



Enterprise Pillar

E3 – Enterprise Strategy

21 May 2013 - Tuesday Morning Session

Instructions to candidates

You are allowed three hours to answer this question paper.
You are allowed 20 minutes reading time before the examination begins during which you should read the question paper and, if you wish, highlight and/or make notes on the question paper. However, you will not be allowed, under any circumstances , to open the answer book and start writing or use your calculator during this reading time.
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).
ALL answers must be written in the answer book. Answers written on the question paper will not be submitted for marking.
You should show all workings as marks are available for the method you use.
The pre-seen case study material is included in this question paper on pages 2 to 7. The unseen case study material, specific to this examination, is provided on pages 8 to 10.
Answer the compulsory questions in Section A on page 11. This page is detachable for ease of reference.
Answer TWO of the three questions in Section B on pages 14 to 19.
Maths tables and formulae are provided on pages 21 and 22.
The list of verbs as published in the syllabus is given for reference on page 23.
Write your candidate number, the paper number and examination subject title in the spaces provided on the front of the answer book. Also write your contact ID and name in the space provided in the right hand margin and seal to close.
Tick the appropriate boxes on the front of the answer book to indicate the questions you have answered.

E3 – Enterprise Strategy

TURN OVER

Pre-seen case study

Background

Country T is a small landlocked European country which is outside the eurozone. Its currency is T\$ which currently exchanges at GBP/T\$ 1.5000 and EUR/T\$ 1.2500, (that is, GBP 1 = T\$ 1.5000 and EUR 1 = T\$ 1.2500).

Unlike many other countries, Country T has a nationalised railway system known as T Railways. Before the system was nationalised two separate companies operated the railways.

The growth of road haulage transport and the increasing number of passengers wanting to travel by rail meant that by 1970 fare paying passengers replaced freight transport as the railway companies' main source of income. In 1975 Country T's Government took the view that the two railway companies were not operating in the public interest and they were nationalised; that is taken into public ownership. The Government bought out the two railway companies and established T Railways.

As the transport infrastructure developed, diesel trains gradually replaced steam trains and electric powered trains are now replacing the diesel trains as T Railways carries out electrification of its network.

In 1975, the Board of T Railways formed wholly owned subsidiaries which operated at arm's length from the Board. For example, it formed T Railways Engineering which was responsible for all the engineering works on the T Railways network. The T Railways Board retained a number of functions itself such as responsibility for the T Railways Transport Police Service and T Railways Property. However, this led to much duplication of resources and so in 1998 T Railways adopted a new management structure with T Railways as the holding company for three subsidiary companies as follows:

- T City-Link (TCL) to run passenger rail services.
- T Freight Railways (TFR) to run freight services.
- T Property and Track Services (TPTS) to manage the track, property, transport police and related services.

This structure still exists today with T Railways' corporate governance undertaken by the T Railways Board.

The activities of T Railways

Further details on the activities of each of the three subsidiary companies owned by T Railways is provided below.

TCL:

TCL is responsible for all passenger rail services within Country T and operates on average 1,800 passenger train services per day between Monday and Saturday with fewer services on Sundays. The services offered are between all towns and cities within Country T which are connected to the railway network. In addition, some of TCL's services cross national borders enabling travel from Country T to other countries, some of which are in the eurozone. It also provides some services to remote country locations which originally were not accessible by road. Recent improvements in the road network have resulted in some of these country lines being discontinued by T Railways as demand for the railway service has diminished. Most of TCL's locomotives are now electric as the lines between the major cities within Country T have already been electrified.

TFR:

TFR is solely concerned with railway haulage of freight. In this context, freight is defined as goods transported in bulk, for example, coal, petroleum, industrial products such as steel and concrete, cars and, increasingly, retail goods for supermarkets and large retail shops. TFR does not offer any passenger services. It hauls freight right across the network within Country T and across national borders into other countries, some of which are situated within the eurozone.

Most of TFR's trains are old diesel locomotives but it has recently invested in a number of electric trains which are less harmful to the environment. On average, TFR operates 600 freight services per day, including weekends but excluding national public holidays. In the year ended 31 December 2012, TFR provided 40% of T Railways' total revenue and its share of the freight haulage market in Country T was approximately 10%. Freight carried by road accounts for approximately 80% of the total freight haulage market in Country T. In the last 15 years, total freight carried by rail has increased by about 25% due to increased congestion on T's roads. T's Government considers that road congestion has had a major adverse impact upon the country's productivity.

TPTS:

TPTS replaced T Railways Property and has responsibility for all other services including maintenance and upgrade of track and all of T Railways' property. It operates 200 railway stations, rents space out within the stations for retail purposes as well as running some of its own cafes. TPTS also operates 11 maintenance depots.

T Railways' Organisational Structure

A strong bureaucratic culture has developed over time within T Railways. The T Railways Board uses a classical rational planning system in which strategic planning decisions are made in a regularised and formal way.

The Chairman of the T Railways Board reports to senior civil servants in T Government's Ministry of Transport. Ownership of T Railways rests entirely with the Government. There is a formal annual meeting with senior Government officials at which the financial statements of T Railways are approved. There are also occasional meetings between members of T Railways Board and Government officials, particularly when Country T's Minister of Transport needs to present information on railway transport to Country T's parliament.

Rail Regulator

Country T now has a Rail Regulatory organisation whose senior staff are appointed by the Government. The Rail Regulator is empowered to make recommendations directly to the Minister of Transport in respect of all issues relating to the operation of T Railways.

The role of the Rail Regulator is to ensure that the railway service is delivered in Country T in a safe and efficient manner. It aims to help the T Railways Board meet future challenges in the provision of an efficient railway service which provides high levels of satisfaction to all rail users and the improvement of safety for staff and passengers. In essence, the Rail Regulator provides an independent review of T Railways' activities. Mindful of the need to show that T Railways fully recognises the role of the Rail Regulator, the Chairman of the T Railways Board recently said that:

"T Railways is committed to providing an excellent service to its customers and work is ongoing to improve our time keeping. Investment in improving railway stations is continuing and accessibility to railway services is increasing with new car parks being built at many stations in the network. Other service amenities are being improved such as better access ramps for disabled customers and the levelling of the height of platforms at many stations so that customers can access and alight from trains without having to take a large step up or down to the platform. This will reduce the incidence of accidents which occur at stations where the platform infrastructure was developed for a bygone era of railway carriages."

Monitoring the levels of carbon dioxide emissions from rail transport is also an important area of work for the Rail Regulator. (See the section headed "Environmental considerations".)

T Railways' strategic objectives

T Railways' overall strategic goal is to deliver efficient, cost effective, safe and reliable rail services to help facilitate the Government's vision of sustained economic growth and the reduction of carbon emissions in the country as a whole. The T Railways Board has set two strategic objectives, following consultation with its stakeholder groups which are:

- (i) To deliver reliable, safe and punctual rail services to customers efficiently and cost effectively thereby helping to achieve economic growth in Country T by reducing congestion on its roads;
- (ii) To continually reduce its level of carbon emissions to help provide an environmentally friendly transport infrastructure.

Financial objectives for T Railways

The Government's aim and the T Railways Board's main financial objectives are that:

- (i) T Railways should at least cover its operating costs from the revenue it earns;
- (ii) T Railways should provide value for money.

Financial data for T Railways

The Government requires T Railways to prepare its accounts according to internationally recognised accounting principles so that it can show how it is performing in a commercial environment. The policy of the T Railways Board is not to re-value its non-current assets. Extracts from the latest set of financial statements according to internationally recognised accounting principles are shown in Appendix 1.

The revenue earned and operating costs of the three subsidiaries for the year ended 31 December 2012 are shown below:

	<i>Revenue</i> <i>T\$ million</i>	<i>Operating costs</i> <i>T\$ million</i>
TCL	680	630
TFR	516	494
TPTS	95	80

Notes:

- (i) The total head office operating costs of the T Railways Board are allocated and apportioned to the three subsidiaries.
- (ii) The total operating costs of TPTS was T\$842 million in 2012 after the allocation and apportionment of head office operating costs referred to in note (i). All of these costs except for the T\$80 million which relate to the revenue earning activities of TPTS, were allocated and apportioned to the other two subsidiaries.

Financing T Railways

The Government of Country T invested T\$100 million when it formed T Railways in 1975. This is the only "share" capital that has ever been invested in T Railways. The financing model which has developed is that T Railways costs are guaranteed. This means that any overall operating deficit T Railways incurs on an annual basis is recovered by the T Railways Board through additional Government revenue funding.

Recognising that T Railways would need large amounts of funding to upgrade its infrastructure, the Government initially provided loans to cover capital expenditure. The loan facility was established to emphasise that any Government funding is a liability of T Railways and that T Railways must pay interest on the loan. The intention is that T Railways will also pay back the full amount of the Government loans in due course. The Government loans have no fixed repayment dates and are made to T Railways at a fixed rate of interest of 4% per year. This was the only source of capital funding for T Railways at its formation. However, following Government approval, the T Railways Board is now seeking to widen its sources of finance by, for example, obtaining loans from the banking and commercial sectors.

Key Performance Indicators (KPIs)

In order to plan their activities to meet T Railways' strategic objectives, its three subsidiaries operate a traditional accounting-led approach to strategic planning and management. All of the strategic planning and management activities of the three subsidiary companies are based upon meeting T Railways' strategic objectives. A number of Key Performance Indicators have emerged to evaluate T Railways' overall performance in achieving its strategic objectives.

Examples of KPIs relating to TCL:

- The results of the national customer survey of all forms of public transport in Country T.
- The number of customer complaints received. These are reported on T Railways' website every three months for the previous quarter.

Examples of KPIs relating to TFR:

- Train capacity utilisation, which measures the actual train load capacity utilised per journey against the total available load capacity for that journey.
- The number of trains arriving at their destination on time, measured as a percentage of total journeys made.
- Carbon emissions generated. The analysis of carbon emissions in freight transport is expressed in carbon dioxide emissions as a ratio of tonne per kilometre. That is, kilograms of carbon dioxide divided by weight transported multiplied by the distance travelled.

Examples of KPIs relating to TPTS:

- Number of delays per month to services due to signalling failure.
- Number of complaints per month relating to station cleanliness.

There are also KPIs relating to safety issues which are shown below under the heading of Health and Safety.

Health and Safety

T Railways concentrates a great deal of effort on the management of particular risks such as Signals Passed at Danger (SPAD) and customer and staff injuries. T Railways has a Safety Committee which meets regularly and monitors performance against its annual safety targets which have been agreed with the Ministry of Transport. Examples of the KPIs specifically relating to safety which are used by T Railways are:

- The number of customer movement accidents per million passenger kilometres, for example accidents caused due to the motion of trains.
- The number of customer non-movement accidents per million passenger journeys, for example slips and falls while on T Railways' property.
- The number of accidents or injuries sustained by staff per million kilometres travelled.

The KPIs relating to safety issues are reported in T Railways' annual report which accompanies its financial statements.

Environmental considerations

The transport industry's carbon emissions are responsible for between 20% and 25% of all carbon emissions in Country T. In response to initiatives developed by the Rail Regulator, T Railways is increasing its efforts to reduce its levels of carbon emissions. T Railways is committed to reducing its carbon emissions by a third between now and 2015. In addition, all TCL and TFR drivers receive eco-driving training on an ongoing basis. (Eco-driving is driving in a manner that minimises fuel consumption.) TPTS is progressing work on making stations and depots energy efficient by improving lighting and heating systems including the use of intelligent lighting which automatically increases or decreases light output depending on the amount of natural light feeding into the sensors.

All three subsidiaries are keen to reduce waste and to increase the amount of waste they recycle. Each subsidiary is committed to helping to meet an overall target set by the T Railways Board of recycling 85% of T Railways' total waste by 2015.

Development of T Railways

The T Railways Board is constantly seeking ways of generating additional sources of revenue. Consideration is being given to a number of possible initiatives. Some ideas under consideration include:

- structural changes such as splitting T Railways up into its constituent parts and running the three subsidiaries as completely separate entities;
- expansion of the network;
- diversifying the portfolio through operating other forms of transport;
- outsourcing some or all of the current provision of passenger, freight, track, property or retail related services or privatising parts of the business.

The Government has considered privatising the whole of T Railways but so far has been wary of the British experience where ownership and operation of the rail network became very fragmented after privatisation and operations were split across more than 100 companies. However, possible privatisation of T Railways continues to be discussed within Government and Country T's Prime Minister has never ruled it out.

Extracts from T Railways' statement of profit or loss and statement of financial position**Statement of profit or loss for the year ended 31 December 2012**

	<i>Notes</i>	<i>T\$ million</i>
Revenue		1,291
Operating costs		<u>(1,204)</u>
Net operating profit		87
Finance costs		(72)
Profit before tax		15
Tax	1	<u>(5)</u>
PROFIT FOR THE YEAR	2	<u>10</u>

Statement of the financial position as at 31 December 2012

	<i>Notes</i>	<i>T\$ million</i>
ASSETS		
Non-current assets	3	2,763
Current assets		
Inventories		12
Trade and other receivables		96
Cash and cash equivalents		<u>202</u>
Total current assets		<u>310</u>
Total assets		<u>3,073</u>
EQUITY AND LIABILITIES		
Equity		
Share capital from Country T's Government	4	100
Retained earnings		<u>900</u>
Total equity		<u>1,000</u>
Non-current liabilities		
Long-term borrowings from Government	5	1,800
Current liabilities		
Trade and other payables		<u>273</u>
Total liabilities		<u>2,073</u>
Total equity and liabilities		<u>3,073</u>

Notes:

1. The corporate income tax rate is 30%.
2. The agreement with the Government in Country T is that any losses after tax are charged back to the Government.
3. The non-current assets have not been re-valued.
4. The Government's initial investment in T Railways was T\$100 million. Subsequent investment by the Government has been in the form of long-terms loans.
5. The long-term Government borrowings are undated.

*End of Pre-seen Material**The unseen material starts on page 8*

SECTION A – 50 MARKS

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

ANSWER THIS QUESTION

Question One

Unseen case material

TFR business sectors

T Railways has two strategic objectives (pre-seen pages 3 and 4). In order to assist in the evaluation of its performance in achieving these strategic objectives and to manage its operations effectively, TFR is split into three business sectors. These business sectors are based upon customer groups and the type of freight transported for each customer group. Each of these customer groups has different expectations of the service offered by TFR. The total revenue generated by TFR in the year ended 31 December 2012 was T\$516 million.

1. Consumer and Heavy Goods (CHG):

This sector transports everyday consumer goods such as clothes, foodstuffs and electrical products for large retail companies throughout Country T. It also transports large industrial products for the construction industry, such as steel, cement and concrete blocks. This business sector currently provides 50% of the revenues of TFR's business. This sector transports freight to, and from, a number of large strategic rail freight warehouses located throughout Country T.

The delivery of retail goods is relatively simple logistically but often involves the movement of large numbers of small items. The delivery of construction goods is often complex, involving a range of different suppliers of the industrial products. It requires the use of specialist loading equipment and multiple drop-offs and pick-ups at a number of rail freight warehouses.

CHG freight transportation is undertaken by both diesel and electric trains. A number of Country T's large supermarket chains are currently considering the impact of their supply chain upon the environment and are looking for ways to reduce their carbon emissions. They are currently largely reliant on deliveries to their stores by road haulage and are evaluating the environmental benefits of switching more of their deliveries from road to rail freight. Many of the large construction companies in Country T take a different view and prefer the convenience of direct deliveries of construction materials to their construction sites, a service which is offered by road freight haulage. The main concern for many of the construction companies is the competitiveness of the price charged by road haulage providers and the punctuality of delivery.

2. Energy:

This sector transports coal to the nationalised power stations within Country T. TFR transports 90% of Country T's coal production used in its national electricity generation. This business sector currently provides 40% of the revenues of TFR's business. TFR operates dedicated tracks between coal mines in Country T and the national power stations and so is not reliant on using the main passenger track facilities. TFR uses its oldest diesel freight trains to transport coal supplies to the power stations. These trains have limited power availability to pull larger numbers of coal trucks. The power station operators are concerned that the number of journeys made by TFR is increasing their own staffing and management costs. The power station operators are putting increasing pressure on TFR to reduce the number of journeys made to the power stations because they are charged for each journey that is made by TFR.

3. Automotive:

This is a relatively new area of business for TFR, involving the transportation of new cars from car manufacturing facilities within Country T to ports in neighbouring countries. This business sector currently provides 10% of the revenues of TFR's business. TFR has recently invested in 20 new fuel-efficient electric freight trains, specially designed to transport cars. This type of freight haulage is a relatively simple process as it does not involve complex lifting or multiple loading operations nor does it require the use of TFR's rail freight warehouses. TFR has to meet tight deadlines for delivery times to ports. However, as the Automotive sector operates on the

main passenger track facilities, its freight trains are sometimes delayed by passenger services which take priority on Country T's rail network. As the ports are in neighbouring countries, the Automotive sector's trains are reliant upon other countries rail networks to meet its deadlines.

Road freight haulage

Approximately 80% of Country T's freight haulage by volume is delivered by road and is carried out by many different private road haulage companies. The total revenue generated by the road freight haulage sector in the year ended 31 December 2012 was approximately T\$3,770 million. Road freight haulage has been the main method of freight transportation within Country T for the last 40 years, largely due to the convenience of providing door-to-door deliveries. However, the demand for road freight haulage in favour of rail freight haulage has slowed recently, due to the introduction of road toll charges on Country T's major motorways and the ever worsening traffic congestion on Country T's roads. Also, recent legislation has been introduced by Country T's Government to restrict lorry drivers' hours of work and distances travelled per journey. In addition, Country T's Government is committed to reducing carbon emissions and has encouraged greater use of rail rather than road haulage for the transportation of freight.

Benchmarking

TFR undertakes an annual benchmarking analysis of its three business sectors, in order to compare their performance and to assess the performance of TFR in total against the road freight haulage sector. This benchmarking analysis involves the measurement of a number of Key Performance Indicators (KPIs) and is used by T Railways to assist in the evaluation of the achievement of its strategic objectives. Some of the information which TFR used to measure its KPIs in the year ended 31 December 2012 is shown below.

	TFR CHG	TFR Energy	TFR Automotive	Road Freight Haulage
	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
Journeys undertaken (actual)	83,000	115,000	15,000	1,000,000
Kilometres travelled (million)	10.2	10.2	2.0	145.0
Total operating costs (T\$ million)	250	204	40	3,045
Average capacity utilisation (%) ¹	88%	82%	86%	92%
Journeys on schedule (actual)	74,120	109,250	12,300	650,000
Kg of CO ₂ / per tonne-kilometre ²	0.04	0.06	0.03	0.13
Staff accidents (actual)	80	32	10	1,850
Number of goods damaged/ lost (actual) ³	11,000	0	1,500	185,000

¹ This is the KPI and has already been calculated in the table above.

² This is the KPI and has already been calculated in the table above.

³ Measured in terms of number of goods damaged/lost per 1,000 kilometres travelled.

As part of its annual benchmarking exercise, TFR also calculates the average operating cost per kilometre travelled and operating profit per kilometre travelled for each of the three business sectors and for TFR in total.

Privatisation of TFR

In other countries, such as the United Kingdom and Sweden, the privatisation of nationalised rail freight operations has been highly successful. A number of neighbouring countries of Country T have private rail freight operators. One organisation, Q Corporation, which currently owns and operates a private rail freight company in a neighbouring country, has approached Country T's Government with an offer to buy TFR. Q wishes to operate TFR as Country T's main rail freight operator, but as a private company. Q would invest significantly in TFR, and upgrade many of

the current strategic rail freight warehouses, replace old diesel engines with electric engines and invest heavily in infrastructure and staff training.

Q is of a similar size to TFR but operates with only 60% of the number of employees compared to TFR. Q operates with a decentralised management structure where business sector senior managers are responsible for strategic decision making and also set their own strategic objectives. The emphasis of strategic management and planning is on core competences and critical success factors in each of its business sectors, unlike TFR which operates an accounting-led approach to strategic management and planning. Q plans to re-organise TFR into two separate companies:

- the 'Retail Freight Company' which would comprise the retail and supermarket customer business (currently part of the CHG sector) together with the 'Automotive' sector business
- the 'Industrial Freight Company' which would comprise the construction customer business (currently part of the CHG sector) and the 'Energy' sector business.

Q's shareholders are keen for this proposal to be accepted as they feel that the acquisition of TFR will have a positive impact upon their long-term shareholder value.

End of unseen material

The requirement for Question One is on page 11

Required

- (a) **Discuss** the difficulties faced by T Railways, as a public sector organisation, in setting and measuring strategic objectives.

(8 marks)

- (b) Using the information presented in the benchmarking analysis for the year ended 31 December 2012,

Evaluate

- the comparative performance of the three business sectors within TFR;
- the performance of TFR as a whole against the road freight haulage sector.

(28 marks)

Note: There are 10 marks available for calculation of the KPIs

- (c) If TFR were privatised,

- (i) **Discuss** how the culture of TFR would be likely to change;

(7 marks)

- (ii) **Discuss** how the strategic management and planning activities of TFR would be likely to change.

(7 marks)

(Total marks for Question One = 50 marks)

(Total for Section A = 50 marks)

*End of Section A
Section B starts on page 14*

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TURN OVER

SECTION B – 50 MARKS

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

ANSWER TWO OF THE THREE QUESTIONS – 25 MARKS EACH

Question Two

AAP operates an estate agency business in a northern European country, M. An estate agency business arranges the selling, renting or management of houses and other properties.

AAP has been in business for the last 30 years and has 10 offices located throughout Country M. It specialises in marketing and selling high value, exclusive residential properties in Country M. AAP has seen the number of its property sales decline steadily in the last five years. AAP's Board believes that this is due to the current economic downturn and its impact on residential housing sales rather than as a result of any underlying problems within AAP itself.

AAP uses a standard estate agency software package to manage its buyer enquiries, property viewings and marketing. AAP also uses the estate agency software package to automatically match buyer enquiry details against its database of properties. AAP does not have a customer database to record customer information.

AAP has a website on which it advertises all of its properties located throughout Country M. However, this website only allows customers to view the basic property details such as internal photographs and floor layout. In order to obtain more detailed information on each property, customers must visit one of AAP's offices or telephone one of the agents in order to be sent a printed version of the property details. AAP has an email system which allows customers to contact its offices. The email system is also the main form of internal communication between employees and is often used to transfer files from one office to another. The estate agency software package and the website are not linked. Therefore, if any changes are made to the information held on the estate agency software, this change has to be duplicated on the website. This has, in the past, led to incorrect information being viewed by customers on the website, as the information was not completely up to date.

Until now, investment in information technology has been minimal and the Board of AAP has not considered information technology to be a critical aspect of its business. AAP's Board has never considered developing an e-business strategy as it believes that its main strategic priority is enhancing AAP's reputation of high quality, face to face direct customer service. The Managing Director stated at a recent board meeting that 'we must retain our focus upon keeping our customers happy. Developing our website to sell our properties is merely a distraction from what we do and what our customers want.'

The Marketing Director is concerned that AAP is not keeping up to date with technological developments and that AAP should use its information systems more strategically. Having researched a wide range of websites, the Marketing Director has identified a range of Web 2.0 technologies that AAP could use to improve its own website. He is also aware of a new technology development which enables potential home buyers to receive property details whilst viewing a property, by using location-based applications on their mobile phones.

The Marketing Director intends to write a report to the Board of Directors outlining his research and his belief that AAP could benefit significantly from developing an e-business strategy.

The requirement for Question Two is on the opposite page

Required

The Marketing Director has asked you to provide him with a report in which you

(a) Explain

- (i) the criticality of information systems to AAP, using McFarlan's strategic grid;

(4 marks)

- (ii) why the investment in information systems by AAP should be a strategic decision.

(5 marks)

(b) Advise on the benefits AND problems of developing an e-business strategy for AAP.

(8 marks)

(c) Recommend, with reasons, TWO different applications of Web 2.0 technology that AAP could adopt.

(8 marks)

(Total for Question Two = 25 marks)

Section B continues on page 16

TURN OVER

Question Three

EEQ is a multinational civil engineering company which undertakes a wide range of large projects around the world. EEQ employs over 20,000 staff worldwide. EEQ has to work with many other organisations and governments in order to manage complex construction and civil engineering projects.

EEQ's mission statement states that '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.'

EEQ places strong emphasis on its ethical and sustainable business practices and the involvement of the local communities in which it operates as part of its strategic management processes.

EEQ's values are included within its Ethical Code of Conduct. All of EEQ's employees are fully trained in the Ethical Code of Conduct and they are expected to adhere to it. These principles provide a clear guide to staff in terms of expected conduct and standards of behaviour. EEQ also ensures that all of its suppliers are fully aware of its ethical principles, as EEQ provides ethical training to all of its suppliers before EEQ buys goods or services from them.

Country X highway construction project

EEQ is currently in the early stages of preparing a tender to bid for a project in Country X to construct a highway linking two of the country's major cities. Country X is an under-developed country and the construction of this highway should have major positive benefits to the economy of Country X and the living standards of its inhabitants. If EEQ were to win the bid for this contract, it would appoint a range of local contractors and suppliers from Country X and aim to ensure that the construction process minimises its environmental impact and social disruption.

During early negotiations of the tender with Government officials of Country X, it has come to light that the intended route of the highway, as set out by the Government, will pass through several remote villages which will be destroyed. The initial Government communications relating to the potential new highway development have provided no information to the people of Country X as to the proposed route. The Government intends to offer minimal compensation to villagers for the loss of their homes. In addition, the surrounding natural environment will also be damaged. The Government does not consider the damage to the natural environment to be as important to Country X as developing its economy. The Government has made it clear to EEQ and all other potential bidders that this information is confidential until the tender negotiations have been finalised and construction commences.

The Government has stated that it would require EEQ to buy goods and services from the Government's preferred suppliers if EEQ were to win the bid for this contract. However, EEQ has made it clear that all suppliers would need to be thoroughly vetted and would have to undertake its Ethical Code of Conduct training. A Government official has stated that if EEQ forgoes the thorough vetting and training procedure for the Government's own preferential suppliers then EEQ would almost certainly win the bid for this contract, as long as all other contract criteria are met.

The requirement for Question Three is on the opposite page

Required

- (a) (i) **Categorise**, with your justification, which ethical stance EEQ follows. (4 marks)
- (ii) **Discuss** the importance to EEQ of incorporating business ethics and sustainability into its strategic management activities. (7 marks)
- (b) **Evaluate** the ethical challenges faced by EEQ if it bids for the contract for the highway construction project with the Government of Country X. Your answer should
- address the ethical principles being challenged;
 - include your overall recommendation, with justification, as to whether EEQ should accept the contract if it is offered by Country X's Government. (14 marks)
- (Total for Question Three = 25 marks)

Section B continues on page 18

TURN OVER

Question Four

The National Sports Foundation (NSF) for Country Z is a public body which operates within the central government department for Sport and Culture. NSF's role is to support and develop a sporting environment across all communities in Country Z and to increase the number of people participating in sport.

NSF is mainly funded by the Government of Country Z. Up until 2010, it employed several hundred staff and also relied upon thousands of volunteers throughout Country Z to run the various sporting clubs and associations, such as amateur football clubs and children's out of school sports activities. Following cuts in Government funding in 2010, NSF's level of staffing was considerably reduced. This resulted in NSF relying more on private sector partnerships and volunteers.

Until three years ago, the economic, social and technological environment in Country Z had been relatively stable, with NSF receiving guaranteed funding from the Government and the numbers of sports participants and volunteers being reasonably predictable. Therefore, the Board of NSF has not considered frequent and regular environmental analysis to be necessary.

NSF's Board has been taken by surprise by the changes that have occurred in the environment in the last three years. In addition to Government funding cuts, local administrative government bodies have been forced to sell off local community sports grounds and facilities to raise finance. Furthermore, the level of financial and operational support provided by private sector organisations has also declined due to similar economic challenges. Increasingly stricter regulations and rules have resulted in fewer volunteers throughout the country. The rapid growth in technology-based entertainment products has been blamed for the reduction in the number of young people participating in sports. In addition, NSF has failed to consider the changing demographics and ageing population of Country Z and the impact that this will have on sports participation in future years.

The Chairman of the Board of NSF has recently attended several conferences where the value of undertaking thorough 'environmental analysis' has been discussed. The Chairman now realises that there is a serious gap in NSF's knowledge about the environment in which it operates. He considers that if NSF is to continue successfully in the future then it must improve its foresight to actively plan for the future.

The requirement for Question Four is on the opposite page

Required

- (a) **Evaluate** the benefits to NSF of undertaking environmental analysis each year.
(8 marks)
- (b) **Explain** the concept of foresight and TWO techniques (other than scenario planning) which could be used by NSF in the development of foresight.
(5 marks)
- (c) **Analyse** each of the key stages that would be included in a scenario planning process which could be used by NSF.
(12 marks)
- (Total for Question Four = 25 marks)*

End of Question Paper

Maths Tables and Formulae are on Pages 21 and 22

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MATHS TABLES AND FORMULAE

Present value table

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

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

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

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

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

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

Periods	Interest rates (r)									
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870

FORMULAE

Annuity

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

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

Perpetuity

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

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

LIST OF VERBS USED IN THE QUESTION REQUIREMENTS

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

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

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

Enterprise Pillar

Strategic Level Paper

E3 – Enterprise Strategy

May 2013

Tuesday Morning Session