



Strategic Level Paper
E3 - Enterprise Strategy
May 2013 Examination

Examiner's Answers

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

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

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

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 candidates' knowledge and understanding of the challenges faced by public sector organisations in strategic objective setting. Requirement (b) examines learning outcome D1(b) 'evaluate alternative models of performance measurement' and tests candidates' ability to undertake a detailed benchmarking analysis of performance of TFR. Requirement (c)(i) examines learning outcome B1(a) 'discuss the concepts of organisational change' and is designed to test candidates' understanding of the impact on TFR's culture of a change to becoming a privatised organisation. Requirement (c)(ii) examines learning outcome C1(a) 'evaluate the process of strategy formulation' and is designed to test candidates' knowledge and understanding of the differences in strategic planning and management activities between private and public sector organisations.

Suggested approach

In requirement (a) candidates are expected to use their knowledge and understanding of public sector organisations to consider the potential difficulties of setting and measuring strategic objectives. The scenario pre-seen introduces a range of strategic objectives and candidates should consider how the measurement of these can be difficult from a public sector perspective only. Answers should also focus specifically upon T Railways and not public sector organisations in general.

Requirement (b) is a complex requirement in which candidates are expected to produce a range of quantitative and qualitative analyses. Note that there are 10 marks for the calculations of KPIs and therefore 18 marks for the qualitative evaluation. Candidates should also consider that the requirement specifically asks for a comparative performance of the three business sectors and a separate comparative performance of TFR against the road freight haulage. Therefore, in terms of structure, candidates should plan and structure their answers carefully to ensure that all of the required information is addressed. Note that the verb used in the requirement is 'evaluate' and therefore candidates are expected to say more than 'this number is bigger than that number'. Rather, candidates must ensure that they attempt to evaluate why the performance of one business or one sector is better/worse than another.

Requirement (c) requires candidates to consider the potential impact on TFR of the proposed privatisation referred to in the unseen material, in terms of both the cultural impact and the changes to strategic management and planning activities. Therefore, candidates must consider the potential changes that are likely to occur as a result of the move from a public sector organisation to a private sector organisation, using a wide range of information contained in both the pre-seen and unseen material relating to the culture and strategic management activities of TFR.

Requirement (a)

As a nationalised industry, T Railways has a range of stakeholders and the focus of its performance has not been profit making as any losses have been covered by the central government of T. There has also been a lack of investment in new trains which will have adversely affected the performance of trains in the Energy sector. Therefore, it is difficult to compare different sectors as one has very old trains and another, the Automotive sector, has new trains.

T Railways has a range of conflicting objectives, as passenger services generate more revenues than freight (T\$680 million versus T\$516 million) and passenger trains take priority over freight trains. Additionally, the rail regulator is putting increasing pressure on T Railways to improve passenger services. This puts a lower emphasis on the performance of the freight division (TFR).

T Railways, and indeed TFR, has multiple stakeholders and this will mean it has multiple objectives to achieve. Each stakeholder will have different objectives, as can be seen from the strategic objectives set by T Railways which include reference to safety, reliability, cost effectiveness and environmental impact. Prioritising these objectives may be difficult as the achievement of one objective may directly impact upon another. For example, reducing carbon emissions may require increased investment in more modern fuel efficient trains but clearly this may impact adversely on the objective of cost efficiency. There is a conflict between safety, operating costs and carbon emissions and no clear direction as to what the priority in objectives is. Is it to reduce T Railways' carbon emissions or to maximise revenues or profits?

Conflict between stakeholders' objectives is inevitable. For example, for T Railways one of the objectives is to reduce carbon emissions, which is clearly a high priority for the regulators and some of the key customers such as the large supermarkets and retailers. However, this will inevitably impact upon costs if this involves investment in new facilities and trains. This will negatively impact upon other key stakeholders, such as the Government and its objective of

cost effectiveness and efficiency. Therefore, managing stakeholder conflicts is likely to be a major activity for T Railways.

Many of the stakeholders will themselves have multiple objectives and will not only be looking at one aspect of T Railways' performance. For example, the CHG business sector is clearly considering the environmental issues but it will also be considering the punctuality and reliability of the delivery method. Therefore, this will be difficult when identifying and prioritising objectives as different customers may also have multiple objectives with different priorities.

Also it is often difficult to measure the achievement of objectives. For example, measuring punctuality may not be very easy to do, as there are likely to be many factors which impact upon this objective. For example, TFR may have increased its own punctuality but this may be negatively impacted upon by delays caused by passenger services or delays on other countries' networks. Similarly, measuring safety is likely to be far more complex than merely relying upon the measurement of accident statistics. Many complex factors play a part in all of the key performance indicators and these need to be taken into account before any action is taken.

Some stakeholders will hold greater power than others and some objectives may be more highly prioritised because of this. This may cause T Railways to focus incorrectly upon those objectives and KPIs most important to the key players, such as Government, and overlook those which are most important to its staff or its customers, as it may consider the Government to be its most important stakeholder. This in turn could result in lost business if customers do not think that their objectives are being met. For example, reducing accidents may incur high investment costs in new trains and more training which may not be of high priority to the Government. However, T Railways' staff will be highly concerned with safety issues and may feel unhappy with T Railways if safety needs are overlooked in favour of cost efficiency measures.

Effective objectives should be SMART, that is specific, measurable, attainable, relevant and time-bound. These criteria for effective objectives may not always be easily achievable. The objectives set are not specific to any particular business subsidiary of T Railways. Neither of the objectives have a specific measurable aspect to them, such as reduce carbon emissions each year by x%. Without a defined measure it is difficult to evaluate progress towards the objectives. However, for T Railways, assigning SMART criteria may be difficult as it will be working with objectives which are not specific to one particular stakeholder group and it may also be difficult to put realistic time frames upon them. Also, some of these objectives are driven externally, such as the emissions targets which have been imposed by international agreements.

Measuring performance can always be undertaken. Even if it is not wholly accurate, it can indicate a trend. However, unless the key objectives are clearly defined and agreed, it can be difficult to know what to measure and which measurements are the most appropriate. For example, accidents – should this be expressed in the absolute number of accidents or as accidents per million kilometres or accidents per journey undertaken? The performance measures could be manipulated to make the figures appear better than they really are.

Requirement (b)

1. Evaluation of the performance of the three sectors in TFR

	CHG 50%	Energy 40%	Automotive 10%	Total TFR
KPIs	2012	2012	2012	2012
Revenue per kilometre travelled (T\$)	25.3	20.2	25.8	23.0
Operating cost per kilometre (T\$)	24.5	20.0	20.0	22.1
Operating profit per kilometre (T\$)	0.8	0.2	5.8	1.0
Operating profit (T\$million)	8.0	2.4	11.6	22.0
Operating profit %	3.1%	1.2%	22.5%	4.3%
Average capacity utilisation %	88%	82%	86%	n/a
Punctuality %	89%	95%	82%	92%
Kg of CO ₂ / per tonne-km	0.04	0.06	0.03	n/a
Accidents per million kilometres travelled	7.8	3.1	5.0	5.4
Damaged/ lost goods per 1,000 kilometres travelled	1.08	0.00	0.75	0.56

Cost Efficiency KPI - Operating Costs per kilometre travelled

Within TFR, the CHG sector has the highest cost per kilometre, indicating possible inefficiencies in operations. The scenario material does suggest that the delivery of industrial freight is complex and this complexity is likely to incur higher costs for this business sector. TFR needs to consider how these complexities could be reduced if it is to reduce these costs and improve the cost efficiency of industrial product transportation. Currently the CHG sector undertakes the longest journeys exclusively within Country T and it could be possible that if these were reduced in order to reduce complexity then costs could also be reduced. In terms of cost per kilometre, the CHG sector would appear to be uncompetitive compared to the road freight haulage sector with costs per kilometre being higher.

In total, the Energy sector incurs over 40% of the costs of the whole of TFR, and this is likely to be due to the number of journeys undertaken and the resultant high staffing costs and fuel costs. However, the costs per kilometre are relatively low. The Automotive sector has low costs per kilometre which may be driven by its use of modern, electric fuel-efficient trains.

Profit

The Automotive sector generates over 50% of TFR's total operating profit and the development of this business area needs to be focused upon in order to create continued growth in this business. The Automotive sector appears to operate at a level of profitability which is more competitive with the road haulage sector, which should indicate that this should be an area of business to pursue for TFR. An area of concern for TFR would be the CHG sector which is only achieving an operating profit of 3.1%. This is a significant concern as it currently accounts for 50% of TFR's business in terms of revenue generated. The complexity of some of this form of freight delivery service is incurring high levels of costs which are impacting upon the profitability of this sector and TFR in total. This needs to be investigated as clearly the costs are likely to be a significant concern for the industrial customers.

Although the Energy sector generates 40% of the total revenue for TFR, when considering the revenue generated per kilometre travelled, the Energy sector contributes the lowest revenue per kilometre. As TFR's most long standing form of freight business is to another nationalised industry, it may be that contracts are not regularly negotiated and prices are kept low in order to stabilise national energy costs. The revenue generated per kilometre by the Automotive sector appears to be in line with that of the Road freight haulage sector and therefore this business sector should be in a competitive position in its market.

Carbon Emissions KPI – Kg of CO₂/ per tonne-kilometre

It is notable that the Automotive business which operates electric trains, generates significantly lower levels of CO₂ emissions per tonne-km than the Energy sector operating with diesel trains. If TFR is to achieve T Railways' carbon emissions objective it needs to consider the increased usage of electric engines. However, this will require significant investment which may be cost prohibitive for TFR. The Energy sector in particular has a high

number of kilometres travelled using old diesel engines. If the Energy sector could improve its capacity utilisation it could reduce the number of journeys it undertakes and thus reduce its emissions.

Staff accidents KPI - The number of staff accidents or injuries sustained by TFR staff per million kilometres travelled

A significant area of concern for TFR should be the level of accidents within the CHG sector where the number of accidents is significantly higher than the other sectors. The number of accidents per million kilometres is over twice that of the Energy sector. Therefore, TFR should consider investing in extra training and carrying out best practice analysis in order to reduce this. The Energy sector has the lowest number of accidents per million kilometres and therefore TFR could consider undertaking a best practice analysis on safety and accident procedures with this sector. However, this exercise may be limited as the mode of operation and delivery is likely to be very different.

Damaged Goods KPI - The number of incidents of goods damaged or lost in transit per thousand kilometres over which the goods are transported

There appears to be a significantly higher level of damaged goods occurring within the CHG sector than in the other sectors. This could be due to the fact that this sector transports large numbers of small value items for retailers that are more likely to get damaged or lost than the products transported by the other sectors. However, this may not be a significant area of concern for TFR as the CHG sector has a lower level of damage incidences than the road haulage sector which may be a positive factor in choosing rail versus road haulage for retailers and supermarkets. The overall damaged goods incidents per kilometre for TFR is rather skewed by the fact that the Energy sector has no incidences of damaged or lost goods.

Train Capacity Utilisation %

The Energy sector has lower capacity utilisation than the other sectors. This needs to be reviewed as this under-utilisation of total capacity of the Energy sector is significantly reducing TFR's overall capacity utilisation. This is also a concern of the power station operators which want to reduce the number of journeys carried out by the Energy sector in order to reduce their own costs. Improvements in capacity could assist in the reduction of the number of journeys but this is currently hindered by the use of old and less powerful diesel trains. Investment in this area is likely to impact upon the costs of TFR.

Punctuality KPI - The number of journeys on time, measured as a percentage of total journeys made

This is likely to be a significant factor for TFR, particularly for the Automotive sector which has to meet tight shipping deadlines in neighbouring country ports. However, the punctuality for this sector is low compared to the other sectors. This is likely to be due to the distances travelled and the fact that automotive deliveries are reliant upon use of neighbouring countries' rail networks and the reliance on passenger track facilities. The Energy sector has a relatively good record of punctuality. Again, TFR could undertake a best practice exercise to assess if the Automotive sector could follow some of the practices undertaken by the Energy sector to improve punctuality. However, the effects of this could be limited due to the external factors which are affecting the Automotive sectors' punctuality and due to the nature of the Energy sector using its own dedicated tracks.

2. Benchmarking analysis: TFR in total in 2012 versus the Road Freight Haulage sector

	Total TFR	Road Haulage	Difference
KPI's	2012	2012	
Revenue generated (T\$m)	516	3,770	-3,254
Revenue generated per km travelled (T\$)	23.0	26.0	-3.0
Average kilometres travelled per journey	105.2	145.0	-39.8
Operating Cost per kilometre travelled (T\$)	22.1	21.0	-1.1
Operating Profit per kilometre	1.0	5.0	-4.0
Operating Profit	22	725	-703
Operating Profit %	4.3%	19.2%	
Kg of CO ₂ / per tonne-km	n/a	0.13	
Staff accidents	122	1,850	1,728
Staff accidents per million kilometres	5.4	12.8	-8.2
Damaged/ lost goods per 1000 kilometres	0.56	1.28	+0.72
Average Capacity utilisation %	n/a	92%	
Punctuality %	92.0%	65.0%	

Costs Efficiency

Overall, the costs per kilometre for TFR are higher than the road freight haulage sector by T\$1 per kilometre. The lower total costs incurred by road freight haulage could be due to more efficient operations as a result of less bureaucratic and smaller structures than operated by TFR as part of a large public sector organisation.

Profit

TFR in total generates a total operating profit of T\$22 million and an operating profit percentage of 4.3%. Road freight haulage generates a significantly higher level of operating profit at 19.2%. This may be due to the fact that, as stated above, private road haulage companies are likely to have less bureaucratic structures and operate in a more profit focused way. Road freight haulage businesses will be focusing upon increasing shareholder value whereas TFR's main focus is upon breaking even and ensuring that it achieves the goals set by T Railways.

There is a huge amount of revenue reduction that the road hauliers could make to try to keep customers using road transport by offering price cuts, before their margins are reduced to the level achieved by TFR. The average revenue per kilometre for road haulage is T\$26 compared to T\$23 for rail. Therefore, it appears as if rail prices are T\$3 (12%) lower than road prices per kilometre. This may indicate that there is scope to increase rail prices or use this to incentivise customers to switch to rail freight haulage.

The income generated per kilometre for TFR is lower than road freight haulage and this is largely driven by the large proportion of business carried out by TFR in the haulage of coal to power stations by the Energy sector which has a very low level of income generated per kilometre compared to the other two sectors and which is a key driver in the overall income generated per kilometre for TFR in total in 2012.

Carbon Emissions KPI

Although the overall CO₂ emissions for TFR are not available, it would appear that the CO₂ emissions for the three TFR sectors are significantly lower than the CO₂ emissions generated by road freight haulage. This is likely to be a significant competitive advantage for TFR in terms of achieving growth in supermarket and retail customer business. The number of journeys, road congestion and idling time are likely to be significant factors in the carbon emissions for road freight haulage. This is a key competitive advantage for TFR and could

help generate more rail freight business as companies try to reduce the level of carbon emissions in their supply chain. This is a key advantage for rail.

Staff accidents KPI - The number of staff accidents or injuries sustained by TFR staff per million kilometres travelled

TFR had 122 accidents in 2012, which equates to 5.4 accidents per million kilometres travelled. This is significantly lower than the road freight haulage business where accidents occur at a rate of 12.8 per million kilometres travelled. The Rail Industry regulator will be interested in this KPI and, once again, this could be used by TFR in order to gain customer confidence and support.

Train Capacity Utilisation %

Although the capacity utilisation in total for TFR is not available, it would appear that each individual sector has a lower capacity utilisation than the road freight sector. It is significant that the Energy sector has lower capacity utilisation than the other sectors. This needs to be reviewed as this under-utilisation by the Energy sector is likely to significantly reduce TFR's overall capacity utilisation. If TFR is to be competitive then it needs to consider increasing its capacity utilisation as this could reduce its overall costs. Capacity utilisation should reduce the number of journeys which need to be undertaken which should improve overall efficiency.

Punctuality KPI - The number of journey on time, measured as a percentage of total journeys made

TFR performs significantly better than the road freight industry in terms of punctuality. This is likely to be a significant competitive advantage for TFR particularly for the Automotive sector which has to meet tight shipping deadlines in neighbouring country ports. Clearly the congestion on Country T's roads is having an effect upon average speeds which is in turn impacting upon the ability of road haulage to meet its deadlines. For retail businesses such as supermarkets this is likely to be a significant factor in choice of delivery methods and if the CHG sector can deliver at a significantly better level of punctuality than road haulage then this should be highly attractive to the customers.

Overall, rail has several advantages over road haulage including better punctuality, lower carbon emissions, lower damage / loss rates and these factors should help persuade more customers to transfer to rail freight in future. These statistics should also help TFR to try to secure government funding for more investment in newer trains. More investment will improve punctuality and help reduce carbon emissions.

Requirement (c)(i)

TFR currently has a highly bureaucratic culture, where T Railways retains a tight control on strategic management and planning activities undertaken. Therefore, control systems are likely to be highly centralised and the structure bureaucratic. This is likely to result in a culture where change is not something that staff are used to or would accept easily. Power rests with T Railways' senior managers. The privatisation would have a major impact upon TFR's culture as it is likely that the current hierarchy would be reduced significantly.

The three business sectors would operate as two separate companies. This clearly would change the organisational structure and reporting which is an element of TFR's current culture. As they would now have a profit motive and their main influential stakeholders are the shareholders this would inevitably change the management focus and culture. The separate companies would operate in a competitive market against each other and other freight haulage organisations. The process of changing the structure could be a distraction from managing these businesses in the short term.

The paradigm – the 'way we do things' would be likely to significantly change. The power to make decisions would be released to senior managers within the businesses rather than the centralised decision making undertaken by T Railways. The old bureaucratic control systems and power systems would no longer exist.

The symbols and stories likely to exist within TFR concentrated upon its public sector and customer focus would be likely to be replaced with new symbols and stories to encourage the promotion of a profit focused business.

The number of staff used would likely be cut by Q. This would lead to resistance from TFR's current staff. This would require careful handling and good HR management to stop any demotivation of employees after the company is privatised.

There would be a need for performance related pay or incentives to help motivate employees and to achieve goal congruence. Again, a culture, in terms of rewards to incentivise performance would need to be implemented. In a new privatised era, there would be a shortage of skilled management and new senior managers may need to be recruited to manage the change and to guide the companies. This happened when many of the UK nationalised industries were privatised in the 1980's and 1990's.

There would need to be much more focus on managing costs and achieving profit and shareholder returns. There would also need to be a greater focus on customers, the need to win more business and to retain customers by keeping them happy and meeting their needs, such as improved punctuality.

Requirement (c)(ii)

Q operates with a decentralised management structure where divisional senior managers are responsible for strategic decision making and setting their own strategic objectives. This is in contrast to TFR where strategic decisions are taken by T Railways and then passed down to the senior managers of TFR to manage through its KPI's. Therefore, the senior managers of TFR have little input in strategic decision making. This would be significantly different after privatisation as Q operates with a far more decentralised decision making structure.

T Railways currently operates an 'accounting-led' approach to strategic management and planning. The traditional accounting-led approach to strategic planning starts by looking at the stakeholders and their objectives. The emphasis is then upon formulating plans to achieve these objectives. This is currently the approach used by T Railways, which sets its strategic objectives and from these objectives, a number of Key Performance Indicators (KPI's) are set to measure TFR's overall performance in achieving these objectives. Therefore, TFR's management and planning activities are based upon measuring the KPIs in order to meet the strategic objectives set by T Railways. Objectives are clearly very important for TFR as its overall performance is assessed on the meeting of these objectives. However, this can be flawed as it can lead organisations to overlook market considerations. Even though TFR has no direct rail competitors, it still needs to consider other competitors such as road freight haulage companies.

In contrast, Q operates a more competence or resource led approach to strategic management, where the emphasis of strategic management and planning is focused on core competences and critical success factors. Q clearly focuses upon its core competences – what it is good at, and aims to ensure that these fit with market expectations. Therefore, there will be less focus upon stakeholder objectives and more upon its critical success factors in order to ensure that it achieves its objectives. Although the freight delivery market may be considered to be a relatively stable environment, there are clear market forces in operation, with strong competitors and opportunities for developments in some areas, such as CHG and Automotive. Therefore, this approach is likely to be more appropriate to a privatised organisation.

With the privatisation of TFR, Q would wish to prepare both top down and bottom up plans and see where the gaps are and what actions would need to be taken to achieve Q's goals.

Q would need to set guidelines of what levels of investment it is prepared to make and allow management to decide where the investment would achieve the best results for retaining customers and gaining new business. What would be the impact of increasing prices? With customers under pressure to cut carbon emissions in their supply chain, they may be willing

to pay a slightly higher price to move freight by rail. Currently there is a T\$3 difference between road and rail, with road prices being higher.

The level of capital investment and the required business resources and skills will need to be planned. Staff reduction and redundancies will also need to be planned. It is likely that there will be an inadequate level of senior management skills in respect of planning and IT, as these are areas which T Railways has neglected. This may result in consultants being appointed in the short-term to help with the planning process or for some of Q's more experienced staff being seconded to these two new rail companies. Once the strategic plans are agreed, then Q would require its management team to put detailed operational plans in place to ensure that they are met. The strategic plans and whether they are achievable will need to be discussed and agreed by the senior management team. Will management go for growth in volumes of rail freight or for better customer service with fewer late trains, or will it go for growth in profitability, with a price increase?

SECTION B

Answer to Question Two

Rationale

This question examines Section A of the syllabus. Requirement (a)(i) examines learning outcome A2(a) 'evaluate the impact of the internet on an organisation and its strategy' and is designed to test candidates' knowledge of and ability to apply McFarlan's strategic grid. Requirement (a)(ii) also examines learning outcome A2(a) and is designed to test candidates' understanding of the strategic importance of information systems. Requirement (b) examines learning outcome A2(b) 'evaluate the strategic and competitive impact of information systems' and is designed to test candidates' understanding of e-business strategy implementation. Requirement (c) also examines learning outcome A2(b) and is designed to test candidates' understanding of e-business and the latest Web 2.0 technological developments.

Suggested approach

In requirement (a)(i) candidates should apply their syllabus knowledge of McFarlan's strategic grid to AAP's information systems. Candidates should consider both the current information system used by AAP and the potential information systems that could be used.

In requirement (a)(ii) candidates should focus their answers upon the strategic importance of information systems. Again, application to AAP is required in this answer and therefore candidates should ensure that they explain why it is important for AAP specifically to consider investment in information systems at a strategic level. Both internal business and external industry factors should be considered.

Requirement (b) should be straightforward requiring candidates to discuss the benefits and problems for AAP of developing an e-business strategy. It is important that answers focus specifically upon e-business and not just upon the investment in information systems generally.

In requirement (c) candidates are expected to demonstrate their wider syllabus knowledge of Web 2.0 technologies. A high level of application to AAP is required in this answer and generic descriptions of internet technologies would not be awarded a pass mark.

Requirement (a)(i)

		Strategic impact of future IT systems	
		Low	High
Strategic impact of current systems	Low	SUPPORT Current Property Database Generic Estate Agency software.	TURNAROUND Mobile phone applications. Customer Databases Basic website
	High	FACTORY Improved property database with consistent information on properties.	STRATEGIC E-business - Website advertising and sales. Web 2.0 developments

McFarlan's strategic grid can be used to identify an organisation's current and future dependence on information systems. The model is based upon two axes which evaluate the strategic impact of the current systems used and the strategic impact of future systems. Using this model, AAP's current information system is likely to be classified as 'Support'. The existing system used by AAP is not important to the organisation's strategic development and, as it stands, unless there are significant developments in bespoke software or investment in customer databases and mobile applications, then the current information systems are not likely to be a significant strategic impact on AAP. However, AAP is recognising the growing importance of its information systems as a means to improve its competitive position. The use of web technologies and e-commerce is likely to have a high potential to contribute to AAP's strategic objectives.

It could also be argued that the information systems in the estate agency business are 'Strategic' according to McFarlan's grid, as the current information systems are in fact critical to the smooth running of the business and its day to day activities. Future developments are vital to its success and should be a key part of its strategic objectives.

Requirement (a)(ii)

The investment in IS by AAP should be a strategic decision as the effect of not investing could have a significant long-term detrimental effect. Already AAP has experienced a slowdown in the growth of profitability and this decline could continue. Whilst face to face customer contact is important, it should no longer be the sole focus for the company. AAP needs to continue to be innovative and it cannot sit back and wait for customers to telephone its offices.

The cost of IT/ IS investment may involve high levels of expenditure for AAP. If this investment is not carefully planned and managed then there is a high risk of costly mistakes. Therefore, a strategic perspective is required to ensure that investment is carefully planned and resources are not wasted on information systems investment.

AAP must find a way to differentiate itself from its competitors. In the current economic climate the need for differentiation in order to win business from its competitors will be crucial for its survival. Strategic investment in information systems could give AAP a competitive advantage. As such, it should be part of AAP's strategic decision making process. This is not a decision that should be taken on an ad-hoc basis. The use of AAP's information systems could be a core driver of its competitive advantage and therefore is a critical part of its strategic decision making process.

Technology in this industry is rapidly developing, with the introduction of mobile applications for home buyers and the various Web 2.0 technologies which can be used. Therefore, AAP must continually monitor and develop its information systems to remain competitive and up to date. Although customers may want a good face to face service it is also likely that they will be increasingly moving towards a greater reliance on information systems to assist them in researching and reviewing properties. Therefore, the speed in the development in technology and the fact that key stakeholders are embracing this technology means that AAP must consider investment in information systems as a strategic decision.

The current developments in the use of systems within the industry are forcing AAP to reassess its operations. Leadership for the current developments is coming from the top of the organisation, via the Marketing Director. Information systems are opening up new possibilities for the estate agency industry. Without investment in new Information Systems, AAP may lose customers and see a further decline in profits. Therefore, investment in IS can be considered to be strategic as the long-term impact of not investing will threaten the future success of the company.

Information systems are likely to be highly complex, requiring the integration of many different forms of technology, such as internal estate agency software, customer and property databases, intranets, external links to other services and websites and website management. Therefore, this will require extremely careful planning and management which must be done

at a strategic level otherwise it is likely that technology will become out of control and unmanageable. There are two further considerations for AAP, which are:

1. Does AAP have the funding to support the necessary expenditure?
2. Does AAP's management team have the necessary expertise to manage a more sophisticated IT system?

Requirement (b)

E-business has been defined as 'the transformation of key business processes through the use of internet technologies'. The general estate agency business environment has clearly been affected by the development of e-business, with the recent technological developments identified by the Marketing Director.

Benefits to AAP

- An e-business strategy ensures that information systems are considered by the organisation to be a critical and strategic aspect of its business survival. This will focus all staff and management attention on its importance and significance to AAP.
- An e-business strategy would allow AAP to be more responsive to its customer needs and improve its customer relationship management through integrating and improving its business processes to focus on its customer needs both face to face and via technological interface. It will enable customers to gain information in a way they prefer, at a time they want, perhaps out of office hours, and this may result in customers recommending AAP to friends. Therefore, the customer experience will be improved.
- Using e-business will present AAP with potential new business opportunities - including the advertising and selling of overseas properties. A global presence rather than just a national presence could be achieved if e-business was considered.
- By using its website more effectively with the development of an integrated customer database, AAP can use e-business to understand customer buying behaviour more effectively and build up a detailed picture of customer requirements and needs such as popular locations, space requirements and individual customer tastes in types and styles of property required.
- AAP would have a greater ability to interact with customers across a range of media - emails, blogs, social media, feedback forms; allowing greater dialogue with more customers via media that they are likely to use regularly.
- Other competitors are likely to already be doing this, so AAP will be left behind if it does not follow an e-business strategy.
- Sale and purchase of a property is a process that most people undertake infrequently, therefore their experience is vital if customers are to be satisfied. The ability to access AAP's website to get all the required information could result in a positive experience and repeat business at a later date.

Problems

- The Board of AAP believes that the key to AAP's continued survival is excellent customer service, as it supplies a specialist service to a niche market. The nature of the business means that face to face contact is crucial in moving customer awareness into action. Therefore, this limits the ability of e-business to replace such personal contact, particularly with older, more traditional buyers.

- Cost of investment in e-business may be prohibitive. However, as AAP already has an online presence and uses technology to some extent already with its estate agency software, additional e-business activities are therefore unlikely to be too costly for AAP.
- A focus upon technology and not on customers' needs may reduce AAP's personal service which may put some customers off.
- Currently, AAP is likely to have a lack of expertise in e-business. This is something which it must get right but currently is not likely to have the expertise to develop an e-business strategy. Lack of current expertise in AAP of e-business may cause resistance amongst AAP's staff who feel that they should be focusing upon the customer and not on e-business and technology.
- The ability to effectively increase the customer base as house purchase and sales is an infrequent transaction for most home owners. There may be limited opportunity for repeat business for several years.
- Some staff and managers may be sceptical about the benefits that e-business can offer AAP. However, conversely, many younger staff may welcome and embrace the change.

Requirement (c)

Web 2.0 refers to the generation of web developments that facilitate communication, information sharing, interoperability and collaboration using the World Wide Web (WWW). It refers to the cumulative changes in the way that technology developers and end-users utilise the WWW.

The two Web 2.0 technologies recommended for AAP in the first instance are:

1. 'Mash-ups'

This is where websites can now mix and match their web content and services to suit customer needs. For example, AAP can use interactive maps from geographical information programs from software providers such as Google Earth. These could be used together with links to local government information on school catchment areas or information on local planning application processes. Mash-ups allow individual websites to make use of a range of interactive technologies to enhance the website for optimum customer interaction, without heavy investment. For an estate agency business this is particularly useful as links to external geographical location or information sites are important informational and advice tools for potential customers.

2. Blogs - Information Sharing

An internal blog is a web log that any employee can view. Many blogs are also communal, allowing anyone to post to them. The informal nature of blogs may encourage:

- Employee participation
- Free discussion of issues
- Collective intelligence
- Direct communication between various layers of an organisation
- A sense of community

Internal blogs may be used in lieu of meetings and e-mail discussions, and can be especially useful when the people involved are in different locations, or have conflicting schedules. Blogs may also allow individuals who otherwise would not have been aware of or invited to participate in a discussion to contribute their expertise.

An external blog is a publicly available blog where company employees, teams, or spokespersons share their views. It could be used by AAP to announce new properties on the market or to announce new services or to explain and clarify policies, or to react on public criticism on certain issues. It also allows a window to AAP's culture and is often treated more informally than traditional press releases, though a corporate blog often tries to accomplish similar goals as press releases. In some corporate blogs, all posts go through a review before they are posted. Some corporate blogs, but not all, allow comments to be made to the posts.

In addition, other forms of Web 2.0 technology which could be discussed are:

Social media

By using popular social media network sites such as Facebook, Myspace, Twitter and Youtube, AAP could advertise its services. AAP could set up its own Facebook page where customers could access the latest company adverts and messages and also access message boards where they could contact AAP directly.

Peer to peer networking (P2P)

This is a technique used to share files over the internet or within a closed set of users. As AAP does not make use of an intranet, this could be a very useful form of Web 2.0 technology for AAP to adopt. Currently, email is the main form of communication and file transfer between staff in different locations. P2P would distribute files across many machines meaning that files would be accessible across the network and not just on one user's machine.

Competence syndication

AAP could open up a portion of its website for use by other firms of property related companies such as furniture removal companies, lawyers, interior designers and builders to advertise their services.

Answer to Question Three

Rationale

This question examines Section B of the syllabus. Requirement(a)(i) examines learning outcome B3(b) '*evaluate ethical issues and their resolution*' and is designed to test candidates' knowledge of and ability to apply the ethical stances. Requirement (a)(ii) also examines learning outcome B3(b) and is designed to test candidates' understanding of the strategic importance to organisations of operating ethically and sustainably. Requirement(b) also examines learning outcome B3(b) and is designed to test candidates' ability to undertake an evaluation of an ethical dilemma for EEQ and to make sound ethical recommendations.

Suggested approach

Requirement (a)(i) should be a straightforward application of the ethical stances in EEQ. A description of all the ethical stances is not required. Candidates' answers should focus upon the categorisation and justification of the ethical stance followed by EEQ.

In requirement (a)(ii) candidates are required to demonstrate their knowledge and application of business ethics and sustainability to EEQ. Candidate's answers should focus specifically upon the importance to EEQ of operating ethically and sustainably at a strategic level.

Requirement (b) requires candidates to evaluate the ethical challenges faced by EEQ in bidding for the new contract in Country X. Candidates are expected to demonstrate their knowledge and practical application of CIMA's Ethical Code of Conduct, through the evaluation of the ethical principles being challenged, the possible safeguards EEQ could incorporate and the overall recommendation of whether the contract should be accepted if offered. This is a challenging question which requires good planning and structure. An overall recommendation must be presented.

Requirement (a)(i)

The definition of an ethical stance is 'The extent to which an organisation will exceed its minimum obligations to stakeholders'. EEQ is clearly an organisation which considers its ethical behaviour, sustainability and community involvement key factors.

Clearly, EEQ goes far beyond its minimal obligation to its stakeholders and society and therefore its ethical stance would be considered as one with 'multiple stakeholder obligations'. This ethical stance accepts that the organisation exists for more than making a profit for its shareholders. It takes the view that the organisation has a role to play in society and so it must take account of all the stakeholders' views. It explicitly involves other stakeholders and believes that it has a purpose beyond mere financial returns. EEQ has a strong focus upon community involvement and sustainability and therefore its obligations and expectations reach much further than purely short term financial gains.

Requirement (a)(ii)

- Strong ethical principles that go beyond upholding the law can add value to EEQ in terms of improving its brand. Failure to act ethically can cause social, economic and environmental damage and undermine EEQ's long-term survival. Being such a large, multinational organisation, EEQ's ability to demonstrate strong ethical principles across its whole organisation will help to sustain its future viability. Ethics must be embedded in its business models, organisational strategy and decision making processes.
- Often organisations which adopt strong ethical approaches will also see an improvement in profitability. Although this may not be the main driver for EEQ it is a consideration in a highly competitive global marketplace.

- By having a range of suppliers which EEQ has trained in its ethical ways of operating, it is investing in the future and can work with them on repeated projects globally. This will tie these suppliers into EEQ and provide a stable working relationship which will deliver cost savings in the long-term. This is a complete contrast to many companies which operate a short term focus and change suppliers regularly or which are let down by non-delivery or poor performance of its sub-contractors. EEQ should not experience these problems and should gain a better reputation with its customers for on time delivery and good quality of work. All suppliers (services and products, such as building materials) will be at the standard that EEQ expects and requires as it has established a good working relationship with the companies it works with.
- The ethical tone has to come from the top of the organisation. Therefore, it is at a strategic level that the ethical tone is set. The senior managers and business leaders of EEQ must demonstrate an ethical approach by example. This will show that middle and junior managers will be rewarded for taking an ethical stance and create the appropriate organisational culture.
- Corporate communications and reporting on sustainability need to do more than just pay lip service to the sustainability agenda. They need to provide hard evidence of the positive impact on society, the environment and the strategic returns for the business, and how any negative effects are being addressed. EEQ places high regard towards ethical and sustainable business practices which appear to be clearly communicated to staff, customers and suppliers and by communicating its positive actions this should assist in achieving its overall business objectives.
- It is important that the finance professionals within EEQ must also play an active role as ethical champions by challenging the assumptions upon which business decisions are made. They must do so while upholding their valued reputation for impartiality and independence when making business decisions and choosing appropriate strategic options.

Requirement (b)

The first challenge faced by EEQ in its early contract negotiations relates to the destruction of the local villages and the natural habitat. The Government of Country X has stated that it intends to pay minimal compensation to villagers losing their homes and it would appear that it is not concerned about the damage that the highway construction will have on the surrounding habitat. Although we do not know the exact details of EEQ's Ethical Code of Conduct, we can base it upon CIMA's framework and its five guiding principles. From the point of view of EEQ, this is likely to challenge two of its main ethical principles; those of Integrity and Confidentiality.

Firstly, the principle of integrity implies dealing fairly and truthfully. Although the initial Government communication was nothing to do with EEQ, the threat faced by EEQ is that it could be associated with this communication if it was to win the contract. It could be seen that EEQ was complicit in hiding this critical information from the people of Country X. This would go against its mission statement of 'our company's foundation is built on the values of conducting business in a socially responsible and ethical manner. We respect the law, protect the environment and bring benefits to the communities in which we work.'

Possible safeguards to this ethical challenge could include EEQ trying to convince the Government to change the route to minimise destroying local villages and damage to the local environment and for the Government to agree to pay appropriate levels of compensation and landscaping costs to minimise visual damage.

The second ethical principle which is potentially being challenged is that of 'confidentiality'. The Government of Country X has stated that the information relating to the route of the proposed highway and the destruction of the villages and natural habitat should remain confidential until the contract is finalised. From CIMA's Ethical Code, the principle of confidentiality implies that information should not be disclosed unless there is specific

authority or there is a professional duty to do so. However, this principle is challenged when it is required by law or there is a professional duty to disclose in order to comply with ethical requirements. In this case, there is no legal obligation to disclose the information but there may be an ethical one.

At this early stage of contract negotiations, EEQ should not disclose this confidential information to anyone outside EEQ. Currently, no construction has been undertaken and the bidding process is still in its early stages and therefore negotiations could still take place to lessen the impact of the route. However, EEQ should insist that the Government announce the plans for the road and the route it will take and take steps to invite comments from the local people and villagers affected by the route. The plans should be open and transparent. Whilst the Government cannot please everyone and there is bound to be criticism and some hostility to the new road, it should try to be open with the citizens of Country X and not keep plans confidential. This is not a good way to operate.

A third principle being challenged could be 'Objectivity', whereby the Government official has attempted to bribe EEQ to accept the Government's own suppliers, without undertaking EEQ's ethical training, in return for winning the contract. This challenges the basic principles of objectivity as EEQ is being asked to make a decision relating to its chosen suppliers based upon undue influence. This contract is likely to be worth a considerable amount of revenue for EEQ and thus this form of coercion is likely to be significant. However, EEQ clearly has a strict policy on the use of ethically trained suppliers and it must ensure that it continues with this policy on this contract even if this would mean losing the contract.

As a safeguard, EEQ should attempt to negotiate with the Government to allow EEQ to select its own suppliers based on its ethical principles and to try to select some local companies and employ some local labour, but only after they have agreed to undergo training in EEQ's ethical principles and when they meet EEQ's ethical requirements.

A final safeguard that EEQ should consider is to ask for an apology from the Government official in respect of the apparent bribery to win the contract. No coercion at all should occur during contract negotiations. If EEQ were to win the bidding process and asked to take the contract on, then this should be based on sound ethical principles.

Recommendation and justification

Overall, even if EEQ could get the Government to agree to some of the above actions, it is recommended that EEQ should reject the opportunity to bid for this contract, as the potential conflict between EEQ and Country X's Government seems to be irreconcilable.

Justification:

This contract impinges significantly on EEQ's ethical stance and the Government of Country X does not seem to meet the requirements of EEQ's beliefs at all. The short-term profit from this one contract could damage EEQ's long-term ability to compete on the global stage.

If, after negotiations, the Government refuses to change the route or increase its obligations to the displaced villagers and the natural habitat, EEQ should withdraw from contract negotiations, as to continue would be against its ethical stance and its mission statement. Moreover, unless the proposed route or the displacement of villagers is found to be illegal, then EEQ would be obliged to respect confidentiality as required by the Government.

A second aspect of the contract negotiations is the use of the Government's own preferential suppliers. EEQ must ensure that its business or professional judgement is not compromised because of some form of bias or inducement. Clearly, this is a form of inducement in order for the Government to get its own key suppliers into the project. EEQ must obviously NOT accept such an inducement. The negotiation team should take the matter to the senior management of EEQ who should explain to the Government officials responsible for the negotiations of the importance of its ethical training programme for its suppliers. EEQ must not undertake this project without following its normal procedures of supplier training based on its ethical code of conduct.

Answer to Question Four

Rationale

This question examines Sections A and C of the syllabus. Requirement (a) examines learning outcome A1(a) '*evaluate the impact of the external environment on an organisation and its strategy*' and is designed to test candidates' understanding of the importance of environmental analysis. Requirement (b) examines learning outcome C2(a) '*evaluate strategic analysis tools*' and is designed to test candidates' knowledge of the techniques used to develop foresight. Requirement (c) also examines learning outcome C2(a) '*evaluate strategic analysis tools*' and is designed to test candidates' detailed understanding of scenario planning and the ability to apply it to a scenario context.

Suggested approach

Requirement (a) should be a straightforward question, requiring candidates to demonstrate their understanding of the benefits of environmental analysis for NSF. Focus specifically upon the benefits applicable to NSF is required and generic discussions of the benefits of environmental analysis will be awarded few marks.

Requirement (b) should also be a straightforward knowledge demonstration question, requiring candidates to demonstrate their wider knowledge of the syllabus area of foresight and planning.

Requirement (c) requires candidates to apply their knowledge of scenario planning to NSF. A high level of application of syllabus knowledge is expected in this answer.

Requirement (a)

NSF would benefit from a more formal, and systematic, approach to the gathering and analysis of information which is external to the organisation. This process of environmental screening would enable it to gather information under the broad categories of PEST: Political, Economic, Societal and Technological. Alternatively, it could use the categories described by one of the many other acronyms which exist for environmental factors. The benefits NSF would gain are:

- It would assist NSF in having a greater awareness of political priorities and their potential funding. Political policies tend to be cyclical and dependent on the views of the incumbent political party. By understanding the political context of the environment, NSF will be able to more effectively predict its future funding and therefore predict the potential threats that it could face.
- It would help NSF to identify and capitalise upon potential opportunities. It would, hopefully, be aware of the increasing importance of technology in society and could consider looking at ways to harness technology to increase awareness of sport. A greater exploitation of technology could be investigated. Similarly, an awareness of the ageing population could lead to directing more sporting activities towards this section of society. NSF could work in partnership with other public sector and voluntary bodies in health care to exploit this opportunity.
- NSF can acquire a base of objective, qualitative information. It would then have a deeper understanding of its market segments and its potential customers. This could avoid significant cost incurred in the developing of future strategies which are unsuitable. Understanding its changing market segments (such as the retired people) and their needs is critical for NSF and therefore having a reliable and up to date database of information would help this.
- By undertaking environmental analysis, NSF will have the capacity to be more sensitive to the changing needs of the population. Again, this should raise the

company's awareness of the changing demographics. Exploiting technology to generate interest in the younger participants for example would help NSF to be more sensitive to its environment.

- Environmental analysis provides information for the strategy making process. This should improve the quality of strategy formulation and, as a consequence, reduce risk. NSF should be leading the sports in Country Z and not reacting to changes after the event. It must become more pro-active in its outlook and approach.
- NSF could be provided with a good, broad based, education and awareness of the sector in which it operates and the related industries. If NSF had been carrying out environmental analysis then the rate of societal change might not have been such a surprise.
- Regular environmental analysis, at least annually, will help the Board of NSF to identify and monitor new trends and changing interests in different sports. For example, newer sports (such as ultimate Frisbee) need to have an investment in facilities, trainers and coaches to try to introduce young people to the new sport. Awareness of different approaches to sport and fitness (such as low impact exercise for people with injuries or back problems) would help NSF to be fully aware of where funding needs to be considered and assistance focused on new trends and developments.
- All commercial businesses undertake SWOT analyses as part of their annual planning cycle and there is no reason why a not for profit government body such as NSF should not do so.
- Promotion and marketing of sport. Engaging in sport is a good way to meet people and to build a healthier lifestyle and combat stress. Health education and promotion of sports should be undertaken by the NSF as this will help it to achieve its overall goals. Environmental analysis will help NSF target areas where local people are less inclined to engage in sport.

Requirement (b)

Foresight has been described as the 'art and science of anticipating the future'. For organisations such as NSF, foresight not only means predicting the future, but also developing an understanding of all potential changes which, if managed properly, could produce many new opportunities. There are a number of techniques which can be used to improve the foresight of an organisation. These include:

Visioning

A possible or desirable future state of the organisation is developed as a mental image by the management of the organisation. This vision may start off vaguely as a dream but should be firmed up into a concrete statement of where the organisation wants to be. The critical point is that the vision articulates a view of a realistic, credible and attractive future for the organisation, which is viewed as being an improvement on the current state of affairs.

Issues analysis

Issues arise through the convergence of trends and events. A trend is a trajectory that an issue takes because of the attention it receives and the socio-political forces that affect it. This convergence usually manifests itself because there are unfavourable events, which are sudden and unanticipated, public interest develops and becomes more important or there is increased political pressure. The issues should be analysed in terms of their impact on the organisation and their probability of occurrence.

Role Playing

This is where a group of people are given a description of a hypothetical future situation and are asked to behave as though they believe that the situation is true and happening.

Delphi Technique

This seeks to avoid the group pressures of conformity that are inherent in other group based forecasting methods. It does this by interrogating a panel of experts individually and sequentially and is based on the premise that knowledge and ideas possessed by some, but not all, of the experts can be identified and shared and this forms the basis of future interrogations.

Others which could be discussed are:

- Opportunity mapping
- Cross impact analysis
- Relevance trees

Note: Candidates were only required to explain two of the above techniques

Requirement (c)

Note: There is no one perfect method of producing scenario plans and the following answer is one of a number of ways in which scenarios can be developed. Candidates will be rewarded for appropriate stages which are applied to the NSF.

Scenario planning, as a tool, will provide NSF with a better understanding of what could happen in the environment in which it operates and help to minimise surprises.

The stages could be as follows:

1. Define the scope of the scenario

NSF will need to decide what knowledge is most important to it. Consideration of its most important market segments and customers and the time frame it wishes to consider (i.e. how far into the future) should be paramount. It will need to decide whether the scenario is to be focussed on a specific issue e.g. the impact of the technology on the participation of children or a more blue sky approach where it asks a question such as; 'what is the future of community participation in sport in Country Z?'

2. Identify and map the major stakeholders

A consideration of who the main stakeholders are in the sporting environment should be undertaken and how they are likely to drive change over the period under consideration. For NSF this would most probably include the Government of Country Z (as the main funder), its volunteers and its customers. All of these stakeholders would need to be evaluated in terms of their impact and power to influence the future activities of NSF.

3. Identify the basic trends and uncertainties affecting the business

In assessing the trends and factors that would be identified in an environmental analysis and considering how they may change in the future, NSF would most probably want to focus upon the technological advances and the increasing use of the internet by children and young adults and its effect upon sport participation. Since it is very dependent upon the Government for its revenue it would also consider the trends in the economy which would affect its income. Also the changing demographics would be a major consideration for NSF.

4. Identify the key trends and uncertainties

Of the basic trends that have been identified NSF would need to decide which are the key uncertainties. These trends and uncertainties will be the 'drivers for change' which will require contingency planning activities and will shape the future of the industry. In the case of NSF this would certainly include the declining Government funding and societal and demographic changes. These will be the main drivers forcing change in NSF.

5. Construct initial scenario themes, or skeleton outlines

Possible future scenarios should then be created by forming the key trends and uncertainties into coherent themes. Usually two alternative scenarios are produced but more can be identified if necessary. NSF might develop one scenario where the economy continues to be depressed and funding continues to decline with sport becoming less important to society.

This would be the 'negative' scenario. The alternative 'positive' scenario might feature a booming economy with many members of society both volunteering and actively participating in sport activities.

6. Check for plausibility and internal consistency

Effective scenarios are both internally consistent and plausible. This means that different directions that the trends have taken in the scenario could logically happen together and the events described could happen within the timescale chosen.

7. Develop learning scenarios

The next stage would be to 'flesh out' the scenarios so that they become full descriptions of the sector and conditions that are expected to prevail in the future timeframe. This is often done by writing a detailed piece of narrative. The managers of NSF would need to consider the detailed aspects of each scenario in terms of impact upon NSF's staff, possible plans for re-training, more detailed financial analysis and an overall view of the sporting environment in Country Z.
