branch holidays. Therefore, candidates must calculate the correct number of holidays booked in-branch and online in order to identify the correct apportionment of overheads.

Requirement (b)(ii) requires candidates to evaluate the results of their calculations in requirement (b)(i) and to use this, together with other information within the pre-seen and unseen material to discuss how V could improve the profitability of its products. Candidates should consider all three products and assess where improvements to profit could be made.

Requirement (c)(i) requires candidates to discuss the impact on V's business of using a Customer Relationship Marketing approach. This should be a straightforward question requiring candidates to apply their syllabus knowledge of CRM to the scenario information. Importantly, candidates must assess the strategic impact of CRM to V's business.

Requirement (c)(ii) should be a straightforward question requiring candidates to apply their knowledge of the benefits and difficulties of e-business to V. Candidates must make sure that they apply their answers directly to V.

Requirement (a)

An emergent approach to strategy is one which tends to emerge over time rather than being the result of a rational and logical formal strategic planning process. An emergent approach is likely to evolve continuously and incrementally in response to the changing environment of the business.

Benefits to V of an emergent approach

- V will be able to take advantage of emerging trends and therefore react more effectively to customer demands and tastes. For example, should the social or economic conditions change in a particular holiday region then V will be able to react to this and respond more effectively in terms of changing holiday destinations or the price of products.
- An emergent approach also allows V to be more innovative and creative in the development of products and service delivery as it can react to the latest and most current trends in the holiday market. For example, the demand for online booking by customers drove the strategy to introduce the online booking facility in V.
- V will also be able to try and test a strategy whilst it is being implemented and thus it can be adapted and changed where necessary over time. The holiday market is likely to be an evolving one where customer preferences and tastes for locations and activities will change and therefore an emergent approach allows V strategic flexibility.

Requirement (b)(i)

Holiday Product Net Operating Profit Calculation		PACKAGE	ADVENTURE	PRESTIGE
<u>In branch administration costs</u>				
Holidays ordered in branch		1,800,000	900,000	10,260,000
Late booking processing cost		420,000	72,000	410,400
After sales and complaints		445,500	82,500	7,053,750
Total in branch admin costs		2,665,500	1,054,500	17,724,150
In branch net profit calculation:		GP%	GP%	GP%
Gross Profit (In-Branch Revenue x GP%)		40	35	25
		3,600,000	1,050,000	21,375,000
Operating profit		934,500	(4,500)	3,650,850
Operating profit %		10.4%	(0.2%)	4.3%
<u>On- line administration costs</u>				
Holidays ordered on line		6,000,000	6,000,000	380,000
Late booking processing cost		4,200,000	1,440,000	45,600
After sales and complaints		4,455,000	1,650,000	783,750
Total on line admin costs		14,655,000	9,090,000	1,209,350
On line net profit calculation:		GP%	GP%	GP%
Gross Profit (On-line Revenue x GP%)		40	35	25
		32,400,000	19,950,000	2,375,000
Operating profit		17,745,000	10,860,000	1,165,650
Operating profit %		21.9%	19.1%	12.3%
Weighted Profit	In branch	1%	0.0%	4%
	On line	20%	18%	1%
	Overall profitability	21%	18%	5%
In branch admin cost per product		888.50	703.00	1,036.50
On-line admin cost per product		488.50	303.00	636.50

Requirement (b)(ii)

Note: Candidates are not expected to provide any further calculations in answer to this question. These calculations are for additional information and analysis purposes.

Administration costs	<u>Package</u>	<u>Adventure</u>	<u>Prestige Travel</u>	<u>TOTAL V</u>	
Holiday order per annum in-branch	1,800,000	900,000	10,260,000	12,960,000	28%
Holiday order per annum -online	6,000,000	6,000,000	380,000	12,380,000	27%
Late booking processing	4,620,000	1,512,000	456,000	6,588,000	14%
After sales and complaints	4,900,500	1,732,500	7,837,500	14,470,500	31%
Total administration costs	17,320,500	10,144,500	18,933,500	46,398,500	100%
	37%	22%	41%	100%	
Total products booked	33,000	31,500	19,000		
	SK\$	SK\$	SK\$		
Admin cost per product booked	524.86	322.05	996.50		

Prestige Travel holidays

The Prestige Travel holiday products incur a significant proportion of the total administration costs of V (over 40%). A significant proportion (80%), of the in-branch services offered by V are taken up by the Prestige Travel customers, largely because 90% of Prestige Travel holiday products are being booked in-branch. The analysis in (b)(i) shows that the overall operating profitability of the in-branch services offered to the Prestige customers is only 4.3% which is significantly lower than the online profitability. Although online profitability is higher at 12.3%, this is still lower than the other two products due to the higher proportion of after sales queries and complaints by Prestige Travel customers. When the online and in-branch profits for Prestige Travel are weighted in terms of the proportion of holidays sold, it can be seen that the overall profitability of the Prestige Travel product is only 5%, which is significantly lower than the other two holiday products. Therefore, the assertion made by the Executive Chairman is incorrect.

V should try to encourage its Prestige Travel customers to use its online booking facilities more effectively, possibly by offering incentives or higher discounts for Prestige Travel online bookings and repeat bookings.

A major cost incurred by the Prestige Travel bookings is the after sales cost and complaints processing, as 55% of V's after sales and complaints costs are driven by Prestige Travel customers. It is not clear from the information if these are predominantly changes to bookings after the original sale or if they are complaints after the holiday but it is clear that these costs urgently need to be reviewed and managed more effectively. V must investigate the booking process to analyse why Prestige Travel customers are making after sales enquiries or changing their requirements after the sale. This could require improved customer sales representative training to ensure that customers' needs are fully addressed prior to booking.

Similarly, V must undertake a thorough investigation of its complaints processing so that all necessary activities are being carried out to ensure that customer needs are being met. The cost of each after sales/complaints process is SK\$550 which is high and V must investigate not only how to reduce the number of complaints and queries but also the cost of handling them. Currently a specialist team deals with V's customer complaints and after sales and V should investigate how this team's activities could be improved or possibly handled more effectively in-branch. The use of IS/ IT systems in handling after sales issues should be considered.

As stated above, the weighted overall operating profit percentage for the Prestige Travel product is the lowest and is significantly lower than V's overall operating profit of 14%. This is driven by the high level of administration activities and costs incurred, which clearly must be reviewed. If V were to reduce these administration processes for the Prestige products, then this could significantly increase operating profit.

Adventure holidays

The Adventure holiday products are not causing V to incur administration costs at the same rate as the other two holiday products. Only 22% of the total administration costs incurred by V are caused by Adventure holiday products. 95% of the bookings are made online, thus reducing booking costs significantly compared to the Prestige Travel products. The net operating profitability of the online bookings for Adventure holidays is high at 19.1%. The operating profitability for the in-branch bookings is negative but not significant as they only account for a very small proportion of the overall activities of V. However, V should consider how it could encourage all of V's potential Adventure holiday customers to book online in future. They could consider only offering the Adventure holiday products online.

After sales and complaints are significantly lower for Adventure holidays, possibly due to most on these products being booked online and therefore potentially less sales rep errors or misinterpretation of requirements. The overall operating profit at 18% is high compared with Prestige Travel and it is recommended that V undertakes a thorough analysis of the Adventure holiday product booking processes in order to use these as a benchmark for the other two product types.

Package holidays

The Package holidays also incur significant administrative costs (37% of the total). However, the profitability both in terms of online and in-branch bookings is comparatively high against Prestige Travel holidays. In fact, overall, the Package holiday product is the most profitable for both online and in-branch bookings.

A significant proportion of its administration costs (27%) are due to late bookings, which occur at a rate of 35% of the total proportion of Package holiday products booked. V could consider either charging additional fees for late bookings or alternatively offer incentives such as discounts for early bookings. Costs associated with after sales queries and complaints are also high for Package holiday customers. There is not enough information to ascertain whether this is due to booking errors or complaints, but, either way, this is something that V must investigate and ensure that customer after sales queries are minimised and complaints eradicated or dealt with more effectively. Package holiday products achieve the highest level of absolute operating profit but, again, this could be significantly improved if late bookings and after sales queries and customer complaint costs were reduced.

Other information for consideration:

Branch closure

V could consider the closure of some of its branches, providing that fixed costs could be reduced as a result. Overall in-branch profit is considerably lower than operating profits earned online and that operating costs could be saved if some of the branches were closed. Clearly it would require further information on the viability of this option and the impact upon the staff and upon the image of the organisation. The closure of the branches could adversely affect the visibility of the organisation, and may adversely impact on the Prestige Travel and Package business. The Executive Chairman is also likely to resist this option as he appears to value the customer service offered by V most highly.

Late booking costs

More automation of late bookings to reduce this cost item. Of the 83,500 holidays booked by V, nearly 16,500 holidays are late bookings (20%), 70% of which are from Package holidays booked. The cost of handling late bookings is very high and improved IT systems and better procedures could reduce this cost.

Complaints and queries

V spends a total of nearly SK\$15million on after sales queries and complaints. This is huge and represents nearly one third of the total administration costs incurred. Therefore V must improve the quality of its booking processes through better training of employees. It must have improved training of sales reps to reduce errors of misleading customers. Handling of complaints should be done more in-branch.

Requirement (c)(i)

Customer Relationship Marketing

Customer relationship marketing is the devotion of marketing resource to maintaining and exploiting the organisation's existing customer base, rather than using resources solely to attract new customers. It focuses on developing a long term relationship with a customer, and securing their loyalty.

Strategic impact

- CRM should enable V to retain its customers which should result in it achieving competitive advantage over its rivals. If V were to undertake customer relationship marketing, this would involve V concentrating its marketing efforts upon increasing customer loyalty and demonstrating clear commitment to the customers' needs.
- CRM would require V to reconsider its current approach of reliance on word of mouth based marketing and would have to consider a more direct marketing approach to ensure that customers' needs are satisfied.
- CRM is likely to need a greater focus on customer care and service needed and this may involve additional costs in customer care training. However, in the long term, these costs should diminish and should result in improved customer loyalty.
- CRM would require better training of customer sales representatives and regular updates on products and the use of product and booking software are necessary. V also needs to ensure that it focuses upon the quality of customer service.
- Relationship marketing may involve more on-going costs for V but these may be outweighed by the benefits of improved customer retention.
- However, any customer relationship marketing activities must be analysed to ensure that customers actually perceive the benefit they have received and remain loyal to V.

Competitive impact

- CRM activities could include offering loyalty rewards for customers (such as discounts on the next holiday booking), as the retention of customers is a critical business issue. V is working within a competitive business environment and the Operations Director has recognised that competitive forces have made customer retention more difficult. Customers are now more likely to shop around for the best holiday deals and customers are not necessarily loyal to one holiday company or one travel agent.
- The main competitive threat to V appears to be from the proliferation of online tour holiday operators and travel agency services. V needs to determine whether the online competitors offer incentives or discounts for online activity and, if so, V needs to develop its CRM activities to counter this. Many of V's customers do book online and, therefore, V needs to identify the CRM approaches which could target these customers. V also needs to consider how competitors may react to CRM approaches offered by V, particularly if CRM can be delivered more effectively online than in-branch.
- Clearly, online competitors are a threat and V needs to decide whether to meet this competitor head on or to focus more upon its in-branch services and promote this as a differentiating factor. Either way, focusing upon high levels of customer service in order to obtain repeat business and loyalty will be a key factor in relationship marketing for V.

Requirement (c)(ii)

Strategic Benefits of e-business to V

- V could benefit from increased revenues due to having more online sales and improved customer relationships which could lead to repeat business. V could reduce its costs and overheads due to improved procurement systems and linkages to the main suppliers such as airlines and hotels. Overall, this should enable V to achieve improved profitability.
- V could benefit from better information for control and performance measurement purposes. V could use the online information to analyse sales data and customer performance to improve future decision making.
- V could benefit from improved marketing to its customers via email with specific information targeted to specific customers with interests in specific holiday products. Again, greater targeted marketing should improve customer relationships and customer retention. V could achieve increased visibility through greater exploitation of its websites. This could lead to a much wider customer base for V, leading to greater market penetration.

Strategic Barriers of e-business to V

- A barrier may be that V's customers may not want to transact online – particularly the Prestige Travel customers who prefer a more personalised service. For the higher-end expensive holidays, customers prefer to discuss options with in-branch customer representatives and may look elsewhere if the customer service is replaced by online business.
- Security concerns may be an area of risk when V is holding confidential customer data which can be hacked or corrupted. Investment in security of its electronic systems will have to be a high priority and likely to be costly which could be a significant barrier to V.
- The costs of setting up, running and enhancing an e-business may be prohibitive to V which is a relatively small tour operator compared to the large international chains.
- The IT department of V is not likely to have the experience to sufficiently exploit the potential for e-business. V would have to invest in quality and highly trained staff, which is likely to be costly.

Note: Students were only required to present two strategic benefits and two strategic barriers.

SECTION B

Answer to Question Two

Rationale

Requirement (a) examines learning outcome B1(a) '*Discuss the concept of organisational change*' and relates to syllabus content of 'internal and external change triggers'. It is designed to test candidates' knowledge and understanding of internal and external change triggers. Requirement (b) examines learning outcome B2(c) '*Evaluate tools, techniques and strategies for managing the change process*' and is designed to test candidates' knowledge and understanding of the application of Force Field Analysis to evaluate the forces involved in a change process. Requirement (c)(i) examines learning outcome B2(b) '*Compare and contrast continuous and discontinuous change*' and is designed to test candidates' understanding of the different types of change and the ability to utilise models associated with types of change. Requirement c(ii) examines learning outcome B1(b) '*Recommend techniques to manage resistance to change*'. The question is designed to test candidates' understanding of the different approaches to dealing with resistance associated with types of change and their ability to make reasoned recommendations.

Suggested approach

Requirement (a) should be a straightforward question, requiring candidates to identify from the scenario a number of change triggers. It is important that candidates clearly explain why these are considered to be change triggers.

Requirement (b) should be a straightforward application of Lewin's Force Field Analysis model. Candidates are required to identify, and more importantly, evaluate the driving and restraining forces in relation to the change occurring in PPP. Candidates will be awarded very few marks if they merely describe the model. Direct application to PPP is required to pass this requirement.

Requirement (c)(i) requires candidates to demonstrate their knowledge of the types of change and apply this directly to the scenario, using the Balogun and Hope Hailey classifications. This should be a straightforward question.

Requirement (c)(ii) should be a very straightforward question requiring candidates to demonstrate their understanding of the methods of managing resistance to change. This has been examined several times before and therefore candidates are expected to be able to apply their knowledge of this area of the syllabus directly to PPP without any difficulty.

Requirement (a)

A change process normally begins as a result of a trigger for change, which can be either external to the organisation or it can be an internal event or action from within the organisation. Internal and external pressures often make organisational change inevitable. There have been a number of change triggers affecting PPP, including the following:

Internal Change triggers

New CEO.

The new CEO is clearly a strong proponent of wind powered electricity generation and, therefore, his introduction to PPP is a significant internal change trigger. He has made it clear to the Board that not only does PPP need to undertake wind powered electricity generation but has also suggested that the old style of bureaucratic management must also change. Therefore, his introduction to the organisation has been a significant change trigger for PPP. His questioning of the old ways of doing things will result in major changes at all levels within PPP.

Impact on performance

The loss of customers in recent years to competitors offering renewable energy is likely to impact upon PPP's profitability and may mean PPP is increasingly uncompetitive. This has been recognised by the new CEO in his recent statement and he clearly considers this to be a significant internal trigger for change.

External Change Triggers

PPP is operating in a dynamic and complex business environment. The electricity generating market is changing and customers are also demanding more environmentally friendly forms of electricity production. Therefore, the main external triggers for change are as follows:

New EU environmental policies and directives

Z's Government has recently agreed to a European Union target of generating 20% of the EU's energy supply from renewable sources by 2020. This is clearly a significant change trigger as PPP will have to ensure its compliance with this directive or become uncompetitive and go out of business.

Fees and incentives from the Government

In 2011, Z's Government announced plans for incentive payments to be awarded to those companies investing in renewable energy supplies. In addition, a government initiative called the 'Renewables Pledge', requires, by law, all energy suppliers to provide a proportion of their sales from renewable sources or pay a penalty fee. Clearly, this is a significant change trigger as incentive payments could help PPP to invest in these new technologies. Secondly, a penalty fee would make PPP more uncompetitive and affect its profitability. In addition, the national Government is forming new laws to increase the speed of planning applications.

Customer attitudes

The generating companies' customers within Z have become increasingly sensitive to environmental issues and the impact of energy production on the environment and many are willing to switch generating companies to obtain some electricity which is generated from renewable sources. In fact, since 2010, PPP has lost 5% of its customers to competitors offering renewable energy production. This is a significant problem for PPP as its current reliance on fossil fuels is likely to be unpopular with more customers in the future and therefore, if it is to remain competitive, it must react to customer needs.

Requirement (b)

Lewin argued that organisations should consider change in terms of:

- Those factors which encourage and facilitate change (the driving forces)
- Those factors that inhibit change (the restraining forces)

Change can only happen successfully if the driving forces are greater than the restraining forces. Therefore, PPP needs to evaluate both the restraining and driving forces and ensure that the driving forces are strengthened and the restraining forces are weakened or removed.

The diagram on the opposite page highlights the main driving and restraining forces, with the arrows indicating the forces exerting the main pressure on the change process.

Driving Forces

The new CEO is a key driving force behind the change to wind based electricity production as, without him, the old ways of operating would have continued. It will require his continued drive, commitment and leadership to ensure that this change occurs and is successful. Therefore, his commitment to the strategy and drive should be a major force for change.

In addition, the Government and EU directives and legislation are a major driver of change as it would appear that PPP has little alternative but to ensure that it undertakes renewable electricity delivery. In addition, the Government is trying to drive through change more effectively through improved processing of planning applications, which should increase the

success of the planning process. Therefore, as a driving force, the Government and EU directives are likely to be the strongest force for change.

A further driving force is PPP's customers. They are increasingly demanding renewable energy sources and, should PPP not provide this, then they are willing to move to other energy generators. This is clearly not sustainable for PPP and it must make sure it retains its customers in such a highly competitive market. It is likely that their strength as a driving force will grow and become more significant as competitors move more towards renewable energy production.

Restraining Forces

The attitude of the engineers and the unions could be a major restraining force for PPP. Should strike action occur, this will be very costly, but increased wages would make PPP uncompetitive. This will be a significant opposing force as the unions are clearly not afraid of taking strike action. However, PPP needs to manage this force carefully in order to reduce its impact by clear and open communication with staff regarding the future viability of PPP.

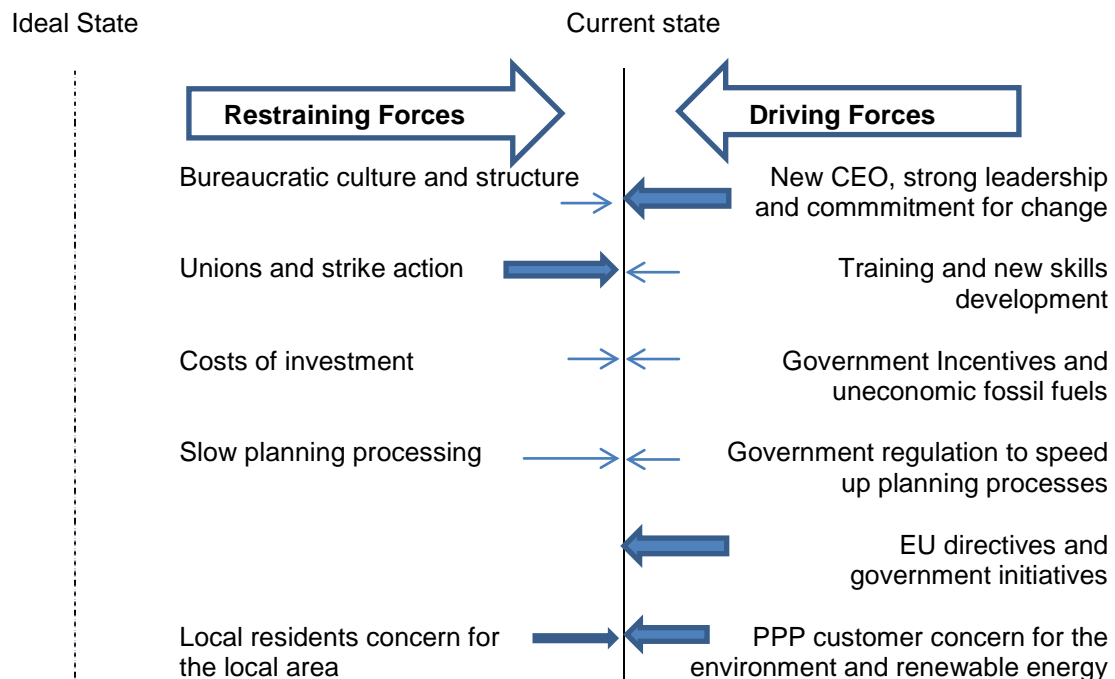
The current bureaucratic management structure may also make change difficult as management is likely to resist any changes to working arrangements and 'the way we do things'. Cultural change is always likely to be very difficult and a slow process to change. However, as a restraining force, this should be something that PPP can manage if it clearly communicates the importance of the change to staff.

The slow planning processes are not likely to be highly significant as the Government is introducing legislation to speed up the application process. However, local residents concern for their local environment could be a major concern for PPP as they may become powerful stakeholders who could lobby Government to relocate wind farms elsewhere in the country. Therefore, local residents could become a powerful restraining force if they form alliances and lobby Government.

Management of the Forces

PPP is trying to move towards its ideal state of being a wind powered electrical generating company. PPP must ensure that it strengthens its driving forces and weakens or eliminates the restraining forces. Therefore, it must ensure that all legislation is adhered to and that staff are fully communicated with in regard to the benefits of training and restructuring. In addition, customers must also be made fully aware of PPP's strategic development towards generating electricity from renewable sources.

See diagram on opposite page



Note: Candidates were not required to present their answers in diagrammatical form.

Requirement (c)(i)

Change can be classified in terms of the speed of change (i.e. whether it is a 'big bang' all at once change versus an incremental, step by step approach) and the extent of change (i.e. it results in an overall transformation of the organisation's paradigm or merely a realignment of its existing operations and assumptions). Balogun and Hope Hailey identified four main types of change based upon these classifications:

		Extent of Change	
Speed of Change	Incremental	Realignment	Transformation
	Big Bang	Adaptation	Evolution
		Reconstruction	Revolution

The changes currently occurring in PPP could be classified as **Evolutionary** as the nature of change is likely to be incremental and occur over a period of time. It will result in a change of paradigm for PPP as it will transform PPP.

Requirement (c)(ii)

Education and communication

In order to overcome resistance, PPP should consider communicating both internally and externally to key stakeholders. Clearly, the engineers feel threatened by the changes to working conditions, therefore PPP must educate them and communicate with them regarding the benefits of the change and the personal benefits that they will gain through retraining.

The new working arrangements and conditions could in fact work out to be far more favourable to the engineers and, if so, this information may encourage them to accept the change more readily. Communication should be regular and honest.

Participation and involvement

Through participation, PPP should gain increased acceptance, particularly as staff may feel that ownership gives them a greater say and more motivation. As the engineers are the key experts in the organisation, then their involvement in the development over wind powered

energy is likely to be critical. Gaining local resident acceptance through participation may be more difficult and time consuming but PPP could consider involving local residents in user groups and forums in order to seek their guidance on local issues.

Facilitation and support

Training has already been offered to the engineers but this has been resisted. However, this does not mean that training should not be pursued and continued as it will be a necessary part of the change process. Additional training could be considered in non-technical areas to include training in management and other business skills to encourage motivation of the employees to see opportunities for growth and self-development. Counselling services could be offered to those staff experiencing difficulties with the change. However, this is likely to be an expensive option for PPP.

Negotiation and Agreement

As the engineers are unionised then some form of negotiation seems inevitable for PPP. Although PPP has stated that increased wages would make them uncompetitive, some form of pay settlement may be essential to ensure the changes to new working arrangements. Negotiations are likely to include discussions on new methods of working, use of new technologies, new activities and working arrangements and new qualifications required. PPP may need to offer incentives such as paid leave for training courses or additional payments for overtime.

Manipulation and coercion

Manipulation and coercion are seen as the last resort to overcoming resistance to change. If staff feel that they are being manipulated, then they are more likely to increase resistance. Coercion, whereby management force staff to accept change by means of using threats of redundancy, for example, is not an acceptable form of managing resistance for PPP.

Overall, a combination of methods to overcome resistance is likely to be the most appropriate approach. Clearly, some form of negotiation and agreement with unions and staff will be necessary, even if this costs PPP money to do so. In addition, regular and open communication with staff and local residents will be necessary to gain acceptance and some degree of participation should assist the feeling of involvement in, and therefore acceptance of, the proposed change.

Answer to Question Three

Rationale

Requirement (a) examines learning outcome C1(b) '*Evaluate strategic options*' and is designed to test candidates' knowledge of and ability to apply the Ansoff growth vector matrix to determine a range of product and market development opportunities. Requirement (b) examines learning outcome C2(d) '*Discuss techniques in the support of the decision making process*'. The question is designed to test candidates' knowledge of how the Ansoff growth vector matrix fits into the overall strategic development process for GGG. Requirement (c) examines learning outcome C1(b) '*Evaluate strategic options*' and is designed to test candidates' ability to make a reasoned recommendation based upon their analysis in the previous question requirements.

Suggested approach

Requirement (a) should be a straightforward question, requiring candidates to apply Ansoff's growth vector matrix directly to the scenario information. Candidates are not required to make any recommendations in this answer but are required to analyse the opportunities to GGG presented within the scenario information within the Ansoff framework. This question requires a high level of application, analysing the information from the scenario in order to apply this directly to the matrix.

Requirement (b) requires candidates to build upon their answers to part (a) to evaluate the opportunities they have identified within the Ansoff growth vector matrix, using the criteria of Suitability, Acceptability and Feasibility. This question once again requires a high level of application.

Requirement (c) requires candidates to demonstrate their ability to present a sound recommendation based upon their previous analysis of the scenario information. Candidates are expected to provide a sound judgement which is consistent with their analysis within the previous two requirements.

Requirement (a)

GGG could utilise the Ansoff growth vector matrix to analyse the possible future strategic directions it could follow.

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification Related/Unrelated

Market Penetration

GGG could attempt to increase its market share with its existing services to its current market or region. The market is a growing one; with the change in demographics, therefore, market penetration is a real option for GGG. As it currently has 25% of its region's market with the rest fragmented between local government run and privately owned care homes, there is potential for GGG to undertake promotional activities in order to obtain business from these competitors. In particular, the sale and closure of a number of the privately run care homes could be an opportunity to obtain a greater share of the market through targeting these care homes customers. GGG may have to consider its pricing strategies however, as its prices may well be higher than its competitors. It may need to consider a reduction of prices or some form of discounted offer to attract customers who are currently paying less than they would be charged in GGG's care homes..

Product Development

GGG could attempt to offer new services to its existing market or region.

Within the scenario, there is mention of a new 'relief package' facility that is becoming popular with customers. GGG could consider offering its facilities for customers within its region for this new service. This would have to be investigated further to ensure that GGG has the capacity and facilities to offer such a service. If there is clearly a growing need for this type of package, then GGG could try to gain early market entry in order to gain early mover advantage. The issue for GGG is likely to be capacity constraints and the need to weigh up the benefits and costs of the option against those of offering continued longer term care to its residents.

In addition, the additional services that could be offered by the qualified staff and nurses of GGG to its patients as an alternative to referral to hospitals could be a form of product development. However, this is likely to involve investment in re-training and facilities.

Market Development

GGG could attempt to increase its revenues by offering its current services to new customers or at a different geographical location.

One option would be to consider moving into another geographical region in its own country to offer its services to the elderly. This is a possibility as the national geographic trend suggests increasing demand nationally for elderly care. However, this is a riskier strategy as GGG currently has no experience of its competitive environment outside its own region and the competitive market may be very different. In addition, GGG would require heavy investment in facilities outside of the region. However, the market conditions are likely to be the same as in its own region and, therefore, it could consider buying or merging with another private care home outside of its current region. However, GGG must consider the rising costs of running care homes and the consequent need for it to price its services accordingly.

Diversification

GGG could consider offering new services to new customers. For example, the trained staff and nurses could be used to offer other nursing and rehabilitation services to individual customers, other care homes or to GP surgeries. These could be offered within the facilities of GGG or could be offered on site in customers' homes.

GGG's administrators are also highly experienced and GGG could consider utilising their experience to offer consultancy and management services to other care homes which might consider outsourcing their management and administration function to GGG.

Requirement (b)

According to the Johnson, Scholes and Whittington approach, an organisation's potential strategies can be evaluated against the following criteria:

Suitability: whether a strategy fits with the organisation's operations and its strategic position.

Acceptability: whether a strategy fits with the expectations of the stakeholders.

Feasibility: whether the strategy can be implemented, taking into consideration practical considerations such as time, cost and capabilities.

GGG must consider if the proposed strategy is suitable to respond to environmental events and opportunities and whether it fits with the current strategic position. It would need to consider whether it had the right level of resources and competences. It would also have to consider its key stakeholders in terms of both risk and return. It is important to note that GGG must also consider 'who' their customers are, as customers will include not only the actual residents of the care home but also their families or their current carers. Reviewing each of the strategies identified in the Ansoff matrix, GGG should consider:

Market penetration

Suitability: This strategy would appear suitable as GGG has spare capacity and also this option builds upon GGG's current expertise so there is clear strategic fit.

Acceptability: The key stakeholders such as staff and management are unlikely to be opposed to this strategy as it is a mere development of the current activities of GGG. Existing customers should find it acceptable as long as current standards of operation are not affected if the care homes now take on more customers.

Feasibility: GGG has the resources in terms of capacity and competences to undertake this strategy. However, further growth could mean the need to invest in more facilities if spare capacity limits are exceeded. GGG would also need to consider the costs of advertising.

Product Development

Suitability: This strategy continues to fit with GGG's strategic position and would certainly exploit an obvious market opportunity. It will complement the existing long term care facilities and should help to balance GGG's portfolio. Therefore it is suitable.

Acceptability: Staff may find this strategy unacceptable if it requires additional training or detracts them from the care of GGG's existing long term care customers. Existing customers should be neutral in the decision as long as it does not affect the standard of their care and potential customers are likely to be positive towards the proposal.

Feasibility: Investment in facilities and training may make this option unfeasible but GGG would have to weigh up the long term benefits of building market share through subsequent conversion from short-term care residents into long-term residents and by improving quality of care by providing services in-house rather than necessitating referral to hospital.

Market Development

Suitability: There is certainly a potential for opportunities outside of its current geographical region. The national trend suggests increasing demand nationally for elderly residential care. However, GGG has no experience of its competitive environment outside its own region and the competitive market may be very different. GGG does not know whether its own service would be superior from that offered by competitors.

Acceptability: Staff and managers may not find this strategy acceptable as it might affect their own workloads, location and roles. However, current customers are likely to be neutral to the proposal.

Feasibility: Can GGG find the right facilities or a suitable partner to merge with or acquire? Costs of relocation of some staff or recruitment and training would need to be carefully considered. There might be some resistance from staff and competitors. Also, GGG needs to consider timescales and possible local Government resistance. Therefore, market development may not be feasible.

Diversification

Suitability: GGG has the necessary skills to undertake diversification although additional training may be required. In the present climate it would appear that the opportunities for this development may be limited. It would fit with the current activities of GGG and therefore has strategic fit.

Acceptability: The staff may find this acceptable as it would develop their skills and enhance their job roles. Existing customers are also likely to find this acceptable as it would not mean disruption to them assuming the new services do not detract from their own care. However, GPs and hospitals may not find this acceptable as they may not agree that the same level of care can be offered by GGG's staff.

Feasibility: GGG will have to invest heavily in training and facilities which may make this unfeasible. There may also be resistance to this from local GPs and hospitals. Therefore, GGG may find this strategy unfeasible.

Requirement (c)

In the current market and competitive environment, where GGG is managing to remain profitable despite other similarly businesses failing, **the recommended options** for GGG would be to follow a market penetration strategy with product development.

The current geographical market clearly has potential for GGG so there is no need for a market development strategy. A market penetration strategy would allow GGG to exploit the current trends and build upon its own strength and reputation. It is also the least risky option in a time when costs are clearly rising. Product development with the care relief packages should also be considered as it has clear potential for GGG to exploit its current spare capacity and to use its expertise to develop a clearly growing market need.

Answer to Question Four

Rationale

Requirement (a) examines learning outcome D1(a) '*Recommend appropriate control measures*' and relates to syllabus content of '*theories of control within organisations and types of organisational structure*'. The question is designed to test candidates' knowledge and understanding of the merits and problems associated with different approaches to organisational structure. Requirement (b) examines learning outcome D1(a) '*Recommend appropriate control measures*' and relates to syllabus content of '*theories of control within organisations and types of organisational structure*'. The question is designed to test candidates' understanding of the impact of centralised and decentralised approaches to strategic management. Requirement (c) examines learning outcome C1(c) '*evaluate different organisational structures*' and is designed to test candidates' understanding of the need for modern businesses to be managed and operate more flexibly to respond to business opportunities and new working arrangements.

Suggested approach

Requirement (a) should be a straightforward question requiring candidates to demonstrate their knowledge and understanding of divisional structures and functional structures. Candidates must apply their answers directly to DDD to be awarded a pass mark.

Requirement (b) requires candidates to demonstrate their knowledge and understanding of centralised versus decentralised decision making. It is important that candidates do not merely discuss centralisation and decentralisation in general. The question specifically focuses upon the decision making process and the current challenges faced by DDD in decision making.

Requirement (c) requires candidates to demonstrate their knowledge and understanding of alternative organisational structures and their importance and relevance to DDD. Candidates need to consider specifically the recent contract won by DDD and the most appropriate organisational structure to ensure that it will be undertaken successfully. Specifically, candidates are expected to consider matrix or project based structures and their benefits to DDD.

Requirement (a)

An organisation's structure is necessary to ensure the successful implementation of its objectives and strategies. It can be defined as 'the established pattern of relationships between individuals, groups and departments within an organisation'. It is important that an organisation chooses the right structure in order for it to successfully manage both its internal and external relationships and to ensure that its business is conducted as effectively as possible.

(i)

Functional Structure

A functional structure divides the organisation into functions or activities such as finance, HR, production and IT. The main reason for this type of structure is to allow the exploitation of specialisation.

Evaluation of the benefits to DDD

- A functional structure will allow the grouping of specialist skills and activities. This grouping of expertise may give DDD a competitive advantage against larger, more divisionalised organisations.
- This will allow for the elimination of duplication of activities across projects and therefore should help to keep costs down for DDD. As a medium sized organisation likely to be competing against similar or larger sized organisations, elimination of unnecessary duplication of costs could be a key factor in its competitiveness.

- In a centralised organisation, such as DDD, a functional structure facilitates the management and control of functional specialists.

Evaluation of the drawbacks to DDD

- Often, in functional structures, there are barriers between functions that may affect co-ordination and the flow of information. This could mean that for DDD communication between members of project teams is affected and the co-ordination of project team members may result in delays or mis-communication. Overall, this could affect the quality of the project output.
- A functional structure may cause DDD to focus more upon its internal processes rather than on the quality of its outputs and customer satisfaction. As stated in the scenario, the lack of integration of the functions is seen as a key problem for DDD.
- Functional structures can struggle to cope with growth and change. DDD has just won a major contract for a large sporting event and this may mean a degree of change is essential. However, the current structure would seem inappropriate to manage this.

(ii)

Divisional Structure

A divisionalised structure subdivides the organisation into smaller units based upon, for example, either a product or market focus. DDD could divisionalise on the basis of type of product/customer or by geographical location.

Evaluation of the benefits to DDD

- DDD's staff could be located by project expertise in one location. The expertise in one location should encourage quicker, better quality decision making and a better customer focus.
- DDD's managers would be given greater empowerment and motivation through divisionalisation because they would have the power to make decisions within a delegated level of authority.

Evaluation of drawbacks to DDD

- Divisionalisation can result in more duplication and thus increase costs for DDD. In a highly competitive market this may make DDD less competitive. Costs associated with additional administration, management and control activities may be incurred.
- There is a potential for sub-optimisation in DDD, as highlighted by the Finance Director, who has experience of divisionalised structures.
- Divisionalisation may result in more formalised central policies and control procedures imposed by DDD's Board which will negate any benefits of improved potential empowerment for managers.

Requirement (b)

In a centralised organisation, the senior managers (normally the Board of Directors) will retain the authority over strategic decision making and most of the organisation's management and control activities.

In a decentralised organisation, authority to make decisions is given to managers of divisions/ units/ projects lower down in the organisation hierarchy. Decentralisation allows the front line managers and staff to make decisions in response to customer and environmental demands and allows better management of local issues by local managers who are closer to the decision being made.

Evaluation of centralisation in DDD

As the organisation is currently run with a functional structure, a centralised approach is likely to be appropriate. However, the functional structure of DDD could be inappropriate and

therefore DDD must question the appropriateness of a centralised decision making and control system.

Advantages of centralisation to DDD

- If DDD were to allow more decentralised decision making this may result in sub-optimisation and poorer overall performance of DDD.
- Having centralised strategic decision making and control will ensure one overall objective for DDD, leading to improved conformity and goal congruence.
- DDD's costs should be minimised as there is less duplication of decision making and management activities.
- The senior managers of DDD can remain as the specialists in strategic management which allows all of the other managers to focus upon their own functional specialisms.

However, the drawbacks of a centralised structure to DDD are as follows:

- The senior engineers of DDD would appear to be highly frustrated with their lack of input into strategic decisions, which will lead to demotivation and low morale.
- This in turn will lead to good and talented staff leaving the organisation, which is in evidence from the scenario. This is clearly not acceptable for DDD, as these staff not only leave, taking valuable knowledge and experience with them, but they are also likely to take this to rival organisations.
- The senior managers and Board of DDD are unlikely to have all of the knowledge required to make every decision needed to operate DDD successfully and therefore sub-optimal decisions may be made as a result of this lack of knowledge.
- Other managers in DDD will have less opportunity to learn and develop and gain experience which will be detrimental to DDD. Again, this is likely to result in these managers leaving DDD to seek better managerial experience elsewhere.
- Time taken for decisions lengthens in a centralised structure causing delays and missed opportunities.

Therefore, a decentralised approach to DDD is likely to result in the following benefits for DDD:

- Greater staff motivation with greater responsibility and autonomy which should result in reduced staff turnover.
- More experienced staff who will become future senior managers in the organisation. If DDD is spending time and money in developing staff then it is cost effective if it retains these staff within its business instead of training them for the benefit of other rival organisations.
- Better, more focused decisions made closer to the customer thus increasing speed of response and hopefully reducing late payment charges to DDD.
- Improved customer satisfaction due to increased responsiveness as better informed decisions will be made more quickly.

Requirement (c)

DDD is operating in a number of different product and customer types and in different geographical locations. Its current functional structure appears not to provide a sufficient level of co-ordination and integration and is clearly a source of frustration for senior engineers in DDD. It is recommended that a matrix or project based structure be applied to DDD, based upon the focus of multi-functional project teams.

A matrix or project based structure is based upon teams which are flexible and often temporary. For DDD, a project team could be set up for each contract won which would maintain and exploit the basis of the organisations functional specialism but would allow for better co-ordination and co-operation of the functions within one team environment.

A matrix or project based structure would normally have two reporting lines; one to the functional manager and one to the project manager. For DDD this would mean a team focused structure where each CHP project would have a team with members from all of the functional areas, led by a project manager or senior engineer. The team would work together on the project until it is complete and then return to the main functional activities or move to another project.

It is widely recognised that in the modern business organisation the need for flexibility will be a key determinant of organisations' ability to survive. Many writers suggest that organisations will have to work more flexibly, use team based structures, allow greater delegation of decision making and rely more frequently on operating in network or collaborative arrangements with other organisations.

DDD's need for a flexible structure following the recent contract won

The new contract for DDD to design and install a range of innovative products in collaboration with other organisations is going to involve working with a number of different organisations over a long period of time to present one final outcome (a successful sporting event delivered on time).

Interaction with a range of partners with different skills and experience will require DDD's staff to take a more flexible approach in its activities and work in a more collaborative way. Working with external partners will require different communication methods and different management and control methods.

If DDD cannot work flexibly with its partners in terms of work arrangements, use of technologies and skills development, then DDD may find that it could lose the contract or face heavy penalties for late project deliverables throughout the life of the project.

The benefits to DDD of a matrix structure would be:

- Increased integration and co-ordination of the functional specialists, overcoming a current criticism of the organisation.
- Team members becoming multi-skilled and multi-disciplinary which would benefit both the individuals and DDD as a whole.
- Greater cohesion and communication should result in better decision making and improved customer satisfaction. A more flexible approach to organisation should allow DDD to be more innovative and reactive to the demands of the market and its customers and should make it more competitive.

However DDD would still have to consider some of the potential problems with a matrix structure, such as the potential conflict that may occur between the dual authority roles of project manager and functional manager, which may cause internal disputes and also result in problems for the individual team members in terms of understanding where their responsibilities lie. Also, a matrix structure could add additional costs for DDD in terms of additional requirements for project managers to be employed.

However, DDD may still face the problem of a centralised management and control structure which could inhibit the freedoms associated with a matrix structure. If DDD is to truly make the most from a matrix structure the organisation also has to reconsider its centralised approach to management and control.