Question No 1:-

A clothing company sells 40% of its goods directly to customers through its website. The marketing manager of the company (MM) has decided that this is insufficient and has put a small team together to re-design the site. MM feels that the site looks ‘amateur and old-fashioned and does not project the right image’. The board of the company has given the go-ahead for the MM ‘to re-design the website’. The following notes summarise the outcomes of the meetings on the website re-design. The team consists of the marketing manager (MM), a product range manager (RP), a marketing image consultant (IC) and a technical developer (TD).

Meeting 1: 9 July attended by MM, RP, IC and TD

The need for a re-designed website to increase sales volume through the website and to ‘improve our market visibility’ was explained by MM. IC was asked to produce a draft design.

Meeting 2: 16 August attended by MM, RP, IC and TD

IC presented a draft design. MM and RP were happy with its image but not its functionality, suggesting that it was too similar to the current site. ‘We expected it to do much more’ was their view.

Meeting 3: 4 September attended by MM, RP and IC

IC produced a re-drafted design. This overall design was agreed and the go-ahead was given for TD to produce a prototype of the design to show to the board.

Meeting 4: 11 September attended by RP, IC and TD

TD explained that elements of the drafted re-design were not technically feasible to implement in the programming language being used. Changes to the design were agreed at the meeting to overcome these issues and signed off by RP.

Meeting 5: 13 October attended by MM, RP, IC and TD

The prototype re-design was demonstrated by TD. MM was unhappy with the re-design as it was ‘moving too far away from the original objective and lacked functionality that should be there’. TD agreed to write a technical report to explain why the original design (agreed on 4 September) could not be adhered to.
Meeting 6: 9 November attended by MM, IC and TD

It was agreed to return to the 4 September design with slight alterations to make it technically feasible. TD expressed concerns that the suggested design would not work properly with all web browsers.

At the board meeting of 9 December the board expressed concern about the time taken to produce the re-design and the finance director highlighted the rising costs (currently $25,000) of the project. They asked MM to produce a formal cost-benefit of the re-design. The board were also concerned that the scope of the project, which they had felt to be about re-design, had somehow been interpreted as including development and implementation.

On 22 December MM produced the following cost-benefit analysis of the project and confirmed that the word ‘redesign’ had been interpreted as including the development and implementation of the website.

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*These benefits are extra sales volumes created by the website’s extra functionality and the company’s increased visibility in the market place.

On 4 January the board gave the go ahead for the development and implementation of the website with a further budget of $25,000 and a delivery date of 1 March. TD expressed concern that he did not have enough developers to deliver the re-designed website on time.

Meeting 7: 24 February attended by MM, RP, IC and TD

A partial prototype system was demonstrated by TD. RP felt that the functionality of the re-design was too limited and that the software was not robust enough. It had crashed twice during the demonstration. He suggested that the company delay the introduction of the re-designed website until it was complete and robust. MM declared this to be impossible.
Conclusion

The re-designed website was launched on 1 March. MM declared the re-design a success that ‘had come in on time and under budget’. On 2 and 3 March, numerous complaints were received from customers. The website was unreliable and did not work with a particular popular web browser. On 4 March an emergency board meeting decided to withdraw the site and reinstate the old one. On 5 March, MM resigned.

Required:

Most project management methods have an initiation or definition stage which includes the production of a document that serves as an agreement between the sponsors and deliverers of the project. This may be called a project initiation document or a project charter. Defining the business case is also an important part of the initiation or definition stage of the project.

a. Explain how a business case and a project initiation document would have helped prevent some of the problems that emerged during the conduct of the website re-design project.

b. Analyse how effective project management could have further improved both the process and the outcomes of the website re-design project.

Answer:-

a) The production of initial documentation concerning the business case and initiation of the project would have addressed many of the issues that subsequently arose in the website re-design. This documentation would typically include:

- A summary of the business justification of the project. These are the business objectives that have been defined in the business case to justify the project.
- The scope of the project, defined in terms of project objectives and ultimate deliverables.
- Constraints and targets that apply to the project.
- Project roles and responsibilities, for example; the definition of the project sponsor and the project manager. It is useful if this part of the document specifies the level up to which named individuals (or roles) can authorise:
  - The commitment of resources
  - The sign-off of deliverables
- Changes to project objectives and deliverables
- Changes to constraints
- Resources committed to the project
- Risks and assumptions associated with the project.

These are considered below in the context of the clothing company’s website re-design project.

The business justification of the project

The MM does specify business objectives such as ‘increase sales revenue’ and ‘improve market visibility’ (see meeting 1) but these are poorly defined objectives in that they are not quantified. A formal cost-benefit analysis undertaken at the start of the project would have forced the MM to quantify how much sales would increase and by when. The MM would also have been required to document the assumptions behind these predictions and to demonstrate a causal link between the functionality of the website and sales volume. The other suggested objective, improve market visibility, also requires further specification and quantification. The MM provides no evidence of current market visibility (and what this actually means) and how its improvement will be measured. Some research is needed to quantify market visibility and to set realistic targets for its improvement. The statement of the project’s business benefits is an important issue in contemporary project management. It is suggested that these benefits are kept constantly under review to ensure that the project has not strayed from its original justification. Furthermore, at the end of the project, the business benefits have to be reviewed to assess whether they have been realised. Because the MM has not specified measurable objectives in advance, the success of the project is impossible to assess. There is no benchmark to assess it against.

The scope of the project

On at least two occasions there appears to be confusion about the scope of the project. The TD originally produces a design that is too like the current site, ‘We expected it to do much more’ (meeting 2). However, the most significant misunderstanding about scope is between the board and the MM. It concerns the interpretation of the scope of the word ‘re-design’. The board appears to perceive that re-design does not include the development and implementation of the
software, while the MM holds the opposite view. The scope of the re-design would have been clarified in a project initiation document.

**Constraints that apply to the project**

Constraints are often defined in terms of cost and time. The absence of a formal cost-benefit analysis for this project has already been recognised, so costs (and budget) were not formally agreed at the start of the project. There is also no evidence that a projected delivery time for the project was agreed at the start of the project. Indeed, it was the elapsed time, as well as the escalating cost, that first caused the board to be alarmed about the website re-design project. It also appears that the TD had technical constraints in mind which were also not articulated. These emerged in meeting 4 and caused delays documented in meetings 5 and 6. Again, technical constraints should have been documented in the project initiation document.

**Project roles and responsibilities**

Although it is not clearly stated, it appears that the sponsor of the project is the MM. However, at one critical point of the project the RP makes a decision to accept a design (meeting 4) which is subsequently overturned by the MM. This confusion of responsibility causes both cost and delay. If project roles and responsibilities had been properly defined, then it would have been recognised that the RP did not have sufficient authority to sign-off deliverables. Furthermore, the formal allocating of roles would have also meant that a project manager would have been nominated with the responsibility of delivering the project. In the scenario there is never any clear indication of who is playing the role of project manager and this is a major flaw.

**Resources committed to the project**

There is no evidence that the resources available to the project had been identified and documented at the start of the project. Problems only begin to emerge late in the project when the Board’s decision to launch on 1 March prompts the TD to express concern that there are not enough developers to deliver the system on time.
Risks and assumptions associated with the project

Most project management methods suggest that risks should be formally documented and managed. Each risk is identified and its potential effect quantified. For each significant risk, avoidance actions are suggested which are steps that can be taken to prevent the risk from occurring. Mitigation actions are also defined for each risk. These are steps that can be taken to reduce the impact of the risks if they occur. Again there is no evidence to show that this has been done. As problems emerged in the project they were dealt with on an ad hoc basis. A consideration of risk at the outset of the project can lead to changes in how the project is conducted. For example, the risk of poor scoping of requirements could have prompted a more formal definition of requirements scope (an avoidance action).

Initial project structure and arrangements for management control

This is an initial project structure describing how the project will be broken down into stages with an associated list of project milestones. It is a very high-level plan which provides a context for the detailed plans that will follow. There is no evidence of such a structure in the website re-design project and so the absence of detailed planning (see below) goes unnoticed. The project initiation document might also include management control information concerning, for example, progress reporting and monitoring arrangements. If these had been defined in advance then their absence (see below) would have been clear in the actual project.

b) Effective project management could have improved the conduct of the website re-design project in the following ways:

Detailed planning
During the delivery of the project the lack of a formal detailed plan means that there is no baseline for review and control. The absence of monitoring progress against that plan is also very evident. The meetings are events where, although progress appears to have been made, it is unclear how much progress has been made towards the delivery of the final re-designed website. Effective project management would have mandated the production of a detailed plan. There is no mention of a project plan, a critical path analysis, a Gantt chart or supporting project management software.
Effective monitoring and control
The boards were not kept up to date about progress and were only alerted to potential issue when the finance director became concerned about spiralling costs. This is a failure of monitoring and control, aggravated by the fact that there is no project plan to monitor against. Effective project management would have required formal progress to the sponsor (in this case the board). Such monitoring should lead to project control, where suggested actions are considered and implemented to deal with project slippage. The planning, monitoring and controlling aspects of project management are completely absent from the scenario and so none of the usual project management monitoring and reporting structures were in place to alert the board.

Mandating of substitutes
Initial progress is hampered by the absence of key personnel at meetings 3 and 4 and the inappropriate sign-off by the RP (already discussed above) of the technical design. The requirement for the TD to produce a technical report also slows progress. These problems could have been addressed by ensuring that substitutes were available for these meetings who understood their role and the scope of their authority. Effective project management would have ensured that progress would not have been delayed by the absence of key personnel from the progress meetings.

Standards for cost-benefit analysis
The cost-benefit analysis provided by the MM is flawed in two ways. Firstly, the assumptions underpinning the benefits are not explained. There is no supporting documentation and it appears, at face value, that year four and five benefits have been greatly inflated to justify the project. Secondly, it would be usual to discount future costs and benefits using an agreed discount rate. This has not been done, so the time value of money has not been taken into account. Effective project management would have defined standards for the cost-benefit analysis based on accepted practice.

Estimating, risks and quality
The reaction of the board to the cost-benefit analysis also appears unrealistic. They appear to have suggested a budget and a timescale which does not take into account the complexity of the remaining work or the resources available to
undertake it. The estimating part of the project management framework appears to be lacking. It is clear at the final meeting that the website will not be ready for launch. However, the MM decides to take the risk and achieve the imposed deadline and take a chance on the quality of the software. This decision is made against the advice of his TD and without any information about the quality of the software. Effective project management would have mandated a framework for considering the balance between risk and quality.

The MM does not inform the board of the TD’s advice. The MM, like many project managers (because the MM now appears to have adopted this role) finds it politically more acceptable to deliver a poor quality product on time than a better quality product late. Unfortunately the product quality is so poor that the decision proves to be the wrong one and the removal of the software (and the resignation of the MM) ends the project scenario.

**Question No 2:-**

a) Identify the important functions which have to be performed by the Human Resources Department of a commercial bank which has a strength of 17,500 employees deployed in a network of 800 branches located throughout the country. The commercial bank is a well-reputed organization known for its fair business policies, progressive outlook and concern for development of a competent and well motivated cadre of employees.

b) Research Studies by Human Resource experts have shown that successful organizations create internal work environments in which the employees are able to operate at their optimal levels of productivity.

What are the important Human Resource Management practices which, in your opinion, contribute towards workforce optimization in a manufacturing plant with several integrated workshops and departments?

**Answer:-**

a) The important functions which have to be performed by the Human Resources Department of the commercial bank are:

i. Human Resource Planning

ii. Recruitment, selection and induction of employees

iii. Organisation of departments and design of work flows
iv. Preparation of job specifications and job descriptions of employees  
v. Salary and wage administration, including reward systems  
vi. Planning for posting and transfers of suitable staff in the various branches  
vii. Training and development of staff  
viii. Measuring and monitoring of staff performance  
ix. Instituting measures for improving motivation and morale of employees  
x. Succession planning of competent staff  
xi. Handling of employee grievances and complaints  
xii. Employee welfare, health and safety  
xiii. Compliance with employment legislation and other legal requirements.  
xiv. Maintenance of centralised records of all the branches.  
xv. Ensuring equality amongst all the branches, policies should be made at central level with equal remuneration and training opportunities for all the 17500 employees.

b) The important Human Resource Management practices which contribute towards workforce optimization in a manufacturing plant with several integrated workshops and departments are:
   
i. **Hiring of Workers:** Workers are selected carefully on the basis of their skills to undertake the specialized jobs they are required to perform.
   
ii. **Workforce Planning:** The strength of workers in various categories are determined in anticipation of the expected workload and measures are taken for ensuring their availability at the required point of time.
   
iii. **Work Processes:** Work processes are well-defined and training is provided to the employees to enable them to perform their tasks in an efficient manner.
   
iv. **Working Conditions:** The internal working conditions are conducive for maximum achievement and the management supports high levels of performance.
   
v. **Performance Management Systems:** Well-designed employee performance systems are instituted in the organizations which are communicated and accepted by all the concerned employees.
   
vi. **Conflict Management:** Conflicts due to differences in perceptions, role ambiguities and competition for resources must be contained and resolved by management in a fair and equitable manner to promote team effort for the achieving the organizational objectives.
vii. **Reward System:** High level of performance is expected from the workers and they are adequately rewarded in a transparent manner for their good performance. Also reduce Staff turnover rate by providing adequate compensation and support.

viii. **Employee Service:** Make sure that the staff is provided with healthcare incentives, proper maintenance of records and information system

**Question no 3:-**

Local neighbourhood shops are finding it increasingly difficult to compete with supermarkets. However, three years ago, the Perfect Shopper franchise group was launched that allowed these neighbourhood shops to join the group and achieve cost savings on tinned and packaged goods, particularly groceries. Perfect Shopper purchases branded goods in bulk from established food suppliers and stores them in large purpose-built warehouses, each designed to serve a geographical region. When Perfect Shopper was established it decided that deliveries to these warehouses should be made by the food suppliers or by haulage contractors working on behalf of these suppliers. Perfect Shopper places orders with these suppliers and the supplier arranges the delivery to the warehouse. These arrangements are still in place. Perfect Shopper has no branded goods of its own.

Facilities are available in each warehouse to re-package goods into smaller units, more suitable for the requirements of the neighbourhood shop. These smaller units, typically containing 50–100 tins or packs, are usually small trays, sealed with strong transparent polythene. Perfect Shopper delivers these to its neighbourhood shops using specialist haulage contractors local to the regional warehouse. Perfect Shopper has negotiated significant discounts with suppliers, part of which it passes on to its franchisees. A recent survey in a national grocery magazine showed that franchisees saved an average of 10% on the prices they would have paid if they had purchased the products directly from the manufacturer or from an intermediary – such as cash and carry wholesalers.

As well as offering savings due to bulk buying, Perfect Shopper also provides, as part of its franchise:

i. **Personalised promotional material.** This usually covers specific promotions and is distributed locally, either using specialist leaflet distributors or loosely inserted into local free papers or magazines.
Specialised signage for the shops to suggest the image of a national chain. The signs include the Perfect Shopper slogan ‘the nation’s local’.

Specialist in-store display units for certain goods, again branded with the Perfect Shopper logo.

Perfect Shopper does not provide all of the goods required by a neighbourhood shop. Consequently, it is not an exclusive franchise. Franchisees agree to purchase specific products through Perfect Shopper, but other goods, such as vegetables, fruit, stationery and newspapers they source from elsewhere. Deliveries are made every two weeks to franchisees using a standing order for products agreed between the franchisee and their Perfect Shopper sales representative at a meeting they hold every three months. Variations to this order can be made by telephone, but only if the order is increased. Downward variations are not allowed. Franchisees cannot reduce their standing order requirements until the next meeting with their representative.

Perfect Shopper was initially very successful, but its success has been questioned by a recent independent report that showed increasing discontent amongst franchisees. The following issues were documented.

i. The need to continually review prices to compete with supermarkets
ii. Low brand recognition of Perfect Shopper
iii. Inflexible ordering and delivery system based around forecasts and restricted ability to vary orders (see above)

As a result of this survey, Perfect Shopper has decided to review its business model. Part of this review is to reexamine the supply chain, to see if there are opportunities for addressing some of its problems.

Required:

a) Describe the primary activities of the value chain of Perfect Shopper.
b) Explain how Perfect Shopper might re-structure its upstream supply chain to address the problems identified in the scenario.
c) Explain how Perfect Shopper might re-structure its downstream supply chain to address the problems identified in the scenario.
Answer:-

a) Inbound logistics: Handling and storing bulk orders delivered by suppliers and stored on large pallets in regional warehouses. All inbound logistics currently undertaken by the food suppliers or by contractors appointed by these suppliers. Operations: Splitting bulk pallets into smaller packages, packing, sealing and storing these packages. Outbound logistics: Delivery to neighbourhood shops using locally contracted distribution companies. Marketing & Sales: Specially commissioned signs and personalised sales literature. Promotions and special offers. Service: Specialist in-store display units for certain goods, three monthly meeting between franchisee and representative.

b) Perfect Shopper currently has a relatively short upstream supply chain. They are bulk purchasers from established suppliers of branded goods. Their main strength at the moment is to offer these branded goods at discounted prices to neighbourhood shops that would normally have to pay premium prices for these goods.

In the upstream supply chain, the issue of branding is a significant one. At present, Perfect Shopper only provides branded goods from established names to its customers. As far as the suppliers are concerned, Perfect Shopper is the customer and the company’s regional warehouses are supplied as if they were the warehouses of conventional supermarkets. Perfect Shopper might look at the following restructuring opportunities within this context:

- Examining the arrangements for the delivery of products from suppliers to the regional warehouses. At present this is in the hands of the suppliers or contractors appointed by suppliers. It appears that when Perfect Shopper was established it decided not to contract its own distribution. This must now be open to review. It is likely that competitors have established contractual arrangements with logistics companies to collect products from suppliers. Perfect Shopper must examine this, accompanied by an investigation into downstream distribution. A significant distribution contract would probably include the branding of lorries and vans and this would provide an opportunity to increase brand visibility and so tackle this issue at the same time.
- Contracting the supply and distribution of goods also offers other opportunities. Many integrated logistics contractors also supply storage and warehousing solutions and it would be useful for Perfect Shopper to evaluate the costs of these. Essentially, distribution, warehousing and packaging could be outsourced to an integrated logistics company and Perfect Shopper could re-position itself as a primarily sales and marketing operation.

- Finally, Perfect Shopper must review how it communicates orders and ordering requirements with its suppliers. Their reliance on supplier deliveries suggests that the relationship is a relatively straightforward one. There may be opportunities for sharing information and allowing suppliers access to forecasted demand. There are many examples where organisations have allowed suppliers access to their information to reduce costs and to improve the efficiency of the supply chain as a whole.

The suggestions listed above assume that Perfect Shopper continues to only supply branded goods. Moving further upstream in the supply chain potentially moves the company into the manufacture and supply of goods. This will raise a number of significant issues about the franchise itself.

At present Perfect Shopper has, by necessity, concentrated on branded goods. It has not really had to understand how these goods sell in specific locations because it has not been able to offer alternatives. The content of the standing order reflects how the neighbourhood shop wishes to compete in its locality. However, if Perfect Shopper decides to commission its own brand then the breadth of products is increased. Neighbourhood shops would be able to offer ‘own brand’ products to compete with supermarkets who also focus on own brand products. It would also increase the visibility of the brand. However, Perfect Shopper must be sure that this approach is appropriate as a whole. It could easily produce an own brand that reduces the overall image of the company and hence devalues the franchise. Much more research is needed to assess the viability of producing ‘own brand’ goods.

c) A number of opportunities appear to exist in the downstream supply chain.

As already mentioned above, Perfect Shopper can revisit its contract distribution arrangements. At present, distribution to neighbourhood shops is in the hands of locally appointed contract distributors. As already suggested, it may be possible to contract one integrated logistics company to carry out both inbound and
outbound logistics, so gaining economies of scale and opportunities for branding.

One of the problems identified in the independent report was the inflexibility of the ordering and delivering system. The ordering system appears to be built around a fixed standard delivery made every two weeks, agreed in advance for a three month period. Variations can be made to this standard order, but only increases – not decreases. Presumably, this arrangement is required to allow Perfect Shopper to forecast demand over a three month period and to place bulk orders to reflect these commitments. However, this may cause at least two problems. The first is that participating shops place a relatively low standard order and rely on variations to fulfil demand. This causes problems for Perfect Shopper. Secondly, any unpredictable fall in demand during the three month period leads to the shop having storage problems and unsold stock. This potentially creates problems for the shop owner, who may also begin to question the value of the franchise. Hence Perfect Shopper might wish to consider a much more flexible system where orders can be made to match demand and deliveries can be made as required. This would also remove the requirement for a three monthly meeting between the franchisee and the sales representative from Perfect Shopper. Investments in IT systems will be required to support this, with participating shops placing orders over the Internet to reflect their requirements. This move towards a more flexible purchasing arrangement may also make the outsourcing of warehousing and distribution even more appealing.

Perfect Shopper may also wish to investigate whether they can also provide value added services to customers, which not only simplify the ordering system but also allow the shop managers to better understand their customers and fulfil their requirements. The supply chain may legitimately include the customer’s customers, particularly for franchisers. This is already acknowledged because Perfect Shopper produces tailored marketing material aimed at the end-consumer. Point of Sales (PoS) devices feeding information back to Perfect Shopper would allow sales information to be analysed and fed back to the shopkeeper as well as allowing automatic replenishment based on purchasing trends. However, this may be culturally difficult for independent neighborhood shopkeepers to accept. Furthermore, it would potentially include information outside the products offered by Perfect Shopper and the implications of this
would have to be considered. However, a whole shop sales analysis might be a useful service to offer existing and potential franchisees.

Customers are increasingly willing to order products over the Internet. It seems unlikely that individual shopkeepers would be able to establish and maintain their own Internet-based service. It would be useful for Perfect Shopper to explore the potential of establishing a central website with customers placing orders from local shops. Again there are issues about scope, because Perfect Shopper does not offer a whole-shop service. However, Michael de Kare-Silver has identified groceries as a product area that has good potential for Internet purchase. In his electronic shopping potential test any product scoring over 20 has good potential.

Question No 4:-

The country of Europia has an extensive historical and industrial heritage. It has many tourist sites (such as castles, palaces, temples, houses and factories) which attract visitors from home and abroad. Most of these tourist sites have gift shops where visitors can buy mementos and souvenirs of their visit. These souvenirs often include cups, saucers, plates and other items which feature a printed image of the particular tourist site.

The Universal Pottery Company (UPC) is the main supplier of these pottery souvenir items to the tourist trade. It produces the items in its potteries and then applies the appropriate image using specialised image printing machines. UPC also supplies other organisations that require personalised products. For example, it recently won the right to produce souvenirs for the Eurasian Games, which are being held in Europia in two years time. UPC currently ships about 250,000 items of pottery out of its factory every month. Most of these items are shipped in relatively small packages. All collections from the factory and deliveries to customers are made by a nationwide courier company.

In the last two years there has been a noticeable increase in the number of complaints about the quality of these items. The complaints, from gift shop owners, concentrate on two main issues:

i. The physical condition of goods when they arrive at the gift shop. Initial evidence suggests that ‘a significant number of products are now arriving
broken, chipped or cracked’. These items are unusable and they have to be returned to UPC. UPC management are convinced that the increased breakages are due to packers not following the correct packing method.

ii. Incorrect alignment of the image of the tourist site on the selected item. For example, a recent batch of 100 cups for Carish Castle included 10 cups where the image of the castle sloped significantly from left to right. These were returned by the customer and destroyed by UPC.

The image problem was investigated in more depth and it was discovered that approximately 500 items were delivered every month with misaligned images. Each item costs, on average, $20 to produce.

As a result of these complaints, UPC appointed a small quality inspection team who were asked to inspect one in every 20 packages for correct packaging and correct image alignment. However, although some problems have been found, a significant number of defective products have still been delivered to customers. A director of UPC used this evidence to support his assertion that the ‘quality inspection team is just not working’.

The payment system for packers has also been such an issue. It was established ten years ago as an attempt to boost productivity. Packers receive a bonus for packing more than a target number of packages per hour. Hence, packers are more concerned with the speed of packing rather than its quality.

Finally, there is also evidence that to achieve agreed customer deadlines, certain managers have asked the quality inspection team to overlook defective items so that order deadlines could be met.

The company has decided to review the quality issue again. The director who claimed that the quality inspection team is not working has suggested using a Six Sigma approach to the company’s quality problems.

Required:

a) Analyse the current and potential role of quality, quality control and quality assurance at UPC.

b) Examine how adopting a Six Sigma approach would help address the quality problems at UPC.


Answer:-

a) Quality

Quality has become an increasingly important issue in organisations. For some companies it is an important differentiator, allowing the organisation to pursue a high price/high quality strategy. For other organisations, such as UPC, the quality threshold requirements for their products have increased significantly over the last few years. Customers have increased expectations of product construction, longevity and reliability. Quality is rarely absolute; and it is usually constrained by such factors as selling price. This particularly applies in UPC’s market where it is likely that the quality of the product is limited by the relatively low price consumers are willing to pay for it. Quality concerns how a product meets its designed purpose and satisfies its original requirements. The target selling price is likely to be one of those requirements.

At UPC quality appears to be defined in terms of the physical condition of the products (no breakages, cracks or chips) and in the accurate positioning of the printed image on the product. These are the reasons given by the UPC management for setting up the inspection team. However, this perception of quality would have to be confirmed by the customer. It may be that other issues, such as the density of the printed image, are also important to the customer but have not yet been fed back to UPC.

Many definitions of quality include references to the customer. They stress meeting the requirements of the customer or user of the product. UPC might benefit from re-considering who it perceives to be the customer. Their current perception appears to be that the customer is the gift shop that sells the product. It is not the ultimate person or consumer who buys the product from the shop and uses it. For this consumer, other issues may be significant such as:

- The ability to wash the item in a dishwasher.
- The long-term safety of the product, for example: the handle does not break off a cup and spill its content on the drinker.
- The long-term clarity of the image on the item after many washes.

Investigating the issue of quality from the perspective of the consumer may identify other problems that need addressing.
Finally, quality has to be considered in the context of responsibility. UPC currently uses a courier company to deliver its products to the gift shops. This means that freedom from breakage is only partly under UPC’s control. The delivery condition of products is partly determined by the care with which the courier company handles the package. Hence delivery quality depends on courier performance as well as on packaging care. In contrast, the quality of the printed image on the item is completely within the control of UPC.

Quality control

Quality Control (QC) is primarily concerned with checking and reviewing work that has been done. It is an inspection system for ensuring that pre-determined quality standards are being met. In theory, the responsibility for the control of quality lies with the person undertaking the process, whether it is the production of goods, delivery of a service or the passing of information. QC is the part of quality management focused on fulfilling quality requirements.

In many quality control systems, sample products are removed and inspected. Defects in these sampled products may lead to the whole batch being inspected and defective items destroyed. This is essentially the role of the inspection team at UPC, where 1 in 20 packed packages are inspected for accuracy of printing and correctness of packing. Incorrect packing in a sampled package will lead to the inspection (and potential re-packing) of all packages packed by that employee. Failure in the accuracy of the printed image is likely to lead to the destruction of the whole batch, and the re-setting of the production imaging machine to address the positional inaccuracy of the image. It has to be stressed that, in this instance, quality control is a sampling activity and so it is very likely that defective batches will get through to the customer. To criticise the inspection unit for failing to find defective batches (‘the quality inspection team is just not working’) fails to recognise the sampling nature of the role.

In the context of UPC there are at least three further factors that inhibit effective quality control.

- The quality control of the positioning of the image takes place too late in the process. It should take place before packing, not after it. Valuable packing time and materials can be wasted by packing items with defective images which are found when the package is inspected.
The reward system for packers is based on the throughput of packages rather than the quality of packing. In the past many manufacturing organisations have valued productivity more than quality and reflected this in their reward system. This is the case at UPC where faults in packing are not reflected in the reward system of the packers. In fact, the very opposite appears to be true. Packers are incentivised to pack quickly, not effectively. Beckford suggests that ‘a major barrier to quality may be built into the reward system of the organisation’.

There is evidence that the inspection team has participated in the achievement of the required throughput targets by passing packages that did not meet the required quality. This is clearly giving the wrong message, but the inspection team is only reflecting the need for the company to meet certain deadlines.

**Quality Assurance**

Quality Assurance (QA) is the part of quality management focused on providing confidence that quality requirements will be fulfilled. It may be defined as a set of procedures designed to ensure that quality standards and processes are adhered to and that the final product meets or exceeds the required technical and performance requirements. Quality assurance covers activities such as product design, development, production, installation and servicing. It also sets the predetermined standards required for effective quality control. If quality control is primarily concerned with detecting defective products, then quality assurance is primarily about the prevention of quality problems through planned and systematic activities.

There is little evidence of quality assurance at UPC. However, the company may wish to consider:

- Setting quality targets and delegating responsibility for achieving those targets to the people who are meant to achieve them. In UPC it would be preferable to give responsibility for product quality to the employees who actually make the products and to reflect this in their reward structure. One of the roles of QA is to enable quality improvement initiatives. A possible initiative is to investigate the purchasing of imaging machines (or adopting the current ones) with a facility to automatically assess the accuracy of the
image before printing. If the image falls outside certain tolerances then it may be feasible for the machine to automatically adjust it before printing. If these machines were installed, it would be the responsibility of QA to ensure that they were calibrated correctly and to verify that every product had undergone the necessary check.

- QA also offers quality advice and expertise and trains employees in quality matters. They would set standards for materials used in packing and establish systems for monitoring raw materials sent by suppliers to ensure that these standards were met. It may also be possible to improve how items are physically laid out in the package to reduce the chance of damage. The internal layout of the packages may be constructed in such a way that they only allow products to be packed in a prescribed pattern. QA would be involved in defining that prescribed pattern and training packers to use it – as well as subsequently monitoring that the prescribed pattern had been followed.

- The increased importance of quality means that many customers now demand some proof that the supplier is capable of consistently producing quality products. This proof is part of the ‘confidence’ factor of QA and may be demonstrated by a third party certification, such as ISO 9000. Certification helps show the customer that the supplier has a commitment to consistently supplying a quality product. QA will be concerned with gaining and maintaining such certification and this should assist the company in securing and retaining contracts.

At UPC the current inspection team is focused on QC. The responsibility for this should be moved to the production process itself or to the people who actually undertake that process. The inspection team could then focus on QA, setting standards for quality, establishing how those standards should be monitored, and then ensuring that such monitoring is being performed. In making this transition, the company will move to a culture of attempting to prevent faults rather than relying solely on detecting them.

b) In many ways Six Sigma started out as a quality control methodology. It focused on measurement and the minimisation of faults through pursuing Six Sigma as a statistical measure of some aspects of organisational performance. However, Six Sigma has developed into something much more than a process control
technique. It includes a problem-solving process called DMAIC and a comprehensive toolkit ranging from brainstorming to balanced scorecards and process dashboards. It also has defined team roles for managers and employees, often with martial arts names such as Black Belt, Green Belt and Master Black Belt.

Six Sigma was first used in organisations in the early 1990s. However, it was its adoption and promotion by Jack Welch, the CEO of GE that brought Six Sigma wider publicity. He announced that ‘Six Sigma is the most important initiative GE has ever undertaken’. As Paul Harmon comments, ‘Welch’s popularity with the business press, and his dynamic style, guaranteed that Six Sigma would become one of the hot management techniques of the late 1990s’.

Six Sigma uses an approach called DMAIC in its problem solving process. This stands for Define, Measure, Analyse, Improve and Control. Three aspects of this are considered below in the context of how they would address the problems at UPC.

**Defining the problem**

Part of defining the problem is the identification of the customer. It is important to understand what customers really want and value and one of the main themes of Six Sigma is its focus on the customer. Six Sigma explicitly recognises the ‘voice of the customer’ (VOC) in its approach. In the UPC situation quality requirements are currently defined by the physical condition of the goods and by the alignment of the image. However, this may be a limiting view of quality because there is no evidence of any systematic investigation of the requirements of the customer. Solving these problems may not lead to any significant long-term gain; they may be quickly replaced by other ‘quality issues’. Furthermore, the customer is also perceived in a limited way. These quality requirements are in the eye of the gift shop owner who is interested in saleable products. The end customer – the consumer – who buys and uses the product may have other requirements which can also be addressed at this time. By considering the VOC the problem and scope of the project becomes re-defined and the solution of the problems potentially more valuable.
Measurement

Measurement is fundamental to Six Sigma. This includes the gathering of data to validate and quantify the problem. The creation of the inspection team was based on initial evidence about an increase in breakages. This needs to be quantified. The inaccurate printing of the image had been quantified as 500 units per month, out of the 250,000 shipped out of the company. This equates to a failure rate of 0.2%, so that 99.8% of items are shipped with a correctly aligned image. This sounds quite reasonable but it still raises issues and complaints that have to be dealt with, as well as creating wastage costs of $10,000 per month. The problem is that even a relatively low percentage of defects can lead to a lot of unhappy customers. Aiming for Six Sigma would reduce defects down to about one faulty item per month, reducing the wastage cost to $20.

Analysis

Analysis is concerned with understanding the process to find the root cause. Six Sigma focuses on processes and their analysis. Analysis concerns methods, machines, materials, measures, Mother Nature and people. The alignment problem needs investigation to find out what causes the imaging machine to irregularly produce misaligned images. Management currently appear to blame the machine but it may be due to the way that certain people load the machine. The analysis of the breakages is particularly important. It is unclear at present where these breakages occur (for example, are some of the items broken before they leave UPC’s despatch facility) or are they all broken in transit? Neither is it understood why the breakages occur. Management appear to blame the packers for packing incorrectly and not following the correct method. However, it may be that the material is just not strong enough to withstand heavy handling by couriers who are outside the control of UPC. Additionally, the breakages may be due to some manufacturing problem or raw material imperfection in the items that break. Six Sigma stresses understanding the problem before solving it.

Although DMAIC has been selected as the framework for the sample answer, focusing on other aspects of Six Sigma would be acceptable – as long as they are presented in the context of the UPC scenario.
Question No 5:-

Introduction

The National Museum (NM) was established in 1857 to house collections of art, textiles and metalware for the nation. It remains in its original building which is itself of architectural importance. Unfortunately, the passage of time has meant that the condition of the building has deteriorated and so it requires continual repair and maintenance. Alterations have also been made to ensure that the building complies with the disability access and health and safety laws of the country. However, these alterations have been criticised as being unsympathetic and out of character with the rest of the building. The building is in a previously affluent area of the capital city. However, what were once large middle-class family houses have now become multi-occupied apartments and the socio-economic structure of the area has radically changed. The area also suffers from an increasing crime rate. A visitor to the museum was recently assaulted whilst waiting for a bus to take her home. The assault was reported in both local and national newspapers.

Thirty years ago, the government identified museums that held significant Heritage Collections. These are collections that are deemed to be very significant to the country. Three Heritage Collections were identified at the NM, a figure that has risen to seven in the intervening years as the museum has acquired new items.

Funding and structure

The NM is currently 90% funded by direct grants from government. The rest of its income comes from a nominal admission charge and from private sponsorship of exhibitions. The direct funding from the government is based on a number of factors, but the number of Heritage Collections held by the museum is a significant funding influence. The Board of Trustees of the NM divide the museum’s income between departments roughly on the basis of the previous year’s budget plus an inflation percentage. The division of money between departments is heavily influenced by the Heritage Collections. Departments with Heritage Collections tend to be allocated a larger budget. The budgets for 2008 and 2009 are shown in Figure 1.
<table>
<thead>
<tr>
<th>Collection Sections</th>
<th>Number of Heritage Collections</th>
<th>Budget ($000s) – 2008</th>
<th>Budget ($000s) – 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Architecture</td>
<td>2</td>
<td>120.00</td>
<td>125.00</td>
</tr>
<tr>
<td>Art</td>
<td>2</td>
<td>135.00</td>
<td>140.00</td>
</tr>
<tr>
<td>Metalwork</td>
<td>1</td>
<td>37.50</td>
<td>39.00</td>
</tr>
<tr>
<td>Glass</td>
<td></td>
<td>23.00</td>
<td>24.00</td>
</tr>
<tr>
<td>Textiles</td>
<td>1</td>
<td>45.00</td>
<td>47.50</td>
</tr>
<tr>
<td>Ceramics</td>
<td></td>
<td>35.00</td>
<td>36.00</td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
<td>30.00</td>
<td>31.50</td>
</tr>
<tr>
<td>Print &amp; Books</td>
<td></td>
<td>35.00</td>
<td>36.50</td>
</tr>
<tr>
<td>Photography</td>
<td></td>
<td>15.00</td>
<td>15.50</td>
</tr>
<tr>
<td>Fashion</td>
<td></td>
<td>10.00</td>
<td>10.50</td>
</tr>
<tr>
<td>Jewellery</td>
<td>1</td>
<td>50.00</td>
<td>52.50</td>
</tr>
<tr>
<td>Sculpture</td>
<td></td>
<td>25.00</td>
<td>26.00</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td>60.50</td>
<td>63.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>621.00</td>
<td>647.00</td>
</tr>
</tbody>
</table>

**Figure 1: Section budgets; 2008 and 2009**

The head of each collection section is an important position and enjoys many privileges, including a large office, a special section heads’ dining room and a dedicated personal assistant (PA). The heads of sections which have ‘Heritage Collections’ also hold the title of professor from the National University.

The departmental structure of the NM (see Figure 2) is largely built around the twelve main sections of the collection. These sections are grouped into three departments, each of which has a Director. The Board of Directors is made up of the three directors of these departments, together with the Director of Administration and the Director General. The museum is a charity run by a Board of Trustees. There are currently eight trustees, two of whom have been recently appointed by the government. The other six trustees are people well-known and respected in academic fields relevant to the museum’s collections.
Figure 2: Current Organisational Structure
Government change

One year ago, a new national government was elected. The newly appointed Minister for Culture implemented the government’s election manifesto commitment to make museums more self-funding. The minister has declared that in five year’s time the museum must cover 60% of its own costs and only 40% will be directly funded by government. This change in funding will gradually be phased in over the next five years. The 40% government grant will be linked to the museum achieving specified targets for disability access, social inclusion and electronic commerce and access. The government is committed to increasing museum attendance by lower socio-economic classes and younger people so that they are more aware of their heritage. Furthermore, it also wishes to give increasing access to museum exhibits to disabled people who cannot physically visit the museum site. The government have asked all museums to produce a strategy document showing how they intend to meet these financial, accessibility and technological objectives. The government’s opposition has, since the election, also agreed that the reliance of museums on government funding should be reduced.

Traditionally, the NM has provided administrative support for sections and departments, grouped together beneath a Director of Administration. The role of the Director General has been a part-time post. However, the funding changes introduced by the government and the need to produce a strategy document, has spurred the Board of Trustees to appoint a full-time Director General from the private sector. The trustees felt they needed private industry expertise to develop and implement a strategy to achieve the government’s objectives. The new Director General was previously the CEO of a major chain of supermarkets.

Director General’s proposal

The new Director General has produced a strategic planning document showing how the NM intends to meet the government’s objectives. Proposals in this document include:

1. Allocating budgets (from 2010) to sections based on visitor popularity. The most visited collections will receive the most money. The idea is to stimulate sections to come up with innovative ideas that will attract more visitors to the museum. Visitor numbers have been declining (see Figure 3) since 2004.

<table>
<thead>
<tr>
<th>Visitor Numbers (000s)</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 17 or less</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Age 18–22</td>
<td>5</td>
<td>8</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>
2. Increasing entrance charges to increase income, but to make entry free to pensioners, students, children and people receiving government benefit payments.

3. Removing the head of sections’ dining room and turning this into a restaurant for visitors. An increase in income from catering is also proposed in the document.

4. Removing the head of sections’ personal assistants and introducing a support staff pool to reduce administrative costs.

5. Increasing the display of exhibits. Only 10% of the museum’s collection is open to the public. The rest is held in storage.

6. Increasing commercial income from selling posters, postcards and other souvenirs.

The Director General has also suggested a major re-structuring of the organisation as shown in Figure 4.
Reaction to the proposals

Employees have reacted furiously to the Director General’s suggestions. The idea of linking budgets to visitor numbers has been greeted with dismay by the Director of Art and Architecture. ‘This is a dreadful idea and confuses popularity with historical significance. As previous governments have realised, what is important is the value of the collection. Heritage Collections recognise this significance by putting the nation’s interests before those of an undiscerning public. As far as I am concerned, if they want to see fashion, they can look in the high street shops. Unlike fashion, great art and architecture remains.’ The Director of Art and Architecture and the two professors who hold the Head of Architecture and Head of Art posts have also lobbied individual
members of the Board of Trustees with their concerns about the Director General’s proposals.

The Director of Industrial Arts and the Director of Media and Contemporary Art have contacted powerful figures in both television and the press and as a result a number of articles and letters critical of the Director General’s proposals have appeared. A recent television programme called ‘Strife at the NM’ also featured interviews with various heads of collections criticising the proposed changes. They were particularly critical of the lack of consultation; ‘these proposals have been produced with no input from museum staff. They have been handed down from on high by an ex-grocer’, said one anonymous contributor.

Eventually, the criticism of staff and their lack of cooperation prompted the Director General to ask the Board of Trustees to publicly back him. However, only the two trustees appointed by the government were prepared to do so. Consequently, the Director General resigned. This has prompted an angry response from the government which has now threatened to cut the museum’s funding dramatically next year and to change the composition of the Board of Trustees so that the majority of trustees are appointed directly by the government. The Minister of Culture has asked the museum to develop and recommend a new strategy within one month.

Required:

a) Analyse the macro-environment of the National Museum using a PESTEL analysis.

b) The failure of the Director General’s strategy has been explained by one of the trustees as ‘a failure to understand our organisational culture; the way we do things around here’.

Assess the underlying organisational cultural issues that would explain the failure of the Director General’s strategy at the National Museum.

c) Johnson, Scholes and Whittington identify three strategy lenses; design, experience and ideas.

Examine the different insights each of these lenses gives to understanding the process of strategy development at the National Museum.
Answer:-

a) The PESTEL framework may be used to explore the macro-environmental influences that might affect an organisation. There are six main influences in the framework: political, economic, social, technological, environmental and legal. However, these influences are inter-linked and so, for example, political developments and environmental requirements are often implemented through enacting legislation. Candidates will be given credit for identifying the main macro-environmental influences that affect the NM, whether or not they are classified under the same influences as the examiner’s model answer.

Political
Monitoring, understanding and adapting to the political environment is absolutely essential for the National Museum. It is currently very reliant on government funding and so is significantly affected by the recently elected government’s decision to gradually reduce that funding. The implications of this were recognised by the Board of Trustees and led to the appointment of a new Director General. Unfortunately, senior staff at the museum did not share this perception of the significance of the funding changes. Their opposition to change, which culminated in the Director General’s resignation, has led to further political ramifications. The government is now threatening heavier funding cuts and further political trustee appointments. Furthermore, it does appear that the political context has changed for the foreseeable future. The government has only just been elected and the opposition also agrees that the reliance of museums on government funding has to be reduced.

The political appointment of two (and possibly more) trustees is also important to the National Museum. It was significant that it was the two trustees appointed by the government who supported the Director General and his proposed changes. Finally, the continued funding of the government will now largely depend on performance measures – such as accessibility – which have been determined by a political agenda. The museum must strive to meet these objectives even if they are not shared by senior staff. The old ways – built around an assessment of Heritage Collections – appear to have gone forever and senior staff members need to recognise this.
Economic
Up to now the National Museum has been largely sheltered from the economic environment. It has been funded by the government, not the marketplace, and that funding has been largely determined by stable internal factors, such as artefacts in the Heritage Collection. Evidence from the scenario and Figure 1, suggests that this funding is stable, increasing on an annual basis to reflect inflation. However, the progressive reduction of government funding will mean that the museum will be exposed to economic realities. It will have to set realistic admission charges. Resources will also have to be used effectively and new opportunities identified and exploited for increasing income. The Director General included a number of these ideas in his proposals. However, it will be difficult to set a charge that will attract sufficient customers to cover the museum’s costs, particularly as visitors have been used to paying only a nominal entry charge.

Social
The social environment is important to the museum from at least two different perspectives. The first is that social inclusion is an important part of the government’s targets. The government is committed to increasing museum attendance by both lower social classes and by younger people who they feel need to be made more aware of their heritage. The visitor information shown in Figure 3 suggests that not only are visitor numbers declining in total, but the average age of these visitors is increasing. The percentage of visitors aged 22 and under visiting the NM has decreased from 19% of the total visitors (in 2004) to just over 12% in 2007. The museum needs to identify what it needs to do to attract such groups to the museum. The Director General had suggested free admission. This could be combined with popular exhibitions (perhaps tied in with television programmes or films) and ‘hands-on’ opportunities. It appears that the immediate neighbourhood of the museum now houses many of the people the government would like as visitors and so, from this angle, the location of the museum is an advantage. However, the comment of the Director of Art and Architecture about popularity and historical significance hardly bodes well for the future.

The decay of the neighbourhood and the increased crime rate may also deter fee-paying visitors. The museum is becoming increasingly isolated in its environment, with many of its traditional middle-class customers moving away
from the area and reluctant to visit. The extensive reporting of a recent assault on a visitor is also likely to deter visitors. The museum needs to react to these issues by ensuring that good and safe transport links are maintained to the museum and by improving security both in the museum and in its immediate vicinity. Visitors need to feel safe and secure. If the museum believes this to be unachievable, then it might consider moving to a new site.

**Technological**

It is estimated that only 10% of the museum’s collection is on view to visitors. Technology provides opportunities for displaying and viewing artefacts on-line. It provides an opportunity for the museum to become a virtual museum – allowing visitors from all over the world access to images and information about its collections. Indeed, such an approach should also help the museum achieve some of its technology and accessibility targets set by the government. Technology can also be used to increase marketing activity, providing on-line access to products and allowing these products to be bought through a secure payment facility. The appropriate use of technology frees the museum from its physical space constraints and also overcomes issues associated with its physical location.

**Environmental**

It can be argued that all contemporary organisations have to be aware of environmental issues and the impact their activities have on the environment. These are likely to be exacerbated by the museum being located in an old building which itself requires regular maintenance and upgrading to reflect government requirements. It is also very unlikely that such an old building will be energy efficient and so heating costs are likely to be high and to continue to increase. The museum needs to adopt appropriate policies on recycling and energy conservation, but it may be difficult to achieve these targets in the context of an old building. Consequently, environmental issues may combine with social issues to encourage the consideration of the possible relocation of the museum to a modern building in a more appropriate location. However, the museum building is also of architectural importance, and so some acceptable alternative use for the building might also have to be suggested.
Legal
Legal issues affect the museum in at least two ways. Firstly, there is already evidence that the museum has had to adapt to legal requirements for disability access and to reflect health and safety requirements. Some of these requirements appear to have required changes in the building which have been met with disapproval. It is likely that modifications will be expensive and relatively awkward, leading again to unsightly and aesthetically unpleasing modifications to the building. Further tightening of legislation might be expected from a government with a mandate for social inclusion. For example, it might specify that all documentation should be available in Braille or in different languages. Legislation concerning fire safety, heating, cooking and food preparation might also exist or be expected.

Secondly, the museum is run by a Board of Trustees. There are legal requirements about the behaviour of such trustees. The museum must be aware of these and ensure that their work is properly scoped and monitored. Trustees have, and must accept, ultimate responsibility for directing the affairs of the museum, ensuring that it is solvent, well-run, and meeting the needs for which it has been set up. The museum is a charity and it is the responsibility of the trustees to ensure that its operation complies with the charity law of the country.

b) The underlying cultural issues that would explain the failure of the Director General’s strategy at the National Museum can be explored using the cultural web. It can be used to understand the behaviours of an organisation – the day-to-day way in which the organisation operates – and the taken-for-granted assumptions that lie at the core of an organisation’s culture. The question suggests that it was a lack of understanding of the National Museum’s culture that lay at the heart of the Director General’s failure. In this suggested answer the cultural web is used as a way of exploring the failure of the Director General’s strategy from a cultural perspective. However, other appropriate models and frameworks that explore the cultural perspective will also be given credit.

A cultural web for the National Museum is suggested in Figure 1. The cultural web is made up of a set of factors that overlap and reinforce each other. The symbols explore the logos, offices, titles and terminology of the organisation. The large offices, the special dining room and the dedicated personal assistants are
clear symbols of hierarchy and power in the museum. Furthermore, the language used by directors in their stories (see below) suggests a certain amount of disdain for both customers and managers. The status of professor conferred on section heads with Heritage Collections also provides relative status within the heads of collection sections themselves. The proposal of the Director General to close the heads’ dining room and to remove their dedicated personal assistants would take away two important symbols of status and is likely to be an unpopular suggestion.

The power structures of the organisation are significant. Power can be seen as the ability of certain groups to persuade or coerce others to follow a certain course of action. At present, power is vested in the heads of collection sections, reflected by their dominance on the Board of Directors. Three of the five directors represent collection sections. Similarly the Board of Trustees is dominated by people who are well-known and respected in academic fields relevant to the museum’s collections. The power of external stakeholders (such as the government) has, until the election of the new government, been relatively weak. They have merely handed over funding for the trustees to distribute. The Director General of the museum has been a part-time post. The appointment of an external, full-time Director General with private sector experience threatens this power base and his suggestion for the new organisation structure takes away the dominance of the collection heads. On his proposed board, only one of six directors represents the collection sections.

The organisational structure is likely to reflect and reinforce the power structure. This appears to be the case at the museum. However, it is interesting to note that the collections themselves are not evenly represented. Both the Director of Industrial Art and the Director of Media and Contemporary Art represent five collection sections. However, only two collection areas are represented by the Director of Art and Architecture. This imbalance, reinforced by different symbols (professorships) and reflected in stories (see later) might suggest a certain amount of disharmony between the collection heads, which the Director General might have been able to exploit. Management at the museum are largely seen as administrators facilitating the museum’s activities. This is reinforced by the title of the director concerned; Director of Administration.
The controls of the organisation relate to the measurements and reward systems which emphasise what is important to the organisation. At the National Museum the relative budget of each section has been heavily influenced by the Heritage Collections. These collections help determine how much the museum receives as a whole and it appears (from the budget figures) that the Board of Trustees also use this as a guide when allocating the finance internally. Certainly, the sections with the Heritage Collections appear to receive the largest budgets. Once this division has been established the principle of allocating increases based on last year’s allocation, plus a percentage, perpetuates the division and indeed accentuates it in real financial terms. Hence, smaller sections remain small and their chance of obtaining artefacts for them to be defined a Heritage Collection becomes slimmer every year. Again, this may suggest a potential conflict between the larger and smaller collection sections of the museum. Finally, up until the election of the new government, there appears to have been no required measures of outputs (visitor numbers, accessibility etc). The museum was given a budget to maintain the collections, not to attract visitors. The proposal of the Director General to allocate budgets on visitor popularity disturbs the well-established way of distributing budgets in a way that reinforced the current power base.

The routines and rituals are the way members of the organisation go about their daily work and the special events or particular activities that reinforce the ‘way we do things around here’. It is clear from the scenario that it is not thought unacceptable for directors to directly lobby the Board of Trustees and to write letters to the press and appear on television programmes to promote their views. In many organisations issues within the boardroom remain confidential and are resolved there. However, this is clearly not now the case at the National Museum. The scenario suggests that there are certain rites of challenge (exemplified by the new Director General’s proposals) but equally there are strong rites of counter-challenge, resistance to the new ways of doing things. Often such rites are limited to grumbling or working-to-rule, but at the National Museum they extend to lobbying powerful external forces in the hope that these forces can be combined to resist the suggested changes.

Stories are used by members of the organisation to tell people what is important in the organisation. The quotes included in the scenario are illuminating both in
content and language. The Director of Art and Architecture believes that Heritage Collections have a value that transcends popularity with the ‘undiscerning public’. He also alludes to the relative importance of collections. He suggests that fashion may not be a suitable subject for a collection, unlike art and architecture. Similarly, the anonymous quote about lack of consultation, that includes a reference to the new Director General as ‘an ex-grocer’, attempts to belittle both management and commerce.

In the centre of the cultural web is the paradigm of the National Museum. This is the set of assumptions that are largely held in common and are taken for granted in the organisation. These might be:
- The museum exists for the good of the nation
- It is a guardian of the continuity of the nation’s heritage and culture
- What constitutes heritage and culture is determined by experts
- The government funds the purchase and maintenance of artefacts that represent this heritage and culture

There are two important elements of the Director General’s proposals that are missing from this paradigm; visitors and customers. Changing the current paradigm may take considerable time and effort.
Candidate answers which considered the cultural web from a perspective of how it might have helped the Director General develop and implement proposals are also acceptable. For example:

- He may have considered deferring one or both of the proposals to remove the head of collection sections’ dining room and their dedicated personal assistants. These are important symbols of their status and the financial gains from removing them seem unlikely to outweigh the consequences of their removal.

- He might have considered simply adding directors to the organisational structure, rather than inviting conflict by removing two of the collection directors. For example, replacing the current Director of Administration with the four new directors of his proposed structure (Finance, Visitor Services, Resources, Information Systems) might then have been more acceptable. The actual number of collection related directors remains the same (three), but their relative power in the board would have been decreased.

- An analysis of the cultural web identifies a possible conflict between the collection section heads that could have been exploited. A significant number
of sections are not designated as Heritage Collections and so are not headed by professors. These sections are also less well represented on the board and they receive less money, which is allocated in a way that accentuates and perpetuates the relative wealth of the powerful sections. Published stories and deriding fashion, reinforces this division. The Director General could have identified proposals that could have brought the heads of certain sections ‘on side’ and so destroy the apparently harmonious position of the collection heads.

- He also needed to recognise the structure of the Board of Trustees. Their current composition meant that there was little chance that they would support his proposals.

- Finally, he would have benefited from understanding the paradigm of the National Museum and how at odds this paradigm is with his own vision and with the vision of the incoming government. In this context the cultural web has important implications for the heads of collection sections. Both the power and controls elements of the cultural web are undergoing significant change. The new government is exploiting its position as a major stakeholder and insisting on new controls and measures that reflect their paradigm. Although the heads of collection sections have successfully lobbied for the removal of the Director General, they are very unlikely to change the government’s policy. Indeed the sacking of the Director General has strengthened the government’s action and resolve. The sacking of the Director General may have been a pyrrhic victory and a much worse defeat now awaits the heads of collection sections.

c) The design lens views strategy as the deliberate positioning of an organisation as the result of some ‘rational, analytical, structured and directive process’. Through the design lens it is the responsibility of top management to plan the destiny of the organisation. Lower levels of management carry out the operational actions required by the strategy. The design lens is associated with objective setting and a plan for moving the organisation towards these objectives. In the context of the scenario, the government is now significantly involved in objective setting and tying funding to those objectives. The Director General has responsibility for defining and delivering a strategy within these objectives. There is evidence that he has gone about this in a ‘top-down’ way and not sought advice from current employees. On the television programme, employees were
particularly critical of a lack of consultation; ‘these proposals have been produced with no input from museum staff. They have been handed down from on-high’. In many ways, the approach taken at the National Museum under the new Director General represents the design lens view of strategy. Such an approach is not unusual in public sector organisations, where elements of strategy are dictated by government manifestos.

Strategy as experience provides a more adaptive approach to strategy, building on and changing the existing strategy. Changes are incremental as the organisation adapts to new opportunities and threats in the environment. The experience lens views strategy development as the combination of individual and collective experience together with the taken-for-granted assumptions of cultural influences. However, it has to be recognised that the assumptions and practices of the organization may become so ingrained that it is difficult for people to question or change them. This certainly appears to be true for the heads of collection sections at the National Museum. The museum is now facing a fundamental change in the way it will be funded and the increased influence of the government suggests a change in the paradigm of the organisation. It seems unlikely that people with a vested interest in the current arrangement and perpetuating that current arrangement will come up with the change in strategy that is now required. The ‘taken-for-granted’ behaviour of people in organisations is one of the major barriers to developing innovative strategies.

Strategy as ideas has a central role for innovation and new ideas. It sees strategy as emerging from the variety and diversity in an organisation. It is as likely to come from the bottom of the organisation as from the top. Consequently, the organization should foster conditions that allow ideas to emerge and to be considered for inclusion in a ‘mainstream strategy’. Certain conditions, such as a changing and unpredictable environment foster ideas and innovation. It could be argued that the macroenvironmental conditions for adopting this lens are present at the National Museum. Political, social and environmental influences
might lead to new ideas – for example, the relocation of the museum and the exploitation of on-line access to resources creating a virtual museum. The museum is undergoing a fundamental change in priorities and funding and the consequences of these changes is unpredictable. On the other hand, the museum is a long-established conservative organisation with many symbols of hierarchy and deference. There is no evidence in the scenario of a group of people generating conflicting ideas and encouraged to compete with each other in an open and supportive environment. The National Museum seems to be dominated by powerful individuals protecting their own interests. Finally, a key factor in the selection of ideas is the marketplace. The National Museum is currently operating in a protected economic environment, although this is set to change.

There is plenty of evidence to suggest that it is difficult to change strategies in a hierarchical or deferential structure. At the National Museum the Director General decided to pursue a designed strategy. In many ways this appeared to be the natural lens to adopt given the objectives set by the newly elected government that was beginning to exert its power. This strategy may have worked if he had been more sensitive to the cultural web and, also, if he had not asked for the backing of the Board of Trustees. This was always unlikely to be forthcoming given its composition. The paradigm change means that it is unlikely that the experience lens would have proved fruitful. However, it may have been possible to exploit strategy as ideas if the Director General had carefully selected heads of collection sections who were relative losers under the current system.

**Question No 6:-**

In 2002 the board of MMI met to discuss the strategic direction of the company. Established in 1952, MMI specialised in mineral quarrying and opencast mining and in 2002 it owned fifteen quarries and mines throughout the country. However, three of these quarries were closed and two others were nearing exhaustion. Increased costs and falling reserves meant that there was little chance of finding new sites in the country which were economically viable. Furthermore, there was significant security costs associated with keeping the closed quarries safe and secure.
Consequently the Chief Executive Officer (CEO) of MMI suggested that the company should pursue a corporate-level strategy of diversification, building up a portfolio of acquisitions that would ‘maintain returns to shareholders over the next fifty years’. In October 2002 MMI, using cash generated from their quarrying operations, acquired First Leisure, a company that owned five leisure parks throughout the country. These leisure parks provided a range of accommodation where guests could stay while they enjoyed sports and leisure activities. The parks were all in relatively isolated country areas and provided a safe, car-free environment for guests.

The acquisition was initially criticised by certain financial analysts who questioned what a quarrying company could possibly contribute to a profitable leisure group. For two years MMI left First Leisure managers alone, letting them get on with running the company. However, in 2004 a First Leisure manager commented on the difficulty of developing new leisure parks due to increasingly restrictive government planning legislation. This gave the CEO of MMI an inspired idea and over the next three years the five quarries which were either closed or near exhaustion were transferred to First Leisure and developed as new leisure parks. Because these were developments of ‘brown field’ sites they were exempted from the government’s planning legislation. The development of these new parks has helped First Leisure to expand considerably (see table 1). The company is still run by the managers who were in place when MMI acquired the company in 2002 and MMI plays very little role in the day-to-day running of the company.

In 2004 MMI acquired two of its smaller mining and quarrying competitors, bringing a further five mines or quarries into the group. MMI introduced its own managers into these companies resulting in a spectacular rise in revenues and profits that caused the CEO of MMI to claim that corporate management capabilities were now an important asset of MMI.

In 2006 MMI acquired Boatland, a specialist boat maker constructing river and canal boats. The primary rationale behind the acquisition was the potential synergies with First Leisure. First Leisure had experienced difficulties in obtaining and maintaining boats for its leisure parks and it was expected that Boatland would take on construction and maintenance of these boats. Cost savings for First Leisure were also expected and it was felt that income from the First Leisure contract would also allow Boatland to expand its production of boats for other customers. MMI perceived that Boatland was underperforming and it replaced the current management team with its own managers.
However, by 2008 Boatland was reporting poorer results (see table 1). The work force had been used to producing expensive, high quality boats to discerning customers who looked after their valued boats. In contrast, the boats required by First Leisure were for the casual use of holiday makers who often ill-treated them and certainly had no long-term investment in their ownership. Managers at First Leisure complained that the new boats were ‘too delicate’ for their intended purpose and unreliability had led to high maintenance costs. This increase in maintenance also put Boatland under strain and its other customers complained about poor quality workmanship and delays in completing work. These delays were compounded by managers at Boatland declaring First Leisure as a preferred customer, requiring that work for First Leisure should take precedence over that for established customers. Since the company was acquired almost half of the skilled boat builders employed by the company have left to take up jobs elsewhere in the industry.

Three months ago, InfoTech – an information technology solutions company approached MMI with a proposal for MMI to acquire them. The failure of certain contracts has led to falling revenues and profits and the company needs new investment. The Managing Director (MD) of InfoTech has proposed that MMI should acquire InfoTech for a nominal sum and then substantially invest in the company so that it can regain its previous profitability and revenue levels. However, after its experience with Boatland, the CEO of MMI is cautious about any further diversification of the group.

Table1: Financial and market data for selected companies (all figures in $millions)

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<tr>
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<tbody>
<tr>
<td>MMI Quarrying and Mining</td>
<td>1,680</td>
<td>1,675</td>
<td>1,250</td>
<td>1,275</td>
</tr>
<tr>
<td>Revenue</td>
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<td>2.40</td>
<td>2.40</td>
<td>2.30</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>0.30</td>
<td>0.50</td>
<td>0.50</td>
<td>0.60</td>
</tr>
<tr>
<td>Net Profit</td>
<td>0.09</td>
<td>0.25</td>
<td>0.30</td>
<td>0.30</td>
</tr>
</tbody>
</table>
*Estimated Market Revenue | 201 | 201 | 199 | 198
Revenue | 21 | 24 | 26 | 25
Gross Profit | 0.9 | 3 | 4 | 4
Net Profit | -0.2 | 2 | 3 | 3
*Estimated Market Revenue | 560 | 540 | 475 | 450

*The estimated size of the market (estimated market revenue) is taken from Slott’s Economic Yearbooks, 2002–2008.

Required:

a) In the context of MMI’s corporate-level strategy, explain the rationale for MMI acquiring First Leisure and Boatland and assess the subsequent performance of the two companies.

b) Assess the extent to which the proposed acquisition of InfoTech represents an appropriate addition to the MMI portfolio.

Answer:-

a) **First Leisure**

The initial motivation for the acquisition of First Leisure was the need to diversify out of a declining market place (falling 5% over the recorded period) into an expanding one (increasing over 25% in the recorded period). The cash generated by the quarrying company was used to purchase a profitable, well-run company in an expanding market. Diversification was a direct response to environmental changes. Increased costs and falling reserves meant that there was little chance of finding new sites in its core market. MMI initially played no managerial role in First Leisure, allowing the managers who had made it successful to continue running the company. However, buying a company concerned with leisure appeared to be an example of unrelated diversification and there were some negative comments about the financial wisdom of this acquisition.

After a period of consolidation, certain unexpected synergies emerged that had not been clear at the time of acquisition. These came from the conversion of disused or unprofitable quarry sites into leisure parks. This conversion was doubly advantageous. In the first instance it reduced the operating costs of MMI, allowing it to shed costs associated with running unprofitable mines and
maintaining security and safety at disused sites. Secondly, it allowed First Leisure to acquire sites relatively easily and cheaply in an environment where it was becoming more expensive and harder, because of planning restrictions, to purchase new sites. Johnson, Scholes and Whittington discuss the principles of economies of scope where an organisation has underutilized resources that it cannot effectively use or dispose of. It makes sense to switch these if possible to a new activity, in this instance leisure parks.

The turnover of First Leisure has doubled in six years. The figures summarised in table 1 suggest an expanding company in an expanding market and its market share continues to grow (up from 13% to 21% in the recorded period). Furthermore, gross profit margins have remained fairly constant but recent increases in the net profit margin suggests that costs appear to be under control, despite the recent issues concerning the supply of boats from Boatland. In corporate management terms MMI probably perceived that it would initially be playing a ‘portfolio management’ role at First Leisure. However, the discovery of unexpected synergies has led to it adopting (and perhaps claiming in hindsight) a synergy manager role. In terms of the BCG matrix, First Leisure exhibits all the characteristics of a star business unit and so it should be retained in the portfolio. It has a high market share in a growing market and increasing margins means that even if it has spent heavily to gain this share (and there is no direct evidence of this in the scenario), costs are now beginning to fall.

**Boatland**

The synergies that emerged from acquiring First Leisure appear to have been unexpected. However, the acquisition of Boatland in 2006 was largely justified on the grounds of synergy. Synergies were expected with First Leisure and with MMI itself. By this time the directors felt that they had built up significant managerial competencies that could be successfully applied to acquired companies. These managerial competencies could be used to drive extra value from underperforming companies and so deliver benefits to shareholders. In the case of Boatland the expected synergies with First Leisure were as follows:

- First Leisure had experienced difficulties in the supply and maintenance of boats for their leisure parks. Boatland seemed to offer a way out of this problem. First Leisure would become a preferred customer of Boatland, taking priority over other customers. MMI also perceived that cost savings could be found by bringing boat manufacture and maintenance into the
Group. In this instance, MMI was pursuing a policy of backward integration, producing one of the inputs into First Leisure’s current business activities.

- Secondly, Boatland itself appeared to be under valued. The management team appeared to lack ambition, focusing on producing a limited number of craft to high specification. It was felt that the production of boats for First Leisure would help the company expand, allowing it to increase market share partly based on guaranteed orders from First Leisure.

In this instance MMI probably thought of itself as a synergy manager, helping Boatland develop strategic capabilities and exploiting synergies with both MMI and First Leisure. However, the acquisition has not brought the expected benefits. The boats provided for First Leisure have not been appropriately constructed for their purpose and, paradoxically, because of the way they are misused by holiday makers, maintenance costs and ‘downtime’ has increased. Furthermore, the status of First Leisure as a preferred customer has led to delays in boat manufacture and maintenance for established customers. Orders have fallen and so has the reputation of the company. This is reflected in the data provided in table 1. Revenue and market share has fallen in a static market place. More worrying is the significant fall in gross and net profit margins. The net profit margin has fallen from 13.04% in 2002 to just 4.29% in 2008. Furthermore, difficulties also have been created for First Leisure, which are also disturbing its relationship with MMI. The problem at Boatland appears to be cultural and this is reflected not only on the results but in the loss of experienced boat building employees. When the company was bought it concentrated on building a small number of high quality boats to discerning customers who valued and cherished their boats. In contrast, First Leisure required a large number of simple, robust boats that could be used and abused by holiday makers. The products and markets are different and the perceived synergy was an illusion.

In BCG terms Boatland has a very small share of a static market. Although there is no evidence of it being a cash drain on MMI the conflict between the culture of Boatland and the cultures of MMI and First Leisure probably used up a disproportionate amount of company time and resources. In terms of the Ashridge Portfolio Display, Boatland appeared as a heartland business but it soon turned into a value trap business. It seems sensible to divest Boatland from the portfolio. However, the supply implications of this to First Leisure will have
to be investigated and so divestment may have to wait until First Leisure has built up a relationship with an alternative supplier.

b) Introduction
Since 2002 MMI have built up a small portfolio of businesses that reflect different strategic directions. It has consolidated in its own market by shedding unprofitable or closed quarries and purchasing smaller competitors. This is reflected in the data given in table 1. During a period when the marketplace has declined by 5%, MMI has increased its market share from 20% to 28%. Gross profitability has remained fairly steady during the period, but the net profit margin has increased significantly since 2004. The increase in market share is probably due to the acquisition, in 2004, of two smaller competitors. The increase in the net profit margin can largely be traced to the disposal of redundant and unprofitable quarries to First Leisure. MMI’s attempts at diversification have had mixed success. First Leisure, acquired in 2002, turned out to be an inspired acquisition as unexpected synergies emerged which assisted MMI’s profitability. However, the expected synergies from the Boatland purchase have not materialised and MMI appear to have destroyed rather than created value in this acquisition.

In 2004 MMI acquired two of its smaller competitors, bringing five further mines or quarries into the group. MMI introduced its own managers into these companies resulting in a spectacular rise in revenues and profits that caused the CEO of MMI to claim that corporate management capabilities were now an important asset of MMI. So there appears to be evidence that MMI management can successfully improve the performance of an acquisition. However, Boatland is in a significantly different industry to these earlier acquisitions. MMI managers are familiar with the management of mines and quarries and probably found that the employees of these companies shared the culture of an industry they were familiar with. In contrast, at Boatland the sought after synergy was with First Leisure, not MMI, and so the MMI managers entered an industry and an environment they were unfamiliar with. Evidence from the First Leisure and Boatland acquisitions suggests that MMI is more successful when it employs a ‘hands-off’ approach to managing acquisitions which are not directly related to its core mining and quarrying operations. The incumbent management team are left to get on with the job with minimal interference from MMI.
InfoTech
The current financial position of InfoTech suggests that its management team may not be able to deliver the turnaround required. Market share and gross and net profit margins have fallen over the recorded period. Revenues have decreased by 16% at InfoTech in a period where the size of the market has increased by almost 25%. If MMI acquires InfoTech then the preferred ‘hands-off’ approach will be very risky, particularly considering the financial investment the company requires. MMI appears to have two alternatives if it goes ahead with the acquisition. The first is to learn from its experience at Boatland and install managers who are more sensitive to the culture of the organisation and the industry as a whole. To do this, they will have to recognise that their perceived value adding managerial capabilities actually turned out to be value destroying at Boatland. MMI could recruit managers with established track records in the information technology industry. However, there is no evidence that MMI has successfully adopted this approach before.

The financial position alluded to above also needs to be considered. Boatland and First Leisure were both successful, profitable companies when they were acquired. In contrast, InfoTech is making a loss and appears to require investment which it has failed to secure in its own right. This is a controversial reason for acquisition and in this context MMI is playing the role of a portfolio manager, one it has never played for a failing company. In terms of the BCG matrix, InfoTech is a business unit in a growing market but with a low market share. It would be defined as a question mark or problem child.
Suitability is one of the three success criteria Johnson, Scholes and Whittington use to judge strategic options. An approach which evaluates whether the acquisition addresses the situation in which MMI and InfoTech are operating would be a perfectly valid approach to answering this question.

Question No 7:-
ASW is a software house which specialises in producing software packages for insurance companies. ASW has a basic software package for the insurance industry that can be used immediately out of the box. However, most customers wish ASW to tailor the package to reflect their own products and requirements. In a typical ASW project, ASW’s business analysts define the gap between the customer’s requirements and the basic package. These business analysts then specify the complete software requirement
in a system specification. This specification is used by its programmers to produce a customised version of the software. It is also used by the system testers at ASW to perform their system tests before releasing it to the customer for acceptance testing.

One of ASW’s new customers is CaetInsure. Initially CaetInsure sent ASW a set of requirements for their proposed new system. Business analysts from ASW then worked with CaetInsure staff to produce a full system specification for CaetInsure’s specific requirements. ASW do not begin any development until this system specification is signed off. After some delay (see below), the system specification was eventually signed off by CaetInsure.

Since sign-off, ASW developers have been working on tailoring the product to obtain an appropriate software solution. The project is currently at week 16 and the software is ready for system testing. The remaining activities in the project are shown in figure 1. This simple plan has been put together by the project manager. It also shows who has responsibility for undertaking the activities shown on the plan.

The problem that the project manager faces is that the plan now suggests that implementation (parallel running) cannot take place until part way through week 28. The original plan was for implementation in week 23. Three weeks of the delay were due to problems in signing off the system specification. Key CaetInsure employees were unavailable to make decisions about requirements, particularly in the re-insurance part of the system. Too many requirements in this module were either unclear or kept changing as users sought clarification from their managers. There have also been two further weeks of slippage since the sign-off of the system specification.

The CaetInsure contract had been won in the face of stiff competition. As part of securing the deal, the ASW sales account manager responsible for the CaetInsure contract agreed that penalty clauses could be inserted into the contract. The financial penalty for late delivery of the software increases with every week’s delay. CaetInsure had insisted on these clauses as they have tied the delivery of the software in with the launch of a new product. Although the delay in signing off the system specification was due to CaetInsure, the penalty clauses still remain in the contract. When the delay was discussed with the customer and ASW’s project manager, the sales account manager assured CaetInsure that the ‘time could be made up in programming’.
The initial planned delivery date (week 23) is now only seven weeks away. The project manager is now under intense pressure to come up with solutions which address the project slippage.

Required:

a) The project plan shows a number of planned activities. Explain how each of the following three activities contribute to the testing and quality of the software for CaetInsure:
   i. System testing;
   ii. Acceptance testing;
   iii. Data migration.

b) Evaluate the alternative strategies available to ASW’s project manager to address the slippage problem in the CaetInsure project.

c) As a result of your evaluation, recommend and justify your preferred solution to the slippage problem in the CaetInsure project.

Answer:

a)  
   i. **System Testing**
   The scenario mentions the system specification that has been signed off by CaetInsure. System testing is performed by ASW testers to ensure that the proposed software solution fulfils this specification. The aim is to verify that the system does what it was specified to do and to identify and remove most faults before it is released to the customer for acceptance testing. The key issue here is that system testing is performed by ASW testers and not employees of CaetInsure. Successful system testing relies on the accuracy and completeness of the specification as the software is tested against that specification.
   System testing may also include elements of usability and performance testing. Usability testing will focus on the clarity and consistency of the user interface as well as ensuring that the software complies with any standard user interface guidelines. Performance testing will attempt to verify that the system meets specified performance targets, such as a certain response time, when it is processing a specified number of transactions or being used simultaneously by a certain number of users. System testing is the last opportunity ASW gets to address product quality before the product is
released to the customer. Any faults in the software will subsequently be visible to end users whose confidence in ASW (and the software solution) will be influenced by its functionality, reliability and usability.

ii. Acceptance Testing
This activity will be undertaken by user acceptance testers at CaetInsure. The scenario mentions the requirements catalogue submitted by CaetInsure in the early stages of the project. User acceptance testers will test the delivered software to confirm that it meets these requirements. These testers will also be concerned about the usability of the software as well as how the software will fit in with the whole business process, including manual and clerical activities. Acceptance testers will evaluate the usability of the software from the perspective of the competence of the actual users of the software – the people who are going to use the system as part of their work. The key point here is that acceptance testers are employees of CaetInsure. If they believe that the system does not meet their functional requirements, then the reason for this has to be investigated. It is possible that the requirement was not defined in sufficient detail at the outset and so ASW’s interpretation of it may not be unreasonable. Whatever the reason for the problem, issues identified in acceptance testing can lead to delay in system implementation and much negotiation about responsibility for putting it right.

iii. Data Migration
Data migration concerns moving the data from the current system used by CaetInsure to the replacement ASW packaged solution. It can take place when user acceptance testing has accepted the delivered software. Once migration has taken place live transactions have to be put through the new system to ensure that it remains up-to-date. The project plan suggests that CaetInsure intend to parallel run their systems for a while. In parallel running, transactions are entered into both the current and the new system and checked against each other. Any discrepancies are investigated. To ensure the validity of comparisons all transactions must be entered into the new system as soon as data migration is complete. This means urgently checking the success of the data migration through statically inspecting the data held in the files of the new system. There are a number of automated tools that can assist in this file comparison. ASW employees will undertake
the testing of migration programs with the actual data migration performed by CaetInsure IT staff.

Data migration is also important because it is a critical point for considering the quality of data being moved from the current system. Some of the data held in the current system may be inaccurate, incomplete or out of date. Data migration provides an opportunity for cleansing this data and so improving the overall quality of information held in the computer system.

b) The project manager could request an extension to the deadline

The case study scenario suggests that early delays in the project were caused by the absence of key CaetInsure staff and changes in user requirements in the reinsurance module. These delays meant that the full system specification was signed off three weeks later than initially agreed. Unfortunately, the delivery date of the whole project was not re-negotiated at this point as it was suggested that ‘time could be made up’ during the programming stage. Furthermore, the marketing department of CaetInsure had already announced the launch of a new product to coincide with the implementation of the software and they did not want to change these dates. However, the project manager could now return to CaetInsure and inform them that it had not been possible to catch up with the proposed schedule and to remind them that the initial slippage had been caused by them. Although the deadline date is associated with a product launch it is unlikely that this is crucial. It is not a matter of life and death. It might be irksome to delay the launch by a few weeks, but it is unlikely that many people will notice or indeed care about it. There are many significant successful products which have been released long after their intended release date. In many ways it is an artificial deadline.

However, there are at least three problems associated with this suggestion. The first is that the delay is now longer than the three weeks incurred at the specification stage. Consequently, the project manager will have to explain that there have been further delays to the project. Secondly, the project manager will have to be very confident about his revised delivery date. The project plan does not explicitly contain any time for programmers fixing faults found in system and acceptance testing and it seems very likely that faults will be found in this testing. Finally, some negotiation will have to take place on the late delivery penalty clause charges the sales account manager agreed in the initial contract. If
some (or all) of these clauses are enacted then the profitability of the project will be significantly affected.

**The project manager could consider a functional reduction in the scope of the software solution.**

The scenario suggests that the re-insurance functionality has been a problem throughout the project. There may also be unresolved issues in other parts of the software. However, it must be remembered that the ASW product is a proven software solution, bespoke development is only concerned with customising the basic product to fulfil certain customer requirements. Therefore it is likely that there are large areas of the software that can be successfully delivered to the customer. The key issue here is whether this reduced functionality will fulfil the requirements associated with the proposed new product which CaetInsure intends to launch. If it does then the delivery of a partial solution does not have a significant business impact and the product launch can go ahead as planned. The project manager needs to discuss this with the customer as quickly as possible. He has to be sure that the reduced scope does indeed fulfil these requirements and, if it does, to focus testing, migration and document production on these parts of the software. He will also have to estimate the delivery time of the second phase of the software that fulfils the complete user requirement.

There are three elements of this suggestion that the project manager should bear in mind. Firstly, the impact of reduced scope on the penalty clauses of the contract. It would appear harsh to deliver a partial solution but to still be fully penalised for not delivering the total solution. Consequently some contract renegotiation is necessary. Secondly, there will be an unexpected overhead associated with delivering a second phase which contains the full product. This is the overhead of regression testing, making sure that changes made to the product in the second release do not unintentionally affect the software solution that has already been delivered. Finally, the specification of data migration programs will have to be reviewed to see if they need to be changed in the light of the reduced functionality. Any changes will affect data migration programs which are currently being written or tested.

**The project manager could consider taking steps which might reduce the quality of the product**

A number of options might be considered around the testing of the software. One option is to considerably reduce system testing and hand over the software
to acceptance testing ahead of the proposed schedule. The point has already been made that the software is essentially a package that has to be tailored for specific functions. Consequently, large areas of the software have been tested before, much of it by actual users out in the businesses that are using this solution. Programs for the CaetInsure version will have been unit tested by programmers before they have been released to system testers and so no area of the system is untested, although there will be areas that have not been independently tested. Another option is to reduce the scope of system testing, focusing it on testing functionality rather than usability (which will be one focus of acceptance testing) and performance (which can be difficult to perform effectively in a software house environment where the user’s actual hardware configuration cannot be easily mimicked). A further option is to execute system and acceptance testing in parallel.

There are a number of issues with this approach which the project manager needs to consider. The first is that the acceptance testers are likely to find significantly more faults than they would if full system testing had preceded acceptance testing. This can lead to a reduction in customer confidence which could jeopardise the whole project. Secondly, faults identified by both system and user acceptance testers have to be carefully managed. Configuration management becomes a very significant issue and appropriate version control of the software is an essential overhead. Confidence is undermined by the constant releases of new versions of the software, some of which, due to poor configuration management, contain faults which have already been reported and fixed in earlier versions of the software.

The project manager might consider requesting more resources

Finally the project manager may request further resources for the project. The current project plan is at a high level of detail. It does not show how many system testers are actually working on the system or how many technical authors are writing the documentation. It may be possible to add more resources and so reduce the elapsed time of the activity. Resources might also be asked to work smarter or work longer. For example, testing might be prioritised so that the most important areas of the software from the user’s perspective are tested first. It may also be possible to automate certain areas of testing or to outsource it to specialist testing companies. Programmers might be asked to focus more on
static testing (which is particularly effective at finding faults) and to work overtime to beat their deadlines.

However, the project manager must be aware that adding resources to a late running project often slows the project down as established members of the project team explain requirements, standards and procedures to any newcomers. A key factor here will be the precision of the requirements. If these are well specified then it should be possible to add testing staff reasonably effectively, or indeed to outsource testing to countries where it can be conducted relatively cheaply. It may also be possible to bring in technical authors and automated testing tools specialists who can speed up these activities. Programming is more of an issue. It will be very difficult to bring new programmers up to speed. However, it may be possible to transfer resources from other projects and to support the established programmers by providing appropriate hardware and software.

Finally, the addition of resources to the project will have an impact on project profitability. The project estimate will have assumed a certain commitment of resources. Adding resources will reduce the profit margin and indeed, in the extreme, may make the project itself unprofitable.

c) There is no correct answer for this part of the question. However, it is suggested that a combination of the above strategies would be appropriate. The deadline is not crucial in the wider scheme of things and there is no statutory requirement to deliver on time. However the deadline is significant to the customer and a failure to meet this deadline may cause internal problems and a ‘loss of face’. This is particularly significant in this context because ASW is an external supplier. It might have been easier to negotiate an extended deadline if the software were being supplied by an internal IT department. Hence, it might be suggested that, in these circumstances, the deadline should not be extended for an initial release. However, it may be possible to negotiate the scope of this release, making sure that the key functions are in place and tested when the software is delivered. The customer might accept this reduction in scope as recognition of the delays caused earlier in the project when, due to the absence of key personnel, the full system specification was signed off three weeks late.

It could be argued that the current tasks of ASW, system testing and writing the user manual, could be shortened by adding further resources to the project. Effective testing will depend upon the quality of the specifications but it may be
possible to add more resources and back this up with reduced test coverage. The amount of testing performed is driven by risk. There has to be a balance between the cost and time of more testing and the consequences of failure. Although the insurance system appears to be mission-critical to CaetInsure, there is a robust current system that could be reverted to during the planned parallel running. It would also appear that more resources could be added to writing the user manual. There is already slack between the scheduled completion of the user manual and its use in the training course.

ASW might also consider starting writing the data migration programs before week 22. It appears from the project plan that ASW are waiting for system testing to be complete before writing these programs. It may be possible to start beforehand, writing migration routines for the parts of the system that have already passed system testing.

The acceptance testing is outside the control of ASW. It is being performed by CaetInsure. However, again CaetInsure might consider reducing the time taken for acceptance testing by adding more resources to the task and by accepting a greater risk of failure during parallel running.

On balance, it might be suggested that further resources are quickly added to the project and that the test coverage is reduced. Hence the solution is largely concerned with adding resources and potentially reducing quality. If the customer is happy to slightly reduce the scope of the initial release to reflect past delays then this is a bonus. However, it is suggested that in this project the delivery date should remain fixed. Relaxing this is not an appropriate strategy in this instance.
Question No 8:-

Samsung offers warranties for electrical and electronic equipment to both business and household customers. For a fixed annual fee the company will provide a free fault diagnosis and repair service for equipment covered by the warranty. A warranty lasts for one year and customers are invited to renew their warranty one month before it expires. Samsung employs 340 full-time engineers around the country to undertake these repairs. It costs about $6,000 to train a newly recruited engineer.

When equipment breaks down the customer telephones a support help line number where their problem is dealt with by a customer support clerk. This clerk has access to the work schedules of the engineers and an appointment is made for a visit from an engineer at the earliest possible time convenient to the customer. When the engineer makes the visit, faults with equipment are diagnosed and are fixed free of charge under the terms of the warranty.

Samsung is extremely concerned about the relatively high labour turnover of its engineers and has commissioned a report to investigate the situation. Some of the findings of the report are summarised in the following table (table 1). It compares Samsung with two of its main competitors.

Table 1

<table>
<thead>
<tr>
<th>Company</th>
<th>Labour Turnover*</th>
<th>Average salary ($)</th>
<th>Profit Sharing Scheme</th>
<th>Average days holiday/year</th>
<th>Performance related pay</th>
<th>Average training spend per year per engineer ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung</td>
<td>12%</td>
<td>24,000</td>
<td>No</td>
<td>20</td>
<td>No</td>
<td>1,000</td>
</tr>
<tr>
<td>Safequipe</td>
<td>8%</td>
<td>23,000</td>
<td>Yes</td>
<td>23</td>
<td>Yes</td>
<td>1,500</td>
</tr>
<tr>
<td>Guarantor</td>
<td>7%</td>
<td>22,500</td>
<td>Yes</td>
<td>25</td>
<td>Yes</td>
<td>1,250</td>
</tr>
</tbody>
</table>

* Labour turnover is the number of engineers leaving in the last year as a percentage of the number of engineers employed at the beginning of the year.

An exit survey of engineers leaving the company recorded the following comments:

1. ‘There is no point in doing a good job, because you get paid no more than doing an ordinary one. Average work is tolerated here.’
2. ‘This is the first place I have worked where learning new skills is not encouraged. There is no incentive to improve yourself. The company seems to believe that
employees who gain new skills will inevitably leave, so they discourage learning.’
3. ‘The real problem is that the pay structure does not differentiate between good, average and poor performers. This is really de-motivating.’

The HR director of Samsung is anxious to address the high turnover issue and believes that quantitative measurement of employee performance is essential in a re-structured reward management scheme. He has suggested that the company should introduce two new performance related pay measures. The first is a team based bonus based on the average time it takes for the company to respond to a repair request. He proposes that this should be based on the time taken between the customer request for a repair being logged and the date of the engineer attending to fix the problem. He argues that customers value quick response times and so the shorter this time the greater the bonus should be for the whole team.

In addition, he proposes an individual bonus. This will be based on the average time taken for an engineer to fix a reported fault once they have arrived. This is the average time taken for the engineer to repair the fault from the start time of the job to its completion. He argues that the company values quick repair time as this increases business efficiency and so the quicker the fix the greater the bonus should be for the individual.

**Required:**

a) **Assess the deficiencies of Samsung’s current rewards management scheme.**

b) **Analyse the limitations of the proposed performance measures suggested by the HR director.**

**Answer:-**

a) High labour turnover is not always a problem for an organisation. Some companies, particularly those pursuing a strategy of cost leadership, can tolerate low commitment and high turnover, employing unskilled workers who are easy to recruit and train. However, this is not the case at Samsung where the engineers play a key role. The high turnover of engineers is of particular concern for two reasons.

- The scenario suggests that the company have two primary sets of customer-facing employees. The customer support clerks, who record and schedule
repairs, and the engineers who actually fix the faults. Of these, only the engineers meet the customers face-to-face. Hence the motivation of the engineers, their commitment to the company and their proficiency in undertaking the repair is vital to Samsung. Their behaviour will affect how the customer perceives the company and also the probability of them renewing their warranty agreement. High labour turnover in such a key customer-facing job is a major issue.

- The cost of training engineers is significant. The case study suggests that it costs the company approximately $6,000 to train an engineer when they join the company. Table 1 shows that Samsung spends an average of $1,000 per year in keeping each engineer up-to-date with new products and product changes. Although this figure is lower than its competitors, it is still a significant investment compared with other industries. The training costs are additional to other recruitment costs incurred by the company. These costs would include advertising the posts and the cost of organizing and conducting job interviews.

Hence the high turnover of engineers is a significant problem to Samsung.

Table 1 is primarily concerned with the reward options offered by Samsung and two of its competitors. Reward options usually contain three elements – base pay, performance pay and indirect pay. Organisations have to decide how each of these three components should be balanced in the reward mix. Samsung have taken an approach which stresses base pay and pays little attention to performance and indirect pay. Although their annual average pay is greater than their competitors, engineers cannot gain extra pay to reflect work-related performance. Samsung’s approach fails to recognise that many organisations (including two of its competitors) now reward their employees with a level of pay dependent upon an individual’s performance. Performance related pay ties additional payments directly to the performance of the task. This may be at an individual or team level or both. Both of Samsung’s competitors offer this. Its absence was recognised by two engineers in the exit survey;

- ‘There is no point in doing a good job, because you get paid no more than doing an ordinary one. Average work is tolerated here.’
- ‘The real problem is that the pay structure does not differentiate between good, average and poor performers. This is really de-motivating.’
This absence of performance related pay has also been recognised by the HR director who has proposed two performance related pay measures (one individual and one team-based). Performance related pay may also be distributed organisationwide. Additional income can be given to employees to reflect the size, growth or profitability of the firm. Table 1 again suggests that Samsung is not competitive in this area, with both Safequipe and Guarantor offering profit-sharing schemes.

Indirect pay (or employee benefits) is the part of the reward management package provided to employees in addition to base and performance pay. Health and life insurance, pension plans, company cars and social club membership are all examples of indirect pay. Table 1 includes two measures that might be relevant here; days holiday and expenditure on training. Again Samsung performs less well than its competitors. A failure to invest in employees is likely to contribute to poor performance and high labour turnover. It appears that the company sees training as a cost rather than as an investment and employees’ knowledge as a threat rather than an opportunity. Human Resource Development perceives that an organisation’s investment in the learning of its people ‘acts as a powerful signal of its intentions’ (Bratton and Gold). That the company is sending out the wrong signal is suggested by a further quote from the exit survey.

- ‘This is the first place I have worked where learning new skills in not encouraged. There is no incentive to improve yourself. The company seems to believe that employees who gain new skills will inevitably leave, so they discourage learning.’

Samsung needs to revisit its reward mix. High labour turnover and the comments of the exit survey suggest that annual salary is not the prime determinant of satisfaction.

b) In performance related pay, income is tied to the level of ability and output. Advocates of this approach suggest that a job’s performance measures demonstrate to the employee what the employer considers to be the key tasks they want employees to perform. Measures also suggest what level of performance is expected in those key tasks. However, for these measures to be successful, the employee has to perceive that the measures are both relevant and
achievable. There are at least two significant issues here (both of which appear in the performance measures suggested by the HR director).
- Firstly, that the parameters that underpin the measure are under the control of the employee who is attempting to achieve a defined performance. There is little point in setting targets that are outside the scope of the employee’s influence.
- Secondly, that the measures that relate to the employee are not at odds with the measures applicable to the whole organisation. So employees are not encouraged to work in a way that maximises their income but which reduces the performance or profitability of the organisation as a whole.

The HR director at Samsung has proposed two performance measures. The first is a team-based bonus based on an average time it takes for the company to respond to a repair request. He proposes that this should be based on the time taken between the customer request for a repair being logged and the date of the engineer attending to fix the problem. He argues that customers value quick response times and so the shorter this time the greater the bonus should be. Although quick response to a customer request for a repair is important, the potential problem with this measure is that it is influenced by parameters largely outside the influence of the team. Firstly, it depends upon the availability of an engineer and this availability is largely determined by how many engineers the company decides to employ. Secondly, the scenario makes it clear that the visit is scheduled ‘at the earliest possible time convenient to the customer’. This may be some considerable time in the future, particularly for householders who have to make arrangements to stay at home to allow the engineer access to the equipment they are repairing. To make this a legitimate performance measure the lead time to repair has to be in the hands of the team, which it clearly is not.

In addition, the HR director proposes an individual bonus. This will be based on the average time taken for an engineer to fix a reported fault once they have arrived. This is the average time taken for the engineer to repair the fault from the start time of the job to its completion. He argues that the company values quick response time as this increases efficiency and so the quicker the fix the greater the bonus.

At least this measure is partly in the hands of the repairer. However, there are at least three problems with this measure;
- The length of the repair is likely to depend upon the complexity of the problem and the design of the equipment being repaired. The measure would penalise engineers working on complicated problems on complex equipment.

- The length of the repair may influence the quality of the repair. There might be a temptation to perform a relatively quick fix, with a high probability of a future failure. Indeed the measure might encourage engineers to maximise their income by performing a number of quick repairs that do not address the underlying problem. The effect of this on Samsung could be potentially disastrous. Their current business model depends upon the company minimising calls and repairs during the warranty period. In contrast, the performance measure might lead to more calls, increasing the pay of the engineer but undermining the profitability of the company.

- There could be problems with engineers reliably reporting the correct start and end time of a job. The engineer may be tempted to falsify these times, reducing job time but perhaps increasing the time apparently spent in travelling and performing administration.

**Question No 9:-**

**Introduction**

The Country Car Club (3C) was established fifty years ago to offer breakdown assistance to motorists. In return for an annual membership fee, members of 3C are able to phone for immediate assistance if their vehicle breaks down anywhere in the country. Assistance is provided by ‘service patrol engineers’ who are located throughout the country and who are specialists in vehicle repair and maintenance. If they cannot fix the problem immediately then the vehicle (and its occupants) are transported by a 3C recovery vehicle back to the member’s home address free of charge.

Over the last fifteen years 3C has rapidly expanded its services. It now offers vehicle insurance, vehicle history checks (to check for previous accident damage or theft) as well as offering a comprehensive advice centre where trained staff answer a wide range of vehicle-related queries. It also provides route maps, endorses hotels by giving them a 3C starred rating and lobbies the government on issues such as taxation, vehicle emissions and toll road charging. All of these services are provided by permanent 3C employees and all growth has been organic culminating in a listing on the country’s stock exchange three years ago.
However, since its stock market listing, the company has posted disappointing results and a falling share price has spurred managers to review internal processes and functions. A Business Architecture Committee (BAC) made up of senior managers has been charged with reviewing the scope of the company’s business activities. It has been asked to examine the importance of certain activities and to make recommendations on the sourcing of these activities (in-house or outsourced). The BAC has also been asked to identify technological implications or opportunities for the activities that they recommend should remain in-house.

First review

The BAC’s first review included an assessment of the supply and maintenance of 3C’s company vehicles. 3C has traditionally purchased its own fleet of vehicles and maintained them in a central garage. When a vehicle needed servicing or maintenance it was returned to this central garage. Last year, 3C had seven hundred vehicles (breakdown recovery vehicles, service patrol engineer vans, company cars for senior staff etc) all maintained by thirty staff permanently employed in this garage. A further three permanent employees were employed at the garage site with responsibility for the purchasing and disposal of vehicles. The garage was in a residential area of a major town, with major parking problems and no room for expansion.

The BAC concluded that the garage was of low strategic importance to the company and, although most of the processes it involved were straightforward, its remoteness from the home base of some vehicles made undertaking such processes unnecessarily complicated. Consequently, it recommended outsourcing vehicle acquisition, disposal and maintenance to a specialist company. Two months ago 3C’s existing vehicle fleet was acquired by AutoDirect, a company with service and repair centres nationwide, which currently supplies 45,000 vehicles to companies throughout the country. It now leases vehicles back to 3C for a monthly payment. In the next ten years (the duration of the contract) all vehicles will be leased from AutoDirect on a full maintenance basis that includes the replacement of tyres and exhausts. 3C’s garage is now surplus to requirements and all the employees that worked there have been made redundant, except for one employee who has been retained to manage the relationship with AutoDirect.
Second review

The BAC has now been asked to look at the following activities and their supporting processes. All of these are currently performed in-house by permanent 3C employees.

- Attendance of repair staff at breakdowns – currently undertaken by permanent ‘service patrol engineers’ employed at locations throughout the country from where they attend local breakdowns.
- Membership renewal – members must renew every year. Currently renewals are sent out by staff using a bespoke computer system. Receipts are processed when members confirm that they will be renewing for a further year.
- Vehicle insurance services providing accident insurance which every motorist legally requires.
- Membership queries handled by a call-centre. Members can use the service for a wide range of vehicle-related problems and issues.
- Vehicle history checks. These are primarily used to provide ‘peace of mind’ to a potential purchaser of a vehicle. The vehicle is checked to see if it has ever been in an accident or if it has been stolen. The check also makes sure that the car is not currently part of a loan agreement.

Required:

a) The Business Architecture Committee (BAC) has been asked to make recommendations on the sourcing of activities (in-house or outsourced). The BAC has also been asked to identify technological implications or opportunities for the activities that they recommend should remain in-house.

Suggest and justify recommendations to the BAC for each of the following major process areas:

i. Attendance of repair staff at breakdowns;
ii. Membership renewal;
iii. Vehicle insurance services;
iv. Membership queries; and
v. Vehicle history checks.

b) Analyse the advantages that 3C will gain from the decision to outsource the purchase and maintenance of their own vehicles.
Answer:-

a) Although the question does not explicitly ask for it, the process-strategy matrix suggested by Paul Harmon would provide an appropriate context for the answer to this question.

However, other appropriate models or frameworks could be used by candidates to answer this part of the question.

The process-strategy matrix has two axes. The vertical axis is concerned with process complexity and dynamics. At the base of the vertical axis are simple processes often with simple procedures while at the top are complex processes which may require negotiation, discussion and complicated design. On the horizontal axis is the strategic value of these processes. Their importance increases from left to right with low value processes concerned with things that must be done but which add little value to products or services. On the extreme right of this axis are high value processes which are very important to success and add significant value to goods and services. From these two axes, Harmon categorises four quadrants and makes suggestions about how processes should be tackled in each quadrant.

Low strategic importance, low process complexity and dynamics
This quadrant contains relatively straightforward stable processes which add little business value. They are processes that must be carried out by the company but add nothing to the company’s value proposition. These processes need to be automated in the most efficient way possible. They are often called ‘commodity processes’ and are suitable for standard software package solutions or outsourcing to organisations that specialise in that area. Payroll is a good
example of this. Many standard software packages are available in the market place. Alternatively, a computer bureau can be used to process the payroll on behalf of the organisation.

Low strategic importance, high process complexity and dynamics
This quadrant is for relatively complex processes that need to be done but do not add significant value to the company’s products or services. They are not at the heart of the company’s core competencies. Harmon suggests that these should be outsourced to organisations which have them as their core business.

High strategic importance, low process complexity and dynamics
These processes lie in the lower right quadrant of the model. They tend to be relatively straightforward processes which, nevertheless, have a significant role in the organisation’s activities. They are central to what the business does. The aim is to automate these, if possible, to gain cost reduction and improve quality and efficiency.

High strategic importance, high process complexity and dynamics
Finally, in the top right hand quadrant are high value, complex processes which often include human judgement and expertise and are often very difficult to automate. Harmon suggests that these might be the focus of major process redesign initiatives focusing on business process improvement through the improved performance of the people undertaking those processes.

In the context of 3C, the following recommendations are suggested. Clearly these are value judgements and credit will be given for coherently argued answers which do not match the examiner’s conclusions.

i. Attendance at breakdowns
This appears to be of high strategic importance and, although some breakdowns are bound to be simple to fix, it requires the repairer to be knowledgeable, flexible and diplomatic. Consequently, it appears to be a candidate for the upper right quadrant of the process-strategy matrix. Hence it is suggested that the service should remain in-house and attention should be paid to improving the competency of the ‘service patrol engineers’. Information technology should be harnessed to seek improvements in response time to breakdowns by improving the
organisation and distribution of these engineers. Systems might also be developed to technically support engineers and to help them diagnose and fix roadside problems.

ii. Membership renewal
This should be a relatively straightforward process, so it sits in one of the two lower quadrants. It can be argued that it is a process that is core to the business and is not one (like payroll) which can be found across all businesses. It appears to be a candidate for the lower right quadrant. Hence it is a candidate for automation to gain efficiency. The organization already has a bespoke system operated by in-house permanent employees. This seems an appropriate way of delivering this process. However, it might benefit from revisiting the way the bespoke system works. The scenario suggests that the current system sends out membership renewals on receipt of a confirmation from the member. The system might benefit from being built around a presumption of renewal, so that the member only contacts the organisation if he or she does not wish to renew.

iii. Vehicle insurance services
These appear to be a relatively complex process which is of little strategic importance to 3C. It appears to inhabit the top left hand quadrant of the matrix. Insurance is not only technically complex, it carries large risks and substantial regulatory requirements. It is likely that these regulatory requirements will undergo frequent changes. It would appear attractive to 3C to outsource this service to a specialist provider who would then badge it under 3C’s name. This is relatively common practice and 3C’s venture into insurance must have been very expensive. Outsourcing provides it with opportunities for providing a wider service with reduced in-house costs.

iv. Membership queries
Membership queries are of unpredictable complexity. They are also an important contact point between the company and their members. Failure to handle queries courteously and correctly could have important consequences for membership renewal. It is suggested that this is an upper right hand quadrant process – potentially complex and of high
strategic importance to the company. Investment is required in people supported by innovative and speedy IT systems that allow the 3C staff to respond quickly and accurately to a wide range of questions. It is suggested that membership queries continue to remain in-house although the physical location of the call centre might reflect certain financial opportunities – such as low property rents and cheaper labour.

v. Vehicle history checks
Vehicle history checks appear to be of relatively low strategic importance to 3C. Automation should make such checks relatively straightforward, although the combination of accident damage, stolen vehicles, finance agreements and time when the vehicle was voluntarily taken off the road may make determining this history more complex then it first appears. Furthermore, the consequences of providing inaccurate or incomplete information may be quite severe. Someone who has unsuspectingly purchased a car which has been damaged and repaired might claim for damages against 3C when this was revealed. These damages might be extensive if someone died in the vehicle as a result of a botched repair. Consequently it is suggested that this is predominantly an upper left hand quadrant process which should be outsourced to an organisation which is already in this field.

Table 2.1 summarises the advice to the BAC

| Table 2.1 |
|-----------------|-------------------------------------------------|
| Attendance at repairs | Remains in-house. Improve competency of repair staff. Support them with IT systems |
| Membership renewal | Remains in-house and revisit basis of automation |
| Vehicle insurance | Outsource |
| Membership queries | Remains in-house. Improve competency of call centre staff. Support them with IT systems |
| Vehicle history | Outsource |

b) In the question scenario the decision to outsource the purchase and maintenance of 3C vehicles is justified by its low strategic importance and its low to medium complexity. However, this only makes it a candidate for outsourcing and so tangible and intangible benefits would have to be attached to this suggestion in a subsequent detailed analysis. This part of the question asks candidates to analyse
the advantages of outsourcing the process of the purchase and maintenance of 3C vehicles. It is suggested that advantages would include:

**Purchasing benefits from economies of scale**
AutoDirect purchase thousands of cars and vans for their customers each year. They should be able to negotiate substantial discounts from manufacturers, some of which can be passed on to their customers.

**Predictable costs**
The vehicle lease payments with AutoDirect are monthly and they include full maintenance of the car, including tyres and exhausts. Hence 3C will have predictable costs for budgeting purposes. Previously, costs would have been variable and unpredictable, depending upon the reliability of the vehicles.

**Reduced overhead costs – garage and purchasing**
The overhead costs associated with the garage and the garage and purchasing employees have been lost (except for the one manager retained to manage the contract with AutoDirect). There may also be an opportunity for realising income from the sale of the garage site. It is described as being in a residential area with no room for expansion and severe parking congestion. It may be possible to sell the garage for residential development.

**Higher vehicle availability**
The central garage itself is a bottleneck. Vehicles have to be driven or transported to this garage from all parts of the country and left there while they are serviced or repaired. They then have to be driven back to their operational area. AutoDirect has repair and servicing centres throughout the country and so it will be possible for vehicles to be taken locally for services and repairs – thus reducing vehicle downtime.

**Freeing cash to use for other investments – from purchase to lease**
The policy of purchasing vehicles meant that a considerable amount of cash has been tied up in fast depreciating assets. Switching to leasing will release this cash for investment elsewhere in the company.

**Access to expertise and legislation**
It is likely that vehicles will become increasingly subject to legislation designed to reduce carbon emissions. This, together with the increasing technical
complexity of vehicles, will mean that vehicles will become increasingly difficult to maintain without specialist monitoring and repair equipment. It is unlikely that 3C can maintain such a level of investment and so outsourcing to a specialist makes good sense. AutoDirect will have to monitor legislation, advise on its implications and implement its requirements for its large customer base.

Concentration on core business
Although this issue is not explicitly considered in the scenario it is something that impacts on all organisations. The management of the garage does not appear to be a core strategic requirement. It must consume some elements of senior management time. Outsourcing frees up that time so it can be used to focus on issues directly relevant to the customer and the business as a whole.

Question No 10:-

Introduction

The Accounting Education Consortium (AEC) offers professional accountancy education and training courses. It currently runs classroom-based training courses preparing candidates for professional examinations in eight worldwide centres. Three of these centres are also used for delivering continuing professional development (CPD) courses to qualified accountants. However, only about 30% of the advertised CPD courses and seminars actually run. The rest are cancelled through not having enough participants to make them economically viable.

AEC has developed a comprehensive set of course manuals to support the preparation of its candidates for professional examinations. There is a course manual for every examination paper in the professional examination scheme. As well as being used on its classroom-based courses, these course manuals are also available for purchase over the Internet. The complete set of manuals for a professional examinations scheme costs $180.00 and the web site has a secure payment facility which allows this to be paid by credit card. Once purchased, the manuals may be downloaded or they may be sent on a CD to the home address of the purchaser. It is only possible to purchase the complete set of manuals for the scheme, not individual manuals for particular examinations. To help the student decide if he or she wishes to buy the complete manual set, the web site has extracts from a sample course manual. This sample may be accessed, viewed and
printed once a student has registered their email address, name and address on the web site.

AEC has recently won a contract to supply professional accountancy training to a global accounting company. All students working for this company will now be trained by AEC at one of its worldwide centres.

**Web site**

The AEC web site has the following functionality:

*Who we are:* A short description of the company and its products and services.

*Professional education courses:* Course dates, locations and standard fees for professional examination courses. This schedule of courses is printable.

*Continuing professional development:* Course dates, locations and standard fees for CPD courses and seminars. This schedule is also printable.

*CPD catalogue:* Detailed course and seminar descriptions for CPD courses and seminars.

*Downloadable study material:* Extracts from a sample course manual. Visitors to the site wishing to access this material must register their email address, name and address. 5,500 people registered last year to download study material.

*Purchase study material:* Secure purchase of a complete manual set for the professional scheme. Payment is by credit card. On completion of successful payment, the visitor is able to download the manuals or to request them to be shipped to a certain address on a CD. At present, 10% of the people who view downloadable study material proceed to purchase.

*Who to contact:* Who to contact for booking professional training courses or CPD courses and seminars. It provides the name, email address, fax number, telephone number and address of a contact at each of the eight worldwide centres.

**Marketing strategy**

The marketing manager of AEC has traditionally used magazines, newspapers and direct mail to promote its courses and products. Direct mail is primarily used for sending printed course catalogues to potential customers for CPD courses and seminars. However, she is now keen to develop the potential of the Internet and to
increase investment in this medium at the expense of the traditional marketing media. Table 1 shows the percentage allocation of her budget for 2008, compared with 2007. The actual budget has only been increased by 3% in 2008.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Direct mail</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Internet</td>
<td>50%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Required:

a) Explain, in the context of AEC, how the marketing characteristics of electronic media (such as the Internet) differ from those of traditional marketing media such as advertising and direct mail.

b) Evaluate how the marketing manager might use electronic marketing (including the Internet) to vary the marketing mix at AEC.

Answer:-

a) A key characteristic of traditional marketing media such as advertising and direct mail is that it is predominantly a ‘push’ technology where the media is distributed to customers and potential customers. There is limited interaction with the customer and indeed, in the case of advertising and to a lesser degree direct mail, there is no certainty that the intended recipient actually received the message. In contrast, the new media, particularly the Internet, is predominantly a ‘pull’ technology – the customer having initiated the visit to the web site. This may lead to subsequent push activities, such as sending e-mails to people who have registered their interest on the site, but the initial communication is a pull event. The marketing manager must be careful that, by switching so much of her budget to pull technologies, she does not forego opportunities to find new customers – or reinforce her message – through established push technologies. She must ensure that the company’s web site is established in such a way that sufficient people find it, and that when they do, they are prepared to record enough details to allow subsequent push activities.
Dave Chaffey examines the difference between traditional and new marketing media in the context of six ‘I’s; interactivity, intelligence, individualisation, integration, industry restructuring and independence of location. Four of these are used in this answer.

**Interactivity** is a significant feature of the new media, allowing a long-term dialogue to develop between the customer and the supplier. In the context of the web site, this is likely to be through e-mails, providing the customer with information and special offers for their areas of specific interest. To initiate this dialogue the web site must capture information such as e-mail address, name, age, gender and areas of interest. The AEC site only collects such information for people who wish to view downloadable study material. This is too restrictive and it will probably exclude all the potential CPD customers. AEC needs to consider ways of making it easier and worthwhile for visitors to the site to register their details. There is no evidence of AEC contemplating the potential use of interactive digital TV or mobile phones to establish long-term dialogues with their customers.

**Intelligence** has also been a key feature of the new media – allowing the relatively cheap collection of marketing research data about customers’ requirements. This is routinely available from web logs and these logs need to be viewed and analysed using appropriate software. This type of analysis is rarely available in the traditional media. For example, AEC does not know how often their training course catalogue is accessed and which pages are looked at. It only knows which training courses are eventually bought. With the new media the company is able to see which services and products are accessed and also to measure how many of these are turned into actual sales. This conversion rate may be an important source of information – for example, why are certain web pages often visited but few sales result – is it a problem with the web page? – is it a problem with the product? An understanding of visit patterns allows the organisation to focus on particular products and services. This analysis should already be available to AEC but there is no evidence that it uses it or is even aware of it.

The new media also permit the marketing to be individualised, geared to a particular market segment, company or individual person. In the context of AEC this individualisation could be achieved in at least two ways to reflect clear market segmentation. AEC has recently won a contract to supply professional
accountancy training to a global accounting company. All students working for this company will now be trained by AEC in one of its worldwide centres. At present this company and its students will be served through a generic web site. However, the flexibility of the new media means that a site could be developed specifically for this requirement. The whole site would be geared, and branded, towards the requirements of the global accounting company. Information that is irrelevant to that customer, such as CPD, would not appear on the site. This individualised approach should strengthen the relationship with the customer. Similarly, individuals may have their own access customised as a result of the profile that they have entered. So, for example, if they have already stated that they are currently sitting the professional stage of an examination scheme then only information relevant to that stage will be presented to them when they log in. This is an example of the principle of mass customisation that was only available in a limited form in the traditional media. AEC does not exploit this at present, but uses a generic web site that looks and feels the same, whoever the user is.

Finally, the new media provide independence of location allowing the company to move into geographical areas that would have been unreachable before. The Internet effectively provides a world wide market that is open 24 hours per day, seven days per week. It is difficult to think of any traditional media which would have permitted this global reach so cheaply. Furthermore, the web site might also omit the actual physical location of the company because there is no requirement for information to be physically sent to an address. It should also be impossible for the potential customer to gauge the size of the supplying company. AEC has exploited this to some extent as it serves a world-wide market from no clear geographical centre. However, the absence of on-line course booking means that certain physical contact details have to be provided and these might undermine the global perspective.

b) The marketing mix has traditionally consisted of four major components: product, place (distribution), promotion and price. More recently, three further elements have been added, particularly for the marketing of services – people, process and physical evidence. Some authors, however, contend that these new elements are really only sub-sets of the original four components.
In the context of this question, the Ps, whether there are 4 or 7, provide a good framework for the answer, although such a framework is not mandated. The model answer below actually uses ‘5Ps’, relating them to both technology and the situation at AEC.

**Product**
The product is a fundamental element of the marketing mix. If the product is not ‘right’ it is unlikely that the marketers will be able to persuade customers to buy the product or, if they do buy it, to convince them to become repeat buyers. In the context of the new technology, an organisation may seek opportunities for developing the product or service. These opportunities emerge from reconsidering the core product or identifying options for extending it.

In the context of AEC the consideration of the product is complicated by there being at least three products promoted on their web site; training courses and training manuals for students studying for professional qualifications and training courses for qualified accountants undertaking continuing professional development (CPD). The course training manual is a tangible physical product that can be handled before purchase. Potential customers can try before they buy because a sub-section of a manual is available for inspection. This is an admirable policy. Potential customers do not have to believe that the manuals are comprehensive and well-written, they can make their own judgement based on a sample. In contrast, the training courses are services, bought on the promise of satisfaction.

AEC might profitably consider delivering elements of both student and CPD training courses through web casts and pod casts. Such courses might be fully on-line or the new technologies might be integrated with older ones, such as workshops and offline assignments, to provide a blended approach to learning. This may be particularly appropriate for student tuition where competence is assessed by a formal examination, not by attendance at a course. AEC is already distributing course catalogues and course schedules through the Internet. However, there is no physical evidence to support the customer’s evaluation of such courses. AEC might consider having sample videoed sessions available on the web so that prospective customers can assess the content and approach to training.
Although training documentation is currently available through the web site it could benefit from re-focusing. At present students pay a fixed fee which gives them access to the whole set of manuals. However, manuals for modules at the end of the scheme will only be relevant if the student passes the earlier modules. Lack of confidence may deter the student from committing to the whole manual set at the beginning of his or her studies. Similarly, candidates who become aware of AEC products only after they have passed the first few modules are unlikely to pay a fee for a manual set which includes manuals for modules that they have already passed or for which they are exempted. Consequently, it would appear more sensible to allow candidates to select the manuals they require and pay a fee per manual, with a discounted fee for buying the whole set.

AEC might also wish to consider product bundling where it offers further products and services to complement its core products. For example, travel booking, accommodation services and entertainment bookings might be offered to qualified accountants attending CPD courses. AEC is also in a market place where the product needs to be continually updated and developed to reflect changing or clarified requirements. For example, new training manuals may need releasing every year.

**Price**
The Internet has allowed pricing to be much more transparent to potential customers. They can easily visit the sites of competing companies and compare prices for similar products and services. Such accessibility may deter AEC from using the web site to offer differential pricing. The Internet makes products available world wide but candidates in poorer countries are often unable to afford prices set in richer parts of the world. Consequently, AEC should consider the potential of differential pricing, making prices reflect local currencies and conditions. There is a risk of alienating people in richer countries but it may be a risk worth taking and it is possible that candidates in these richer countries may perceive differential pricing as ethical practice. Web sites produced in national languages using domain names registered in that country might not be discovered or accessed by candidates in the developed world and so differential pricing is never uncovered. However, there is still a risk that customers buying at a lower price will then sell to buyers in the segments that are charged a higher price – so AEC will have to monitor this.
The ability to continually update information on the Internet makes the dynamic pricing of products and services attractive. It is extensively used by airlines (booking early attracts large discounts) and hotels (auctioning off rooms they cannot fill that night). It appears that AEC should also consider differential pricing, particularly using early booking discounts to get the CPD courses up and running. It may also be possible to provide cheap ‘late booking’ offers to fill the last few places on a course. However, there is the possibility that this will alienate people who have already booked and paid the standard fee. Hence, this will also have to be given more detailed consideration.

AEC might also wish to consider an alternative pricing structure for the documentation. At present manuals are purchased and this might still be the case if it adopts the more modular approach suggested in the previous section. However, there may be large areas of the manual that the student is familiar with. An alternative approach is to charge the student only when they access the material. Hence, students pay for a web service on demand – rather than through purchased download. This ‘on demand’ payment for actual use is becoming an increasingly popular model of delivering products.

Finally, because off-line booking incurs administrative costs and overheads it is usual to offer on-line customers a significant discount. Hence the pricing structure must recognise this. People booking through an on-line channel now expect to get a discounted price.

*Place*

It has been argued that the Internet has the greatest implications for place in the marketing mix because, as a distribution channel, it has a global reach, available 24 hours per day, seven days per week. AEC is already exploiting this global reach, although it has to ensure that its products make sense in a global perspective. The training manuals are easy to exploit globally as they are downloaded products which can be printed off throughout the world. The dates and locations of training courses, in their current format, is also globally accessible but is only really relevant to people living in the geographical regions near to the eight training centres. This is particularly true of CPD courses which are only run in three centres worldwide. The global reach of the Internet can only be exploited in the context of the courses if they use the technology
discussed in the *product* section of this answer, perhaps exploiting the price differentials discussed in the previous section.

**Promotion**

Although AEC has an established web site it has not actively promoted it. The promotion of the web site may involve both technology and established marketing media. From the technology perspective, AEC might consider the following to increase its web site visibility.

1. Search Engine registration. This remains the primary method of users finding products and services. Over 80% of web users state that they use search engines to find information. There are five main parameters on which search engines base the order of their ranking.
   - Title – keywords in the title of a web page
   - Meta tags
   - Frequency of keyword in the text
   - Hidden graphic text
   - Links from other sites

   AEC must ensure that their web site is constructed in such a way that it has a good chance of appearing on the first page of search engine listings.

2. Building links with other web sites should increase traffic to the site as well as improving search engine ranking. The current AEC site does not appear to link (or be linked) to any other sites.

3. Viral marketing is the term used when e-mail is used to transmit a promotional message to another potential customer. It enables a customer browsing the site to forward a page to a colleague. There is no evidence that the AEC site supports this.

4. On-line advertising includes banner advertising. As well as potentially driving customers to the site, the banner advert also builds brand awareness and reminds the customer about the company and its services. AEC must consider this.
Off-line marketing should also be concerned with promoting the web site in established media such as print, TV and radio. Key issues to communicate are the URL and the online value proposition. It may also be used for special sales promotions and offers to attract visitors to the site. 50% of the marketing manager’s budget is being spent on off-line marketing media. She must consider how to integrate the web site into this part of the promotional mix.

Process
This concerns the processes used to support the customer’s interaction with AEC. At present the training course part of the web site is predominantly an information site. It provides information about the product and the location and cost of the product. However, it is not used for either purchase or post-sales support. Hence if a student or a qualified accountant wishes to book on a course they have to physically contact a person who then takes booking and payment details. There is no evidence that post-sales support such as sending joining instructions, answering queries and receiving course feedback is supported by the web site. It would be useful for AEC to consider whether training purchase and post-sales processes could be integrated into its web site. After all, a payment process has already been set up for the training manual part of the site. The automation of routine processes and answers to common questions might help free up the company’s administrative resources as well as providing a better service to customers and exploiting the Internet’s independence of location.

Question No 11:-

Introduction
Retail pharmacies supply branded medicinal products, such as headache and cold remedies, as well as medicines prescribed by doctors. Customers expect both types of product to be immediately available and so this demands efficient purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy. The retail pharmacy industry is increasingly purchasing and stock control in each pharmacy.
Pharmacy Systems International (PSI)

Pharmacy Systems International (PSI) is a privately owned software company which has successfully developed and sold a specialised software package meeting the specific needs of retail pharmacies. PSI’s stated objective is to be a ‘highly skilled professional company providing quality software services to the retail pharmacy industry’. Over the last three years PSI has experienced gradual growth in turnover, profitability and market share (see Figure 1).

Figure 1: PSI Financial information

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover ($000)</td>
<td>11,700</td>
<td>10,760</td>
<td>10,350</td>
</tr>
<tr>
<td>Profits ($000)</td>
<td>975</td>
<td>945</td>
<td>875</td>
</tr>
<tr>
<td>Estimated market share</td>
<td>26%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>120</td>
<td>117</td>
<td>115</td>
</tr>
</tbody>
</table>

PSI has three directors, each of whom has a significant ownership stake in the business. The chief executive is a natural entrepreneur with a past record of identifying opportunities and taking the necessary risks to exploit them. In the last three years he has curbed his natural enthusiasm for growth as PSI has consolidated its position in the market place. However, he now feels the time is right to expand the business to a size and profitability that makes PSI an attractive acquisition target and enables the directors to realise their investment in the company. He has a natural ally in the sales and marketing director and both feel that PSI needs to find new national and international markets to fuel its growth. The software development director, however, does not share the chief executive’s enthusiasm for this expansion.

The chief executive has proposed that growth can best be achieved by developing a generic software package which can be used by the wider, general retail industry. His plan is for the company to take the current software package and take out any specific references to the pharmaceutical industry. This generic package could then be extended and configured for other retail sectors. The pharmaceutical package would be retained but it would be perceived and marketed as a specialised implementation of the new generic package.

This proposed change in strategic direction is strongly resisted by the software development director. He and his team of software developers are under constant
pressure to meet the demands of the existing retail pharmacy customers. On-line ordering of medicinal products and electronic dispatch of prescriptions are just two examples of the constant pressure PSI is under from their retail customers to continuously update its software package to enable the pharmacies to implement technical innovations that improve customer service.

Ideally, the software development director would like to acquire further resources to develop a more standardized software package for their current customers. He is particularly annoyed by PSI’s salesmen continually committing the company to producing a customized software solution for each customer and promising delivery dates that the software delivery team struggle to meet. Frequently, the software contains faults that require expensive and time consuming maintenance. Consequently, PSI is being increasingly criticized by customers. A recent user group conference expressed considerable dissatisfaction with the quality of the PSI package and doubted the company’s ability to meet the published deadline for a new release of the software.

**Required:**

**a)** The proposal to develop and sell a software package for the retail industry represents a major change in strategy for PSI.

*Analyse the nature, scope and type of this proposed strategic change for PSI.*

**b)** The success of any attempt at managing change will be dependent on the context in which that change takes place.

*Identify and analyse, using an appropriate model, the internal contextual features that could influence the success or failure of the chief executive’s proposed strategic change for PSI.*

**Answer:**

**a)** The proposal to develop and sell a software package for the general retail industry represents a major strategic decision for PSI. Up till now it has been relatively successful in identifying and servicing the software needs of a specialist niche market – the retail pharmacy market. In Michael Porter’s terms it is currently a focused differentiator. Its proposed entry into the general retail market represents both a new product and a new market and so, using the perspective of Ansoff’s growth matrix, it is a diversification strategy with high
levels of risk. The proposal would lead to significant strategic change and, perhaps not surprisingly, is meeting resistance from the software development director who is responsible for a key activity in this change.

Johnson, Scholes and Whittington (JSW) argue that there is a danger in believing that there is ‘only one way, or one best way, to change organisational strategies’. They believe that most strategies are profoundly influenced by earlier strategies and their success or failure. Consequently, strategies are often incremental in nature, adding to or adapting, previous or existing strategy. Rarely is the proposed change so fundamental that it challenges the existing business model and the processes and activities that support it.

JSW make use of a model developed by Balogun and Hope Hailey, which identifies four types of change which have very different degrees of impact. It is suggested that there are two key measures of change. Firstly, the nature of change – how big is it? Incremental or ‘step-by-step’ change does not challenge the existing way of doing things and may indeed reinforce the organisation’s processes and culture. It is therefore likely to meet less resistance than Big Bang or quantum change, which represents significant change to most or all the organisation. Often this Big Bang change is necessary to respond to a crisis facing the firm, such as a major fall in profitability, and/or the appointment of a new chief executive.

Secondly, the scope of change process is important – how much of the firm’s activities are to be changed? If the change does not alter the basic business model (or ‘paradigm’ in JSW’s terms) then it is regarded as ‘a realignment of strategy rather than a fundamental change in strategic direction’ (JSW). However, if the proposed change is a radical challenge to the existing business model or paradigm then it is regarded as a transformational change.

The consideration of the two key measures of change enables the identification of four types of change. These four types are used in this answer but other models and approaches would be acceptable.
<table>
<thead>
<tr>
<th>Nature of Change</th>
<th>Scope of change</th>
<th>Transformation</th>
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<tbody>
<tr>
<td>Incremental</td>
<td>Realignment</td>
<td>Evolution</td>
</tr>
<tr>
<td>Big Bang</td>
<td>Adaptation</td>
<td>Revolution</td>
</tr>
<tr>
<td></td>
<td>Reconstruction</td>
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</table>

- Adaptation is a change that can be made within the current business model (realignment) and it occurs incrementally. JSW argue this is the most common form of change in organisations.

- Reconstruction represents significant change in the organisation, often prompted by a crisis, such as an unwelcome takeover bid, but it does not require a fundamental change to the business model. Turnaround strategies where the aim is to rapidly reduce costs or increase revenues to ensure business survival may affect the whole organisation, but not change the basic business model.

- Evolution is a change in strategy, which requires the business model to be significantly changed over a period of time. The perceived need for ‘transformation’ may be as result of careful business analysis leading to a planned evolutionary change. Alternatively, change may take place through an emergent process where the scope of change only becomes apparent once it is completed.

- Revolution affects the whole of the organisation and the scope of change requires a fundamental shift in the business model – the way the firm chooses to compete.

Viewed dispassionately, it appears that PSI’s proposed move into the general retail market represents an evolutionary change. It is incremental because it will build on the skills, routines and beliefs of those in the organisation. However, it is transformational because the proposed move away from the current market niche to a market which requires a generic solution is a fundamental change in strategic direction. It is likely that internal processes and activities will need to significantly change for the company to successfully develop and sell the new packages. In PSI’s case, the evolution is driven top-down, by the chief executive’s desire to create a company which is an attractive acquisition, at which point he can realise some or all of his investment in the company.

Interestingly, the three directors may not all perceive the change as evolutionary. The entrepreneurial chief executive and the sales and marketing director may see
the proposal as adaptive change, realigning the company to take advantage of a business opportunity which will lead to realising their personal goals. Indeed they may see the current product as just the specific implementation of a generic retail software solution. In contrast, the software development director is more likely to agree with our assessment of the change as evolutionary.

b) JSW argue that successfully managing change depends on context. This context is made up of a number of factors or contingencies peculiar to the organisation under consideration. How change is managed in a relatively small privately owned firm like PSI is very different to how it might be managed in a large international firm of accountants with hundreds of partners. JSW again use the work of Balogun and Hope Hailey to consider the contextual features that need to be taken into account in deciding how a strategic change programme should be managed. These features are shown in the diagram below and are used in the model answer. However candidates could adopt other models and approaches.
In the context of PSI, the following observations could be made.

- **Time** – the company is not facing any immediate financial or business problems and so there is no apparent need for rapid change. Figure 1 suggests a company that is slowly consolidating in its market place. There is no evidence of a crisis that requires urgent remedial action. It is likely that it will take a relatively long time to develop the new generic software package, particularly when the current pressures on the software development team are taken into account. They are already having problems meeting deadlines for the current product. The only urgency is that injected by the impatience of the chief executive who may want to quickly introduce change to achieve the objectives of realising his investment in the company. The natural inclination of the software team and their director will be to use any available time to consolidate the current product and to improve its quality. In contrast, the chief executive will want to use available time to produce
the new generic product. This will almost certainly lead to conflict, both within the organization and with customers pressurising the software team for fault rectification and new requirements. The increased concentration of pharmacies into nationwide chains may also increase the power of certain customers.

- **Scope** – the degree of change should not be underestimated in a relatively small firm like PSI. Supplying a clearly defined segment supported by a vertical marketing strategy is very different to the horizontal marketing strategy required for the proposed move into the general retail market. The company has built up expertise in a niche market. It is unlikely that it will have comparable expertise in the generic retail market as well as in the other niche retail markets that it intends to target with its configurable software package.

- **Preservation** – clearly software development skills are a crucial resource and capability and must be preserved to enable the proposed strategic change. The retention of the software team’s expertise and motivation is essential. If they are upset by the proposed change and disturbed by the further pressures it is likely to create then it is unlikely that they will support it. The agreement of the software development director to the change is also vital and some way of securing this must be explored. Although the proposed change is largely based on the competency of current personnel, it is likely that they will be disturbed by the increased pressure imposed on them and so there is a high probability that key employees will leave the company.

- **Diversity** – Change may be helped if there is a diversity of experience. However, change may be hampered if the organisation has followed a particular strategy for a number of years. The relative stability of the last three years and the company’s stated objective to be a ‘highly skilled professional company providing quality software services to the retail pharmacy industry’ seem at odds with the chief executive’s vision of expansion. There is also evidence to suggest that the goals of the sales force and those of the software developers are already conflicting and there seems even more opportunity for this to occur in the context of a generic retail software package. Change will be hampered by the current conflict between sales and development.
- **Capability** - The chief executive and sales and marketing director are entrepreneurial in outlook and want change to fuel growth and their personal aspirations. The software development director is much less enthusiastic as he can clearly see the implications of the proposed change in strategic direction. Furthermore, over the last three years the workforce has been relatively settled and has not been subject to much significant change. In some ways the small size of the business may make change easy to facilitate (see power), but there may also be significant barriers to change. The software development director and his staff control and implement the key activity of the new strategy. It may be difficult to overcome their lack of enthusiasm for the proposed change.

- **Capacity** is concerned with resources such as people, finance and information. More detailed analysis will be necessary to see if PSI has the necessary resources to implement the proposed change. However, evidence from the scenario is not encouraging. For example, the company has recently been criticised at a user group conference for failing to meet its proposed release deadlines. The acquisition of necessary resources will take both time and money. There is no evidence that the company has the finances to support the acquisition of new resources. It is a private company and so it will not be able to raise money through the stock market. It will rely on further investments from the current shareholders (and the software development director may be reluctant to participate in this) or on bank finance. Furthermore, it usually takes a long time to integrate software developers into a business. There is a long learning curve during which they have to learn not only how the product works, but how it is designed. Hence they are unlikely to be productive until several months after appointment and this lack of progress might again clash with the impatience of the chief executive.

- **Readiness** – There is no evidence that the organisation is ready for the type of change proposed by the chief executive. In fact the current pressure on the software development team suggests that they may not welcome the proposed new strategy. What they might be ready for is a strategy that leads to a consolidation of the pharmaceutical product so that faults are fixed and new requirements released on time.
- **Power** – the chief executive has the ultimate power in this organisation, reinforced by (through combining with the sales and marketing director) ownership of the majority of the shares. However he must secure the cooperation of the software development director to make progress. The fact that he has power may lead to him forcing through a strategy which is essentially wrong for the organisation.

Overall, an analysis of the context for change at PSI should provide warning signs to the chief executive. Although the chief executive has the power to impose change, there are concerns about the scope and capacity for change which may make it very difficult for the company to preserve its current resources and competencies. There is a real concern that these will actually be destroyed by the proposed change and this will lead to major difficulties in their current market. There is already evidence of this from the scenario. The company has been criticised at a user group conference for quality failures and there are doubts about whether planned new features will be released on time. The product is fundamental to the efficient purchasing and stock control required in contemporary pharmacies. Customers may switch to a competitor if they feel that their emerging requirements are not met with sufficient promptness and quality.

The workforce is neither ready for change nor diverse enough to welcome change. There are current conflicts between sales and development which are likely to be escalated by the proposed strategic change. Finally, there are also grave doubts about the capacity of the company to deliver the proposed change within the likely time scale required by the chief executive.

There is a concern that the chief executive will rely on managing change through coercion, which ‘is the imposition of change or the issuing of edicts about change’. This is not unusual in small firms where the chief executive also has a large ownership stake in the business. It is most appropriate in crisis situations where time is of the essence and clear direction is imperative.

However, PSI does not appear to be in a crisis situation. Unfortunately, however, it looks like the chief executive is about to create one!
Question No 12:-

Introduction

IL (Independent Living) is a charity that provides living aids to help elderly and disabled people live independently in their own home. These aids include walkers, wheelchairs, walking frames, crutches, mobility scooters, bath lifts and bathroom and bedroom accessories.

IL aims to employ people who would find it difficult or impossible to work in a conventional office or factory. IL’s charitable aim is to provide the opportunity for severely disabled people to ‘work with dignity and achieve financial independence’. IL currently employs 200 severely disabled people and 25 able bodied people at its premises on an old disused airfield site. The former aircraft hangars have been turned into either production or storage facilities, all of which have been adapted for severely disabled people.

Smaller items (such as walking frames and crutches) are manufactured here. These are relatively unsophisticated products, manufactured from scrap metal bought from local scrap metal dealers and stored on-site. These products require no testing or training to use and they are packaged and stored after manufacture. IL uses its own lorry to make collections of scrap metal but the lorry is old, unreliable and will soon need replacing.

Larger and more complex items (such as mobility scooters and bath lifts) are bought in bulk from suppliers and stored in the hangars. Delivery of these items to IL is organised by their manufacturers. These products are stored until they are ordered.

When an order is received for such products, the product is unpacked and tested. An IL transfer logo is then applied and the product is re-packaged in the original packing material with an IL label attached. It is then dispatched to the customer. Some inventory is never ordered and last year IL had to write-off a significant amount of obsolete inventory.

All goods are sold at cost plus a margin to cover wages and administrative costs. Prices charged are the same whether goods are ordered over the web or by telephone. Customers can also make a further voluntary donation to help support IL if they wish to. About 30% of customers do make such a donation.
Ordering and marketing

IL markets its products by placing single-sided promotional leaflets in hospitals, doctors’ surgeries and local social welfare departments. This leaflet provides information about IL and gives a direct phone number and a web address. Customers may purchase products by ringing IL directly or by ordering over their website. The website provides product information and photos of the products which are supplied by IL. It also has a secure payment facility. However, customers who ring IL directly have to discuss product requirements and potential purchases with sales staff over the phone. Each sales discussion takes, on average, ten minutes and only one in two contacts results in a sale. 20% of sales are through their website (up from 15% last year), but many of their customers are unfamiliar with the Internet and do not have access to it.

Goods are delivered to customers by a national courier service. Service and support for the bought-in products (mobility scooters, bath lifts) are supplied by the original manufacturer.

Commercial competitors

IL is finding it increasingly difficult to compete with commercial firms offering independent living aids. Last year, the charity made a deficit of $160,000, and it had to sell some of its airfield land to cover this. Many of the commercial firms it is competing with have sophisticated sales and marketing operations and then arrange delivery to customers directly from manufacturers based in low labour cost countries.

Required:

IL fears for its future and has decided to review its value chain to see how it can achieve competitive advantage.

a) Analyse the primary activities of the value chain for the product range at IL.

b) Evaluate what changes IL might consider to the primary activities in the value chain to improve their competitiveness, whilst continuing to meet their charitable objectives.
a) IL supplies both manufactured products (crutches, walking frames) and bought-in products (mobility scooters, bath lifts). The value chain for these two sets of products is different and this is reflected in the following analysis.

The primary activities of the value chain are:

**Inbound Logistics.**
These are activities associated with receiving, storing and disseminating inputs to the product. Typical examples are materials handling, warehousing and inventory (stock) control.
For manufactured products this concerns collection of material from scrap merchants and the storage of that material prior to use. For bought-in products, inbound logistics is handled by the supplying manufacturers. Products are stored in the warehouse.

**Operations**
This is concerned with transforming inputs into the final product. This includes machining, assembly, testing and packaging. In the context of manufactured products this covers the production of crutches and walkers (and other simple aids), their testing and packaging. For bought-in products, operations is concerned with the careful opening of packaging, the addition of an IL transfer logo, the testing of the equipment and the re-packaging of the product into its original packaging.

**Outbound logistics**
These are activities associated with storing and then physically distributing the product to buyers. Finished goods warehousing, order processing and delivery is considered here.
At IL, both manufactured and bought-in products need to be stored prior to delivery. Distribution is undertaken by a national courier company. Orders are placed by telephone or through the website.
Marketing and Sales
These are activities by which customers can learn of the existence of and then purchase the products. It includes advertising, promotion, sales and pricing. At IL this covers leaflets in hospitals and surgeries, a website catalogue and order taking and the giving of advice.

Service
These are activities associated with providing a service to enhance or maintain the value of the product. It includes installation, repair, training, parts supply and product adjustment. The simple nature of the manufactured products means that service is inappropriate. For bought-in product, service is undertaken by the original manufacturer.

b) The value chain is used as a basis for answering the question. Many of the potential re-structuring suggestions produce cost reductions. However, it must be acknowledged that the charity also has the objective of providing jobs for severely disabled people. Suggestions for change have to reflect this fact. It is also clear from the scenario that some customers are prepared to pay price premiums for the goods by making donations to the charity as part of their purchase of these goods.

Inbound logistics
For manufactured products, IL could explore the possibility of reducing scrap metal storage costs by requesting dealers to store the metal until it is required. Furthermore, dealers may also be able to offer competitive delivery costs. This would remove the need for IL to maintain (and eventually replace) the lorry it uses for collection of this material. For bought in products, IL could explore the cost of using a specialist logistics company to carry out both its inbound and outbound logistics. This should produce economies of scale leading to reduced costs. Many of these logistics companies also offer storage facilities. However, IL already has storage at an airfield site and the employment of severely disabled labour is one of its objectives.

Operations
It seems vital that IL retains its manufacturing capability to help achieve its goal of providing work and income for severely disabled people. It could probably
gain cost savings by outsourcing manufacture to cheaper countries (like its commercial competitors) but this would not meet its core objective. IL marketing could stress the location of the manufacture as an important differentiator. Customers might then perceive it as an ethical choice.

The operations part of the value chain for bought-in products is relatively labour intensive (see later notes) and could be simplified in two ways.

1. Asking manufacturers to affix the IL logo and label prior to despatch to IL. The testing of the products could also be delegated to the manufacturer as they provide post-delivery support.

2. Reducing inventory by arranging for bought-in goods to be supplied to the customer directly by the manufacturer. Not only would this cut delivery costs but it would also reduce inventory costs, and eliminate the costly write-off of obsolete purchased inventory.

Employees in the warehouse could be reallocated to order processing and other administrative tasks.

**Outbound logistics**

The ordering of products through the website appears to be extremely effective. The site includes a product catalogue and a secure payment facility. However, although use of the website is growing, most orders are still placed by telephone. IL might consider ways of encouraging further use of the website, for example by offering discounts, cheaper prices and a wider range of products. It might also consider how it could make its website more available to potential consumers, perhaps by placing dedicated terminals in hospitals and surgeries.

The telephone ordering process is currently too complex because sales staff have to describe the products available and also provide purchasing advice and guidance. IL needs to consider ways of making details of their product range available to customers before they place the order (see below).

**Marketing and Sales**

Relatively little sales and marketing takes place at IL which is probably due its charitable status. Charities are usually very keen to minimise their overhead costs. Traditional marketing appears to be very limited, restricted to leaflets in hospitals and surgeries. IL could consider replacing its current leaflets (which
just give a phone number and a website) with a leaflet that effectively doubles as a catalogue, showing the products on offer. This should help improve the efficiency of the telephone ordering service. Display advertising in magazines and newspapers with coupons to request a catalogue would also increase the profile of the brand.

Many charities use Customer Relationship Management (CRM) systems to manage their donors. IL should explore the potential of this. It already has records of purchasers and also those purchasers that have made extra donations.

All sales and marketing material needs to stress the charitable status of the organisation. This effectively differentiates it from commercial competitors. There is already evidence that some customers are willing to reflect this by increasing the price they pay for goods by including a donation to support the charity.

**Service**

Because of the nature of the product, little direct support is required. However, IL could expand its website to give general support and advice on mobility problems and independent living.

**Question No 13:-**

**Branch rationalisation project**

Four years ago RBS Bank acquired ABN Amro Bank, one of its smaller rivals. Both had relatively large local branch bank networks and the newly merged bank (now called FAISAL BANK) found that it now had duplicated branches in many towns. One year after the takeover was finalised, FAISAL BANK set up a project to review the branch bank network and carry out a rationalisation that aimed to cut the number of branches by at least 20% and branch employment costs by at least 10%. It was agreed that the project should be completed in two years. There were to be no compulsory staff redundancies. All branch employment savings would have to be realised through voluntary redundancy and natural wastage.

FAISAL BANK appointed its operations director, Len Peters as the sponsor of the project. The designated project manager was Glenys Hopkins, an experienced project manager who had worked for RBS Bank for over fifteen years. The project team
consisted of six employees who formerly worked for RBS Bank and six employees who formerly worked for ABN Amro Bank. They were seconded full-time to the project.

Project issues and conclusion

During the project there were two major issues. The first concerned the precise terms of the voluntary redundancy arrangements. The terms of the offer were quickly specified by Len Peters. The second issue arose one year into the project and it concerned the amount of time it took to dispose of unwanted branches. The original project estimates had underestimated how long it would take to sell property the bank owned or to re-assign or terminate the leases for branches it rented. The project board overseeing the project agreed to the project manager’s submission that the estimates had been too optimistic and they extended the project deadline for a further six months.

The project team completed the required changes one week before the rearranged deadline. Glenys Hopkins was able to confirm that the branch network had been cut by 23%. Six months later, in a benefits realisation review, she was also able to confirm that branch employment costs had been reduced by 12%. At a post-project review the project support office of the bank confirmed that they had changed their project estimating assumptions to reflect the experience of the project team.

Potential process initiatives

FAISAL BANK is now ready to undertake three process initiatives in the Information Technology area. The IT departments and systems of the two banks are still separate. The three process initiatives under consideration are:

1. The integration of the two bespoke payroll systems currently operated by the two banks into one consolidated payroll system. This will save the costs of updating and maintaining two separate systems.
2. The updating of all personal desktop computer hardware and software to reflect contemporary technologies and the subsequent maintenance of that hardware. This will allow the desktop to be standardised and bring staff efficiency savings.
3. The bank has recently identified the need for a private personal banking service for wealthy customers. Processes, systems and software have to be developed to support this new service. High net worth customers have been identified by the bank as an important growth area.
The bank will consider three solution options for each initiative. These are outsourcing or software package solution or bespoke development.

Required:

a) The branch rationalisation was a successful project.

Identify and analyse the elements of good project management that helped make the branch rationalization project successful.

b) The bank has identified three further desirable process initiatives (see above).

i. Explain, using Harmon’s process-strategy matrix, how the complexity and strategic importance of process initiatives can be classified.

ii. Recommend and justify a solution option for each of the three process initiatives.

Answer:-

a) The elements of good project management that helped make the branch rationalisation project successful might include:

1. A sponsor (Len Peters) was appointed to own the project. A sponsor is required to make important and decisive decisions about project scope, conduct and approach. In the case study scenario, the precise terms of the voluntary redundancy arrangements were quickly specified. Without a sponsor projects tend to drift and to stall when important decisions have to be made.

2. The objectives of the project were clearly defined. The target was to cut the number of branch banks by at least 20% and branch employment costs by at least 10%. Quantification makes these specific objectives measurable. It should be clear at the end of the project if the project has successfully met its objectives. Projects that have general objectives, such as ‘improve management information’ are less focused and more difficult to evaluate.

3. Constraints were specified at the outset of the project. For example, a time constraint was defined (two years) and an operational constraint (no compulsory staff redundancies) agreed. This latter restriction meant that the project team was clear at the onset about the scope of the changes they could implement. If constraints are not defined in advance then project teams might suggest inappropriate solutions.
4. An experienced full-time project manager was appointed. The project team was also made up of full-time staff seconded to the project. This meant that they could focus completely on the project and not be distracted by their usual jobs. Part-time secondments to projects rarely work because the team members still have to undertake elements of their day job and the urgency of these often takes precedence over project work.

5. Potential slippage in the project and its cause was identified and dealt with relatively early in the project’s life. This meant that early rescheduling could be carried out and an extension to the deadline agreed. It helps the management of expectations and helps avoid unexpected last-minute changes in scope.

6. The project team formally conducted benefits realisation, reporting on the actual performance of the project. This confirmed that the original objectives had been met. A formal post-project meeting was also held to review lessons learnt on the project. This led to a change in estimating assumptions which had lead to the original optimistic values. Lessons are learnt on many projects which are not fed back into the project management system. Consequently, another team commits the same mistake or operates under the same false assumption.

b). i. FAISAL BANK could assess the priority of the three initiatives on the process-strategy matrix suggested by Paul Harmon. The matrix has two axes. The vertical axis is concerned with process complexity and dynamics. At the base of the vertical axis are simple procedures often with simple algorithms while at the top are complex processes which may require negotiation, discussion and complicated design. On the horizontal axis is the strategic value of these processes. Their importance increases from left to right with low value processes concerned with things that must be done but which add little value to products or services. On the extreme right of this axis are high value processes which are very important to success and add significant value to goods and services. From these two axes, Harmon categorises four quadrants and makes suggestions about how processes should be tackled in each quadrant.

*Low strategic importance, low process complexity and dynamics*
This quadrant contains relatively straightforward stable processes which add little business value. They are processes that must be done in the company but add nothing to the company’s value proposition. These processes need to be automated in the most efficient way possible. They are often called ‘commodity processes’ and are suitable for standard software package solutions and/or outsourcing to organisations that specialise in that area.

*Low strategic importance, high process complexity and dynamics*
This quadrant is for relatively complex processes that need to be done but do not add significant value to the company’s products or services. They are not at the heart of the company’s core competencies. Harmon suggests that these should be outsourced to organisations which have them as their core business.

*High strategic importance, low process complexity and dynamics*
These processes lie in the lower right quadrant of the model. They tend to be relatively straightforward processes which, nevertheless, have a significant role on the organisation’s activities. They are central to what the business ABN Amros. The aim is to automate these, if possible, to gain cost reduction and improve quality and efficiency.

*High strategic importance, high process complexity and dynamics*
Finally, in the top right hand quadrant are high value, complex processes which often include human judgement and expertise and are often very difficult to automate. Harmon suggests that these might be the focus of major process redesign initiatives focusing on business process improvement through the improved performance of the people undertaking those processes.

ii. In the context of FAISAL BANK, the following is suggested. Clearly these are value judgements and credit will be given for coherently argued answers which do not match the examiner’s conclusions.
- The integration of the two bespoke payroll systems currently operated by the two banks into one consolidated payroll system. Payroll has to be produced but ABN Amros not add significant value to the end-customer. It is unlikely that the recipients of the system (the bank staff) will notice any difference if a new system is implemented. The bank is considering
re-developing this process because of the high cost of updating and maintaining two separate systems. This appears to be of low strategic importance. From the case study it is not clear how complex the payroll requirements are or how difficult it will be to transfer data from the current systems to a new solution. The most obvious approach is to suggest that a standardised software package is bought and data transferred to this solution. It appears sensible to undertake this work using the in-house IT departments who will be familiar with the current systems and so should be able to undertake accurate data mapping and successful data transfer to the new system. However, if this is difficult and time-consuming, there might be some benefit in outsourcing the solution and data transfer problems to a specialist software provider, allowing internal IT to concentrate on more strategic applications.

- The updating of all personal computer hardware and software to reflect contemporary technologies and the subsequent maintenance of that hardware. The bank is perhaps looking for efficiency savings through the standardisation of the desktop. Again, this ABN Amros not appear to directly give value to the bank’s customers. Consequently, this also appears to be of low strategic importance. However, it could be of relatively high complexity, particularly when considering the maintenance of hardware. There seems a clear case for outsourcing this process to a specialist technology company who can bring all hardware and software up to date and then maintain it at that level.

- The development of processes, systems and software to support private banking. This appears to be of high strategic importance and high complexity. It delivers services to end-customers who the bank has identified as a source of business growth. Elements of human judgement and interaction will be required when providing this service. The fulfilment of personal requirements for the wealthy customer will bring variety, risk and reward. The development of processes, systems and software to support private banking should have high priority and should be developed in-house. The success of such an operation should deliver handsome profits to FAISAL BANK. This may mean that, given resources
are finite, the development of the new payroll system should be outsourced to a specialist in that functional area.

**Question No 14:-**

**Introduction**

WyAvionics (WyAv) specialises in the production of aircraft engine monitoring software. It is the responsibility of their software to continuously monitor engines and to send appropriate data, in real-time, to the cockpit. Information is presented to the pilot in the form of digital outputs and graphs. The software must also alert the pilot when the engine is performing outside pre-determined limits. Audible alarms warn the pilot of a potential failure of an engine.

WyAv produce their software directly for aircraft engine manufacturers. Versions of the software are produced for each engine. The software was first used ten years ago. A major upgrade was produced five years ago which made detailed changes to the way information was presented to the pilot. This was a result of government recommendations that were made arising from the loss of an aircraft where the pilot shut down the wrong engine. The software had reported correctly, but the pilot had confused data from the port and starboard engines and so mistakenly shut down the good engine and tried to land on the faulty engine, with fatal results. Since this time, WyAv have constantly striven to improve the usability of the software.

**Development lifecycles**

The requirements for the software are produced by the engine manufacturers. These requirements are usually (90% of the time) for delivering changes to established software solutions to reflect detailed changes in the design of an established engine. Software engineers at WyAv must evaluate the engine design changes and assess their impact on the software. Once these impacts have been agreed with the manufacturer (and a price and a delivery date for the upgraded software agreed), then detailed code design changes are specified and given to individual programming teams for development. All programming is done in pairs with one of the programmers reviewing the other’s program code as it is produced. The programming team leader also inspects all code changes to ensure adherence to company standards. The software is extensively tested before it is released to the engine manufacturer. WyAv software
engineers assist the manufacturers in further tests before the software is released for live use.

Occasionally (10% of the time) the software requirements are for a completely new engine. In this instance WyAv’s software engineers are brought into the design much earlier to ensure that the monitoring software is an integral part of the total design. The construction of the software to meet the finalised requirements is developed, as much as possible, from tried and trusted software components already in use in established software. It is one of WyAv’s objectives to develop well-tested reusable software components which can be used in as many systems as possible.

As its CEO commented ‘this increases speed to market, profitability and quality’.

The organisation uses a formal V model for developing new software and new versions of established software solutions. This is mandated by the aircraft manufacturers and the government of the country. A large sign dominates the software development area. It reads ‘Quality is not optional – lives are at stake.’ However, senior engineers within the company have recently voiced their concern that requirements from engine manufacturers are getting less specific. One experienced engineer commented that ‘manufacturers are requesting costs and timescales before they themselves have finalised the engine design changes. I also notice that price reduction is a major issue. Three years ago nobody queried our prices. Nowadays, with the economic downturn, almost half of our price quotations are queried.’

Required:

a) Identify the characteristics of software quality and explain the appropriateness of each characteristic to the engine monitoring software supplied by WyAv.

b) WyAv uses a formal V model lifecycle for developing software.

Explain the principles of the V model and evaluate its use in defining and testing changes to WyAv’s established software solution.

Answer:-

a) Software quality can be defined in terms of its conformance to requirements, reliability, usability and general product characteristics.
Conformance to requirements
This is concerned with the software correctly performing the functions defined in the requirements specification. The software must only do what the user requires it to do and nothing else. This is clearly critical in the engine monitoring system. The software needs to correctly monitor the engine and to provide warnings when the engine operates outside defined tolerances. It must not provide false warnings causing the pilot to take action when in fact the engine is running normally. This could be potentially expensive, causing an emergency landing when no such precaution is required. The case study scenario does not suggest that WyAv software has caused any functional failure. However, it does acknowledge that requirements from engine manufacturers are getting less precise. ‘Manufacturers are requesting costs and timescales before they themselves have finalised the engine design changes.’ This would cause WyAv problems because it makes it difficult to estimate the scope and cost of the software changes. It may also lead to expensive and time-consuming re-work of the software later in the development lifecycle when the engine design changes are finally specified. This will have cost and time implications for WyAv and there may be a temptation to deliver a product on time which is not adequately tested. This increases the risk of functional failure.

Reliability
The software must behave consistently and reliably and always be available to provide a service for the user. The reliability of software is usually measured by acceptable levels of availability and downtime. In the engine monitoring system it seems reasonable to assume that the software must be available 100% of the time that the engine is running. No downtime is acceptable as the engine will not be monitored during that period. There is no evidence from the scenario that the WyAv software suffers from reliability problems. However, just as in the case of functionality, the increasing incidence of change requirements being requested before the engine design is finalised, increases the risk of failure.

Usability
The ease of use of software is a major issue in software development, particularly when the user has to quickly take safety-critical decisions based on presented data. The scenario provides evidence for this, when a pilot had shutdown the wrong engine due to misreading the information presented in the cockpit. Usability should continue to be an important consideration in the continued
enhancement of the engine monitoring system and this appears to be acknowledged by WyAv.

**General product characteristics**

Quality software should show excellence in good build characteristics, such as maintainability, flexibility and expandability. This software quality is about long-term design objectives. In the scenario reusability appears to be an important design quality objective. Using proven software components should increase the overall quality of the software. Adherence to programming standards is also mentioned in the scenario. This will make the software easier to maintain, particularly if subsequent changes are being made by someone other than the original author. Re-usability and adherence to standards will not only be reflected in delivered functionality and reliability, but also in the long-term maintainability of the software. Evidence from the scenario suggests that WyAv are continuing to employ these practices.

However, quality also reflects the price customers are prepared to pay for it. There is evidence in the case study scenario that price is becoming an issue. One engineer states that ‘three years ago nobody queried our prices. Nowadays, with the economic downturn, almost half of our price quotations are queried’. WyAv has to be aware of this as it is in an industry where failure could lead to death. It might have to accept an increased level of risk as a consequence of reducing its prices to remain competitive.

b) The V model is a software development lifecycle that explicitly identifies the relationship and link between the development and testing phases with the aim of ensuring that appropriate quality assurance and testing takes place throughout development. The V model has a number of advantages. Firstly, it explicitly suggests that testing should be considered early in the life of a project. The cost of finding and fixing faults increases dramatically as development progresses. The need to find faults as soon as possible reinforces the need for the quality assurance of documents such as the requirements specification. This is performed using static testing techniques such as inspections and walkthroughs.

Secondly, the V model also introduces the idea of specifying testing requirements when specifying the requirements themselves, prior to performing the actual testing. The acceptance tests are performed against a specification of
requirements, rather than against some criteria first thought about when the acceptance testing stage has been reached. It is believed that this will help improve the specification of the requirement itself, building quality management principles into the overall development process and reducing reliance on post hoc quality control.

Thirdly, the V model provides a focus for defining the testing that will take place within each stage of the lifecycle. The definition of the testing is assisted by the idea of entry and exit criteria. Hence, the model can be used to define what state a deliverable has to be in before it is allowed to enter the stage and what state it has to be in before it is allowed to leave it and be accepted for the next stage.

Finally, the V model provides a basis for defining who is responsible for performing the testing at each stage. The V model is an excellent basis for the partitioning of quality assurance tasks, highlighting that all the participants in the development of a system have a responsibility for quality.

A potential V model for software enhancements at WyAv is shown in Figure One.
Figure One: An example V model

The model begins with the definition of requirements by the engine manufacturers. These are concerned with specifying changes in the environment the software has to run, not in the functionality that it has to provide.

In the specification stage, software engineers at WyAv evaluate the impact of the engine design changes on the existing engine monitoring software. They will have to define the extent of the changes required and the time and cost to undertake them. These costs and timings will have to be confirmed with the manufacturer before proceeding to the next stage.

Program specification is primarily concerned with defining the detailed definition of the changes required to existing programs and the specification, if required, of new programs. Test cases will be specified in advance of program coding for use in the program testing phase.

The bottom of the V model concerns the actual programming of the solution. Programmers code and informally test as they develop the software. The use of paired programmers mentioned in the scenario should assist quality at this level, because
assumptions can be challenged and guidance given. Paired programming is a major overhead but illustrates how seriously the company is taking quality.

Program testing formally tests the programs against the test cases defined in program specification. This is supported by formal inspections of all program code by the programming team leader. The team leader ensures that programming standards are adhered to, another major commitment to software quality.

System testing takes place against the tests defined at the end of specification phase. System testing normally takes place within a ‘production equivalent’ environment and so WyAv will have to provide their testers with an actual engine or a simulation of it. In this application there will also be a strong requirement for regression testing. Regression testing attempts to ensure that parts of the software that should have been unaffected by the software changes still work correctly. Initial usability testing will also be performed here to reflect the company’s commitment to providing user-friendly software.

Finally, acceptance testing is undertaken by the engine manufacturers who need to satisfy themselves that the software is working correctly before it is released into the live environment. The scenario suggests that WyAv’s software engineers support the manufacturers during this acceptance testing. This phase may also include usability testing, dependent on the changes that have been made.

**Question No 15:-**

This scenario summarises the development of a company called Rocket through three phases, from its founding in 1965 to 2008 when it ceased trading.

**Phase 1 (1965–1988)**

In 1965 customers usually purchased branded electrical goods, largely produced by well-established domestic companies, from general stores that stocked a wide range of household products. However, in that year, a recent university graduate, Rehan, established his first shop specialising solely in the sale of electrical goods. In contrast to the general stores, Rehan’s shop predominantly sold imported Japanese products which were smaller, more reliable and more sophisticated than the products of domestic competitors. Rehan quickly established a chain of shops, staffed by young people who understood the capabilities of the products they were selling. He backed this up with national advertising in the press, an innovation at the time for such a specialist shop. He
branded his shops as ‘Rocket’, a name which specifically referred to his cheap prices, but also alluded to the growing importance of rock music and its influence on product sales. In 1969, 80% of sales were of music centres, turntables, amplifiers and speakers, bought by the newly affluent young. Rocket began increasingly to specialise in selling audio equipment.

Hein also developed a high public profile. He dressed unconventionally and performed a number of outrageous stunts that publicised his company. He also encouraged the managers of his stores to be equally outrageous. He rewarded their individuality with high salaries, generous bonus schemes and autonomy. Many of the shops were extremely successful, making their managers (and some of their staff) relatively wealthy people.

However, by 1980 the profitability of the Rocket shops began to decline significantly. Direct competitors using a similar approach had emerged, including specialist sections in the large general stores that had initially failed to react to the challenge of Rocket. The buying public now expected its electrical products to be cheap and reliable. Hein himself became less flamboyant and toned down his appearance and actions to satisfy the banks who were becoming an increasingly important source of the finance required to expand and support his chain of shops.

**Phase 2 (1989–2002)**

In 1988 Hein considered changing the Rocket shops into a franchise, inviting managers to buy their own shops (which at this time were still profitable) and pursuing expansion though opening new shops with franchisees from outside the company. However, instead, he floated the company on the country’s stock exchange. He used some of the capital raised to expand the business. However, he also sold shares to help him throw the ‘party of a lifetime’ and to purchase expensive goods and gifts for his family. Hein became Chairman and Chief Executive Officer (CEO) of the newly quoted company, but over the next thirteen years his relationship with his board and shareholders became increasingly difficult. Gradually new financial controls and reporting systems were put in place. Most of the established managers left as controls became more centralised and formal. The company’s performance was solid but unspectacular. Hein complained that ‘business was not fun any more’. The company was legally required to publish directors’ salaries in its annual report and the generous salary package enjoyed by the Chairman and CEO increasingly became an issue and it dominated the 2002 Annual
General Meeting (AGM). Hein was embarrassed by its publication and the discussion it led to in the national media. He felt that it was an infringement of his privacy and civil liberties.

Phase 3 (2003–2008)

In 2003 Hein found the substantial private equity investment necessary to take Rocket private again. He also used all of his personal fortune to help re-acquire the company from the shareholders. He celebrated ‘freeing Rocket from its shackles’ by throwing a large celebration party. Celebrities were flown in from all over the world to attend. However, most of the new generation of store managers found Hein’s style to be too loose and unfocused. He became rude and angry about their lack of entrepreneurial spirit. Furthermore, changes in products and how they were purchased meant that fewer people bought conventional audio products from specialist shops. The reliability of these products now meant that they were replaced relatively infrequently. Hein, belatedly, started to consider selling via an Internet site. Turnover and profitability plummeted. In 2007 Hein again considered franchising the company, but he realised that this was unlikely to be successful. In early 2008 the company ceased trading and Hein himself, now increasingly vilified and attacked by the press, filed for personal bankruptcy.

Required:

a) Analyse the reasons for Rocket’s success or failure in each of the three phases identified in the scenario. Evaluate how Rehan’s leadership style contributed to the success or failure of each phase.

b) Rehan considered franchising the Rocket brand at two points in its history – 1988 and 2007.

Explain the key factors that would have made franchising Rocket feasible in 1988, but would have made it ‘unlikely to be successful’ in 2007.

Answer:

a) The product life cycle model suggests that a product passes through six stages: introduction, development, growth, shakeout, maturity and decline. The first Rocket phase appears to coincide with the introduction, development and growth periods of the products offered by the company. These highly specified, high quality products were new to the country and were quickly adopted by a
certain consumer segment (see below). The life cycle concept also applies to services, and the innovative way in which Rocket sold and marketed the products distinguished the company from potential competitors. Not only were these competitors still selling inferior and older products but their retail methods looked outdated compared with Rocket’s bright, specialist shops. Rocket’s entry into the market-place also exploited two important changes in the external environment. The first was the technological advance of the Japanese consumer electronics industry. The second was the growing economic power of young people, who wished to spend their increasing disposable income on products that allowed them to enjoy popular music. Early entrants into an industry gain experience of that industry sooner than others. This may not only be translated into cost advantages but also into customer loyalty that helps them through subsequent stages of the product’s life cycle. Rocket enjoyed the advantages of a first mover in this industry.

Hein’s leadership style appears to have been consistent with contemporary society and more than acceptable to his young target market. As an entrepreneur, his charismatic leadership was concerned with building a vision for the organisation and then energising people to achieve it. The latter he achieved through appointing branch managers who reflected, to some degree, his own style and approach. His willingness to delegate considerable responsibility to these leaders, and to reward them well, was also relatively innovative. The shops were also staffed by young people who understood the capabilities of the products they were selling. It was an early recognition that intangible resources of skills and knowledge were important to the organisation.

In summary, in the first phase Rocket’s organisation and Hein’s leadership style appear to have been aligned with contemporary society, the customer base, employees and Rocket’s position in the product/service life cycle.

The second phase of the Rocket story appears to reflect the shakeout and maturity phases of the product life cycle. The entry of competitors into the market is a feature of the growth stage. However, it is in the shakeout stage that the market becomes saturated with competitors. The Rocket product and service approach is easily imitated. Hein initially reacted to these new challenges by a growing maturity, recognising that outrageous behaviour might deter the banks
from lending to him. However, the need to raise money to fund expansion and a latent need to realise (and enjoy) his investment led to the company being floated on the country’s stock exchange. This, eventually, created two problems.

The first was the need for the company to provide acceptable returns to shareholders. This would have been a new challenge for Hein. He would have to not only maintain dividends to external shareholders, but he would also have to monitor and improve the publicly quoted share price. In an attempt to establish an organisation that could deliver such value, changes were made in the organisational structure and style. Most of the phase 1 entrepreneur-style managers left. This may have been inevitable anyway as Rocket would have had problems continuing with such high individual reward packages in a maturing market. However, the new public limited organisation also demanded managers who were more transactional leaders, focusing on designing systems and controlling performance. This style of management was alien to Rick’s approach. The second problem was the need for the organisation to become more transparent. The publishing of Hein’s financial details was embarrassing, particularly as his income fuelled a lifestyle that was becoming less acceptable to society. What had once appeared innovative and amusing now looked like an indulgence. The challenge now was for Hein to change his leadership style to suit the new situation. However, he ultimately failed to do this. Like many leaders who have risen to their position through entrepreneurial ability and a dominant spirit, the concept of serving stakeholders rather than ordering them around proved too difficult to grasp. The sensible thing would have been to leave Rocket and start afresh. However, like many entrepreneurs he was emotionally attached to the company and so he persuaded a group of private equity financiers to help him buy it back. Combining the roles of Chairman and Chief Executive Officer (CEO) is also controversial and likely to attract criticism concerning corporate governance.

In summary, in the second phase of Hein’s leadership he failed to change his approach to reflect changing social values, a maturing product/service marketplace and the need to serve new and important stakeholders in the organisation. He clearly saw the public limited company as a ‘shackle’ on his ambition and its obligations an infringement of his personal privacy.
It can be argued that Hein took Rocket back into private ownership just as the product life cycle moved into its decline stage. The product life cycle is a timely reminder that any product or service has a finite life. Forty years earlier, as a young man, Hein was in touch with the technological and social changes that created a demand for his product and service. However, he had now lost touch with the forces shaping the external environment. Products have now moved on. Music is increasingly delivered through downloaded files that are then played through computers (for home use) or MP3s (for portable use). Even where consumers use traditional electronic equipment, the reliability of this equipment means that it is seldom replaced. The delivery method, through specialised shops, which once seemed so innovative is now widely imitated and increasingly, due to the Internet, less cost-effective. Consumers of these products are knowledgeable buyers and are only willing to purchase, after careful cost and delivery comparisons, through the Internet. Hence, Hein is in a situation where he faces more competition to supply products which are used and replaced less frequently, using a sales channel that is increasingly uncompetitive. Consequently, Hein’s attempt to re-vitalise the shops by using the approach he adopted in phase 1 of the company was always doomed to failure. This failure was also guaranteed by the continued presence of the managers appointed in phase 2 of the company. These were managers used to tight controls and targets set by centralised management. To suddenly be let loose was not what they wanted and Hein appears to have reacted to their inability to act entrepreneurially with anger and abuse. Hein’s final acts of reinvention concerned the return to a hedonistic, conspicuous life style that he had enjoyed in the early days of the company. He probably felt that this was possible now that he did not have the reporting requirements of the public limited company. However, he had failed to recognise significant changes in society. He celebrated the freeing of ‘Rocket from its shackles’ by throwing a large celebration party. Celebrities were flown in from all over the world to attend. It seems inevitable that the cost and carbon footprint of such an event would now attract criticism.

Finally, in summary, Hein’s approach and leadership style in phase 3 became increasingly out of step with society’s expectations, customers’ requirements and employees’ expectations. However, unlike phase 2, Hein was now free of the responsibilities and controls of professional management in a public limited
company. This led him to conspicuous activities that further devalued the brand, meaning that its demise was inevitable.

b) At the end of the first phase Hein still had managers who were entrepreneurial in their outlook. It might have been attractive for them to become franchisees, particularly as this might be a way of protecting their income through the more challenging stages of the product and service life cycle that lay ahead. However, by the time Hein came to look at franchising again (phase 3), the managers were unlikely to be of the type that would take up the challenge of running a franchise. These were managers used to meeting targets within the context of centrally determined policies and budgets within a public limited company. Hein would have to make these employees redundant (at significant cost) and with no certainty that he could find franchisees to replace them.

At the end of phase 1, Rocket was a strong brand, associated with youth and innovation. First movers often retain customer loyalty even when their products and approach have been imitated by new aggressive entrants to the market. A strong brand is essential for a successful franchise as it is a significant part of what the franchisee is buying. However, by the time Hein came to look at franchising again in phase 3, the brand was devalued by his behaviour and incongruent with customer expectations and sales channels. For example, it had no Internet sales channel. If Hein had developed Rocket as a franchise it would have given him the opportunity to focus on building the brand, rather than financing the expansion of the business through the issue of shares.

At the end of phase 1, Rocket was still a financially successful company. If it had been franchised at this point, then Hein could have realised some of his investment (through franchise fees) and used some of this to reward himself, and the rest of the money could have been used to consolidate the brand. Much of the future financial risk would have been passed to the franchisees. There would have been no need to take Rocket public and so suffer the scrutiny associated with a public limited company. However, by the time Hein came to look at franchising again in phase 3, most of the shops were trading at a loss. He saw franchising as a way of disposing of the company in what he hoped was a sufficiently well-structured way. In effect, it was to minimise losses. It seems highly unlikely that franchisees would have been attracted by investing in
something that was actually making a loss. Even if they were, it is unlikely that the franchise fees (and hence the money immediately realised) would be very high.

Question No 16:-

OneEnergy plc supplies over half of the electricity and gas in the country. It is an expanding, aggressive company which has recently acquired two smaller, but significant, competitors.

Just over a year ago, OneEnergy purchased the RitePay payroll software package from RiteSoftware. The recently appointed Human Resources (HR) director of OneEnergy recommended the package because he had used it successfully at his previous employer – a major charity. His unreserved recommendation was welcomed by the board because the company was currently running three incompatible payroll systems. The purchase of the RitePay payroll system appeared to offer the opportunity to quickly consolidate the three separate payroll systems into one improved solution. The board decided to purchase the software without evaluating alternative solutions. It was felt that payroll rules and processes were relatively standard and so there was no need to look further than a package recommended by the HR director. The software was purchased and a project initiated for converting the data from the current systems and for training users in the features and functions of the new software.

However, it soon became apparent that there were problems with the suitability of the RitePay software package. Firstly, OneEnergy had a wide variety of reward and pay schemes to reflect previous employment in the acquired companies and to accommodate a wide range of different skills and grades. Not all of these variations could be handled by the package. Consequently, amendments had to be commissioned from the software house. This led to unplanned costs and also to delays in implementation. Secondly, it also became clear that the software was not as user-friendly as the previous systems. Users had problems understanding some of the terminology and structure of the software. ‘It just does not work like we do’, commented one frustrated user. Consequently users made more errors than expected and training costs exceeded their budget.

Three months ago, another set of amendments was requested from RiteSoftware to allow one of the acquired companies in OneEnergy to pay bonuses to lorry drivers in a certain way. Despite repeated requests, the amendments were not received. Two weeks
ago, it was announced that RiteSoftware had filed for bankruptcy and all software support was suspended. Just before this was announced the HR director of OneEnergy left the company to take up a similar post in the public sector.

OneEnergy has engaged W&P consultants to advise them on the RitePay project. An interim report from W&P suggests that OneEnergy should abandon the RitePay package. ‘It is clear to us that RitePay never had the functionality required to fulfil the variety of requirements inevitable in a company the size of OneEnergy.’ They also commented that this could have been avoided if the project had followed the competitive procurement policy defined in company operating procedures.

W&P also reports that:

- The procurement department at OneEnergy had requested two years of accounts from RiteSoftware. These were provided (see Figure 1) but not interpreted or used in the selection process in any way. W&P concluded ‘that there were clear signs that the company was in difficulty and this should have led to further investigation’.
- They discovered that the former HR director of OneEnergy was the brother of the managing director of RiteSoftware.

Figure 1: RiteSoftware Accounts

<table>
<thead>
<tr>
<th>Extract from the statement of financial position</th>
<th>$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2008</td>
</tr>
<tr>
<td>Goodwill</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>245</td>
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<tr>
<td>Current assets</td>
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</tr>
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<td>Inventories</td>
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<tr>
<td>Trade receivables</td>
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<td></td>
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<tr>
<td>Total assets</td>
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</tr>
<tr>
<td>Liabilities</td>
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<tr>
<td>Current liabilities</td>
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<tr>
<td>Trade payables</td>
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<tr>
<td>Current tax payable</td>
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<tr>
<td>Bank overdraft</td>
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<tr>
<td></td>
<td>268</td>
</tr>
</tbody>
</table>
Non-current liabilities
Long-term borrowings
Total liabilities
Equity
Share capital
Total equity and liabilities

Extract from the statement of comprehensive income
Revenue
Cost of sales
Gross profit
Other costs
Finance costs
Profit before tax
Income tax expense
Profit for the year

Extract from the annual report
Number of staff

Required:

a) W&P concluded in their report ‘that there were clear signs that the company (RiteSoftware) was in difficulty and this should have led to further investigation’.

Assess, using the financial information available, the validity of W&P’s conclusion.

b) Examine FOUR ways in which OneEnergy failed to follow a proper evaluation procedure in the selection of the RitePay software package. Include in your examination a discussion of the implication of each failing.

Answer:-

a) The judicious use of selected financial ratios should have indicated some cause for concern, leading to further investigation of the company and the industrial sector itself. It would have been very helpful to identify typical financial ratios in the sector that RiteSoftware is operating in. However, in the absence of such information, comparison between the two years will provide some evaluation and a basis for further investigation.
However, before calculating and commenting on the ratios, there are a number of things directly discernable from the financial figures provided by the company.

- Firstly, goodwill is the most significant non-current asset. If the company is in the position that it needs further funding, then the extract suggests that there is little to secure this funding against. Most lenders prefer to lend against tangible assets, such as property. The value of goodwill has also increased substantially since 2007, suggesting an acquisition. It would be useful to investigate this further.

- Secondly, although trade receivables year on year have increased, in percentage terms, about the same as revenue, trade payables have increased significantly more. The efficiency ratios should cast more light on this; but it appears that the company may be using trade payables to finance cash flows. This hunch might be supported by the fact that the bank overdraft was actually reduced in 2008.

- Thirdly, although sales revenue increased by 10% in the period, cost of sales grew by a greater percentage, leading to a reduction in profit. It seems reasonable to assume that labour costs largely contributed to this cost of sales increase. The percentage increase in staff was almost 30%, a significant proportion for a small company to integrate and profitably utilise.

- Finally, the extract from the accounts shows no retained profit, suggesting that this is being distributed to shareholders. This needs to be investigated.

**Profitability**

Two profitability ratios can be calculated from the extracted financial information. The ROCE (Return on Capital Employed) has almost halved. Although the actual profit remained the same, it was achieved with significantly higher borrowing.

The net profit margin has also almost halved. The absolute figures are also very low (less than 1% in 2008) and this needs further investigation to see if such a figure is viable, or representative of the industry sector.
Efficiency

The general observation about trade payables made above appears to be borne out by the ratios. The average receivables settlement remains the same, suggesting good credit management in an expanding business. However, average payable days have increased significantly and are now beyond the 30 days normal for this business.

Sales revenue per employee has dropped from $33,500 in 2007 to under $29,500 in 2008.

Liquidity

Liquidity (measured through both the current and acid test ratios) has declined slightly during this period. Also, the values are rather low (approximately 0.76:1) and so this too would need investigation. Perhaps liquidity is traditionally low in this industry sector.

Financial gearing

The two gearing ratios discernible from the extracted information both give cause for concern. The gearing ratio itself has jumped from 25% to above 43%. The interest cover ratio has dropped to 2 from 7.5. Again, the sector needs investigation.

Conclusion

The financial figures of RiteSoftware do suggest that everything was not well and that further investigation was necessary. The figures suggest rising debt, cash flow problems, lowering efficiency and very poor profitability. Further investigation might have revealed that RiteSoftware was typical of the industry. However, it might have also identified the problems that led to the company’s eventual demise.

b) The lack of a formal evaluation of the financial figures of RiteSoftware is the subject of the first part of the question. However, the financial position is just part of the analysis required of the potential supplier. The question requires FOUR further ways in which OneEnergy failed to follow a proper evaluation procedure. In this model answer, the four suggestions are:

1. A failure to investigate the supplier’s organisational structure and ownership
2. A failure to evaluate functional requirements
3. A failure to evaluate non-functional requirements
4. A failure to set proper evaluation criteria and follow a selection process

However, other appropriate suggestions made by the candidate will be given credit.

**Organisational structure and ownership**

The evaluation should have included an investigation into the structure of RiteSoftware, its shareholders and directors. A simple inquiry at Companies House (for example) would have revealed that the managing director of RiteSoftware had the same surname as the HR director of OneEnergy. The HR director could then have been asked directly if he was related to the managing director of RiteSoftware. Of course, there may have been no impropriety intended, but the fact would have come to light and been considered in the evaluation. Many organisations will either not procure from companies where directors and senior managers have relatives or will ask for that information to be disclosed by the supplier in order that it can be weighted in the evaluation of alternative suppliers.

**Functional requirements of the software**

The evaluation process did not formally define the functional requirements of the required system. The scenario mentions that three months ago, another set of amendments was requested from RiteSoftware to allow one of the divisions in OneEnergy to pay bonuses to lorry drivers in a certain way. This functional requirement should have been defined in advance in the process and it would have then been compared with the functions offered by the package. The gap between requirement and package could then be evaluated in advance. This allows two things. Firstly, the match of functionality and package will form part of the evaluation. It is not expected that every function requirement will be completely fulfilled but the degree of compromise has to be assessed in some way. Secondly, an understanding of the gap allows the compromise to be managed in advance. For example, in the context of the pay for lorry drivers it might have been possible to change the pay structure in such a way that rewarded the drivers but avoided the expense of commissioning and maintaining software amendments.
Non-functional requirements of the software

Many software packages do actually offer most of the functionality that the users require. However, how they deliver that functionality is very important and usability can be a great differentiator between competing packages. In the scenario, it seems clear that non-functional requirements such as user-friendliness have not been considered properly in the evaluation. If they had been then it would be unlikely that users would have problems understanding some of the terminology and structure of the software. Problems leading to comments such as ‘it just does not work like we do’ should have been identified in advance. Understanding user competencies and expectations would allow the gap between users’ ability and the requirements of the package to be properly assessed. This measure would be part of the evaluation. Again, if the package is selected, the gap can be planned for in advance so that the extra training costs, alluded to in the scenario, are budgeted for at the outset.

Evaluation criteria and process

Finally, the scenario suggests that the board decided to purchase the RitePay software package without evaluating alternative solutions. It was felt that payroll rules and processes were relatively standard and so there was no need to look further than a package recommended by the HR director. Certainly, the discovery that the HR director is related to the managing director of RiteSoftware now puts his impartiality in doubt. Furthermore, subsequent requested amendments to the functionality of the package suggest that OneEnergy’s payroll rules were not as standard as expected. However, the real problem with choosing one solution without evaluating alternatives is that there is no auditable evidence about how the supplier and the product were selected. At best this looks amateurish; at worst it might cause concern to the non-executive member of the board and its internal auditors. OneEnergy is a plc. The scenario suggests that the company does have a policy on competitive procurement. Avoiding it raises the chance of impropriety, reduces the opportunity of negotiating a good deal, and should attract the attention of non-executive directors and other significant stakeholders.
Question No 17:-

Bestwestern Hotels is a chain of twenty hotels across the country. Each hotel is wholly owned by the company. Four years ago the chain was bought by a group of investors who installed a new management team.

The new management team introduced a new reward scheme for the hotel managers in an attempt to motivate managers to improve the revenue and profitability of the chain. The salary package devised for each manager comprised:

- A relatively low fixed salary
- A bonus payment based on high room occupancy rate. The occupancy rate is the percentage of usable hotel beds filled every night. Managers who achieved more than 90% occupancy rate receive a significant bonus. This target is aimed at keeping the hotel full.
- A smaller bonus payment based on the net profit margin achieved by the hotel. This is aimed at improving the profitability of the hotel.

However, despite these incentives the overall performance of the company is still declining. Managers are generally achieving a high occupancy rate but are largely failing to deliver higher net margins. It is also clear that some managers have achieved a high occupancy rate by declaring that some bedrooms were unfit for use or were being used as seminar rooms.

Also, the pursuit of high occupancy and high net profit appears to be affecting the perceived image of the hotel chain. Once regarded as a mid-market hotel chain, the chain now seems to be perceived as a budget buy. A large percentage of bookings are received through the Internet broker lastsecondhotels.com and their view of the chain is given below, together with some visitor quotes from their web site.

Comments

‘Great last minute bargain … very easy to get rooms at half the advertised rate’

‘Full of school children on a trip … will not be using this chain again’

‘No Internet connections in the rooms or public areas, very disappointing’

‘The bath was cracked and the windows were dirty. Cheap, but badly in need of a clean’
‘Receptionists were very off-hand and unable to help. Did not seem to know much about the area surrounding the hotel’

‘The staff were surly and uncommunicative. Much worse than last time we visited it. It used to be such a lovely hotel’

‘Cheap, but don’t eat there. The price for breakfast was extortionate’

‘Cheap and cheerful but don’t pay the full rate! Always lots of cheap beds available’

‘Food was expensive and dull. The serving staff were uncommunicative, the cutlery was dirty and damaged. Staff were more interested in talking to each other than to the customers’

‘Restaurant food was very expensive and of poor quality. The two nights I stayed there I was the only customer in the restaurant’

Lastsecondhotels.com says: ‘Value for money hotels with rooms always available. Perfect for those last minute breaks’

Required:

a) Analyse the unanticipated consequences of the management reward scheme at Bestwestren Hotels.

b) The DMAIC methodology of Six Sigma includes five steps: Define, Measure, Analyse, Improve and Control. Evaluate the potential benefits of using the DMAIC methodology at Bestwestren Hotels

Answer:-

a) The salary package initiated by the new management team has had some unforeseen side effects. Although high bed occupancy rate appears to be a reasonable measure of effectiveness it has led to a series of consequences.

A significant number of bookings are sold through a late booking Internet-based agency. The scenario explicitly mentions lastsecondhotels.com, but it is likely that the company also sells through other agencies. All such bookings are normally at a discounted price. People are attracted to these sites by the low
price they offer and the savings that can be made on the published price. Firstly, a commission has to be paid to the agency, so eroding the price even further.

There is some evidence in the published comments about selling to groups: ‘Full of school children on a trip ... will not be using this chain again’. Selling to groups is a good way of selling beds because effectively one booking sells many beds. However, groups may be disruptive to other guests, particularly if it is a group of schoolchildren. This also again suggests discounted prices, with guests who are unlikely to use some of the premium services on offer, such as the restaurant.

Basing a bonus on a percentage occupancy figure often invites the manipulation of the data to meet that target. Clearly, the hotels have tried in a number of ways to fill beds. However, another way to meet the target is to reduce the denominator; how many beds are available every night. There is evidence in the scenario that hotel managers have declared bedrooms unfit for use or claimed that they are being used for other purposes. Monitoring the number of beds actually available would be quite difficult.

Attracting guests through agencies, group bookings and other discounted methods may attract the sort of customer who is unwilling to spend money on other services in the hotel. There is plenty of evidence of this from the quotes given on the web site. For example, ‘cheap, but don’t eat there. The price for breakfast was extortionate’. The achievement of the net profit figure is undermined by a combination of cheap room prices and an unwillingness to use services once the guest is there. The hotels might be more profitable if guests were willing to consume food and drink on the premises once they had arrived.

Given the discounted room rates, managers need to cut costs even more if they are to achieve any sort of net profit.

Evidence from the scenario suggests that they are doing this by:

- Hiring cheaper, less competent staff ‘The serving staffs were uncommunicative. Staff were more interested in talking to each other than to the customers.’ ‘The staff were surly and uncommunicative’.
- **Using poorer quality products** ‘Restaurant food was very expensive and of poor quality’.

- **Reducing capital investment** ‘No internet connections in the rooms or public areas, very disappointing’.

- **Reducing operational costs** ‘The bath was cracked and the windows were dirty. Cheap, but badly in need of a clean’.

- **Over-charging for food and drink** ‘Food was expensive and dull’.

In effect, the two measures in the bonus scheme are incompatible. The largest part of the bonus is from high occupancy levels. Consequently managers focus on this, using a number of ways to achieve high occupancy. However, discounting room rates means that the profit margin is being eroded. The only way for managers to make their secondary bonus is to further cut costs by employing cheap labour, suppliers and products. This has to be reinforced by reducing expenditure on maintaining or improving the current infrastructure of the hotel. Unfortunately, not only is this not working (guests are not using the restaurant), but traditional higher spending clients are not staying any more, put off by their fellow guests and the evident lack of investment. ‘Much worse than last time we visited it. It used to be such a lovely hotel’.

So, in conclusion, the reward system initiated by the new management team may achieve the occupancy targets but it will not achieve the profitability targets. The scheme needs to be re-thought.

Furthermore, most reward schemes have elements of fixed salary, group-related performance pay and individual-related performance pay. In the context of Bestwestren Hotels, the group could be conceived as the hotel chain, or as the employees working in each hotel. It appears that much of the manager’s salary is determined by individual-related performance pay. The achievement of the required performance is largely in his or her control because he or she has the authority to cut bedroom rates (to achieve occupancy targets) and to cut costs (to achieve net profit margins). This means that individual managers may financially benefit but the overall performance of the hotel group suffers as a result of customers being unwilling to stay in future at other hotels in the chain. From a different group perspective, the poor performance of the group of employees delivering the service in the hotel is also not reflected in the manager’s pay. So, hiring and managing unhelpful, incompetent staff has no adverse effect on the
manager’s eventual reward. Not only is the basis of the manager’s reward system flawed, but so is the balance between individual elements. The company might benefit from reducing the individual performance element and introducing elements based on the performance of the hotel group as a whole and on the performance of the hotel staff as a whole.

b) Define
This stage is about defining the customer, their Critical to Quality (CTQ) issues, and the core business processes involved. One of the key issues here is to define who the customers are, what their requirements are for products and services, and what their expectations are. This is a key issue for Bestwestren Hotels because the scenario does not really consider customers at all. Profitability and efficiency appear to be the main objectives of the hotels, not servicing customer needs. The customer quotes give some guide to what customers actually want: Internet connections, peace and quiet, helpful staff, good quality food, a good night’s sleep. The business process should be about fulfilling these expectations, not about filling rooms and improving margins.

Measure
Measuring is about setting appropriate performance measures for the core business process. Bestwestren Hotels is currently measuring the wrong things. Measures should probably be centred around customer satisfaction. A data collection plan will have to be developed for the core business process. Data may be collected directly through customer questionnaire analysis and, less directly, through other measures such as frequency of re-booking with the chain.

Analyse
Once collected, the data needs to be analysed to determine the root causes of defects and opportunities for improvement. Gaps will be identified between current performance and the target performance, defined in the measurement stage. It is likely that improvement opportunities will have to be prioritised. A better understanding of the process will also help identify sources of variation and allow them to be tackled. In the context of the inappropriate measures used at Bestwestren Hotels, no analysis of the results appears to have been undertaken. ‘Improvement’ opportunities have been initiated by local managers vested with responsibility for meeting the targets.
Improve
This stage concerns the implementation and improvement of the target process (customer satisfaction) by designing solutions that fix current problems and prevent others from occurring. Improvements are required to achieve and exceed target performance. These improvements need to be carefully defined, explained and managed.

Control
Finally, controls are necessary to keep the process on the new course and to avoid people reverting to the old ways. A monitoring plan needs to be developed, documented and implemented. Systems and structures need to be altered to institutionalise the changes. This may lead to changes in staffing, training and how people are rewarded. This, of course, is absolutely essential at Bestwestren Hotels where poorly thought-out incentive schemes have actually led to poorer performing hotels, particularly in delivering customer satisfaction.

Question No 18:-
Introduction
TMP (The Management Press) is a specialist business publisher; commissioning, printing and distributing books on financial and business management. It is based in a small town in Arcadia, a high-cost economy, where their printing works were established fifty years ago. 60% of the company’s sales are made through bookshops in Arcadia. In these bookshops TMP’s books are displayed in a custom-built display case specifically designed for TMP. 30% of TMP’s sales are through mail order generated by full-page display advertisements in magazines and journals. Most of these sales are to customers based outside Arcadia. The final 10% of sales are made through a newly established website which offers a restricted range of books. These books are typically very specialised and are rarely featured in display advertising or stocked by general bookshops. The books available on the website are selected to avoid conflict with established supply channels. Most of the online sales are to customers based in Arcadia. High selling prices and high distribution costs makes TMP’s books expensive to buy outside Arcadia.
Business changes

In the last decade costs have increased as the raw materials (particularly timber) used in book production have become dearer. Paper is extremely expensive in Arcadia and the trees used to produce it are becoming scarcer. Online book sellers have also emerged who are able to discount prices by exploiting economies of scale and eliminating bookshop costs. In Arcadia, it is estimated that three bookshops go out of business every week. Furthermore, the influential journal ‘Management Focus’, one of the journals where TMP advertised their books, also recently ceased production. TMP itself has suffered three years of declining sales and profits. Expenditure on marketing has been reduced significantly in this period and further reductions in the marketing budget are likely because of the weak financial position of the company. Overall, there is increasing pressure on the company to increase profit margins and sales.

Despite the poor financial results, the directors of TMP are keen to maintain the established supply channels. One of them, the son of the founder of the company, has stated that ‘bookshops need all the help they can get and management journals are the heart of our industry’.

However, the marketing director is keen for the company to re-visit its business model. He increasingly believes that TMP’s conventional approach to book production, distribution and marketing is not sustainable. He wishes to re-examine certain elements of the marketing mix in the context of the opportunities offered by e-business.

A young marketing graduate has been appointed by the marketing director to develop and maintain the website. However, further development of the website has not been sanctioned by the Board. Other directors have given two main reasons for blocking further development of this site. Firstly, they believe that the company does not have sufficient expertise to continue developing and maintaining its own website. It is solely dependent on the marketing graduate. Secondly, they feel that the website will compete with the established supply channels which they are keen to preserve.

However, the marketing director is convinced that investing in e-business is essential for the survival of TMP. ‘We need to consider what unique opportunities it offers for pricing the product, promoting the product, placing the product and providing physical evidence of the quality of the product. Finally, we might even redefine the product itself’. He feels if the company fails to grasp these opportunities, then one of its competitors will, and ‘that will be the end of us’.
Required:

a) Determine the main drivers for the adoption of e-business at TMP and identify potential barriers to its adoption.

b) Evaluate how e-business might help TMP exploit each of the five elements of the marketing mix (price, product, promotion, place and physical evidence) identified by the marketing director.

Answer:

a) The main drivers for the adoption of e-business at TMP are:

- Cost reduction, specifically raw material costs (the cost of paper) and distribution costs to bookshops.
- Improved profit margin, perhaps achieved by removing the bookshop as an intermediary.
- Increased revenue, increasing sales (as well as profit margins) is an important objective.
- The desire to keep up-to-date (exemplified by the marketing director) and hence to avoid losing market share to businesses prepared to embrace e-business.
- Increased ecological concern about the use of timber for paper manufacture. The trees used to provide the timber are becoming increasingly scarce.
- People, in the shape of the marketing director and the graduate recruited to develop the website.

The main barriers to the adoption of e-business at TMP are:

- Concerns about the cost of developing the website, particularly when revenue and profits are decreasing. Marketing expenditure has been reduced and this is likely to continue.
- Concerns that it will destroy the relationship with bookshops and those sales will decrease overall as a result. Destroying existing channels is often a major barrier to change.
- Lack of technical ability within the company to develop and maintain the website and the impact this may have on its long-term viability.
- Concern about fraud and piracy. This may be within the context of the financial transactions of e-commerce. It may also reflect concerns about the pirating of books, leading to either cheap printed versions being produced
and sold in local markets or to illegitimate copies being sold and distributed on the web.
- Other directors could be perceived as a barrier to the adoption of e-business.

b) Product
At present, TMP offer conventional physical books. E-business may provide opportunities for either replacing or augmenting this product. For example:
- Replacing the book with an electronic alternative that customers can read directly from the screen, view through an e-book reader or print off at their own cost. This may allow the range of products to be increased, introducing books that would be uneconomic to produce conventionally.
- Augmenting the product by providing supplementary services and features. For example, many text books now have an associated website that includes further case studies, exercises, solutions, simulations etc. This may be particularly applicable to management texts where readers often require further information.

Using e-business to change the nature of the product should help reinforce two of the drivers identified in the first part of this question. It should help reduce raw material costs as well as helping the company meet environmental targets. Augmenting the product should help deliver a better quality product to customers.

E-business also offers opportunities for extending the product range, perhaps offering (through intermediaries) management training, financial advice and other related services.

Price
At present TMP largely sells through bookshops and so the TMP price has to reflect a profit margin for the bookshop. If TMP exploits e-business to develop a channel that eliminates bookshops, then it should be able to simultaneously discount the price of the book and yet still improve their profit margin. E-business may also be an opportunity to experiment with differential pricing. The scenario notes that overseas sales are low because of the relatively high sales price of books. TMP may be able to combine differential pricing (in local
currencies) with electronic alternatives to find a product that is saleable in these markets.

TMP has to be aware of any price-comparison websites and be prepared to monitor costs on these sites and react accordingly.

They also have to be aware of large established channels, such as Amazon. Such sites will expect keen pricing, but will also pay commissions on books sold through the site.

Finally, TMP might seek an alternative price strategy, based for example on subscribing to the site, rather than selling books. A ‘book’ may become a continually updated web resource that customers pay to use on either a one-off or continuing basis.

There is no need for them to actually own the book themselves. TMP therefore becomes a virtual library.

Direct pricing to customers also provides the opportunities for special offers, pre-publication prices and other deals. For example, special discount prices on related books can be offered to customers who have placed an order for a specific book.

**Promotion**

At present, promotion is restricted to a custom-built display case at bookshops and full-page display advertisements in magazines and journals. Such promotion reflects a conventional ‘push’ approach to marketing that focuses on the product rather than the customers. If the website records the details of visitors, then the company can identify potential customers for its products and target them in mail-shots and on-line suggestions. For example, customers who have bought certain titles may have others suggested to them when they next visit the site. Many sites also make buying suggestions based on the behavior of other customers, for example displaying ‘other titles which have been bought by customers who have bought this book’.

E-business will require the company to consider both its online and offline promotion. TMP may be able to reduce its offline expenditure, cutting back on advertising. In its place it might spend elsewhere, particularly in making sure
that it figures prominently in search engine listings. Links to other sites should also be considered, allowing promotion of TMP books on related sites. For example, internet sites providing management advice, information and glossaries may have a link to the TMP site. TMP pays commission to the site on sales made through such links. Banner advertising might also be considered on such sites. A similar approach might be used with academic websites where a TMP book is recommended reading for a course.

**Place**

Bookshops have limited reach, although they do provide the facility for the potential buyer to handle the book (see physical evidence). The display advertising has unpredictable reach. Circulation figures are usually provided by journals and magazines but this does not give any information on how many people actually read the advertisements in question. The scenario suggests that both bookshops and journals appear to have declining reach, based on statistics about their closure. The internet has global reach. The relatively small percentage of books currently sold outside Arcadia is attributed to the cost of those books. However, it may be that the rest of the world is simply unfamiliar with TMP’s booklist, a shortcoming that will be addressed by the internet site

In wider e-business terms, a consideration of place will also lead to TMP considering whether it is economic to continue printing in Arcadia which is a high-cost economy. The printing works were established 50 years ago and it seems likely that cost-savings could be gained by printing and distributing the books in lower labour cost economies.

**Physical evidence**

One of the problems in buying books is the ability to look inside those books before purchase. Often titles are insufficient to make a purchasing decision. One of the advantages of the bookshop is that the potential buyer can physically inspect the goods, looking at the content in detail to ensure that it meets their needs. In contrast, physical evidence is not possible at all through display advertising in a journal.

On the website, it would be possible to allow the potential buyer to view the contents of the book in detail and (usually) one physical chapter. This so-called
'look inside’ facility allows them to base their buying decision on some (but not all) physical evidence. Further evidence can also be provided by unsolicited recommendations and reviews from other customers. Feedback, comments and rating systems are typical features on a website. These are rarely available through the bookshop. The bookshop employees have rarely read all the books they sell and, if they have read the book, are probably biased towards a sale. Sometimes, reviews have been placed in the book, often from a previous printing or edition. However, these are only the ones sanctioned by the publisher. Unsolicited references are one of the advantages of the website (as long as they are good!).

The problem of physical evidence can also be addressed by seeing the book as a website resource rather than a physical entity. If the reader pays for access, then very little expenditure is likely on a book that does not fulfill the reader’s requirements and expectations.

Question No 19:-

Introduction

Haier Limited is based in the country of Pakistan. It imports electrical components from other countries and distributes them throughout the domestic market. The company was formed twenty years ago by Ron Frew, who now owns 80% of the shares. A further 10% of the company is owned by his wife and 5% each by his two daughters.

Although he has never been in the navy, Ron is obsessed by ships, sailing and naval history. He is known to everyone as ‘The Commander’ and this is how he expects his employees to address him. He increasingly spends time on his own boat, an expensive motor cruiser, which is moored in the local harbour twenty minutes drive away. When he is not on holiday, Ron is always at work at 8.00 am in the morning to make sure that employees arrive on time and he is also there at 5.30 pm to ensure that they do not leave early. However, he spends large parts of the working day on his boat, although he can be contacted by mobile telephone. Employees who arrive late for work have to immediately explain the circumstances to Ron. If he feels that the explanation is unacceptable then he makes an appropriate deduction from their wages. Wages, like all costs in the company, are closely monitored by Ron.
Employees, customers and suppliers

Haier currently has 25 employees primarily undertaking sales, warehousing, accounts and administration. Although employees are nominally allocated to one role, they are required to work anywhere in the company as required by Ron. They are also expected to help Ron in personal tasks, such as booking holidays for his family, filling in his personal tax returns and organising social events.

Pakistan has laws concerning minimum wages and holidays. All employees at Haier Ltd are only given the minimum holiday allocation. They have to use this allocation not only for holidays but also for events such as visiting the doctor, attending funerals and dealing with domestic problems and emergencies. Ron is particularly inflexible about holidays and work hours. He has even turned down requests for unpaid leave. In contrast, Ron is often away from work for long periods, sailing in various parts of the world.

Ron is increasingly critical of suppliers (‘trying to sell me inferior quality goods for higher prices’), customers (‘moaning about prices and paying later and later’) and society in general (‘a period working in the navy would do everyone good’). He has also been in dispute with the tax authority who he accused of squandering his ‘hard-earned’ money. An investigation by the tax authority led to him being fined for not disclosing the fact that significant family expenditure (such as a holiday for his daughters overseas) had been declared as company expenditure.

Company accountant

It was this action by the tax authority that prompted Ron to appoint Ann Li as company accountant. Ann had previously worked as an accountant in a number of public sector organisations, culminating in a role as a compliance officer in the tax authority itself. Ron felt that ‘recruiting someone like Ann should help keep the tax authorities happy. After all, she is one of them’.

Ann was used to working in organisations which had formal organisational hierarchies, specialised roles and formal controls and systems. She tried to install such formal arrangements within Haier. As she said to Ron ‘we cannot have everyone working as if they were just your personal assistants. We need structure, standardised processes and accountability’. Ron resisted her plans, at first through delaying tactics and then through explicit opposition, tearing up her proposed organisational chart and budget in
front of other employees. ‘I regret the day I ever made that appointment’, he said. After six months he terminated her contract. Ann returned to the tax authority as a tax inspector.

**Required:**

The cultural web allows the business analyst to explore ‘the way things are done around here’.

a) Analyse Haier Ltd using the cultural web or any other appropriate framework for understanding organizational culture.
b) Using appropriate organisation configuration stereotypes identified by Henry Mintzberg, explain how an understanding of organisation configuration could have helped predict the failure of Ann Li’s proposed formalisation of structure, controls and processes at Haier Ltd.

**Answer:-**

a) The cultural web is a representation of the taken-for-granted assumptions, or paradigm, of an organisation. The question specifically references the cultural web, but any framework that is appropriate for understanding the culture of an organization can be used.

Symbols such as logos, offices, cars, titles, language and terminology are a shorthand representation of the nature of the organisation. At Haier, the adoption of the term ‘Commander’ by its managing director, Ron Frew, and his use of naval terminology is indicative of how he wishes to be perceived and the way he wants the company to run. Indeed the name of the company itself reflects his naval obsession. The main symbol of his success is the motor cruiser that Frew owns and moors at the local port. The irony is that Frew actually has no naval experience. He is acting out a stereotype of how he perceives naval life to be.

Power structures are also likely to influence the key assumptions of an organisation. The most powerful groupings within the organisation are likely to be closely associated with core assumptions and beliefs. At Haier, power is centred on one person. Leadership comes from a person who holds strongly held views, opinions and beliefs.
The organisational structure is likely to reflect power and show important roles and relationships. At Haier, there is little formal structure and Ann Li’s attempt to put one in place was opposed.

Control systems, measurements and reward systems emphasise what is important to monitor in the organisation. Frew is primarily concerned with cost control. Emphasis is on punishment (making deductions from wages for late arrival), rather than reward, which fits his naval stereotype. There appear to be few formal process controls and relationships with both customers and suppliers are confrontational. Ann Li’s attempt to install formal controls throughout the organisation was resisted by Frew.

Routines and rituals define the ‘way we do things around here’. For Frew there is a distinction between the routines of staff (must arrive on time, minimum holidays with no flexibility) and the rules that apply to himself – flexible working, long holidays, the expectation that employees will help him with his personal life.

The stories told by members of an organisation are usually concerned with success, disasters, heroes, villains and mavericks. It appears that Frew is the hero, seeing off lazy staff, unscrupulous suppliers (trying to sell me inferior quality goods for higher prices), problematic customers (moaning about prices and paying later and later) and bureaucratic officials (squandering my hard-earned money). These are identified as the villains. He even extends his stories to society as a whole, believing that a period working in the navy would do everyone good.

Finally, the company paradigm summarises and reinforces the other elements of the cultural web. Underpinning all of this is Frew’s belief that the company is run for his own gratification and that of his immediate family. The benefits he receives and the lifestyle he enjoys is his reward for being a risk taker in a hostile environment which is always trying to limit him. He appears to see expenditure on his family (such as share gifts and holidays) as perfectly acceptable. Figure 1 summarises the cultural web for Haier Ltd.
b) An organisation’s configuration considers how the structure, processes and relationships of an organisation work together. Henry Mintzberg has identified six configuration stereotypes. Each configuration is idealised, a simplification. Mintzberg is at pains to point out that no real organisation is exactly like any one of them. Some come close to a specific stereotype, others reflect combinations and yet others are in transition from one form to another.

In the context of Haier, two configurations are of interest:
Firstly, the entrepreneurial organisational configuration has the following attributes relevant to Haier.

Structure
- Simple, informal and flexible with few staff and no significant middle-line hierarchy.
- Activities revolve around the chief executive, who controls personally through direct supervision.

Context
- Simple and dynamic environment
- Strong leadership, autocratic
- Small organisation.

Power is focused on the chief executive, who personally exercises it. Formal controls are discouraged and seen as a threat to that person’s authority. The typical owner (such as Ron Frew) exercises control through informal, direct (face-to-face) supervision.

Employees may find such organisations highly restrictive. In Mintzberg’s words they may not feel ‘like the participants in an exciting journey, but like cattle being led to market for someone else’s benefit’. Haier Limited has many of the characteristics of an entrepreneurial organisation.

Secondly, in contrast Ann Li has joined from an organisation which is likely to have the attributes of a machine bureaucracy – another stereotype identified by Mintzberg. In structural terms these organisations are characterised by:

Structure
- Formal procedures
- Sharp division of labour
- Strict hierarchy.

Context
- Usually larger, mature organisation
- Rationalised, standardised processes.
- Simple and stable environment

In such organisations some operations are routine, many are rather simple and repetitive and as a result work processes are highly standardised. This is Ann Li’s experience that she is trying to bring to Haier.

An understanding of organisational configurations would have helped identify the likely failure of Ann Li’s proposal. She is trying to introduce a functional organisational structure into a CEO-controlled environment and a formal set of processes into an environment where flexible processes are directed by the CEO. The key factor here is the mismatch between structure, processes and context. The failure of her proposals could have been predicted by someone who
understood the need to correctly match organisational structure, controls and processes.

**Question No 20:-**

**Introduction**

The Institute of Administrative Accountants (IAA) has a professional scheme of examinations leading to certification. The scheme consists of six examinations (three foundation and three advanced) all of which are currently assessed using conventional paper-based, written examinations. The majority of the candidates are at the foundation level and they currently account for 70% of the IAA’s venue and invigilation costs.

There are two examination sittings per year and these sittings are held in 320 centres all over the world. Each centre is administered by a paid invigilation team who give out the examination paper, monitor the conduct of the examination and take in completed scripts at the end. Invigilators are also responsible for validating the identity of candidates who must bring along appropriate identification documents. At over half of the centres there are usually less than ten candidates taking the foundation level examination and no candidates at all at the advanced level. However, the IAA strives to be a world-wide examination body and so continues to run examinations at these centres, even though they make a financial loss at these centres by doing so.

Recent increases in invigilation costs have made the situation even worse. However, the principles of equality and access are important to the IAA and the IAA would like to increase the availability of their examinations, not reduce it. Furthermore, the IAA is under increased financial pressure. The twice-yearly examination schedule creates peaks and troughs in cash flow which the Institute finds increasingly hard to manage. The Institute uses its $5m loan and overdraft facility for at least four months every year and incurred bank charges of $350,000 in the last financial year.

**Examinations**

All examinations are set in English by contracted examiners who are paid for each examination they write. All examinations are three-hour, closed-book examinations marked by contracted markers at $10 per script. Invigilators send completed scripts directly to markers by courier. Once scripts have been marked they are sent (again by courier) to a centralised IAA checking team who check the arithmetic accuracy of the marking. Any marking errors are resolved by the examiner. Once all marks have been
verified, the examination results are released. This usually takes place 16 weeks after the examination date and candidates are critical of this long delay. The arithmetic checking of scripts and the production of examination results places significant demands on IAA full-time administrative staff, with many being asked to work unpaid overtime. The IAA also employs a significant number of temporary staff during the results processing period.

E-assessment

The new head of education at the IAA has suggested e-assessment initiatives at both the foundation and advanced levels.

He has suggested that all foundation level examinations should be assessed by multiple-choice examinations delivered over the Internet. They can be sat anytime, anyday, anywhere. ‘Candidates can sit these examinations at home or at college. Anywhere where there is a personal computer and a reliable broadband connection.’

Advanced-level examinations will continue to be held twice-yearly at designated examination centres. However, candidates will be provided with personal computers which they will use to type in their answers. These answers will then be electronically sent to markers who will use online marking software to mark these answers on the screen. The software also has arithmetic checking facilities that mean that marks are automatically totalled for each question. ‘100% arithmetic accuracy of marking is guaranteed.’

He has also suggested that there is no need to make a formal business case for the adoption of the new technology. ‘Its justification is so self-evident that defining a business case, managing benefits and undertaking benefits realization would just be a pointless exercise. It would slow us down at a time when we need to speed up.’

Required:

a) Evaluate the perceived benefits and costs of adopting e-assessment at the IAA.

b) Explain why establishing a business case, managing benefits and undertaking benefits realisation are essential requirements despite the claimed ‘self-evident’ justification of adopting e-assessment at the IAA.

Answer:-

a) Benefits
Reduction in venue and invigilation costs
Approximately 70% of these costs are associated with the foundation level examinations. Using internet-based assessment (anytime, anyday, anywhere) the IAA will reduce costs which the scenario suggests are currently increasing. This is particularly significant for smaller centres which only offer foundation level examinations. These smaller centres have long been acknowledged to be uneconomic and have only been retained because of the IAA’s accessibility objective.

Reduction in financing costs
The accessibility of foundation level examinations throughout the year should help address the cash flow problems associated with two large diets of examinations. The scenario suggests that the association uses its $5m loans and overdraft facility for at least four months of the year, incurring bank charges of $350,000 in the last financial year.

Reduction in marking costs
Moving the foundation examinations to on-line multiple choice assessment will eliminate marking costs completely for examinations at this level. The candidate’s answers are automatically marked and the result presented within seconds of the paper being completed.

Elimination of checking costs
These are eliminated completely at both foundation and advanced levels. At the foundation level, multiple-choice examination answers require no checking at all. At the advanced level, on-line marking software accurately totals the marks allocated to each question, so no manual checking process is required.

Reduction in central administrative costs
In the current system, temporary administrative employees are employed in peak periods to help with processing results. Using on-line multiple choice examinations for the foundation level examinations should reduce the need for temporary staff.

Elimination of courier costs
Courier costs (from invigilator to marker and from marker to IAA central checking) will be eliminated completely, delivering considerable savings.
The benefits identified above have all been concerned with cost reduction and should be relatively easy to quantify. There may also be benefits associated with the following.

**Increased fee income**
The anytime, anyday, anywhere principle of the foundation examinations may lead to more students registering all over the world. The ability to process results quickly may tempt students to study with the IAA, rather than competitors. This may again lead to increased income.

**Costs**

**Security costs**
The removal of formal twice-yearly foundation level examinations creates significant security issues. It is not clear if the head of education has yet recognised these issues and it may not be technically feasible to address them. They are listed here as costs, because if the problems can be solved it will be at a cost. Three immediate problems to overcome are:

- Ensuring that the specified candidate has taken the examination and that they have not employed a more able substitute to take their place. At present, the invigilator checks the validity of the identification presented. It will be costly for the IAA to guarantee that personal identification checks are in place in all places and at all times when examinations are being sat.

- Ensuring that the candidate does not consult books and texts during the examination. Again it will be costly to ensure that candidates are checked for the presence of such materials whenever and wherever these examinations are taken.

- Ensuring that all centres used for on-demand examinations can be trusted not to assist candidates, many of whom may be students who are being taught at the venue, or employees whose employers want them to pass so that they qualify sooner.

**Hardware costs**
This is the cost of the computers that will be used for the advanced examinations. It is likely that these will be rented. Appropriate word processing software will
have to be available on these computers. Support will have to be provided during the examination.

*Software licence costs*

Software licence costs will be associated with the software for delivering the multiple-choice examinations and for the on-line marking of the advanced examinations. There will be initial purchase costs and continuing support costs for both of these applications.

*Increased setting costs*

There is likely to be a significant one-off cost in producing a large enough bank of multiple-choice questions for the foundation examinations. These questions will also need continuing review and renewal.

*On-line support costs*

Anything relying on technology requires back-up and support teams that can react when that technology fails, particularly during an assessment session. The provision of support incurs a continuing cost.

*Redundancy costs*

There may be redundancy costs associated with reducing the number of internal IAA staff required for checking. Some of the costs incurred above are capital costs which have to be incurred to launch the e-assessment process. The IAA is not cash rich and so the launch of e-assessment will incur significant initial financing costs.

b) The answer to the first part of this question suggests that there are still significant cost issues that need to be considered, particularly concerning the delivery of appropriate security. The requirement to define a formal business case will mean that the head of education will have to quantify the amount and timing of costs and benefits. Dependent on the investment appraisal method used, this will lead to a suggested time to payback, an Internal Rate of Return (IRR) or a Net Present Value (NPV) for the project. Such quantification will be particularly valuable where costs and benefits are difficult to define because of the intangible nature of the benefit or issue. For example: the potential benefit of attracting more students and the potential cost of providing adequate security requirements for on-line
assessment require considerable definition. The need for a formal business case will force the head of education to define the features of the project more accurately and with that precision will come a realistic assessment of costs and benefits. It will also allow the project to be compared with other projects that might be considered by the IAA as well as seeing whether it is feasible overall, given the Institute’s cash flow problems.

Managing the benefit through the progress of the project ensures that it remains on track to deliver value to the organisation. During the conduct of a project there are often changes in requirements, and these are particularly likely in a project as innovative as e-assessment. Without proper benefits management the initial business case might not be re-visited and so costs may soar and the proposed benefits may not materialise. Consequently, even if the justification of the project was initially ‘self-evident’, benefits management would be necessary to ensure that justification remained.

Finally, a formal benefits realisation review should take place some time after the project has been completed and the product (in this case e-assessment) has been implemented. It will assess whether the benefits promised in the original business case have actually been delivered. One of the primary advantages of benefits realisation is that it forces the sponsor to carefully define the nature, timing and value of each benefit that is being claimed. It thus provides a yardstick that success can be monitored against.

The business sponsor at IIA is extremely enthusiastic about e-assessment and this could easily lead to it being adopted without careful consideration of the costs and benefits. The existence of a business case and benefits management programme is that the business case will have to be carefully defined and its validity monitored throughout the process, culminating in a formal review. Organisations where such a process is missing often adopt projects based on enthusiasm and political will, usually to the long-term detriment of the organisation. The expectation that the sponsor will be formally held to account for the delivery of the benefits is a good discipline. It should discourage the development of business cases based on spurious benefits which are unlikely to be delivered.
Question No 21:-

8-Hats Promotions was formed twenty years ago by Barry Gorkov to plan, organise and run folk festivals in Arcadia. It soon established itself as a major events organiser and diversified into running events for the staff and customers of major companies. For example, for many years it has organised launch events, staff reward days and customer experiences for Kuizan, the car manufacturer. 8-Hats has grown through a combination of organic growth and acquiring similar and complementary companies. Recently, it purchased a travel agent (now operated as the travel department of 8-Hats) to provide travel to and from the events that it organised.

Barry Gorkov is himself a flamboyant figure who, in the early years of the company, changed his name to Barry Blunt to reflect his image and approach. He calls all the events ‘jobs’, a terminology used throughout the company. A distinction is made between external jobs (for customers) and internal jobs (within 8-Hats itself). The company is organised on functional lines. The sales and marketing department tenders for external jobs and negotiates contracts. Sales managers receive turnover-related bonuses and 8-Hats is known in the industry for its aggressive pricing policies. Once a contract is signed, responsibility for the job is passed to the events department which actually organises the event. It is known for its creativity and passion. The operations department has responsibility for running the event (job) on the day and for delivering the vision defined by the events department. The travel department is responsible for any travel arrangements associated with the job. Finally, the finance department is responsible for managing cash flow throughout the job, raising customer invoices, paying supplier invoices and chasing any late payments.

However, there is increasing friction between the departments. The operations department is often unable to deliver the features and functionality defined by the events department within the budget agreed by the sales manager. Finance is unaware of the cash flow implications of the job. Recently, an event was in jeopardy because suppliers had not been paid. They threatened to withdraw their services from the event. Eventually, Barry Blunt had to resolve friction between finance and other departments by acquiring further funding from the bank. The event went ahead, but it unsettled Kuizan which had commissioned the job. The sales and marketing department has also complained about the margins expected by the travel department, claiming that they are making the company uncompetitive.
There has been a considerable amount of discussion at 8-Hats about the investment appraisal approach used to evaluate internal jobs. The company does not have sufficient money and resources to carry out all the internal jobs that need doing. Consequently, the finance department has used the Net Present Value (NPV) technique as a way of choosing which jobs should be undertaken. Figure 1 shows an example comparison of two computer system applications that had been under consideration. Job One was selected because its Net Present Value (NPV) was higher ($25,015) than Job Two ($2,090).

‘I don’t want to tell you about the specific details of the two applications, so I have called them Job One and Job Two’ said Barry. ‘However, in the end, Job One was a disaster. Looking back, we should have gone with Job Two, not Job One. We should have used simple payback, as I am certain that Job Two, even on the initial figures, paid back much sooner than Job One. That approach would have suited our mentality at the time – quick wins. Whoever chose a discount rate of 8% should be fired – inflation has been well below this for the last five years. We should have used 3% or 4%. Also, calculating the IRR would have been useful, as I am sure that Job Two would have shown a better IRR than Job One, particularly as the intangible benefits of improved staff morale appear to be underestimated.

Intangible benefits are just as important as tangible benefits. Finally, we should definitely have performed a benefits realisation analysis at the end of the feasibility study. Leaving it to after the project had ended was a ridiculous idea.’
Required:

a) Barry Blunt has criticised the investment appraisal approach used at 8-Hats to evaluate internal jobs. He has made specific comments on payback, discount rate, IRR, intangible benefits and benefits realisation.

Figure 1: NPV calculation for two projects at 8-Hats (with a discount rate of 8%)
Critically evaluate Barry’s comments on the investment appraisal approach used at 8-Hats to evaluate internal jobs.

b) Discuss the principles, benefits and problems of introducing a matrix management structure at 8-Hats.

**Answer:**

a) In the scenario, Barry Blunt commented on simple payback (and its supposed advantage over discounted cash flow), the selection of the discount rate, the role of the IRR, the importance of intangible benefits and the realisation of benefits. Each of these five themes is elaborated on below:

Simple Payback calculation (time to payback)

**Job One**

All figures in $000

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**Job Two**

All figures in $000

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*Figure 1: Payback calculations for 8-Hats*

The calculations (Figure 1) show that Barry Blunt’s assertion is not true, both jobs payback early in year 4. If payback (time to payback) had been used, Job One would probably still have been selected because it pays back more in Year 4 than Job 2.

Barry also seems to misunderstand the limitations of payback. It ignores all cash flows beyond the payback period, which in longer projects can be very
significant. In this example, payback ignores the fact that Job 1 has a significantly higher net cash flow inflow on year 4 than Job 2.

The discount rate

Inflation is taken into account in setting the discount rate. However, interest forgone, the cost of capital (if money is being borrowed to fund the investment) and risk will also have an influence. Interest forgone is concerned with the opportunity cost of investing the money in a bank deposit account and earning interest. The cost of capital is concerned with the cost of borrowing money to fund investment. A risk premium would reflect the perceived risk associated with these two internal projects. The discount rate used will incorporate an allowance for risk which will determine the required rate of return or ‘hurdle rate’ that a project must exceed for it to be viable. Information about risk-free interest rates during the period, the risk profile of the company and the company’s cost of capital (using the Capital Asset Pricing Model) would also have been of relevance.

Even if there was an economic logic to changing the discount rate to 3% or 4% this would have no overall effect on the selection of the projects. In fact it is likely to have made Job 1 even more attractive than Job 2, as the cash flows in year 3 and 4 would have been discounted less. In fact, if a discount rate of 4% is used (and this calculation is not expected of the candidate) then the gap in NPV between Jobs 1 and 2 increases.

The Internal Rate of return (IRR)

The IRR is basically the discount rate that produces an NPV of zero for net project cash flows. If the selection is between two projects with the same scale of investment (which is the case here), then it has no effect on which project is selected. The project with the greatest NPV will usually produce the higher IRR. However, the IRR does become important when any project selected has to achieve a pre-specified company rate, or where projects with different scales of investment are being compared. This is not the case at 8-Hats.

Tangible and intangible benefits

The fundamental problem with investment appraisal generally is the reliability of cash flow estimates made for future cash inflows and outflows. For both jobs
there seems to be an inclusion of specific monetary values for what appear to be intangible benefits – better information and improved staff morale. As Barry Blunt says, these are important, but it is very unlikely that either of these could be predicted with any certainty, particularly at the start of the project. Estimating for later time periods in the project is also very difficult and it is significant that these benefits increase as the project progresses. These intangible benefits amount to $110,000 for Job One and $50,000 for Job Two. If these intangible benefits are deducted from the analysis then, in fact, Job Two has a higher NPV than Job One. However, both are negative, suggesting that neither project should be attempted.

**Benefits realisation**

Finally, Barry has a fundamental misunderstanding of benefits realisation. The feasibility study is concerned with establishing the business case of a project and it should identify the project’s benefits and costs. Benefits realisation is concerned with establishing whether the predicted benefits in the business case have been realised once the product or service delivered by the project has been in place for some time. It compares actual costs and benefits with those predicted in the business case. It cannot take place after the feasibility study of the project because at that point the project has not been completed and so any predicted benefits could not, at that stage, have been realised.

b) 8-Hats Promotions are currently structured in functional departments, with each function representing activities of the company that have either been acquired (for example travel) or organically developed. Each job is passed between functions, with each function focusing on optimising its part of the transaction. Thus the sales department concentrates on winning the job by fiercely reducing prices because the sales managers are rewarded on turnover, not profit. The events department focuses on providing the most rewarding client experience and the travel department on selling travel options with the best profit margin. The focus of the travel department can cause conflict with the sales and marketing department and the operations department has the problem of trying to profitably deliver an event at a price agreed by sales and marketing department but with the functionality promised by the events department. The finance department has responsibility for managing the cash flow of the job and the payment of invoices and collection of money owing. There have been
occasions where a job has been jeopardised by the failure of the company to pay key suppliers on time.

The problems described above are typical of a functional structure and the ‘silo effect’ caused by departments sub-optimising based on their own objectives and interests. The job, which is effectively being passed across the silos, suffers due to lack of co-ordination. Conflicts between two silos can often only be dealt with by managers who are above the silos. There is an example in the scenario where Barry Blunt has to intervene to arrange extra funding to pay supplier invoices when those suppliers threaten to boycott a folk music festival.

The matrix structure is an attempt to manage key elements of the company across the functional departments. This might be a product, project or a clearly defined client sector. In the context of 8-Hats it is jobs, which are effectively projects, and potentially, key accounts (such as Kuizan) that need to be managed across the functional silos.

Each job has the characteristics of a project. It has an established start, it runs for a few months, and then has a specified finish which is often the event itself (such as the folk festival or a Kuizan customer experience event). A multi-disciplinary project team drawn from all of the functional sections would allow continuity and focus on delivering a successful and profitable project. Because much of the company is project-based, a set of profitable projects should lead to a profitable company. Decisions within the project will, to some extent, reflect a consensus view of all concerned. The sales manager responsible for agreeing the deal would still be involved at event realisation and would also contribute to the management of cash flow through the complete project. This commitment to the project goal should lead to a more rewarding client experience. The need to keep clients satisfied is another potential element to the matrix, with account managers being appointed to key accounts with the responsibility of managing clients across both silos and projects.

The need for project teams to reflect a consensus view often means that decisions may take longer in a matrix structure and tension within the multi-disciplinary team may lead to a large amount of conflict. This conflict is more likely when cost and profit responsibilities are either unclear or counter-productive. At 8-Hats, the practice of rewarding sales managers on a turnover basis will have to
be reviewed, otherwise there will be significant tension between the line (function) and the project. It has also been claimed that job and task responsibilities are unclear in a matrix structure and so the company will have to address this. Johnson, Scholes and Whittington make the point that ‘one arm of the matrix has to lead in the sense that it dictates some key parameters within which the other arm must work’. In the context of the case study scenario it seems reasonable to devolve profit responsibility and work allocation to the project, leaving the functions to provide technical support and (perhaps) appraisal and competence definition responsibilities. The line manager becomes primarily responsible for the person and the project manager for the project. Such a change would require key cultural changes at 8-Hats.

Question No 22:-

iCompute was founded twenty years ago by the technology entrepreneur, Ron Yeates. It initially specialised in building bespoke computer software for the financial services industry. However, it has expanded into other specialised areas and it is currently the third largest software house in the country, employing 400 people. It still specialises in bespoke software, although 20% of its income now comes from the sales of a software package designed specifically for car insurance.

The company has grown based on a ‘work hard, play hard work ethic’ and this still remains. Employees are expected to work long hours and to take part in social activities after work. Revenues have continued to increase over the last few years, but the firm has had difficulty in recruiting and retaining staff. Approximately one-third of all employees leave within their first year of employment at the company. The company appears to experience particular difficulty in recruiting and retaining female staff, with 50% of female staff leaving within 12 months of joining the company. Only about 20% of the employees are female and they work mainly in marketing and human resources.

The company is currently in dispute with two of its customers who claim that its bespoke software did not fit the agreed requirements. iCompute currently outsources all its legal advice problems to a law firm that specialises in computer contracts and legislation. However, the importance of legal advice has led to iCompute considering the establishment of an internal legal team, responsible for advising on contracts, disputes and employment legislation.
The support of bespoke solutions and the car insurance software package was also outsourced a year ago to a third party. Although support had been traditionally handled in-house, it was unpopular with staff. One of the senior managers responsible for the outsourcing decision claimed that support calls were ‘increasingly varied and complex, reflecting incompetent end users, too lazy to read user guides.’ However, the outsourcing of support has not proved popular with iCompute’s customers and a number of significant complaints have been made about the service given to end users. The company is currently reviewing whether the software support process should be brought back in-house.

The company is still regarded as a technology leader in the marketplace, although the presence of so many technically gifted employees within the company often creates uncertainty about the most appropriate technology to adopt for a solution. One manager commented that ‘we have often adopted, or are about to adopt, a technology or solution when one of our software developers will ask if we have considered some newly released technology. We usually admit we haven’t and so we re-open the adoption process. We seem to be in a state of constant technical paralysis.’

Although Ron Yeates retired five years ago, many of the software developers recruited by him are still with the company. Some of these have become operational managers, employed to manage teams of software developers on internal and external projects. Subba Kendo is one of the managers who originally joined the company as a trainee programmer. ‘I moved into management because I needed to earn more money. There is a limit to what you can earn here as a software developer. However, I still keep up to date with programming though, and I am a goalkeeper for one of the company’s five-a-side football teams. I am still one of the boys.’

However, many of the software developers are sceptical about their managers. One commented that ‘they are technologically years out of date. Some will insist on writing programs and producing code, but we take it out again as soon as we can and replace it with something we have written. Not only are they poor programmers, they are poor managers and don’t really know how to motivate us.’ Although revenues have increased, profits have fallen. This is also blamed on the managers. ‘There is always an element of ambiguity in specifying customers’ requirements. In the past, Ron Yeates would debate responsibility for requirements changes with the customer. However, we now seem to do all amendments for free. The customer is right even when we know he
isn’t. No wonder margins are falling. The managers are not firm enough with customers.’

The software developers are also angry that an in-house project has been initiated to produce a system for recording time spent on tasks and projects. Some of the justification for this is that a few of the projects are on a ‘time and materials’ basis and a time recording system would permit accurate and prompt invoicing. However, the other justification for the project is that it will improve the estimation of ‘fixed-price’ contracts. It will provide statistical information derived from previous projects to assist account managers preparing estimates to produce quotes for bidding for new bespoke development contracts.

Vikram Soleski, one of the current software developers, commented that ‘managers do not even have up-to-date mobile phones, probably because they don’t know how to use them. We (software developers) always have the latest gadgets long before they are acquired by managers. But I like working here, we have a good social scene and after working long hours we socialise together, often playing computer games well into the early hours of the morning. It’s a great life if you don’t weaken!’

Required:

a) Analyse the culture of iCompute, and assess the implications of your analysis for the company’s future performance.

b) iCompute is currently re-considering three high level processes:
   i. Advice on legal issues (currently outsourced)
   ii. Software support (currently outsourced)
   iii. Time recording (in-house, bespoke software development)

   Evaluate, using an appropriate framework or model, the suitability of iCompute’s current approach to EACH of these high level processes.

Answer:-

a) The culture of an organisation can be explored from a variety of perspectives and through a number of frameworks and models. No specific model or framework is required by the question so a variety of appropriate approaches are acceptable. This model answer uses selected elements of the cultural web.
Stories are told by employees in an organisation. These often concern events from the history of the organisation and highlight significant issues and personalities. In the context of iCompute, there is evidence of stories that celebrate the earlier years of the organisation when founder Ron Yeates had an important role. ‘Ron used to debate responsibility for requirements changes with the customer.’ In contrast modern management is perceived as weak, giving in too easily in negotiations with customers. Not only is this perceived weakness affecting morale, but it also appears to be affecting profit margins and this is an important consequence for the organisation.

Symbols include logos, offices, cars, titles and the type of language and terminology commonly used within the organisation. The language and symbols of technology appear to dominate at iCompute. Software developers constantly scan the horizon for new technological opportunities. They embrace these technologies and solutions and, as a result, continually distract the organisation. As soon as a technical direction or solution is agreed, or almost agreed, a new alternative is suggested causing doubt and delay. One of the managers claimed that the company was ‘in a state of constant technical paralysis’. This paralysis has implications. Furthermore, technological objectives can quickly outweigh business and financial objectives, to the detriment of the company as a whole.

The perceived inability of managers to effectively participate in technological discussions is derided by software developers who suggest that they are technically out of touch. Ownership and understanding of up-to-date mobile phones is perceived to be important, particularly by the software developers who are an important and powerful group within the organisation.

Finally, the language of the manager who suggested that support should be outsourced is very illuminating. Support calls are not from customers but from ‘incompetent end users, too lazy to read user guides’. Re-focusing managers on customers appears to be long overdue.

Routines and rituals concern the ‘way we do things around here’. At iCompute this involves long working hours and after-work social activities such as football, socialising and playing computer games. The latter of these reinforces the technical focus (discussed in symbols) of employees. The routines and rituals of
the organisation are largely male-oriented (football, computer games) and would probably exclude most females. This would almost certainly contribute to the company’s inability to recruit and retain women employees. Furthermore, long working hours and after-work activities will also alienate employees who have to get home to undertake family commitments or simply do not wish to be ‘one of the lads’. This must contribute to almost one-third of all employees leaving within their first year at the company. The consequence of this culture is an expensive recruitment and training process.

The control systems of the organisation include measurement and reward systems. Within iCompute technical expertise is only rewarded to a certain organisational level. To earn more, technically adept employees have to become managers. Evidence appears to suggest that many are unsuited to management, unable to deal appropriately with their former peers. These managers also seem anxious to show that their technical expertise is not diminishing, emphasising the importance of technology as a symbol within the organisation. Consequently, they often try to demonstrate this expertise (for example, through programming) but are unaware that this brings derision rather than respect. The absence of measurement systems has recently been recognised by management within the company. This has led to the initiation of an in-house project to improve time recording. However, software developers within the company see this as an unwelcome initiative.

**Paradigm and discussion**

Initially, iCompute was an entrepreneurial organisation with a significant work ethic based on long hours, technical innovation and competitive management. Although the organisation has superficially matured, the stories told by employees and the recruitment and retention of similarly minded people, has led to the continuation of a male-oriented, technologically focused workforce managed by unprepared and unsuitable managers. Managers’ reaction to conflict is to avoid it (agreeing with customers over requirements), outsource it (software support) or put in formal computer systems to control it (the implementation of a time recording system). The failure to recruit and retain female staff appears to be a direct consequence of the organisational culture of iCompute. The ‘work hard, play hard work ethic’ is only suitable for employees with certain objectives, characteristics and minimal childcare responsibilities. This culture needs to
change if the company is to employ a more balanced and representative workforce that is focused on business rather than technological objectives.

b) The question does not suggest an appropriate framework to use in the candidate’s answer. This model answer uses the Harmon process-strategy grid as its reference point. However, credit would be given for any appropriate alternative framework.

The primary purpose of the Harmon process-strategy matrix is to ensure that organisations focus their process redesign efforts in the most appropriate areas. The grid has two axes. One is concerned with process complexity and the other with strategic importance. For each quadrant of the grid Harmon suggests appropriate solution options. For example, straightforward commodity processes with low process complexity and low strategic importance should be either outsourced or automated, using a commercial off-the-shelf software package. Elements of this grid can be applied to the three high level process applications identified at iCompute.

Advice on legal issues Bespoke systems development is risky. There is evidence in the scenario of litigation between iCompute and two of its customers. Contracts have to be carefully worded and advice taken to head off or manage legal disputes. Although iCompute is considering moving this process in-house, it seems unlikely that it will be able to afford, attract or motivate an internal legal team. Advice on legal issues could be classified as a process of high complexity and low strategic importance on the process/strategy matrix. Consequently, it seems that continuing the outsourcing arrangement should be the preferred option. The current supplier employs experts who keep up-to-date in an increasingly complex field. They can also advise on employee legislation.

Software support is provided by the company to support both its bespoke and package solutions. This used to be organized in-house, but was outsourced a year ago. Subsequent customer feedback has been poor, but even without this feedback, it could be argued that outsourcing was a poor decision. Service is one of the primary activities of Porter’s value chain. It directly influences the customer’s perception of the supplier and the likelihood of a repeat purchase. In the context of iCompute, feedback from end users to their managers is likely to
influence future software purchasing decisions. Consequently, not only is support relatively complex (as acknowledged by the manager who made the outsourcing decision) but it is also of strategic importance to iCompute. This suggests that iCompute should bring support back in-house, perhaps by the use of an automated system.

*Time recording* The management of iCompute requires much more detailed time recording information, showing how long employees have worked on certain tasks and projects. Some contracts are on a time and materials basis and time recording data is required for accurate and prompt billing. However, most contracts are on a fixed price basis and better internal information is required on which to build quotes for this type of work. The company has decided to develop software in-house to support this high level process. This appears to be a questionable decision for at least three reasons. Firstly, it uses resources which could be employed on external fee-earning contracts. Secondly, accurate time recording is a key requirement in many professions (lawyers, accountants, etc) and it seems highly likely that a range of off-the-shelf packages would be available to fulfil their needs. Finally, it could be argued that the application is a relatively simple low-value process in the process-strategy matrix and so should be carried out either through a software package or an outsourced solution.

**Question No 23:-**

HomeDeliver is a nationwide company that sells small household goods to consumers. It produces an attractive, comprehensive catalogue which it distributes to staff known as catalogue supervisors. There are 150 of these supervisors in the country. Each supervisor has approximately 30 part-time home-based agents, who then deliver the catalogue to consumers in their homes. Agents subsequently collect the catalogue and any completed order forms and forward these forms to their supervisor. Payment is also taken when the order is collected. Payment is by cash or cheque and these payments are also forwarded to the supervisor by the agent. At the end of the week the supervisor returns completed order forms (and payments) to HomeDeliver. Order details are then entered into a computer system by order entry administrators at HomeDeliver and this starts an order fulfilment process that ends with goods being delivered directly to the customer. The supervisors and the agents are all self-employed. HomeDeliver rewards supervisors on the basis of how many agents they manage.
Agents’ reward packages are based on how many catalogues they deliver and a commission based on orders received from the homes they have collected orders from.

In August 2010 HomeDeliver decided to replace the physical ordering system with a new electronic ordering system. Agents would be provided with software which would allow them to enter customer orders directly into the computer system using their home personal computer at the end of each day. Payments would also be paid directly into a HomeDeliver bank account by agents at the end of each day.

The software to support the new ordering system was developed in-house to requirements provided by the current order entry administrators at HomeDeliver and managers concerned with order fulfilment and invoicing. The software was tested internally by the order entry administrators. At first, both the specification of requirements and initial software testing progressed very slowly because order administrators were continuing with their normal operational duties. However, as project delays became more significant, selected order administrators were seconded to the project full-time. As a result the software was fully acceptance tested by the end of July 2011, two months behind schedule.

In August 2011 the software was rolled out to all supervisors and agents. The software was claimed to be easy to use, so no formal training was given. A large comprehensive manual with colour screenshots was attached as a PDF to an email sent to all supervisors and agents. This gave detailed instructions on how to set up and use the software.

Unfortunately, problems began to appear as soon as the agents tried to load and use the software. It was found to be incompatible with one particular popular browser, and agents whose computers used that browser were advised to use an alternative browser or computer. Agents also criticised the functionality of the software because it did not allow for the amendment of orders once they had been submitted. It emerged that customers often contacted agents and supervisors to amend their order prior to it being sent to HomeDeliver. This was no longer possible with the new system. Many agents also claimed that it was not possible to enter multiple orders for one household. However, HomeDeliver confirmed that entering multiple orders was possible; it was just not clear from the software, or from the instructions provided, how this could be achieved.
Most of the agents were reluctant to print off the manual (preferring to read it on screen) and a significant number claimed that they did not receive the email with the manual attachment. Agents also found quite a number of spelling and functionality errors in the manual. At certain points the software did not perform in the way the manual stated that it would.

Internal standards at HomeDeliver require both a post-project and a post-implementation review.

Required:

a) Explain the purpose of each of the following: a post-project review, a post-implementation review and a benefits realisation review.

b) Evaluate the problems and the lessons that should be learned from a post-project review and a post-implementation review of the electronic ordering system at HomeDeliver.

c) HomeDeliver does not have a benefits management process and so a benefits realisation review is inappropriate. However, it does feel that it would be useful to retrospectively define the benefits to HomeDeliver of the new electronic ordering system.

Identify and discuss the potential benefits to HomeDeliver of the new electronic ordering system.

Answer:

a) A post-project review takes place once the project has been completed. In fact, it can often be the last stage of the project, with the review culminating in the sign-off of the project and the formal dissolution of the project team. The focus of the post-project review is on the conduct of the project itself, not the product it has delivered. The aim is to identify and understand what went well and what went badly in the project and to feed lessons learned back into the project management standards with the aim of improving subsequent project management in the organisation.

A post-implementation review focuses on the product delivered by the project. It usually takes place a specified time after the product has been delivered. This allows the actual users of the product an opportunity to use and experience the product or service and to feedback their observations into a formal review. The
post-implementation review will focus on the product’s fitness for purpose. The review will not only discuss strategies for fixing or addressing identified faults, but it will also make recommendations on how to avoid these faults in the future. In this instance these lessons learned are fed back into the product production process.

A benefits realisation review also takes place after the product has been delivered. It is primarily concerned with revisiting the business case to see if the costs predicted at the initiation of the project were accurate and that the predicted benefits have actually accrued. In effect, it is a review of the initial cost/benefit analysis and any subsequent updates made to this analysis during the conduct of the project. It may be part of a post-implementation review, although the long-term nature of most benefits means that the post-implementation review is often held too soon to properly conduct benefits realisation. In fact, it can be argued that benefits realisation is actually a series of reviews where the predicted long-term costs and benefits of the business case are monitored. Again, one of the objectives is to identify lessons learned and in this case to feed these back into the benefits management process of the organisation.

b) Post-project review at HomeDeliver

The following issues could have been raised at the HomeDeliver post-project review. They are presented here with lessons learned that should be fed back into the project management process.

- The late allocation of HomeDeliver order administrators full-time to the project. Initially, employees were allocated part-time to the project. However this hampered project progress as these administrators also needed to undertake their normal operational duties. Consequently, the project began to significantly slip. Even though selected order administrators were added full-time to the project it was too late and the software was delivered two months behind schedule.

  Lessons learned: it is likely that deadlines will slip if appropriate employees are not allocated full-time to the project.

- The failure to consult catalogue supervisors and agents.

  There is evidence in the scenario that internal stakeholders were identified and consulted throughout the project. However, external stakeholders, such as the catalogue supervisors and agents, were not consulted at all. This meant that they had little understanding of the software prior to its
implementation. It also meant that their requirements were not taken into consideration when developing the software. Hence the need to amend an order was not included in the software solution.

*Lessons learned:* ensure that stakeholder analysis includes both external and internal stakeholders and make sure that external stakeholders are included in the requirements gathering process where appropriate.

- The scope of implementation, implementing all supervisors and agents immediately. In retrospect, implementing all supervisors (and their agents) was too ambitious and risky. It would have been wiser to establish a pilot project where only selected supervisors and agents used the new system. Experience from this pilot could have been used to modify the software and fix faults and omissions before rolling out to the rest of the organisation. The scope should have been defined in the project initiation document and this should have been risk assessed.

*Lessons learned:* the risk assessment of the scope of projects is important and project managers should look to mitigate risk by reducing scope.

**Post implementation review at HomeDeliver**

The following issues could have been raised at the HomeDeliver post-implementation review. They are presented here with recommendations that should be fed back into the software development process.

- Faults and omissions in the computer software. The omission of the order amendment facility has already been considered. However, the failure of the software to work with a popular browser needs investigating. Testing should consider a range of browsers. The post-implementation review should also consider why these faults were not found before the software was released. A possible reason is that the software was tested by full-time employees of HomeDeliver in a controlled office environment. It was not acceptance tested by the part-time, home-based agents who were actually going to use the software. These people were likely to be less familiar with computer applications and were also likely to use a wide variety of hardware and software.

*Lessons learned:* acceptance testing should be undertaken by real business users in the hardware and software environment they are actually working in. Testing across multiple browsers must be considered.
- Faults in the documentation. The documentation supporting the implementation was both inappropriate and inappropriately distributed. Distributing the user manual as a PDF file raises at least two issues. Firstly, whether the email, and its attached file, had actually been received by the agent. A significant number of them claim that they did not receive the email. Secondly, it seems unreasonable to expect self-employed agents to print out a large, colour manual at their own cost. A failure to print out and study the manual probably contributed to agents being unable to use the software to enter multiple orders for one household. Spelling and functionality faults in the manual undermine confidence in both the documentation and the software it supports.

Lessons learned: documentation must be carefully inspected before software release and its physical distribution should be carefully considered. Distributing documentation electronically may seem easy and cheap, but it may have important unanticipated consequences.

- Training of employees. It was perceived that the software was easy to use and so no formal training was given to agents. However, this missed the opportunity to find early faults (for example, not running under a certain browser). The inability of many agents to claim that the system could not support multiple orders from one household also suggests that the software was not as easy to use as its developers claimed.

Lessons learned: As well as imparting skills, training provides an opportunity to build rapport with users and to identify possible issues and faults with the software at an earlier stage.

c) The potential benefits to HomeDeliver of the new electronic ordering system might include:

- Staff savings from the reduction or elimination of order administrators at HomeDeliver. This benefit should be relatively easy to quantify.
- Staff savings from reduced catalogue supervisor costs. In the new system, supervisors appear to have significantly less work and so each supervisor should be able to co-ordinate more agents. However, supervisors are currently rewarded on the basis of how many agents they administer. So savings could only be made if this contractual arrangement was changed.
- Improved cash flow, because money is now sent daily rather than at the end of the week. Improved cash flow will reduce borrowing costs or increase investment income. This benefit should be relatively easy to quantify.

- The system should lead to the customer receiving their goods more quickly. Orders are entered at the end of the day, not in the week after the order has been placed. This is a benefit for the customer, not HomeDeliver. However, it could be argued that improved customer service may lead to more customers and, because there is less elapsed time between order and delivery, to fewer cancelled orders. It would be relatively difficult to quantitatively predict both of these benefits in advance.

**Question No 24:-**

The Institute of Solution Developers (ISD) offers three basic certificates in Information Technology; Software Engineering; and Solutions Architecture. ATL is one of many training companies certified by the ISD to offer training courses to prepare candidates for these three certificates. ATL has, traditionally, taught these courses over five days culminating in a multiple choice examination. It has differentiated itself in the marketplace by offering high quality training in well-equipped training centres. Its prices are slightly higher than its competitors, but it is well regarded by both candidates and employers. ATL also provides training courses through sales intermediaries known as training brokers. These brokers negotiate a reduced fee with ATL and then add a profit margin to determine the price that they charge the end customer. All ATL courses are run in Eothen, an established industrial nation with a high standard of living.

In the last six months, ATL has developed an e-learning course for the certificate in Information Technology. There are three main reasons for this development. The first reason is to allow candidates to prepare for the examination in a flexible way, studying ‘at their own pace in their own place’. Currently, courses are only run in Eothen and each certified course takes five days. In contrast the e-learning product will be delivered over the Internet. The second reason is to provide a cheaper route to the qualification. Course places currently cost $950 per person. Finally, ATL wishes to exploit a global market. It believes that there is a ‘very large market’ for e-learning for this qualification, particularly in countries where disposable income is less than in Eothen. It feels that
overseas customers will be sensitive to price, but they have no estimate of this sensitivity.

Eothen, itself, is in a period of economic decline and the top 500 companies, which are specifically targeted by ATL, are reducing their training budgets. Figure 1 shows the results of research from MidShire University into the relationship between average training spend per employee and companies’ gross profit. Data given below is from 10 of the top 500 companies targeted by ATL. Statistics produced by the Eothen government suggest that the average gross profit of the top 500 companies in Eothen will fall to $50m next year. In this analysis, the independent variable (gross profit) is $x$, which is being used to estimate a dependent variable $y$ (average annual training spend per employee).

<table>
<thead>
<tr>
<th>Company</th>
<th>Gross profit ($m) (x)</th>
<th>Average annual training spend per employee ($) (y)</th>
<th>Analysis</th>
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<tr>
<td>A</td>
<td>50</td>
<td>900</td>
<td></td>
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<tr>
<td>B</td>
<td>100</td>
<td>1,050</td>
<td>The regression line for the two variables is defined by $y = 616.23 + 3.939x$</td>
</tr>
<tr>
<td>C</td>
<td>120</td>
<td>1,500</td>
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<tr>
<td>D</td>
<td>30</td>
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<td>J</td>
<td>300</td>
<td>1,500</td>
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</tbody>
</table>

Figure 1: Training spend analysed against gross profit

The e-learning product has been specified by an experienced lecturer and developed by a business analyst. The latter will also be responsible for supporting students once the product has been released. ATL is the first company to produce an e-learning product for the ISD market. It wishes to quickly build on its success and to offer e-learning for the other two certificates – Software Engineering and Solutions Architecture.

Each certificate examination costs $125 and is available on demand in test centres all over the world. This makes it very accessible to the countries that ATL are targeting. The managing director of ATL has also discovered the following analysis of nationwide e-learning sales published by Training Trends, a respected Eothen-based publication.
Here the independent variable is time (x) and e-learning sales is the dependent variable (y).

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Period (x)</th>
<th>e-learning sales ($m) (y)</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>3</td>
<td>1</td>
<td>2.65</td>
<td>The regression line for the two variables is defined by $y = 2.38 + 0.12x$</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>2</td>
<td>2.66</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>3</td>
<td>2.74</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>4</td>
<td>2.84</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>5</td>
<td>2.86</td>
<td>And correlation by $r = 0.958$</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>6</td>
<td>2.97</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>7</td>
<td>3.15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8</td>
<td>3.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>9</td>
<td>3.55</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>10</td>
<td>3.75</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: E-learning sales in Eothen analysed by quarter (source: Training Trends).

The period column has been inserted to facilitate the regression analysis.

Required:

ATL needs to determine the price (or prices) of its e-learning product:

a) Identify and discuss the factors that need to be taken into consideration when pricing the e-learning product.

b) Figures 1 and 2 provide important, independent, statistical data:

Evaluate the potential of each set of statistical data for use in the pricing decision for the e-learning product, particularly highlighting any limitations in using such data.

Answer:-

a) This part of the question is concerned with factors that will influence ATL’s pricing of its e-learning product. It can be answered from a number of perspectives and credit will be given as appropriate. This model answer focuses on four main areas. Firstly, the pricing objectives of the company, the overall goals that describe what ATL wants to achieve through its pricing efforts. The second area is the customer; the value of the product to them and how many products they are likely to buy at what price. The third area is the costing
approach used and finally, different pricing strategies are considered. It is argued that all of these areas will need to be taken into consideration when determining the final price (or prices) of the e-learning product.

**Pricing objectives**

Pricing objectives need to be aligned with the organisation’s corporate and marketing objectives. ATL positions itself as a premium quality training provider, where conventional courses with above average prices still sell because of high quality training delivery. The company may wish to directly reflect this in its pricing of the e-learning software. However, other objectives must be borne in mind and may be more appropriate in the context of the e-learning product; for example, targeting market share or creating cash flow to develop products for the intermediate and advanced levels qualifications. ATL is an early mover in the field and it may wish to establish barriers to entry based on price and market share.

**Determining customer demand and the ability to buy**

ATL has at least three distinct customers in mind. The price sensitivity and demand from each of these is difficult to assess. The first is an individual consumer (B–C) purchasing over the Internet from anywhere in the world. ATL believes that a significant number of these customers will come from less wealthy countries. It is sure that these customers will be very sensitive to price, but has no feel for this demand elasticity or for total demand except that they believe it to be ‘very large’. The second differentiated customer is the large companies of Eothen. It has targeted the e-learning product at the top 500 companies and has obtained data on current training spend (Figure 1). This can be used to help establish a price (see part (b)) that companies are willing to pay by estimating the price elasticity of demand for courses. Depending on price elasticity over a particular range of prices, it may be worth either increasing or reducing prices to increase revenues and profitability.

Individual candidates from companies do not pay for the e-learning product themselves. So the transaction is business to business (B–B) and it is the price that the business is willing to pay that is relevant here. E-learning is taking off in Eothen and demand can be estimated from the figures given in Figure 2. However, it is also likely that businesses will expect discounted prices for
multiple purchases. Finally, the third customer group also reflects a different channel of communication. This is the third-party reseller who has traditionally brokered course places and now wishes to offer e-learning services. They will need to make a margin and so ATL will have to factor this into its pricing decision.

**Costing assumptions and policy**
Costs need to be understood, not only continuing costs, but the company’s attitude to recovering the costs it has already incurred in the development of the product. One of the benefits of e-learning, from the perspective of ATL, is the low variable cost of each sale. This should give ATL greater price flexibility, with the implication that ATL could set its prices to maximize its revenues as most of its costs are fixed in the short term. The employment of dedicated support staff is an overhead cost directly associated with the supply of e-learning. However, it is difficult to predict these costs as not only are they related to demand for the product, but they will also be determined by the product experience. If the product is easy to use and is effective in preparing users for the examination, then there may be very few support calls. It is likely that such support costs will be stepped, with volumes reaching threshold values that require another member of staff to be added. Therefore support is likely to behave as a stepped fixed cost.

The cost of the product also needs to reflect other costs associated with e-learning, such as promotion and product enhancement. It might also be expected to contribute to the overheads of ATL as a whole; finance, human resources, administration etc.
The costs of product development have already been incurred and can be considered as a sunk cost. However, by exploring a range of margins and costing approaches, ATL might attempt to explicitly recover its investment in the product.

**Selection of a pricing strategy**
A pricing strategy is, according to Dibb et al, an ‘approach designed to influence and determine pricing decisions’. There are many different pricing strategies, some of which will contradict each other. At ATL the most relevant are summarised below.
Negotiated pricing is an accepted convention in the company’s traditional market and so may also be relevant in pricing the e-learning package. Secondary market pricing may also be a significant consideration. One of the reasons for the development of the e-learning package was to target overseas candidates who had considerably less disposable income. Local pricing must be an important consideration. Negotiated and secondary market pricing are both examples of a differential pricing policy. A psychological pricing policy might also influence the pricing decision at ATL. For example, reference pricing might be used to compare the price of the e-learning product with the conventional classroom alternative. Bundle pricing may also be attractive; bundling in the examination fee, after negotiating a reduction in fee from the Institute.

Any pricing decision can usually be quickly flexed to reflect actual trading conditions. It is a flexible and convenient way of adjusting the marketing mix. ATL can adjust prices quickly; other components of the marketing mix do not really have this flexibility.

b) The two analyses (Figures 1 and 2) both use linear least squares regression and correlation to express the relationship between two variables. Figure 1 considers the relationship between the dependent variable (y), average training budget per employee per year, and gross profit of the company (x – the independent variable). The hypothesis is that the average training budget per employee depends, to some extent, on the profitability of the organisation. An understanding of this relationship might help ATL determine the price that the corporate customer is willing to pay for its product. This is an important part of the pricing process. In Figure 2, least squares regression is used to establish a trend line in the data. In this instance time is the independent variable and e-learning sales the dependent variable. The trend line could be used by ATL to help establish the future demand for the product, another important part of the pricing process.

Least squares regression fits a line of best fit through the data. The regression equation \( y = a + bx \) can then be used to predict values of \( y \) from values of \( x \). The strength of the linear relationship between the two variables is measured by the correlation coefficient \( r \). The value of \( r \) ranges from \(-1\) (perfect negative correlation), through \(0\) (no correlation) to \(+1\) (perfect positive correlation).
Government statistics predict that the average gross profit of the top 500 companies will be $50m next year. Entering this value into the equation for Figure 1 suggests an average training budget spend of $813 per employee. This is less than one conventional course place ($950) at current course prices. In the sample data set the ten companies recorded an average annual gross profit of $86m, giving a predicted average spend of $955. This suggests that there will be pressure on prices in the coming year (particularly for conventional courses) and that e-learning may be a very attractive option. The data provides useful input into understanding the price corporate customers will be willing to pay to fulfil their training needs.

In Figure 2, demand for the e-learning products overall can be estimated by extrapolating the trend line. For example, it suggests that demand in the fourth quarter of 2011 (period 14) will be about $4.06m. Extrapolation of data is problematic because it concerns predicting values outside the scope of the sample.

However, care has to be used in interpreting the data. The limitations of the technique itself have to be recognised. The technique fits a straight line ((y = ax + b) is the equation of a straight line), when perhaps a curved line would be more appropriate. This is particularly noticeable in Figure 2, where sales appear to be disproportionately increasing in the last four quarters of the data. A simple scatter diagram would show an upward curve in the last part of the time series. Furthermore, the correlation between the variables is a statistical measure; it does not imply meaning or proof of a causal link. High coefficients may be due to each variable being independently related to a third variable, sometimes called a control variable, such as interest rates, or are just due to pure chance. Conventionally, the coefficient of determination has been calculated for expressing the strength of a relationship. The coefficient of determination is r squared, in the case of Figure 1, 0.64; which suggests that 64% of variability in average training spend per employee is due to gross profit. 36% is attributable to other factors.

The representative nature of the sample used in Figure 1 also needs consideration. Figure 1 is based on a sample of only 10 of the 500 top companies in the country. This is a relatively small sample and so a significance test would...
have to be undertaken on the results. The theory of this is beyond the syllabus, but the principle, which is being wary of basing decisions on small and perhaps unrepresentative samples, is not.

**Question No 25:-**

**Introduction**

Hammond Shoes was formed in 1895 by Richard and William Hammond, two brothers who owned and farmed land in Petatown, in the country of Arnland. At this time, Arnland was undergoing a period of rapid industrial growth and many companies were established that paid low wages and expected employees to work long hours in dangerous and dirty conditions. Workers lived in poor housing, were largely illiterate and had a life expectancy of less than forty years.

The Hammond brothers held a set of beliefs that stressed the social obligations of employers. Their beliefs guided their employment principles – education and housing for employees, secure jobs and good working conditions. Hammond Shoes expanded quickly, but it still retained its principles. Today, the company is a private limited company whose shares are wholly owned by the Hammond family. Hammond Shoes still produce footwear in Petatown, but they now also own almost one hundred retail shops throughout Arnland selling their shoes and boots. The factory (and surrounding land) in Petatown is owned by the company and so are the shops, which is unusual in a country where most commercial properties are leased. In many respects this policy reflects the principles of the family. They are keen to promote ownership and are averse to risk and borrowing. They believe that all stakeholders should be treated fairly. Reflecting this, the company aims to pay all suppliers within 30 days of the invoice date. These are the standard terms of supply in Arnland, although many companies do, in reality, take much longer to pay their creditors.

The current Hammond family are still passionate about the beliefs and principles that inspired the founders of the company.

**Recent history**

Although the Hammond family still own the company, it is now totally run by professional managers. The last Hammond to have operational responsibility was Jock Hammond, who commissioned and implemented the last upgrade of the production facilities in 1991. In the past five years the Hammond family has taken substantial
dividends from the company, whilst leaving the running of the company to the professional managers that they had appointed. During this period the company has been under increased competitive pressure from overseas suppliers who have much lower labour rates and more efficient production facilities. The financial performance of the company has declined rapidly and as a result the Hammond family has recently commissioned a firm of business analysts to undertake a SWOT analysis to help them understand the strategic position of the company.

SWOT analysis: Here is the summary SWOT analysis from the business analysts’ report.

Strengths

**Significant retail expertise:** Hammond Shoes is recognised as a successful retailer with excellent supply systems, bright and welcoming shops and shop employees who are regularly recognised, in independent surveys, for their excellent customer care and extensive product knowledge.

**Excellent computer systems/software expertise:** Some of the success of Hammond Shoes as a retailer is due to its innovative computer systems developed in-house by the company’s information systems department. These systems not only concern the distribution of footwear, but also its design and development. Hammond is acknowledged, by the rest of the industry, as a leader in computer-aided footwear design and distribution.

**Significant property portfolio:** The factory in Petatown is owned by the company and so is a significant amount of the surrounding land. All the retail shops are owned by the company. The company also owns a disused factory in the north of Arnland. This was originally bought as a potential production site, but increasingly competitive imports made its development unviable. The Petatown factory site incorporates a retail shop, but none of the remaining retail shops are near to this factory, or indeed to the disused factory site in the north of the country.

Weaknesses

**High production costs:** Arnland is a high labour cost economy.

**Out-dated production facilities:** The actual production facilities were last updated in 1991. Current equipment is not efficient in its use of either labour, materials or energy.
Restricted internet site: Software development has focused on internal systems, rather than internet development. The current website only provides information about Hammond Shoes; it is not possible to buy footwear from the company’s website.

Opportunities

Increased consumer spending and consumerism: Despite the decline of its manufacturing industries, Arnland remains a prosperous country with high consumer spending. Consumers generally have a high disposable income and are fashion conscious. Parents spend a lot of money on their children, with the aim of ‘making sure that they get a good start in life’.

Increased desire for safe family shopping environment: A recent trend is for consumers to prefer shopping in safe, car-free environments where they can visit a variety of shops and restaurants. These shopping villages are increasingly popular.

Growth of the green consumer: The numbers of ‘green consumers’ is increasing in Arnland. They are conscious of the energy used in the production and distribution of the products they buy. These consumers also expect suppliers to be socially responsible. A recent television programme on the use of cheap and exploited labour in Orietaria was greeted with a call for a boycott of goods from that country. One of the political parties in Arnland has emphasized environmentally responsible purchasing in its manifesto. It suggests that ‘shorter shipping distances reduce energy use and pollution. Purchasing locally supports communities and local jobs’.

Threats

Cheap imports: The lower production costs of overseas countries provide a constant threat. It is still much cheaper to make shoes in Orietaria, 4000 kilometres away, and transport the shoes by sea, road and train to shops in Arnland, where they can be offered at prices that are still significantly lower than the footwear produced by Hammond Shoes.

Legislation within Arnland: Arnland has comprehensive legislation on health and safety as well as a statutory minimum wage and generous redundancy rights and payments for employees. The government is likely to extend its employment legislation programme.
Recent strategies

Senior management at Hammond Shoes have recently suggested that the company should consider closing its Petatown production plant and move production overseas, perhaps outsourcing to established suppliers in Orietaria and elsewhere. This suggestion was immediately rejected by the Hammond family, who questioned the values of the senior management. The family issued a press release with the aim of reaffirming the core values which underpinned their business. The press release stated that ‘in our view, the day that Hammond Shoes ceases to be a Petatown company, is the day that it closes’. Consequently, the senior management team was asked to propose an alternative strategic direction.

The senior management team’s alternative is for the company to upgrade its production facilities to gain labour and energy efficiencies. The cost of this proposal is $37.5m. At a recent scenario planning workshop the management team developed what they considered to be two realistic scenarios. Both scenarios predict that demand for Hammond Shoes’ footwear would be low for the next three years. However, increased productivity and lower labour costs would bring net benefits of $5m in each of these years. After three years the two scenarios differ. The first scenario predicts a continued low demand for the next three years with net benefits still running at $5m per year. The team felt that this option had a probability of 0.7. The alternative scenario (with a probability of 0.3) predicts a higher demand for Hammond’s products due to changes in the external environment. This would lead to net benefits of $10m per year in years four, five and six. All estimated net benefits are based on the discounted future cash flows.

Financial information: The following financial information (see Figure 1) is also available for selected recent years for Hammond Shoes manufacturing division.

Figure 1: Extracts from the financial statements of Hammond Shoes (2007–2011)

<table>
<thead>
<tr>
<th>Extracted from the income statements (all figures in $m)</th>
<th>2011</th>
<th>2009</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>700</td>
<td>750</td>
<td>850</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(575)</td>
<td>(600)</td>
<td>(650)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>125</td>
<td>150</td>
<td>200</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>(95)</td>
<td>(100)</td>
<td>(110)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(10)</td>
<td>(15)</td>
<td>(20)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(15)</td>
<td>(10)</td>
<td>(5)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>5</td>
<td>25</td>
<td>65</td>
</tr>
</tbody>
</table>
Income tax expense                  (3)   (7)   (10)  
**Profit for the year**            2   18   55   
Extracted from statements of financial position (all figures in $m)  
Trade receivables                  70   80   90   
Share capital                      100  100  100   
Retained earnings                  140  160  170   
Long term borrowings               70   50   20   

In 2007, Hammond Shoes paid, on average, their supplier invoices 28 days after the date of invoice. In 2009 this had risen to 43 days and in 2011, the average time to pay a supplier invoice stood at 63 days.

**Required:**

a) Analyse the financial position of Hammond Shoes and evaluate the proposed investment of $37.5 million in upgrading its production facilities.

b) Using an appropriate framework (or frameworks) examine the alternative strategic options that Hammond Shoes could consider to secure its future position.

c) Advise the Hammond family on the importance of mission, values and objectives in defining and communicating the strategy of Hammond Shoes.

**Answer:-**

a) The following financial analysis focuses on the profitability and gearing of Hammond Shoes manufacturing division.

**Profitability:** The effect of cheap imports appears to be reflected in the profitability of the company. Revenues and gross profit have both fallen significantly in the four years of data given in Figure 1. In 2007 the company reported a gross profit margin of 23.5% and a net profit margin of 8.2%. This has declined steadily over the period under consideration. The figures for 2009 were 20.0% and 4.7% and for 2011, 17.9% and 2.9% respectively. There has been a general failure to keep costs under control over this period. Sales have fallen by $150m in four years – almost an 18% decrease. In contrast the cost of sales has decreased by only $75m, a decrease of about 11.5%. This probably reflects the problem of reducing labour to react to lower demand, particularly in a country where generous redundancy payments are enforced by law and in an
organization which sees the employment of local labour as one of its objectives. The Return on Capital Employed (ROCE) has dropped substantially, from 24.14% in 2007 to 6.45% in 2011.

**Gearing:** The capital structure of the company has changed significantly in the last four years and this is probably of great concern to the family who are averse to risk and borrowing. Long-term borrowings have increased dramatically and retained earnings are falling, reflecting higher dividends being taken by the family. Traditionally, the company has been very low geared, reflecting the social values of the family. The gearing ratio was only 6.9% in 2007, but has risen to over 22.5% in 2011. During this period, retained profit has fallen and an increasing number of long-term loans have been taken out to finance activities. Overall, gearing may still appear quite low and indeed this is probably the view of the senior management of the company. However, the speed of these funding changes is a concern, particularly when trade receivables and trade payables are considered.

One of the values held by the family is the importance of paying suppliers on time. In Arnland, goods are normally supplied on 30 days credit. In 2007, Hammond Shoes, on average, exceeded this target, paying on 28 days. However by 2009 this value had risen to 43 days and by 2011 to 63 days. During the same period, trade receivables, from the selected data provided, appear to have come down slightly (from 38.65 days in 2007 to 36.50 days in 2011). It is difficult to escape the conclusion that Hammond Shoes is increasingly using suppliers as a source of free credit on top of the loans they have taken from the banks. Financing costs have risen significantly over the last four years, affecting profits and also causing the interest cover ratio to fall dramatically from 14 to 1.33. The financial analysis essentially supports the descriptive analysis provided by the business analysts. Profits are falling, with the firm unable to cut costs sufficiently quickly. The company is increasingly dependent on external finance which is likely to cause disquiet amongst the owning family (on ethical grounds) and may concern suppliers.

**Investment analysis:**

The two scenarios developed by the senior managers also reflect the pessimism of the company. There seems to be universal acceptance that in the next three years the company will still experience low sales even after the company invests
in the new production facilities. Beyond that, managers only see a 30% chance of higher sales resulting and this depends upon favourable changes in the business environment.

For both scenarios, the net benefits of the first three years are $5m per year, giving a total of $15m.

For the next three years, managers suggest that there is a 0.7 chance of continuing low demand, leading to net benefits staying at $5m per year, giving a further benefit of $15m total, with an expected value of $10.5 ($15m x 0.7). Higher demand would lead to net benefits of $10m per year, providing a total of $30m, but with an expected value of only $9m ($30m x 0.3).

Thus the expected benefits of the project are only $34.5 ($15m + $10.5m + $9m), which is below the proposed investment of $37.5m. Only if the second scenario materialises after three years will the investment (in broad terms) have been justified. This scenario would return $45m.

However, it has to be recognised that the projection only covers the first six years of the new production facilities. The factory was last updated twenty years ago and so it seems reasonable to expect net profits to continue for many years after the six years explicitly considered in the scenario, but it must be recognised that predicting net benefits beyond that horizon becomes increasingly unreliable and subjective.

b) This question does not require the candidate to use a specific framework for generating strategic options. A number of possibilities exist. The TOWS matrix, the strategy clock and the Ansoff matrix all come to mind. Each of these frameworks has sufficient facets to generate the number of options or directions required to gain the marks on offer. For the purpose of this answer, the TOWS matrix is used, because it fits so well with the SWOT analysis produced by the consultants. However, the focus is on the options generated, not the framework itself and so other frameworks may be as appropriate.

The TOWS matrix is a way of generating directions from an understanding of the organisation’s strategic position. It builds directly on the work of the SWOT with each quadrant identifying options that address a different combination of the internal factors (strengths and weaknesses) and external factors (opportunities and threats).
Taking each quadrant in turn:

**SO – using strengths to take advantage of opportunities.** A number of possible options might be considered here. Hammond Shoes’ retail expertise is an acknowledged strength of the company, and it may be possible to use it to take advantage of the opportunities provided by increased consumer spending and consumerism in Arnland. Two possible options come to mind. Firstly, the company could consider selling competing products or complementary goods in its retail shops. This would give consumers a greater choice of products and allow Hammond Shoes to reap some of the profit margins enjoyed by its competitors. Given the company’s acknowledged retail expertise, this option should help preserve the long-term future of the shops.

Secondly, the increasing appetite of the public for safe, car-free shopping from a variety of shops might suggest the development of retail ‘villages’ on the land that Hammond Shoes have, both in Petatown and in the, now disused, factory in the north of the country. This option would combine the twin strengths of retail experience and the availability of land owned by the company, to provide consumers with an experience they increasingly seek and value. The fact that only two sites are available in towns where there are currently no Hammond Shoes retail shops means that there is no apparent reason why the creation of the retail villages should not be combined with the diversification of the products offered in the retail stores.

The software expertise of the company’s information systems department can also be used to fulfil consumer’s desire for increased purchases over the Internet. Up to now this software expertise has been mainly used to develop in-house production and retail systems which are acknowledged as being amongst the best in the industry. This expertise might be used to develop an innovative e-commerce site. This, of course, also opens up the possibility of sales outside
 Arnland, something that is unlikely at the moment, given that all the retail shops are within the country.

**WO – options that take advantage of opportunities by overcoming weaknesses.** To some extent this option contains the approach suggested by the Board, upgrading production machinery. This is addressing a known weakness (out-dated production facilities), simultaneously tackling another weakness, the cost of production. Here the approach is to reduce unit cost by improving productivity and reducing energy costs through the use of modern production equipment. The Board perceives that overcoming these weaknesses will allow the company to continue to compete in the market they are familiar with.

Reducing energy costs might also be used to appeal to the increasing number of green consumers of Arnland who take into account ethical issues when making purchasing decisions. The business analysts have identified these savings as an opportunity in their SWOT analysis. They should be attracted to a product that has been produced using an energy efficient process, and has not travelled thousands of kilometres (using energy consuming boats, road transport and trains). At the time of writing, there is an increased interest in measuring product miles or kilometres, a term used to assess the environmental impact of delivering a product from its point of production to its point of sale. Although the measures are controversial, this need not necessarily concern the messages put out by Hammond Shoes’ marketing department.

Hammond Shoes might also use the negative impact of television programmes showing the use of cheap and exploited labour in the production of goods in Orietaria as part of their marketing message. Although the consultants have suggested that the production of shoes in Arnland is a weakness (because of high costs) it could be turned into a strength if the country of origin becomes an important part of the buying decision for people who are willing to pay a premium for ethically sourced products. This might be supported by political initiatives, for example, the support of one of the political parties in Arnland for environmentally responsible purchasing. Their manifesto suggests that ‘shorter shipping distances reduce energy use and pollution. Purchasing locally supports communities and local jobs’.
ST – options that use strengths to avoid threats. The company is an acknowledged leader in shoe design and distribution software. It also has significant retail competencies. The company might consider reviewing these to see whether innovative production and retail systems could not be combined and extended to provide economies of supply that partly compensate for the relative high cost of production. So, although production costs cannot easily be reduced, supply and storage costs might be.

The extensive property ownership of the organisation is also perceived as a significant strength. In the short term there may be an opportunity to buy time whilst the cost of producing overseas increases due to rising fuel costs and demands for better pay in the producing countries. Thus, cheaper competition might be seen as a short-term threat, which will eventually disappear. The property portfolio could be used to help finance Hammond Shoes through this period. It might do this by disposing of property, or perhaps more innovatively, by selling all of its property and leasing it back. This would provide liquidity which could be used to ease the company through the next few years.

WT – options that minimise weaknesses and avoid threats. The high cost of labour (weakness) and the continued provision of cheap imports (threat) may mean that Hammond Shoes should consider diversifying into areas of the footwear market where there is either less demand for raw materials or where a premium can be charged, either due to the quality of the product or due to appropriate branding. For example, focusing on shoes for children, which requires greater precision and less raw material, might be a possibility. The attraction of this is that it is a product which needs regular renewal (as feet grow) and because parents are conscious of getting exactly the right fit to avoid permanent damage to their children’s feet.

The acknowledged strengths of the retail experience, where employees have extensive product knowledge and excellent customer care, might also be harnessed to support this approach. Branding can reinforce the message, focusing on Hammond Shoes as primarily a supplier of children’s shoes. Adult shoes may be given a lower marketing profile, but are available for cross-selling when parents are visiting for measuring and fitting shoes for their children.
Other niche areas might include high quality fashion shoes and boots, where customers are willing to pay a premium for the product. This might demand a certain amount of exclusivity, reinforced through appropriate marketing. Again, one of the attractions of the fashion market is the relatively short shelf-life of the product. Many consumers wish to renew their shoes each season as a fashion statement, not due to any desire to keep their feet dry and clean.

c) A mission statement defines the overriding direction and purpose of an organisation. Some organisations also have vision statements stating what the company aspires to. However, for the purpose of this answer, vision and mission are perceived as largely the same thing. Mission statements have their critics, with many believing that they are bland and too wide-ranging. There may be some truth in this view; after all there are only a limited number of ways that the words customer, quality and leader can be re-arranged. However, most organisations appear to have settled into an approach where a short snappy slogan or strap line is supported by a much deeper description of what the organisation is about, its stakeholders and how it wishes to interact with those stakeholders. It defines how the organisation wants to do business. At the time of writing Virgin Atlantic has three elements to its mission statement, all expanded into specific objectives on its website. To grow a profitable airline, where people love to fly and where people love to work. Part of CPA’s mission is to provide opportunity and access to people of ability around the world and to support our members throughout their careers in accounting, business and finance.

If there is substantial disagreement within the organisation about its overall mission then there may be significant problems in determining the strategic direction of the organisation. Defining a mission statement also provides an opportunity for the organisation to communicate its core corporate values. These may be explicitly defined within the mission itself or they may be in subsidiary statements, corporate reports or web resources. These values tell customers and suppliers how the organisation wishes to operate. They represent the core values and principles that guide the organisations’ actions. These could, for example, concern aspects of corporate social responsibility. The CPA has core values of opportunity, diversity, innovation, accountability and integrity.
One of the problems at Hammond Shoes appears to be that the core values of the organisation are implied, but not explicitly stated. Originally, these were provided by the beliefs of the founding brothers – provision of education and housing for employees, secure jobs and good working conditions. Privately, the family still have these principles but they have largely failed to communicate and promote them. Commercial organisations with important core social values are increasingly rare. The extent of this communication failure at Hammond Shoes even extends to the senior management of the company. Their promotion of the potential benefits of outsourcing of production indicated a failure to understand that this would effectively remove a significant part of the company’s reason for existence. Its core values include the provision of fair employment opportunities for the people of Petatown and the reaction of the family to removing this central mission illustrates that this value remains core to the continued existence of the company.

Thus the Hammond family should explicitly state their core values, perhaps as a detailed expansion of a short, clear mission statement. This would allow the family to articulate its beliefs and communicate these to customers, suppliers and employees.

A number of writers on organisations use a MOST analysis to help understand the internal environment of an organisation. MOST stands for Mission, Objectives, Strategy and Tactics. The aim of this analysis is to see whether the four facets actually exist (checking for omission) and, if they do, whether they align. Objectives are statements of specific outcomes that the organisation wishes to achieve. They are often expressed in financial terms, such as profit levels, turnover or dividend distribution to shareholders. Marketing objectives are also very common; such as a target market share and customer service provision. Johnson, Scholes and Whittington also believe that general, unquantifiable objectives are acceptable. They recognise that objectives such as ‘being a leader in technology’ is important to state, but could be difficult to quantify and may indeed encourage spurious quantification. In the context of Hammond Shoes, the company does appear to have certain objectives, such as keeping production in Petatown and providing educational opportunities for employees. As Johnson, Scholes and Whittington point out, ‘there are times when specific objectives are required’. This is when urgent action is necessary, as at Hammond Shoes, when
it becomes important for the management to focus on a limited number of quantified, priority requirements and not waste their energies pursuing vaguely stated ones.

Furthermore, the existence of such objectives provides an opportunity for managers and employees throughout the organisation to align their own work with stated objectives and so see how what they do contributes to objectives that, in turn, serve the corporate mission. The company clearly fails to cascade objectives down through the organisation and, again, at a period of crisis, this may be a significant weakness. For example, the core value of treating suppliers fairly could have been enshrined within an objective of paying all suppliers within 30 days. The absence of this specific objective and hence the impossibility of cascading it down to those responsible for cash flow management and payment has meant that this section has imposed its own objective of extending payment terms as much as possible. Evidence suggests that they now stand at over 60 days, so the company is failing to meet one of its core values – fairness to suppliers.

Hence, Hammond Shoes does not have a clearly defined mission or explicitly stated values. Its objectives are restricted and rarely quantified. Its strategy is now under review, although it has made certain tactical decisions such as resisting outsourcing and commissioning updated production facilities in Petatown. Thus in the MOST analysis, there are some elements omitted and hence alignment is impossible. This needs to be addressed.

**Question No 26:-**

**Introduction**

Flexipipe is a successful company supplying flexible pipes to a wide range of industries. Its success is based on a very innovative production process which allows the company to produce relatively small batches of flexible pipes at very competitive prices. This has given Flexipipe a significant competitive edge over most of its competitors whose batch set-up costs are higher and whose lead times are longer. Flexipipe’s innovative process is partly automated and partly reliant on experienced managers and supervisors on the factory floor. These managers efficiently schedule jobs from different customers to achieve economies of scale and throughput times that profitably deliver high quality products and service to Flexipipe’s customers.
A year ago, the Chief Executive Officer (CEO) at Flexipipe decided that he wanted to extend the automated part of the production process by purchasing a software package that promised even further benefits, including the automation of some of the decision-making tasks currently undertaken by the factory managers and supervisors. He had seen this package at a software exhibition and was so impressed that he placed an order immediately. He stated that the package was ‘ahead of its time, and I have seen nothing else like it on the market’.

This was the first time that the company had bought a software package for something that was not to be used in a standard application, such as payroll or accounts. Most other software applications in the company, such as the automated part of the current production process, have been developed in-house by a small programming team. The CEO felt that there was, on this occasion, insufficient time and money to develop a bespoke in-house solution. He accepted that there was no formal process for software package procurement ‘but perhaps we can put one in place as this project progresses’.

This relaxed approach to procurement is not unusual at Flexipipe, where many of the purchasing decisions are taken unilaterally by senior managers. There is a small procurement section with two full-time administrators, but they only become involved once purchasing decisions have been made. It is felt that they are not technically proficient enough to get involved earlier in the purchasing lifecycle and, in any case, they are already very busy with purchase order administration and accounts payable. This approach to procurement has caused problems in the past. For example, the company had problems when a key supplier of raw materials unexpectedly went out of business. This caused short-term production problems, although the CEO has now found an acceptable alternative supplier.

The automation project

On returning to the company from the exhibition, the CEO commissioned a business analyst to investigate the current production process system so that the transition from the current system to the new software package solution could be properly planned. The business analyst found that some of the decisions made in the current production process were difficult to define and it was often hard for managers to explain how they had taken effective action. They tended to use their experience, memory and judgement and were still innovating in their control of the process. One commented that ‘what we do today, we might not do tomorrow; requirements are constantly evolving’.
When the software package was delivered there were immediate difficulties in technically migrating some of the data from the current automated part of the production process software to the software package solution. However, after some difficulties, it was possible to hold trials with experienced users. The CEO was confident that these users did not need training and would be ‘able to learn the software as they went along’. However, in reality, they found the software very difficult to use and they reported that certain key functions were missing. One of the supervisors commented that ‘the monitoring process variance facility is missing completely. Yet we had this in the old automated system’. Despite these reservations, the software package solution was implemented, but results were disappointing. Overall, it was impossible to replicate the success of the old production process and early results showed that costs had increased and lead times had become longer.

After struggling with the system for a few months, support from the software supplier began to become erratic. Eventually, the supplier notified Flexipipe that it had gone into administration and that it was withdrawing support for its product. Fortunately, Flexipipe were able to revert to the original production process software, but the ill-fated package selection exercise had cost it over $3m in costs and lost profits. The CEO commissioned a post-project review which showed that the supplier, prior to the purchase of the software package, had been very highly geared and had very poor liquidity. Also, contrary to the statement of the CEO, the post-project review team reported that there were at least three other packages currently available in the market that could have potentially fulfilled the requirements of the company. The CEO now accepts that using a software package to automate the production process was an inappropriate approach and that a bespoke in-house solution should have been commissioned.

Required:

a) Critically evaluate the decision made by the CEO to use a software package approach to automating the production process at Flexipipe, and explain why this approach was unlikely to succeed.

b) The CEO recommends that the company now adopts a formal process for procuring, evaluating and implementing software packages which they can use in the future when a software package approach appears to be more appropriate.
Analyse how a formal process for software package procurement, evaluation and implementation would have addressed the problems experienced at Flexipipe in the production process project.

Answer:-

a) A critical evaluation of using the software package approach at Flexipipe could be structured around three factors. The first concerns the wisdom of using a package solution for a process where the company enjoys a competitive edge over its competitors. The second factor focuses on the difficulties of selecting an appropriate package in an environment where requirements are difficult to define and are still subject to change. The final factor revolves around the problem of successfully procuring a software package in an organisation which lacks both experience and a process for selecting and procuring a nonstandard software application. Each of these factors is now considered in turn. Other appropriate factors and relevant approaches will be given credit.

**Competitive edge**

It is generally accepted that software package solutions cannot provide organisations with a competitive edge. By definition such packages are available to all companies in a sector or market and so any commercial advantages offered by the package are available to all organisations competing in that market.

It is recognised that the control of the production process at Flexipipe was very innovative. It provided the company with significant competitive edge over their competitors. For this reason, it seemed unlikely from the start that Flexipipe would find a package that fulfilled its exact requirements and that any selected package would constrain the production process. Indeed, this is what happened, with the new system unable to replicate the flexibility and efficiency of the existing one.

Initially, the company would have been advised to consider the location of the process on the Harmon process/strategy grid. The process is strategically important and relatively complex. Software package solutions should primarily be considered for reasonably straightforward commodity processes which have low strategic importance to the company, such as payroll and accounts. Thus, in the context of Flexipipe, a bespoke software solution would, from the outset, appear to have been more appropriate.
Complexity and nature of requirements

It was recognised from the start that it was relatively difficult to specify all the requirements of the production process in advance because many decisions were intuitively taken by experienced managers and supervisors on the factory floor. It was often difficult for them to explain why they had taken certain effective decisions. It is very risky to select a software package against incomplete or unarticulated requirements. If significant requirements are missed or misunderstood then it is difficult to address the problems this might cause.

There are at least three potential approaches to addressing the problem of the software failing to fulfil requirements, but each of these has disadvantages. The first approach is to ask the software vendor to integrate these requirements into the next release of the package. However, even if the software vendor agrees, it may be a costly solution as well as allowing such innovations to become available to all users of the package. The second approach is to ask the software vendor to build a tailored version of the application to fulfil specific requirements. This is likely to be expensive (so reducing the cost advantages of buying a package) and cause long-term maintenance problems and costs as the tailored version has to be integrated with new releases of the standard software package. The final approach is to seek a manual work-around for the missing requirements. However, this may also be costly as well as reducing the business benefits which should have been obtained. Whichever approach is taken, it is likely to either reduce the benefits or increase the costs of adopting a software package solution.

It was also recognised that requirements are likely to change in the long term. There is no guarantee that the software vendor will develop the package to fit newly emerging requirements and so the issues of tailoring and work-around will again have to be considered. Most package selection takes place against current requirements and so this approach is well-suited to circumstances where requirements rarely change and, if they do, they are specified by legislative bodies and the software vendors must make the changes to keep their product compliant. Payroll and integrated accounts applications are typical of this. Applications that are subject to long-term changes (such as the production process at Flexipipe) and do not require legislative compliance, are less appropriate to this approach.
Absence of mature procurement process and management expertise
It was recognised from the outset that Flexipipe did not have an established process for software package selection and implementation. This was a very risky project in which to try and establish a process and select an appropriate package. Lack of procurement expertise in general has been a problem in the past for the company when a key supplier of raw materials for the pipes went out of business. This caused short-term production problems, although an alternative supplier had eventually been found. However, procurement still only employs two people full-time and they are relatively junior and overworked. The company appears to have a very immature procurement process.
The long-term commitment to an external supplier is very problematic in software supply, where moving formerly in-house applications to a new supplier can be technically difficult, expensive and disruptive. In general, there are significant risks associated with the long-term viability of software suppliers and the maintenance of software applications that are critical to the company. Companies go out of business, as in the case study scenario, and companies are sold. It is feasible that a software supplier might be bought by a competitor of Flexipipe, threatening long-term supply. These problems are largely absent in bespoke development, particularly if this development is undertaken in-house. The software program code belongs to the company (not the supplier) and its long-term development is under its control.

b) In the context of the Flexipipe project, here are some of the issues that could have been addressed by a formal software package evaluation process. It is important that candidates identify elements of the process relevant to the Flexipipe scenario. A generic evaluation process is insufficient.

The business case for all software procurement projects should be assessed to see if a package is an appropriate solution. In some instances a bespoke IT development may be better suited. As mentioned in the answer to the first part of this question, the Harmon grid considers process complexity and strategic importance and it could have been used as a guide to assessing the appropriateness of the software package solution approach. If it had been used at Flexipipe then it seems likely that the software package approach would have been abandoned at an early stage of the project.
The requirements must be carefully and comprehensively specified before embarking on a procurement exercise. Difficulties with specifying requirements may again lead to a
re-consideration of the bespoke approach. In the case study scenario, mention is made of the system failing to fulfil a number of functional requirements, such as monitoring process variance. The inference is that these requirements were either not specified or were incorrectly specified in advance and so were not part of the package assessment. Similarly, problems with ‘usability’ may be due to the failure of defining specific usability requirements in advance and so these were not considered when the package was evaluated.

The tendering method has to be made more formal and competitive. A post-project review has shown that there were at least three other packages which should have been considered in the evaluation process. A more formal process would have had a mechanism for finding these potential suppliers. The openness of the tendering process would also have been assisted by advertising in trade magazines and internet tendering sites, which may have also brought forward other potential suppliers. This is an important step because it allows a transparency in the process, and avoids selecting a supplier purely on the recommendation of one internal employee: as in the case of Flexipipe. It would have avoided the situation of a package being selected solely on the basis of a visit to an exhibition.

Suppliers who submit tenders must be evaluated against criteria agreed in advance. Buying a software package leads to a long-term relationship between the supplier and the customer, so the latter must be comfortable with the supplier’s credentials. In the context of Flexipipe this would involve setting standard measures and minimum values for liquidity, gearing and profitability. There also has to be some way of off-setting the supplier’s suitability with the suitability of the product. That is, how a package with limited functionality from a well-established, financially sound supplier is evaluated against a more functional, usable package from a newly established company with high financial gearing and low turnover. The balance between such factors has to be established in advance, often using a high-level weighted matrix. In the context of the scenario, appropriate financial checks should have identified the high gearing and poor liquidity of the supplier that eventually led to its collapse.

A proper process also needs to be in place to evaluate the potential solution against the specified requirements. It is important to establish the ‘fit’ between the requirements and the potential solution and to use this ‘fit’ in the final selection. It has been stated elsewhere that it is unlikely that a package solution will exactly fulfil all requirements. However, if the ‘fit’ is known and understood in advance
then negotiation with users may lead to them dropping, modifying or finding workaround for these gaps. Perhaps some of the functional shortcomings identified by users might have been tolerated, if they had been known and understood in advance. 

Finally, a planned implementation is an important part of the process. Perhaps the lack of usability of the software was down to the absence of training and the belief that users could ‘to pick up the software as they go along’. This is a risky approach, even in circumstances even with experienced users and in a situation where the software product is a good fit with their requirements.

Question No 27:-

Introduction

The country of Mahem is in a long and deep economic recession with unemployment at its highest since the country became an independent nation. In an attempt to stimulate the economy the government has launched a Private/Public investment policy where the government invests in capital projects with the aim of stimulating the involvement of private sector firms. The building of a new community centre in the industrial city of Tillo is an example of such an initiative. Community centres are central to the culture of Mahem. They are designed as places where people can meet socially, local organisations can hold conferences and meetings and farmers can sell their produce to the local community. The centres are seen as contributing to a vibrant community life. The community centre in Tillo is in a sprawling old building rented (at $12,000 per month) from a local landowner. The current community centre is also relatively energy inefficient.

In 2010 a business case was put forward to build a new centre on local authority owned land on the outskirts of Tillo. The costs and benefits of the business case are shown in Figure 1. As required by the Private/Public investment policy the project showed payback during year four of the investment.

<table>
<thead>
<tr>
<th>All figures in $</th>
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<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
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<tr>
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<td></td>
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<tr>
<td>Costs: Recurring</td>
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<tr>
<td>Benefits: Rental savings</td>
<td>144,000</td>
<td>144,000</td>
<td>144,000</td>
<td>144,000</td>
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<tr>
<td>Benefits: Energy savings</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>Benefits: Increased income</td>
<td>20,000</td>
<td>20,000</td>
<td>70,000</td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Benefits: Better staff morale</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
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<td>25,000</td>
</tr>
</tbody>
</table>
Cumulative net benefits

<table>
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<th>Amount</th>
</tr>
</thead>
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<tr>
<td>2010</td>
<td>-441,000</td>
</tr>
<tr>
<td>2011</td>
<td>-282,000</td>
</tr>
<tr>
<td>2012</td>
<td>-73,000</td>
</tr>
<tr>
<td>2013</td>
<td>156,000</td>
</tr>
<tr>
<td>2014</td>
<td>385,000</td>
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Figure 1: Costs and benefits of the business case for the community centre at Tillo

New buildings built under the Private/Public investment policy must attain energy level targets and this is the basis for the estimation, above, of the energy savings. It is expected that the new centre will attract more customers who will pay for the centre’s use as well as increasing the use of facilities such as the cafeteria, shop and business centre. These benefits are estimated, above, under increased income. Finally, it is felt that staff will be happier in the new building and their motivation and morale will increase. The centre currently employs 20 staff, 16 of whom have been with the centre for more than five years. All employees were transferred from the old to the new centre. These benefits are shown as better staff morale in Figure 1.

Construction of the centre 2010–2011

In October 2010 the centre was commissioned with a planned delivery date of June 2011 at a cost of $600,000 (as per Figure 1). Building the centre went relatively smoothly. Progress was monitored and issues resolved in monthly meetings between the company constructing the centre and representatives of the local authority. These meetings focused on the building of the centre, monitoring progress and resolving issues. Most of these issues were relatively minor because requirements were well specified in standard architectural drawings originally agreed between the project sponsor and the company constructing the centre. Unfortunately, the original project sponsor (an employee of the local authority) who had been heavily involved in the initial design, suffered ill health and died in April 2011. The new project sponsor (again an employee of the local authority) was less enthusiastic about the project and began to raise a number of objections. Her first concern was that the construction company had used sub-contracted labour and had sourced less than 80% of timber used in the building from sustainable resources. She pointed out the contractual terms of supply for the Private/Public policy investment initiatives mandated that sub-contracting was not allowed without the local authority’s permission and that at least 80% of the timber used must come from sustainable forests. The company said that this had not been brought to their attention at the start of the project. However, they would try to comply with these requirements for the rest of the contract. The new sponsor also refused to sign off acceptance of the centre because of the poor quality of the internal paintwork. The construction company explained that this was the intended finish quality of the centre and had been agreed with the previous sponsor. They produced a letter to verify
this. However, the letter was not counter-signed by the sponsor and so its validity was questioned. In the end, the construction company agreed to improve the internal painting at their own cost. The new sponsor felt that she had delivered ‘value for money’ by challenging the construction company. Despite this problem with the internal painting, the centre was finished in May 2011 at a cost of $600,000. The centre also included disability access built at the initiative of the construction company. It had found it difficult to find local authority staff willing and able to discuss disability access and so it was therefore left alone to interpret relevant legal requirements. Fortunately, their interpretation was correct and the new centre was deemed, by an independent assessor, to meet accessibility requirements.

Unfortunately, the new centre was not as successful as had been predicted, with income in the first year well below expectations. The project sponsor began to be increasingly critical of the builders of the centre and questioned the whole value of the project. She was openly sceptical of the project to her fellow local authority employees. She suggested that the project to build a cost-effective centre had failed and called for an inquiry into the performance of the project manager of the construction company who was responsible for building the centre. ‘We need him to explain to us why the centre is not delivering the benefits we expected’, she explained.

Required:

a) The local authority has commissioned the independent Project Audit Agency (PAA) to look into how the project had been commissioned and managed. The PAA believes that a formal ‘terms of reference’ or ‘project initiation document’ would have resolved or clarified some of the problems and issues encountered in the project. It also feels that there are important lessons to be learnt by both the local authority and the construction company.

Analyse how a formal ‘terms of reference’ (project initiation document) would have helped address problems encountered in the project to construct the community centre and lead to improved project management in future projects.

b) The PAA also believes that the four sets of benefits identified in the original business case (rental savings, energy savings, increased income and better staff morale) should have been justified more explicitly.
Draft an analysis for the PAA that formally categorises and critically evaluates each of the four sets of proposed benefits defined in the original business case.

Answer:-

a) Meetings were held throughout the design and construction of the centre. These meetings focused on the building of the centre, monitoring progress and resolving minor issues that arose during construction. The successful completion of the centre on budget and ahead of schedule suggests that these meetings were effective. However, the absence of a wider project initiation document or terms of reference created problems that could have been resolved or better understood. An analysis of how a standard document could have helped address some of the issues that affected the construction and subsequent evaluation of the centre is given below.

There was confusion about the objectives of the project. The local authority is unable to recognise the distinction between project objectives and business objectives. The business objective of the project was to deliver payback in four years as required by the Private/Public investment policy. In contrast, the project objective was to build the centre by June 2011 for $600,000. By their very nature, the business objectives are not within the control of the project manager from the construction company responsible for building the centre. The achievement of the business objectives will involve much more than just delivering a building. They will concern marketing, sales and the successful operation of the centre. Evidence seems to suggest that the project manager was not (as the second project sponsor claimed) a failure. He delivered the building within budget and ahead of schedule. The problem was the failure of the local authority to distinguish between the project objectives (constructing the building) and the wider business objectives which the building was to help satisfy. It appears that nobody was either aware of, or willing to take responsibility for these wider objectives. It is recommended that future projects should clearly distinguish between project and business objectives and assign responsibilities to each.

The scope of the project was well-defined by the standard architectural drawings agreed between the construction company and the project sponsor. The only significant problem concerned the quality of the internal painting. There is no way (post project) of reconciling this misunderstanding. The construction company felt that it had come to an arrangement about this with the initial sponsor, but no documentation could be found to irrevocably support this. The
letter confirming the intended finish produced by the construction company was not counter-signed by the project sponsor. This is an important lesson for the construction company in future projects. Changes or clarifications to the specification must be counter-signed by both parties. This is also appropriate to the local authority’s project management methods, continuing to demand that all changes must be counter-signed by both parties.

The constraints of the project were relatively well-defined in terms of time and cost, as these were defined in the original business case. However, tension was caused within the project when it became clear that certain labour and sourcing requirements of the Private/Public policy were not being adhered to. Specifically, these concerned the use of sub-contracted labour (not to be used without the commissioning agency’s permission) and sourcing at least 80% of timber on the project from sustainable forests. The generic terms of the Private/Public investment policy were not made available to the construction company. It is suggested that the local authority should, in future, integrate such objectives explicitly into the project terms of reference.

The authority of the project is the sponsor responsible for making decisions about the project, providing resources, considering and agreeing changes. They should also promote the project within the local authority and accept the project once it has been completed. The original sponsor on the local authority was very supportive of the centre’s design but their successor seemed unsure of her responsibilities and focused on obtaining concessions from the suppliers under the pretext of ‘value for money’ rather than considering the wider issues, such as defining who had responsibility for delivering the business objectives. She also failed to promote the project to her fellow employees and tried to blame the builders for the failure. The role of the project sponsor should be formally defined within the local authority. Their responsibilities should be clear and failure to adhere to those responsibilities should be addressed.

The resources available to the project were relatively well defined, although the lack of local authority staff able and willing to discuss disability access meant that the contractors had to use their own initiative in this area. Fortunately for them, they interpreted legal requirements correctly and the delivered centre was deemed to be compliant with legislation. However, this is a risky approach and is not recommended for the future. Local authority resources and support required by projects should be specifically defined in advance. If they are unavailable during the project then substitutes must be provided.
b) This part of the question evaluates the four sets of benefits identified in the payback calculation. It requires the categorization and critical evaluation of each benefit.

Ward and Daniel use the term ‘observable benefits’ to describe the least explicit benefits such as increased staff morale in the case of the community centre. They suggest that such benefits should be assessed against clear criteria by someone who is qualified to make such an assessment. So, for example, current staff morale and motivation might be assessed in an independent survey and compared to results from a similar survey conducted once the centre has been built and occupied.

In the context of the centre it might seem reasonable to assume that improved staff morale and motivation will have a positive effect on the success of the centre. For example, it may lead to better customer service, which may, in turn, lead to customers returning more often or using more facilities whilst they are there. It may also lead to reduced staff turnover, so decreasing costs associated with recruitment, induction and training.

However, from a benefits perspective, two issues have to be specifically addressed.

Firstly, the relatively significant estimated benefits attributed to improved staff morale in the original payback calculation must be questioned. In terms of increased benefits it is difficult to disentangle benefits due to this from other factors which might lead to increased customer use. In terms of reduced recruitment costs, there is little to suggest that staff turnover is high at the moment. 80% of the staff has been with the centre for over five years and there is an economic recession in the country, with unprecedented unemployment.

Secondly, and perhaps more fundamentally, the whole basis of the benefit needs further consideration. It is unclear why moving to the new centre would necessarily improve staff morale and motivation in the first place. There may be some intellectual support for the view that a pleasant working environment contributes towards motivation, but, in the initial stages the centre is likely to have temporary teething problems leading to (at least in the short term) a more stressful work environment. Similarly, even if a survey found that morale and motivation had increased it would be hazardous to attribute this to the investment in the centre as it may be largely due to external factors affecting each individual.
A **measurable benefit** is one where an aspect of performance is currently being measured or could be measured. However, it is not possible to estimate with any certainty, in advance, how much performance will improve when the changes are completed. In the context of the centre, increased income seems a reasonable measurable benefit. It seems reasonable to expect that current income is measured and that similar measures may be collected in the future.

The estimates on the payback calculation need further scrutiny, particularly the large increases predicted for years three and four. It should be acknowledged that few benefits are instantaneous and that use will only increase as the reputation of the centre grows. However, this growth in customer use is not associated with any increased costs which would seem unlikely. Hence, the basis of these benefits requires further investigation.

A **quantifiable benefit** is one where there is sufficient evidence to forecast how much improvement or benefit should result from the proposed changes. In such circumstances the level of performance prior to the change is known and the improvement can be specifically attributed to the investment, rather than to other changes. Energy savings appears to fit into this category. Energy use could be established for the current building. The Private/Public investment policy requires buildings constructed under this arrangement to meet specified target energy levels. The construction methods and design of the building should reflect the need to meet this target. Thus there is a good basis for predicting energy savings, although, of course, the actual savings will not be known until after implementation.

Finally, a **financial benefit** is one where a financial value can be obtained by applying a cost, price or any other valid financial formula to a quantifiable benefit. Thus we might re-classify the quantifiable benefit of energy savings as a financial benefit, assuming that the new building meets the minimum level required by the initiative. There are still important assumptions here, and the real performance can only be assessed after the building has been used for a while. There is still an element of estimation, and indeed the new building may surpass the minimum levels assumed in the cost/benefit analysis. In contrast, rental savings on the current properties are both definite and immediate and are correctly recorded in the payback calculation.

In summary, the benefits in the payback calculation should probably have been initially restricted to financial and quantifiable benefits. The other benefits are important and should have been documented in the business case, but it seems
inappropriate to artificially quantify these benefits to satisfy the need to achieve a payback target. However, if the measurable benefits are included in the business case, their underlying assumptions and probability should be communicated to the decision-maker. Furthermore, efforts might also be made to better estimate the likely benefits, perhaps through looking at performance in similar centres, and using this as a benchmark to elevate the benefits to being, at least, quantifiable.

**Question No 28:-**

Boss is a company that specialises in the production of bespoke sofas and chairs. Its products are advertised in most quality lifestyle magazines. The company was started ten years ago. It grew out of a desire to provide customers with the chance to specify their own bespoke furniture at a cost that compared favourably with standard products available from high street retailers. It sells furniture directly to the end customer. Its website allows customers to select the style of furniture, the wood it is to be made from, the type of upholstery used in cushion and seat fillings and the textile composition and pattern of the covering. The current website has over 60 textile patterns which can be selected by the customer. Once the customer has finished specifying the kind of furniture they want, a price is given. If this price is acceptable to the customer, then an order is placed and an estimated delivery date is given. Most delivery dates are ten weeks after the order has been placed. This relatively long delivery time is unacceptable to some customers and so they cancel the order immediately, citing the quoted long delivery time as their reason for cancellation.

Boss orders wood, upholstery and textiles from long-established suppliers. About 95% of its wood is currently supplied by three timber suppliers, all of whom supplied the company in its first year of operation. Purchase orders with suppliers are placed by the procurement section. Until last year, they faxed purchase orders through to suppliers. They now email these orders. Recently, an expected order was not delivered because the supplier claimed that no email was received. This caused production delays. Although suppliers like working with Boss, they are often critical of payment processing. On a number of occasions the accounts section at Boss has been unable to match supplier invoices with purchase orders, leading to long delays in the payment of suppliers.
The sofas and chairs are built in Boss’s factory. Relatively high inventory levels and a relaxed production process means that production is rarely disrupted. Despite this, the company is unable to meet 45% of the estimated delivery dates given when the order was placed, due to the required goods not being finished in time. Consequently, a member of the sales team has to telephone the customer and discuss an alternative delivery date.

Telephoning the customer to change the delivery date presents a number of problems. Firstly, contacting the customer by telephone can be difficult and costly. Secondly, many customers are disappointed that the original, promised delivery date can no longer be met. Finally, customers often have to agree a delivery date much later than the new delivery date suggested by Boss. This is because customers often get less than one week’s notice of the new date and so they have to defer delivery to much later. This means that the goods have to remain in the warehouse for longer.

A separate delivery problem arises because of the bulky and high value nature of the product. Boss requires someone to be available at the delivery address to sign for its safe receipt and to put the goods somewhere secure and dry. About 30% of intended deliveries do not take place because there is no-one at the address to accept delivery. Consequently, furniture has to be returned and stored at the factory. A member of the sales staff will subsequently telephone the customer and negotiate a new delivery date but, again, contacting the customer by telephone can be difficult and costly.

Delivery of furniture is made using the company’s own vans. Each of these vans follow a defined route each day of the week, irrespective of demand.

The company’s original growth was primarily due to the innovative business idea behind specifying competitively priced bespoke furniture. However, established rivals are now offering a similar service. In the face of this competition the managing director of Boss has urged a thorough review of the supply chain. She feels that costs and inventory levels are too high and that the time taken from order to delivery is too long. Furthermore, in a recent customer satisfaction survey there was major criticism about the lack of information about the progress of the order after it was placed. One commented that ‘as soon as Boss got my order and my money they seemed to forget about me. For ten weeks I heard nothing. Then, just three days before my estimated delivery date, I received a phone call telling me that the order had been delayed and that the estimated delivery date was now 17 June. I had already taken a day off work
for 10 June, my original delivery date. I could not re-arrange this day off and so I had to agree a delivery date of 24 June when my mother would be here to receive it.

People were also critical about after-sales service. One commented ‘I accidently stained my sofa. Nobody at Boss could tell me how to clean it or how to order replacement fabrics for my sofa’. Another said ‘organising the return of a faulty chair was very difficult’.

When the managing director of Boss saw the results of the survey she understood ‘why our customer retention rate is so low’.

**Required:**

a) **Analyse the existing value chain, using it to highlight areas of weakness at Boss.**

b) **Evaluate how technology could be used in both the upstream and the downstream supply chain to address the problems identified at Boss.**

**Answer:-**

a) The value chain was introduced by Michael Porter as a way of examining all the activities a firm performs and how these activities interact. By understanding the value chain the analyst can understand costs and identify existing and potential sources of differentiation. The value chain of the organisation is concerned with creating value for customers. A firm is profitable if the value it commands from the customer exceeds the costs involved in creating the product or service that delivers that value.

The primary activities of the value chain are the activities required to physically produce the product, get it to the customer and provide that customer with after-sales service and assistance. Support activities provide organisation-wide functions (such as procurement and technology) to support the primary activities. In general, they support the whole value chain.

In the context of Boss, the primary activities and their problems are:  
*Inbound logistics* – activities associated with receiving, storing and distributing inputs to the product. This includes warehousing, inventory control and raw materials. At Boss this concerns wood, upholstery, textiles and other raw materials. It concerns the storage of these raw materials before they are used in production. At Boss there are documented problems with the e-mail purchase
ordering system, which has led to the non-delivery of an expected order. High
inventory levels are also commented on in the scenario and these need further
investigation.

*Operations* – activities concerned with transforming the inputs into their final
form; machining, packaging, assembly and testing. At Boss this is the production
process of furniture manufacture. Despite high inventory levels and a relatively
slow production process, almost half of the promised delivery dates are not
achieved. The reasons for this again need further investigation. Perhaps the
method for estimating the delivery date is too optimistic. Alternatively, there
may be inefficiencies in the production process which need addressing. As well
as disappointing customers, failure to meet the proposed delivery date causes
increased administrative costs, as a member of the sales team has to contact the
customer and rearrange the delivery date.

*Outbound logistics* – activities associated with storing finished goods and
physically distributing these to the customer. At Boss this is the storage of
completed furniture and the delivery of furniture, using their vans, to customers.
The cost of storing of finished goods is exacerbated by the need to store them
longer than is necessary. There are two reasons for this. The first is
concerned with customers not being able to meet revised delivery dates and so deferring
delivery. The second reason is the return and storage of goods where delivery
cannot be made because the customer is not at home to sign for them. Storage of
finished goods increases inventory holding costs. Failed deliveries increase
administrative costs (a member of the sales team has to telephone customers to
re-arrange the delivery) and distribution costs (the delivery has to be made
again).

*Marketing and sales* – activities that allow a buyer to become aware of a product,
induces them to purchase this product and supports the actual purchase of the
product. At Boss this is achieved largely by display advertising in quality
magazines and through a web-based ordering system. The sequence of the web-
based ordering system may repay investigation and amendment. The estimated
delivery time is given after the order has been placed and this causes some
customers to immediately cancel their orders. It is perhaps unlikely that such
customers will return to place orders with Boss.

*Servicing* – activities that enhance or maintain the value of the product, including
repair, parts supply and product adjustment. At Boss this would concern
replacement of faulty or spoilt goods, complaints handling and product care
information. Customers are critical of after-sales service at Boss and the managing director believes that this contributes to low customer retention. The value chain also considers a number of secondary or support activities. Only one of these is specifically relevant in the context of the Boss scenario. Procurement refers to the function of purchasing inputs used in the organisation’s value chain. It does not refer to the purchase inputs themselves. The cost of the procurement function may be relatively small, but their practices greatly affect the quality and cost of the final product. At Boss, the cost of wood, upholstery and textiles will be an important determinant of the product cost. The long-term arrangement with suppliers needs investigating. Three timber suppliers provide 95% of the wood. Such arrangements may lead to suppliers becoming comfortable and progressively uncompetitive.

b) This question is primarily concerned with re-examining the upstream and downstream supply chains to explore opportunities for reducing cost, improving order-to-delivery time, improving delivery practices and enhancing customer service. Clearly there are many possibilities. Candidates, however, will only be given credit for suggestions that use technology (rather than organisational changes) and that are clearly relevant to the case study scenario and the products it concerns.

**Upstream supply chain solutions**

The upstream activities concern selecting suppliers (procurement), placing orders (procurement) and storing raw material inventory (inbound logistics). Dave Chaffey identifies six main challenges in the supply chain. Three of these six are relevant to Boss.

- Reduce order-to-delivery time
- Manage inventory more effectively
- Improve demand forecasting

**Suggestions for improvement might include:**

As mentioned in the answer to the first part of this question, procurement continually uses the same long-established suppliers (for example, 95% of timber comes from three established suppliers). These suppliers may have become complacent and uncompetitive. The company might consider using e-procurement websites to identify a wider range of suppliers and then select between these suppliers on the basis of cost and quality when placing individual
orders. Such an approach should help drive down raw material costs and re-focus the costs and service offered by the established suppliers.

Although the purchase orders are placed through email, the ordering process is relatively cumbersome with suppliers occasionally failing to respond to emails or, when an expected delivery is not received, claiming they did not receive them in the first place. The payment system (operated by accounts) sometimes fails to match purchase orders with supplier invoices, leading to delayed supplier payment and discontent. The company might consider a new system to administer purchasing and payment, linked electronically (through EDI) to the suppliers, so that orders are automatically entered into the supplier’s system and all invoice reconciliation and payment is performed electronically. This may require the company to continue to trade with a selected number of small suppliers, but it should help avoid non-delivery, reduce administrative costs and improve supplier relationships.

To avoid delays through inventory shortages, linkage with supplier systems might be increased by allowing suppliers to see the demand for certain products so that suppliers can, to some extent, anticipate demand and so should be able to supply more quickly. This would require further investigation and it seems likely that it would work better for certain raw materials than others. For example, the textile suppliers would be able to see the relative demand for different patterns and adjust their production accordingly. This should lead to Boss achieving a higher percentage of planned customer order dates, as well as reducing delivery lead time.

Increased integration also brings the promise of better inventory management, with the opportunity of suppliers effectively producing to order rather than to stock, which is, in effect, an extension of what Boss is doing. Closer integration of customer and supplier systems also provides the opportunity for ‘just in time’ manufacture where raw materials arrive just before they are needed in the production process. Although this transfers inventory costs to suppliers, more understanding of demand should mean that suppliers’ inventory management is also more effective. Reduced inventory costs for the supplier might also be passed on to Boss, resulting in lower input costs. An understanding of demand and the relative costs of storage and ordering should also allow Boss to implement systems that optimise order quantities (the EOQ model).
Downstream supply chain solutions

Downstream supply to customers is relatively simple as there are no intermediaries, as the company supplies directly to the consumer. However, evidence suggests that some consumers are relatively disaffected. A further challenge cited by Dave Chaffey is relevant here, the need to improve aftersales/post-sales operations (service on the value chain). The company also needs to consider the costs of finished goods storage (outbound logistics), distribution to customers (outbound logistics). Furthermore, although processing orders is relatively effective, customers feel uninformed in the period between order placement and order fulfilment.

Some technological solutions here might include:

To introduce technology to support the planning and co-ordinating of deliveries so that delivery vans are used more efficiently and effectively. This might simultaneously increase the likelihood of customers being at home to receive deliveries. The products being delivered are bulky and valuable and so it is vital that someone is available at the delivery address to receive them. Failed deliveries are running at 30%, and this leads to increased inventory holding costs associated with storing the returned item at the warehouse, higher administrative costs of arranging a re-delivery and extra costs of actually making that re-delivery. Technology could be used to improve van utilisation (route planning software) as well as increasing the chance of a customer being at home (automated emails to the customer, automated text messages confirming delivery that day, perhaps confirming likely delivery time).

Part of the delivery problem is caused by the failure to continually inform customers about the progress of their order. The processing and payment for the goods appears to go quite smoothly and an estimated delivery date is given to the customer at the time of order. However, the customer receives no further information until an actual delivery date is confirmed by telephone less than one week before the planned delivery. Many actual delivery dates are not the same as the original estimated delivery date because of procurement issues. Some customers cannot make this new date (often after keeping the original date free) and so a new date has to be negotiated (an administration cost) and this often leads to the finished product being stored for longer (increasing inventory cost).
An IT system that allows the customer to track their orders; updates likely delivery dates as they become available and gives the customer some feeling of progress and involvement would increase customer satisfaction and, by increasing the chance of achieving target delivery dates, reduce inventory cost and other expenses.

Customers have also complained about the absence of after-sales service. Using technology to provide answers to frequently asked questions (how do I get stains out of the upholstery), make and handle complaints and order replacement materials (particularly textiles) would appear to be beneficial. Service should help retain customers. Newsletters, special offers for established customers and targeted emails should also boost customer retention.

Question No 29:-

Sound Health Pharmaceuticals Limited (SHPL) is a reputable international company engaged in the business of manufacture of a wide range of medicines with facilities located in several countries. SHPL’s products have been developed after long periods of research at considerable costs and are prescribed by medical consultants for patients suffering from life-threatening diseases. As Director of Human Resources, you have to recruit Director Public Relations and Media Affairs to replace the incumbent official who is expected to retire shortly.

Identify and explain briefly eight critical skills and competencies you would seek in the prospective candidates for this high-profile position in SHPL’s senior management hierarchy.

Answer:-

The critical Skills and Competencies required for the position of Director Public Relations and Media Affairs of SHPL are:

a) good understanding of SHPL’s mission, goals and objectives and the ability to communicate them to all the stakeholders

b) deep understanding and insight of the role of the various media channels in projecting a positive image of the reputation and standing of SHPL

c) demonstrable track record and experience in media relations and media contacts to handle unforeseen situations which may affect SHPL’s reputation and image
d) excellent interpersonal and communication skills with ability to deliver messages by adopting appropriate styles, tools and techniques depending on the type of information and the intended recipients
e) good management and organisational skills and be able to prioritize and plan activities taking into account factors such as deadlines and resources
f) work closely with senior level executives as an effective member of the top management.
g) assimilate complex information and take independent action where necessary and handle multiple projects and work demands at a time
h) excellent writing skills with a high level of capability to attend to details
i) qualities of leadership and a positive frame of mind
j) proficient in developing web-site content, maintenance and supporting the in-house broadcasting department.

**Question No 30:-**

Explain briefly the following types of Growth Strategies pursued by Business Organisations. Give one example of each of these types of strategies.

a) Horizontal Integration Strategy
b) Forward Integration Strategy
c) Conglomerate Growth Strategy

**Answer:-**

**a) Horizontal Integration Strategy:**

This strategy seeks to achieve growth by ownership/acquisition or merging of functions of organisations which operate on a similar level. It is characterized by integration of firms producing the same kind of goods or operating at the same stage of the supply/value chain. This strategy is pursued to achieve economies of scale by sharing of resources and competencies to gain significant competitive advantages.

Example: A profitable cement company acquiring another cement manufacturing unit.
b) **Forward Integration Strategy:**
It is a strategy which envisages gaining ownership or taking control of distribution channels when the existing external distribution channels insist on unduly high profit margins or are unreliable or are unable of meeting the firm’s distribution objectives. Forward Integration strategy is most beneficial when significant competitive advantages can be achieved through ownership or effective control of the distribution channels. The firm must have sufficient capital and human resources for pursuing a successful forward integration strategy. 
Example: A leading manufacturer of branded fashion clothing establishing its own network of retail outlets. 

c) **Conglomerate Growth Strategy:**
This strategy seeks to create diversified business units/entities, each of which is capable of achieving excellent financial performance in its respective line of business. Firms which pursue conglomerate growth strategies search across different industries for opportunities for expansion and purchase of companies whose assets are undervalued and therefore can be acquired at low prices, yet have the potential to offer high returns on the investment. Firms which have excellent top management capabilities and can effectively plan, manage and control individual units in different industries pursue conglomerate growth industries. 
Example: A prominent textile group establishing or making acquisition of a power generation unit. 

**Question No 31:-**

a) Business firms, at times, place excessive emphasis on Cost Reduction and Austerity policies to achieve their profit objectives. These policies may be in conflict with the interests of customers, employees and the society as a whole.

Identify any **three** adverse effects of introduction of stringent Cost Reduction and Austerity policies on **each** of the above stakeholders.

b) What is meant by the term Corporate Social Responsibility?
c) State **five** important factors which should be included in developing an effective Accident Prevention and Reporting System for a company involved in heavy mechanical and engineering operations.

Answer:-

a) Stringent Cost Reduction and Austerity policies may be in conflict with the interests of the stakeholders in the following situations:

i. Customers
   - the products may be of an inferior quality and perform unsatisfactorily
   - the products may have a very limited useful life
   - sub-standard quality of raw material inputs and packaging may be harmful for the health of the customers

ii. Employees
   - working conditions may not be conducive for the health of the workers
   - poor maintenance of machinery and equipment may cause injuries and accidents
   - inadequate compensation may result in financial difficulties for the workers

iii. Society as a whole
   - cause pollution and create environmental hazard
   - lack of interest in charities, sports and community activities
   - impose social cost on the society by making improper use of public assets

b) Corporate Social Responsibility is a form of voluntary business approach that a business firm pursues to meet or exceed the expectations of its stakeholders by adopting social, ethical and environmental measures. The goal of CSR is to make a positive impact through its activities on the environment as well as all its stakeholders.

c) The following important factors should be included in developing an effective Accident Prevention and Reporting System for a company involved in heavy mechanical and engineering operations:

i. All accidents should be reported on Accident Reporting Forms and proper records should be maintained of accidents resulting in death and major injuries.
Identification of particularly more risky activities and adopting special precautionary measures such as installation of safety grills to prevent accidents.

Periodic training of employees for compliance with the safety rules and procedures so that they are fully aware of the accident hazards while performing their duties.

Regular maintenance of plant and machinery to ensure that all the parts and components are repaired/ replaced promptly so that they do not cause injuries to the workers due to malfunction or breakdown of the equipment.

Periodical review of the safety conditions should be carried out by an independent person.

Statistical trends of recurring accidents must be monitored closely to identify and examine the need for introduction of special measures.

Procedures for reporting ‘near-misses’ should be laid down: anonymously, if necessary to encourage timely corrective actions and openness in reporting of such incidents.

**Question No 32:**

**a)** Accurate Engineering Limited is engaged in the business of manufacturing precision earth drilling tools used by the oil exploration industry. The Company employs a high proportion of skilled and experienced workers for the smooth and efficient manufacture of its quality-sensitive high-value products. Recently, the company has been facing an unusually High Rate of Employee Turnover which is a matter of serious concern for the management. Identify five disadvantages which Accurate Engineering Limited would experience due to the unusually High Rate of Employee Turnover.

**b)**

i. Briefly explain what is meant by a Differentiation Strategy.

ii. List six types of skills and resources which are critical for the pursuance of a successful Differentiation Strategy.

**Answer:-**

a) Accurate Engineering Limited would experience the following disadvantages due to the exceptionally High Rate of Employee Turnover:
i. Loss of important confidential and proprietary information and knowledge of work processes to competitors.

ii. Disruptions and delays in manufacturing operations as new workers would have to be recruited and would require training to learn the work processes.

iii. Deterioration and inconsistency in the quality of the products as the new workers would require time and hands-on experience to acquire the levels of proficiency and skills necessary to manufacture precision earth drilling tools.

iv. Effort and cost incurred in training of employees who leave the organisation are irrecoverable losses. Additional effort and costs would be involved in the training of new workers who would replace the outgoing workers.

v. The new workers would require time to assimilate in the Company’s organisation culture.

vi. Additional costs of placement of advertisements, background verification, medical examination and conducting interviews would have to be incurred in the hiring of new workers.

vii. Staff morale and motivation would be adversely affected which would create a sense of insecurity among the remaining workers and result in low employee productivity.

b) 

i. In a Differentiation Strategy, the firm is in a position to provide a product or service which the customer perceives to be of a higher value than those offered by other competitors. The customer considers that the additional cost of purchasing the particular product or service is well below what the product or service is worth as compared to the other available alternatives.

ii. The types of skills and resources which are critical for the pursuance of a successful Differentiation Strategy are:

- Strong marketing capabilities, including support of marketing channels.
- Sound capabilities for research and product engineering.
- Corporate reputation for technical and professional leadership.
- Good reputation for high standard of products and consistent quality.
- Strong relations with the suppliers of major inputs and services.
- Tradition of positive and prompt response to customers’ queries.
- incentives based on subjective measures
- stress continuous improvement and innovation

**Question No 33:**

a. Explain what is meant by Scenario Planning.

b. In highly competitive business environments dominated by relatively few equally powerful players, the participants make concerted efforts to implement effective Marketing Intelligence Systems.
   
i. What is meant by the term Marketing Intelligence System?
   
ii. List five different sources which help in the creation of an effective Marketing Intelligence System.

**Answer:-**

a. Scenario Planning is a technique which involves the process of identifying alternative scenarios in the future, and on the basis of different assumptions that the strategists may anticipate in the future, formulate corporate strategy. The process of scenario planning on the basis of different assumptions enables the company to realign its corporate strategy quickly in the changing business conditions. The purpose of scenario planning is to avoid formulating corporate strategy on the basis of a single future outcome which may not materialise. Rather, the objective is to re-evaluate the relevance of the strategic objectives which would be valid for different outcomes/events as they unfold from time to time.

b.

   i. Marketing Intelligence System is an ongoing and organised procedure to generate, organise, store, disseminate, analyse and retrieve large amount of data from internal as well as external sources for use in making marketing decisions.

   ii. The different sources would facilitate in the creation of an effective Marketing Intelligence System are:

   a) Well trained and motivated sales force to provide inputs on the improvements required in the company’s current marketing mix as well as identify new market opportunities.
b) Motivated distributors, retailers and other intermediaries who would obtain important information and pass it on to the company to improve the overall quality of products and consumer services.

c) Obtain feedback from customers regularly to improve the quality of the products and services in order to offer more value to the customers.

d) Participation in trade shows and examination of competitors' products and their advertisements etc.

e) Collect information from competitors' published reports, suppliers, couriers and transporters.

f) Published government statistics relating to population, agricultural production, manufacturing data, etc. to extract information which can be incorporated usefully in the Marketing Intelligence System.

g) Purchase of information from professional suppliers of data and information. These external firms have access to useful data and sell them to the interested parties.

Question No 34:-

a) Explain what is meant by Geocentric Orientation in the context of global business companies.

b) Alpha Equipments is a Taiwanese manufacturer of various types of photocopiers and has recently decided to export its products to Pakistan. Alpha Equipments is considering to appoint a Single Distributor in Pakistan who would represent the exporter and would be responsible for the entire marketing operations in this country.

State six different advantages that Alpha Equipments would achieve through the appointment of a Single Distributor for import and distribution of its products in Pakistan.

Answer:-

a) A Geocentric orientation is an approach followed by companies having global scale of operations. The management of such companies considers a worldwide focus both at the headquarters and also in the host countries to obtain optimal advantages. Major issues such as raising of funds, building of plants, research and development are centralised in the entire global perspective. At the same time, the company also considers designing its products and services to cater to
the local differences in tastes and cultures to add maximum customer value and achieve optimal results.

b) The advantages of appointment of a Single Distributer in Pakistan by Alpha Equipments are:

i. The large volume of business would attract a competent and resourceful distributor who would wield considerable influence in the local business community in Pakistan.

ii. The appointment of a knowledgeable Single Distributor who is conversant with the local business practices, culture and marketing channels would ensure smooth handling of all marketing operations in a more professional and purposeful manner.

iii. The Single Distributor would be able to coordinate promotional efforts and exchange vital information with Alpha Equipments on a continuous basis and in a purposeful manner.

iv. Training and marketing efforts of the retailers located in the various cities in Pakistan would be coordinated in a much more effective manner.

v. The Single Distributor would be able to maintain sufficient level of inventories as he would have a better perception of the market demand and as a result make prompt dispatches of supplies to the retailers as and when required.

vi. The Single Distributor would have high stakes in the business which would lead to greater effort and a better principal – distributor relationship.

vii. The logistics of exports including transportation costs would be less cumbersome and more economical.

Question No 35:-

a) Foresight Electronics is a knowledge-based company and is known for its ability to manufacture innovative and new-to-the-market electronic products and sell them in specifically identified niche markets. The company follows a Market Skimming Strategy to achieve its profitability objectives.

Narrate four conditions which are essential for Foresight Electronics to be able to successfully adopt its Market Skimming strategy.
b) Household Furniture Co. are manufacturers of a wide range of furniture products used primarily by customers in the middle income group.

Identify four different types of conditions in which it would be advantageous for the firm to pursue Market Penetration Strategy.

Answer:-

a) Foresight Electronics would be able to adopt its Market Skimming Strategy successfully in the following conditions:

i. when the niche market for its products comprises of customers who can afford and are willing to buy the product at the high prices.

ii. when the firm is in a position to obtain the advantage of initial high price of its products for the duration that it intends to pursue its market skimming pricing strategy.

iii. when the high price would create and convey an image of superior quality products among the buyers.

iv. when the unit cost of manufacturing a small quantity of output is not so high so as to offset the advantage of selling the product at the high price.

v. there should be a high entry barrier of the industry.

b) It would be advantageous for Household Furniture Company to pursue a Market Penetration Strategy in the following situations:

i. when the demand for household furniture is price elastic.

ii. when the firm is in a position to achieve significant economies of scale by producing and selling a large volume of output.

iii. when the quality of the furniture sold by Household Furniture Company and its promotional strategies are designed to capture a large share of the expanding market.

iv. when there is intense competition in the market and Household Furniture Company wants to retain/expand its share of the market to derive benefits in future.

Question No 36:-

Horizon Limited (HL) is engaged in the business of manufacturing and marketing of a wide range of consumer durable products. The company’s products are in different
stages of their Product Life Cycles. Consequently, HL pursues different promotional strategies for products depending on the stage of their Product Life Cycles.

State the types of Promotional Strategies which HL may pursue for marketing of its wide range of products in the (i) Introduction, (ii) Growth, (iii) Maturity and (iv) Declining stages of their Product Life Cycle.

Answer:-

Horizon Limited may pursue Promotion Strategies in the marketing of its consumer durable products in their different stages of Product Life Cycles as follows:

(a) Introduction Stage
   (i) inform and educate the potential customers of the existence of the product
   (ii) encourage trial of product and create awareness of the benefits that would accrue to the customers by using the product and how it should be used
   (iii) secure distribution in leading retail outlets
   (iv) place heavy emphasis on personal selling and promotion in trade shows and exhibitions.

(b) Growth Stage
   (i) stimulate demand in selected market segments and promote the particular brand as competition increases
   (ii) increase emphasis on advertising to capture a large share of the growing market.
   (iii) enter new markets and expand coverage
   (iv) identify new distribution channels
   (v) shift emphasis from product awareness to the individual firm’s brand preference through aggressive advertising.
   (vi) Promote differentiation

(c) Maturity Stage
   (i) focus on promotion and advertising to persuade the customers to purchase the particular brand rather than to provide information about
the product

(ii) selective promotion only as intense competition and increase in promotion expenditures would result in lower profits

(iii) increase R&D budgets to improve product quality vis-a-vis competitors

(iv) extend product lines to meet niche customer demand.

(d) Declining Stage

(i) reduce promotion expenses as the size of the market is shrinking

(ii) focus of promotion towards reminding remaining customers.

(iii) Rejuvenate old products to make them look new.

Question No 37:-

a) In your opinion what important factors have led leading Japanese companies to establish automobile assembling/manufacturing plants in selected developing countries?

    Identify five factors and substantiate them with brief explanations.

b) Describe briefly the Political Factors which should be taken into consideration by a multinational corporation while evaluating a decision to make substantial direct investment in a foreign country.

Answer:-

a) The leading Japanese companies have established automobile assembling or manufacturing plants in selected developing countries due to the following reasons:

i. The developing countries are witnessing significant economic growth and increase in population which have created very large markets for various types of vehicles. Establishment of automobile assembly/manufacturing plants locally would fulfil the demand/supply gaps in these countries.

ii. Labour and other manufacturing costs are on the high side in Japan and the high prices of imported vehicles from Japan would be beyond the reach of a large segment of the market.
iii. The strong Japanese Yen makes the price of imported vehicles very expensive in the developing countries and would restrict the size of the market

iv. Transfer of technology and creation of job opportunities are viewed favourably by the governments in the developing countries and they offer liberal tax concessions to the Japanese companies to establish assembling/manufacturing facilities in their countries.

v. The domestically assembled/manufactured vehicles of various types and models are adapted to meet the local requirements in terms of prices and their suitability for the particular developing countries.

b) The following Political Factors should be taken into consideration by a multinational company while evaluating a decision to make substantial direct investment in a foreign country:

i. Form of the Government and its Stability - a government having the support of its citizens and enjoying political stability would provide continuity to its economic and financial policies which would be beneficial for MNC.

ii. Attitude towards Private and Foreign investment - a government which pursues policies of encouragement towards private investment, including foreign investment, would be considered favourably as against policies which pursue government ownership of business enterprises.

iii. Relations with other countries - a country which has good relations with other countries would be considered favourably as it would provide stability and sustained long-term operations for MNC’s business.

Question No 38:-

Selection and recruitment of candidates requires careful assessment of the diversified attributes of the prospective candidates. Besides interviews, different types of tests are administered to ascertain the suitability of candidates for the positions for which they are being considered for appointment.

a) Explain briefly the purpose of each of the following types of tests which are administered to candidates in the selection process.

i. Intelligence Tests

ii. Proficiency Tests
iii. Aptitude Tests

b) State two qualities of a well-conceived Selection Test and indicate why they are important.

c) Identify the different situations in which it may be considered necessary for an organisation to dismiss an employee.

Answer:-

a) The purpose of different types of tests administered to the prospective candidates are:

i. **Intelligence Tests**: Intelligence Tests are administered to measure the candidate’s ability to think logically, analyse the pros and cons of problems and make rational decisions. Intelligence Tests may also be used to determine the candidate’s understanding of social values and customs.

ii. **Proficiency Tests**: Proficiency Tests are designed to evaluate the candidate’s level of skills, expertise and competence to perform the particular task for which the individual is being considered for recruitment.

iii. **Aptitude Tests**: Aptitude Tests are conducted to ascertain the candidate’s ability to work with others in a team environment, handle work-related stress and cope with the various demands of the job.

b) A well-conceived Selection Test should have the following qualities:

i. a high degree of validity - that is it should be capable of measuring attributes which it seeks to evaluate in the candidate

ii. a high degree of reliability – that is should provide results which have a high degree of consistency among the various candidates.

c) It may be necessary for an organisation to dismiss an employee in the following situations:

i. The abilities of the employee have been impaired and it is not possible for the individual to continue to perform the assigned duties satisfactorily.

ii. The employee has indulged in serious misbehaviour/indiscipline with the supervisor or peers and this conduct is not conducive to the good working environment of the organisation.

iii. The employee cannot continue to work as it would be in contravention of the legal requirements/laws of the country.

iv. The employee is involved in corruption/misappropriation of the employer’s properties.
v. The employee has divulged company’s confidential/proprietary information to competitors.

vi. The employee has attempted or made unauthorized access in the company’s confidential information network with malicious intent.

Question No 39:-

a) Dental Equipments Limited (DEL) is engaged in the business of manufacture of a wide range of equipments used by private dentists as well as leading hospitals. The Company strives hard to achieve sustainable growth and meet the requirements of highly demanding dentists who want the “very best and the latest” equipments to serve their patients.

DEL has recently observed a trend of unethical practices followed by its sales representatives. The sales representatives who are not able to meet their targets, book fictitious sales at year ends and later record them as sales returns. They also share a portion of their commissions with the purchase representatives of the major hospitals.

State what policy measures should DEL adopt to eliminate the unethical practices of the sales representatives.

b) State the situations in which an MNC would prefer to operate in a foreign country as a branch instead of establishing a subsidiary company.

Answer:-

a) DEL should adopt the following policy measures to eliminate the unethical practices followed by the sales representatives:

   i. Create a written Company Code of Ethics and circulate it to each member of the sales department. This would eliminate the ambiguities and help the employees to differentiate between what is considered to be acceptable behaviour and what is unethical behavior.

   ii. Issue clear and specific instructions, requiring adherence to the norms of ethical behaviour. These instructions would be deterrent for the sales representatives and dissuade them from engaging in unethical practices.

   iii. The consequences of indulging in unethical behavior should be stated clearly in the Code of Ethics.
iv. Sales Representatives who are unable to achieve their allocated targets fully should also be rewarded on an appropriate basis.

v. DEL should sponsor and organize seminars and workshops on Ethics to emphasize the importance of ethical behaviour.

b) It would be advantageous to establish branch operations in a foreign country instead of an overseas subsidiary company in the following situations:

i. If the foreign business is not expected to be profitable in the initial years and therefore the losses of the subsidiary company can have a negative effect on the image of the MNC.

ii. If the legal and accounting formalities of the branch operations are more simple vis-à-vis those involved in a subsidiary company.

iii. If the MNC does not intend to have a long term presence in the foreign country, it would prefer to establish branch operations.

iv. If the amount of investment involved in the foreign country is of a nominal amount and it may be advisable to set up branch operations instead of a subsidiary company.

v. If it is advisable to have a low operating profile to achieve the business objectives.

Question No 40:

List and explain briefly four factors which in your opinion create Exit Barriers and prevent existing participants from quitting a loss-incursing industry.

Answer:

The factors which create Exit Barriers and prevent existing participants from quitting a loss-incursing industry are:

Substantial Investment in Highly Specialized Fixed Assets:

This is particularly relevant in capital-intensive industries which require very large investments in specific-purpose building and machinery. These assets do not have alternative uses and their salvation value is usually low. The substantial initial capital costs and low salvation value of the assets would result in heavy losses and create exit barriers.
High Redundancy Costs:

Organizations having a large workforce with high salaries or contracts that stipulate high redundancy payments have to incur substantial costs by way of severance payments to its employees to exit from the industry. These payments require heavy cash outflows and act as exit barriers.

Ancillary Costs of Closure of Business:

The organization may have entered into long-term contractual agreements with important suppliers or buyers and tenancy agreements carrying substantial penalties in the event of premature termination of these agreements. The high costs of premature termination of agreements are exit barriers as the closure of business would cause huge losses.

High Fixed Operating Costs:

An organization which has very high fixed operating costs and is faced with unfavourable business conditions may continue operations if it is able to recover its variable costs fully and a portion of its fixed costs. This is particularly relevant if the unfavourable conditions are considered to be of a temporary nature and the firm is optimistic about the prospects of an upturn and recovery from its current difficulties. This type of composition of preponderance of fixed costs acts as an exit barrier.

Question No 41:-

a) Recruitment of the right type of staff is of critical importance for the short term as well as the long-term success of an organisation. Induction of unsuitable employees creates difficulties for an organization in the achievement of its goals, undermines the morale of other employees and has adverse effects on the individuals themselves as they are misfit and unable to make worthwhile contribution towards the organization.

Briefly describe qualities that a skilled recruiter should possess in order to be able to evaluate prospective candidates for recruitment in a performance-oriented organization.

b) A leading hospital which has a network of facilities at several locations in Karachi and also in other cities intends to invite applications for the posts of Laboratory Technicians at its various facilities.
List six important items that should be contained in an advertisement to be placed by the hospital in a newspaper having wide circulation in several cities in the country.

**Answer:**

a) A skilled recruiter should:

i. **Possess knowledge about the job to be filled** – The recruiter should have a clear understanding of the job and be able to ascertain whether it is necessary to induct a new employee or the work can be handled adequately by reorganizing or reallocating other jobs. If the job is necessary then the duties and responsibilities attached to the job should be clearly spelt out.

ii. **Possess insight in the attributes and qualities of the individuals to perform the job** – The recruiter should be aware of the qualifications, experience and skills necessary to perform the job.

iii. **Have knowledge of the sources and the means of attracting a range of suitable candidates** – In case it is necessary to recruit from external sources, the recruiter should be aware of the sources where suitable applicants are available, identify the potential candidates and adopt appropriate methods of recruitment.

iv. **Possess skills to evaluate the candidates who are most suitable for the job** – The recruiter should have insight in the methods of obtaining information about the candidates and be able to apply the appropriate methods for selection of the right candidate.

b) The advertisement should contain the following information:

i. Requirements of the job specifications stating main tasks to be performed and the responsibilities associated with the position.

ii. Outline of the hospital’s network and its reputation, working conditions, the facilities available in the hospital and professional capabilities of the staff.

iii. Location(s) at which the technicians would be posted.

iv. Compensation package including fringe benefits.

v. Specifications of job requirements such as education, professional training, particular skills and experience.
vi. Name /designation of the individual to whom the application should be sent and last date for receipt of applications.

**Question No 42:-**

a) List the following methods of payment for the imported products which are most advantageous from the perspective of an importer in descending order.
   
i. Open Account
   ii. Sight Letter of Credit
   iii. Consignment
   iv. Usance Letter of Credit

b) State six constraints which in your opinion act as impediments towards attracting foreign investments in an underdeveloped country.

c) List four advantages of adopting market-based transfer pricing policies.

**Answer:-**

a) The methods of payment in the order of preference for the importers are:
   
i. Consignment
   ii. Open Account
   iii. Usance Letter of Credit
   iv. Sight Letter of Credit

b) The constraints which act as impediments towards attracting foreign investment in an underdeveloped country are:
   
i. Poor infrastructure facilities of roads and communications.
   ii. Currency depreciation of the underdeveloped country.
   iii. High costs of energy inputs and their unreliable availability.
   iv. Absence of laws relating to patents, copyrights and intellectual properties.
   v. High Risk of political instability in the country.
   vi. Widespread corruption in the government and other social sectors.
   vii. Lack of education and non-availability of a skilled and competent work force.
   viii. Absence of generally accepted accounting principles.
   ix. Uncertain long-term economic and financial policies.

c) The advantages of market-based transfer pricing policies are:
The individual units would achieve high level of efficiency as they can negotiate most favourable market-based prices as if they were independent units.

The selling unit would make efforts to improve the quality of the products in accordance with the requirements of the purchasing unit.

The performance of the individual units can be evaluated more objectively.

The tax authorities would accept more favourably a market-based transfer pricing policy.

Question No 43:

a) The role of Human Resource Managers in companies which have a very large workforce has assumed increasing importance and they are now more closely involved and proactive in the Formulation and Implementation of Strategies at the corporate level. State the areas of specific responsibilities which fall in the domain of a Senior Human Resource Manager involved in the Formulation and Implementation of overall Corporate Strategy of an integrated textile mill having over 15,000 employees in various cadres.

b) What is meant by a Strategic Business Unit (SBU)?

Answer:

a) A Senior Human Resource Manager involved in the Formulation and Implementation of Strategy at the corporate level of a textile mill having 15,000 employees should have responsibilities to achieve the following objectives:

i. The organizational structure should be appropriately designed to achieve the overall corporate objectives. The organizational structure should capitalize on internal strengths and strive to remove internal weaknesses which may be impediments to the achievement of the objectives.

ii. The company’s objectives and goals should be communicated and well understood by the employees at all levels.

iii. The various divisions and departments should work in close coordination to achieve the main goals and objectives of the company. Areas of friction
and conflict which may undermine performance should be identified and rectified at appropriate levels.

iv. The managers at all hierarchical levels should make effective plans to achieve the business and operational goals and targets entrusted to their respective departments.

v. The job descriptions and job specifications should be precisely defined and clearly understood by the employees at all levels.

vi. The organization’s reward system, including benefits and policies of promotion should be fair and equitable and designed to achieve optimum employee performance at all levels.

vii. The policy issues of training, job rotations, career path and succession planning should be accorded the necessary degree of importance and be implemented in an objective and fair manner.

viii. The employees should be kept fully motivated and their morale and commitment should be high at all times. The employees should take pride in their association with the company.

b) A Strategic Business Unit (SBU) is an independent unit within a large organization and has its own staff, financial resources and products. A separate SBU pursues its own marketing strategy and is established on the premise that a single strategic approach is not always appropriate in a large diversified organisation which markets different products to serve the needs of a wide range of customers.

Question No 44:-

Management has to expend considerable efforts in devising business strategies to achieve corporate objectives and goals effectively.

a) Why do companies accord importance to the pursuance of a formal Strategic Planning Process?

b) Explain the different steps which the management has to undertake in the formulation and implementation of a well-considered business strategy.

Answer:-

a) Companies accord importance to the pursuance of a formal Strategic Planning Process to achieve the following objectives:
i. A formal Strategic Planning Process helps to identify the opportunities and risks involved in the company’s business. The company can make well-considered strategies and adopt measures to seize the opportunities accruing from its internal and external strengths and also reduce the various business risks.

ii. A formal Strategic Planning Process enables the company’s top management to be involved in proactive thinking of the business objectives and taking coordinated actions relating to deployment of resources to achieve its strategic goals.

iii. A formal Strategic Planning Process ensures the participation of management and the staff who are seized with the task of achievement of the business objectives. The staff at all levels develop understanding of the productivity-reward relationship in the strategic plans which increases their motivation and reduces the adverse impact of resistance to change.

iv. A formal Strategic Planning Process is essential to create alignment of the company’s short-term, medium-term and long-term targets for achievement of the company’s objectives.

v. A formal Strategic Planning Process is essential for optimum coordination of the corporate, business and functional strategies for achievement of the Company’s objectives.

b) In the formulation of a well-considered Business Strategy, the management conducts an Appraisal of the company’s internal and external environment. For this purpose SWOT Analysis may be carried out in order to find ways for (a) exploiting the company’s strengths to help achieve short-term and long-term objectives and (b) reviewing the weakness and threats faced by the company from the following standpoints.

The steps in the implementation of a well-considered Business Strategy are:

i. **Organizational Structure**: Organization Structure is suitably integrated for achieving harmony among the various departments and functions and co-ordination at all levels.

ii. **Human Resources**: Human resources with necessary skills and proper motivation are deployed in appropriate positions for effective implementation of strategy.

iii. **Availability of Financial Resources**: Adequate financial resources should be made available in time for implementation of the strategy.
iv. **Technology:** Appropriate technological inputs are made available to support the performance necessary to achieve the objectives of the strategic plans.

v. **Decision Process:** Sound policies and processes are developed to ensure that all significant decisions are taken on time and in a coordinated manner.

vi. **Monitoring and Control Systems:** Appropriate systems are established to ensure that progress is monitored against the established standards on a continuous basis and deviations if any are identified for taking timely corrective actions for implementation of the strategic plans.

**Question No 45:**

One common factor which distinguishes well-managed and highly profitable service-oriented companies from their competitors is the competence and commitment of their human resources. The top companies assign very high priority towards the training and development of their staff and genuinely consider their human resources as their “key strategic assets.” In these companies, training and up-gradation of the quality of human resources, at all levels, is a continuous endeavour with active involvement of the senior management.

Explain what competitive advantages these service-oriented companies expect to derive by committing resources towards training and development of a competent and committed workforce.

**Answer:**

The well-managed service-oriented companies give high importance to staff training and development and create a cadre of competent and committed employees to derive the following advantages:

i. The cadre of properly trained and competent staff who are fully knowledgeable of their duties and responsibilities can handle customers in a highly professional and courteous manner. The competent staff inspires confidence in the customers and helps to retain their loyalty which brings repeat business.

ii. Success of even the well-conceived corporate and business strategies of service-oriented companies depend to a considerable extent on the competence of their
staff at various levels to deal with a variety of situations where proper handling is of vital importance towards the achievement of the corporate goals.

iii. Properly trained and competent employees are able to avoid and handle accidents and mishaps and contribute towards the safety and security of customers, other members of the staff as well as the valuable physical assets.

iv. A well-trained and competent workforce at all levels requires less directions and supervision and is able to handle the various day-to-day issues promptly in a responsible manner to the satisfaction of the management. These companies can operate efficiently with relatively flat organization structures and lower operating costs.

v. A competent, committed and motivated workforce is able to create a high degree of cohesion and team effort among the staff at various levels.

vi. A well-trained and competent workforce with multi-skilled capabilities is able to handle varied and different assignments.

vii. The new inductees who undergo formal training programs are better absorbed in the culture of the organization.

**Question No 46:-**

Red Balloon Clothing Limited (RBCL) is engaged in the business of manufacturing a wide range of children clothing since the past six years. The Company has built a reputation for good quality products of latest designs and its brand name is very popular in the middle class segment of the market. The Company strongly believes in a policy of giving “value for the customers money.” At present, RBCL markets its products through a widely dispersed network of independent retailers who sell the company’s brands along with the products of other manufacturers.

RBCL is considering a proposal of forward integration and establishing its own chain of retail outlets for sale of its products. RBCL would however, continue to sell its products through the network of existing retailers also.

You are required to identify and explain briefly the different factors which RBCL should examine while evaluating the proposal for establishing its own network of retail outlets.
Answer:-

RBCL should consider the following factors while evaluating the decision to establish its own network of retail outlets:

i. Examine the existing network of retailers of RBCL to ascertain the extent to which they have advantages of location of their shops in important shopping centers.

ii. Compare the capital expenditure involved in the establishment of retail stores and their recurring operating expenses and inventory carrying costs with the costs incurred under the existing set-up.

iii. Estimate the envisaged number of RBCL’s own retail stores to be established to cater to the requirements of the target segment of the market.

iv. Determine the ability of RBCL to mobilise sufficient financial resources required to establish and operate the business of retail marketing of its products.

v. Examine whether sufficiently experienced and trained staff at various levels would be available to manage and operate the retail outlets.

vi. Ascertain the profit margins currently earned by the independent retailers on the Company’s products and the impact of the self-owned retail outlets on the company’s profitability.

vii. Consider the impact of the decision to establish own retail outlets on the Company’s future relationships with the independent retailers.

viii. Examine the need to revise the terms and conditions relating to sales to be offered to the independent retail outlets.

ix. Enquire into the business policies of competitors who have their own retail network and whether RBCL would be able to enjoy a competitive advantage over the independent retailers.

x. Examine the extent to which the availability of more reliable information of future market and fashions trends would be an advantage after RBCL establishes its own retail outlets.

xi. Analysis of the industry growth expected and the market share to be captured, carry out a viability study of the share of market available.

xii. Analyze the value addition by gaining ownership of retail outlets; evaluate the possibility of brand dilution in independent retail houses.
Question No 47:-

Although Strategies of Cost Leadership and Product/Service Differentiation appear to be highly attractive, many companies are often not able to achieve much success because they lack the necessary capabilities to implement these strategies successfully.

a) Explain what do you understand by the term Cost Leadership Strategy.

b) What is meant by Product/Service Differentiation Strategy?

c) In your opinion what kind of capabilities are of crucial importance for the successful implementation of a Product/Service Differentiation Strategy?

Answer:-

a) Cost Leadership is a strategy that seeks to establish long-term competitive advantages by emphasizing that value chain activities can be achieved at costs which are substantially below what competitors are able to match on a sustained basis. This allows a firm to compete primarily by charging a price lower than the competitors and still earn satisfactory levels of profits.

b) A Product/Service Differentiation Strategy is a strategy which promotes and emphasizes that the product/service offered by the firm is different from other available products/services of a similar nature. The differences are based on certain desirable features and performance attributes and therefore the high prices are justified.

c) The capabilities which are most important for the success of a Product/Service Differentiation Strategy are:

i. Strong and functional research and development department, able to correctly anticipate and assess the consumer behavior and desire.

ii. Strong coordination between research and development, Marketing and Technical departments.

iii. Innovative Management allowing better ideas to be cultivated.

iv. Deep insight of the market and close association with the distribution channels.

v. Strong brand name.

vi. Strong connection and cooperation from well-established vendor network.

vii. Capital Allocated for attracting technical and creative human resources enabling ability to create a unique value/attribute that is hard to copy by competitors.
viii. Protection of research should be available in order to ensure that resources are not imitated.

**Question No 48:-**

a) List and explain briefly any four important packaging features which would influence the decision of a consumer to purchase an edible consumer product.

b) Market researchers often place reliance on external databases as the information can be obtained readily with minimum of effort and at a low cost. However, experienced market researchers are aware of the limitations of the external databases and use them discreetly on a selective basis realizing fully the shortcomings of the information.

i. State four limitations of using external databases.

ii. Identify one specific situation in which it may not be advisable to use external databases. Give reason for your selection of the particular example.

**Answer:-**

a) The packaging features which would influence a consumer’s decision to purchase an edible consumer product are:

i. *Convenience of the Size of the Package*– The consumer should be able to chose from a range of sizes available, that is, a sachet for a single use, or a size which would meet the requirements for a period of say, one month or an economy package for a large family.

ii. *Preserve the Quality of the Product*– The packaging should be capable of preserving the quality of the edible product from the elements e.g. sunlight, humidity or moisture.

iii. *Product Information*– The packaging should provide vital information regarding the ingredients of the food item, their nutritional value and expiry date.

iv. *Attractiveness of the Package*– The packaging should be attractive in its presentation and colour scheme to draw the attention and interest of the customer at the point of display of the product on the shelves in the retail outlets. The design and color should be in line with the brand and brand name should be displayed prominently.
v. **Convenience of Handling the Package** – The packaging should make it easy to take out the edible product for use and also close the package easily after use.

vi. **Convenience of Storage** – The package containing the edible product can be stored conveniently and occupy minimum storage space.

vii. **Disposal of the Package** – The package, after consumption of the contents, can be disposed of safely from the environmental viewpoint.

b) The limitations of external databases are:

i. The external database may not be accurate and it may not be possible for the user to determine the extent to which the database is inaccurate.

ii. The external database may not be current for the purpose of arriving at the decision in the present changed circumstances.

iii. The external data may not be impartial and may have been prepared with a bias for a particular purpose.

iv. The information required to reach reliable and rational conclusions may not be available in the external databases.

v. The data might be unrepresentative as every research has a different criteria for the target segment depending on the in its objectives.

**Examples:**

Launching of a new food product in which reliable feedback and consumer reactions for taste, eating habits, price considerations, type of packaging, etc are very important information. The external database may not be able to address to the issues required to evaluate these factors for the particular type of food product.

OR

Obtaining information of prospective subscribers and circulation of existing magazines for launching a new high fashion magazine. Information regarding income, age, educational profiles of the prospective subscribers may be available but information regarding their particular interests would not be available in the external databases.
Question No 49:-

It is observed that work-related stress often pose a heavy burden in organizations and is manifested by frequent absenteeism, late-coming, accidents and decline in the ability of employees to perform in an efficient manner. In these situations, Employee Counseling can help to create a secure and an enabling environment for mitigating the adverse effects of stress on employees and enabling them to perform at peak levels of efficiency.

Identify the scope of Employee Counseling and explain briefly how such counseling sessions can help employees to reduce work stress.

Answer:-

Employee Counseling includes working with individuals to promote and nurture relationships which are supportive, psychotherapeutic, providing guidance for dispelling fears and apprehensions and resolving of work-related problems.

The scope of Employee Counseling could be to:

1. help the employee identify areas that need improvement.
2. support the psychological equilibrium of employee
3. Bring in focus the nature of problem
4. explore the impact of the problems and exploring all possible solutions.
5. Create a constructive environment mutually beneficial to employees and organization.

Functions of Counseling:

i. **Provide Reassurance:**

   Offering reassurance to employees by inspiring them and giving confidence to handle problems and inculcating in them a sense of direction and purpose in the discharge of their responsibilities and duties.

ii. **Help to release of Emotional Tensions:**

    Employee Counselor can help to create a conductive non-critical and objective attitude by providing suitable opportunities to employees to communicate and explain their problems to counselors who are receptive and sympathetic to the problems faced by the employees so that the tensions are released.
iii. Clarification of Thought Process:
 Enable employees to clarify their thought process and motivate them to accept responsibilities and adopt a realistic approach in dealing with work-stress. It revives the employee’s level of aspirations and motivates them to high levels of actual achievement.

Question No 50:-

a) Why mission-oriented business strategists do not view the Short-termism approach favourably?

b) Give two examples of typical business situations to highlight the defects of pursuing a policy of short-termism.

Answer:-

a) Mission-oriented business strategists do not view the strategy of short-termism outlook favourably because it ignores the principle that long-term economic maximization of wealth and pursuit of objectives on a sustainable basis cannot be achieved by maximizing economic wealth in each of the individual short-term periods.

b) Examples:
A pharmaceutical company may not incur expensive R&D costs and be satisfied with its existing line of products which are popular. Although this would result in high profits in the short-term, the long-term performance would suffer as new and more effective medicines are introduced in the market by the competitors.

A beverage company may prefer to defer advertising expenditures to reduce the costs and report high profits. However, in the long-run, the company may lose the efficacy of its brands and competitive advantage to other more aggressive competitors.

Question No 51:-

Superb Engineering Limited (SEL) manufactures parts and components for assembly/manufacture of automobiles. During the past few years, the company has witnessed phenomenal growth in its product lines and sales revenues have registered significant growth. However, the overall profitability has not shown a corresponding increase. SEL considers that a substantial proportion of the efforts and energies of the
management and staff at various levels are expended in handling a very wide range of diversified activities. SEL is, therefore, examining the feasibility of outsourcing certain activities of its operations to outside parties.

You are required to identify four advantages and disadvantages each of Business Process Outsourcing in the above situation for SEL.

**Answer:-**

**The advantages of Business Process Outsourcing are:**

i. Outsourcing would enable the managers and the staff to concentrate in activities which are of critical importance for the achievement of the corporate mission, thus improving their core competencies and the overall productivity.

ii. Outsourcing may help to reduce the operating costs of SEL.

iii. Outsourcing would enable SEL to reduce the amount of capital investment that it would otherwise have to incur in the facilities which would be provided by the outsourced agency. Also enable SEL to improve core activities performance.

iv. Careful selection of outsourcing companies would help to acquire new know-how and expertise from the outsource agencies as they would be providing similar services to their several customers.

**The disadvantages of Business Process Outsourcing are:**

i. Outsourcing involves loss of some control and places excessive reliance on outsiders.

ii. Outsourcing can result in loss of valuable in-house skills.

iii. Outsourcing may result in creation of competition in future.

iv. Outsourcing may result in disclosure of critical confidential information to outsiders.

v. If the level of the performance is not the same then it might result in brand dilution and shift in brand loyalty.

**Question No 52:-**

Strategic Planning and Management is an exercise undertaken at the highest levels of the management hierarchy and involves decisions concerning formulation, implementation and evaluation of cross-functional activities which would enable an organization to achieve its stated objectives. In spite of the cumulative skills and
considerable experience of the senior management team, it has been observed that a number of organizations are not able to achieve significant success and the actual performance often falls short of the set goals.

Explain the key factors, which in your opinion, are responsible for the management’s inability to achieve all of the goals envisaged in the Strategic Plans.

**Answer:-**

The key factors which contribute towards the achievement of only a limited number of goals envisaged in the Strategic Plans are:

i. Inadequate understanding of the strategic plans and failure at the business and functional levels to realize that sustained and coordinated efforts are required to achieve the goals.

ii. Poor allocation of resources, organizational as well as human. Lack of support from the management in providing adequate resources for the achievement of the goals set in the strategic plans.

iii. Weak organizational culture, leading to lack of involvement of the management at the business and operational levels who feel that they are not on board in the strategic planning exercise and therefore there is lack of “ownership” of the plans and goals from their side.

iv. Consideration of the strategic planning as a ritual exercise and not as a day-to-day sustained effort for achievement of the objectives of the plan, indifferent attitude and lack of commitment and motivation on the part of the line managers towards the achievement of the goals.

v. Poor Communication and lack of coordination between the top, middle and operational level of management leading to poor goal definitions and unawareness of the departments role in achieving the goal.

vi. Pre-occupation of the operational level managers with the achievement of their short-term targets and lack of awareness of the contribution of their own efforts towards achievement of the overall objectives.

vii. Inability to integrate and coordinate the various functions of research and development, HR management, procurement, production, marketing and finance with the result that these activities are working independently and at cross purposes.
viii. Absence of a proper system to measure actual performance from time-to-time and compare the results with the targets to take timely corrective measures in the event of any new development or unfavorable variances.

**Question No 53:-**

In your opinion, what types of complexities are generally encountered by parent companies in the planning and control of operations of their foreign subsidiaries?

**Answer:-**

The types of complexities generally encountered by parent companies in the planning and control of operations of their foreign subsidiaries are:

**Physical and Cultural Distances**

The geographical and cultural distances separating the parent company increases the duration, expenses and barriers in communications between the headquarters and their foreign subsidiary companies and creates difficulties in the planning and control process.

**Diverse Economic Conditions**

The parent company has to adjust operations to the situations prevailing in the countries in which the subsidiary companies are located. Differences in size of the market, nature of competition, type of the products, labor costs and currency implications render the tasks of setting standards and evaluating performance of foreign subsidiaries extremely complicated.

**Uncontrollable Factors**

Planning and control is effective only in situations when timely corrective actions can be taken in the event of deviations in performances. Corrective action may not produce positive results because many foreign subsidiaries operate in conditions which are very different from those of the parent company.

**Question No 54:-**

Excel Chemicals Limited (ECL) owns and operates facilities for the manufacture of industrial chemicals, including various types of highly corrosive acids. The Company’s operations involve processes of procurement, production, packaging, storage and
transportation of chemicals which can result in serious fire, physical injuries and other environmental and health hazards in the event of any lapses in the safety procedures.

Identify and explain briefly six safety steps which should be adopted and implemented by the management of ECL as a responsible employer.

Answer:-

The management of ECL should take the following Safety Policy measures to minimize the risks of accidents in the plant for the manufacture of industrial chemicals:

i. Involvement and active supervision by the top management and participation of the employees in introducing effective safety policies in the entire premises.

ii. Creation of a Safety Committee to review the safety measures and monitor the implementation of the safety rules and procedures periodically to create a safe and secure working environment.

iii. Preparation of Safety Rules and Instruction Manuals for strict compliance by employees at all levels.

iv. Education and training of the workers on a continuous basis and dissemination of information by posting of safety charts, posters and installation of safety equipment at all sensitive areas in the premises.

v. Creation of an environment where the equipment and machines which are properly maintained and the workers are provided protective uniforms.

vi. Installation of proper warning/alarm systems and conduct of regular safety drills and exercises.

vii. Adoption of a policy which ensures that the workers are not required to work for very long hours which may adversely affect their concentration and result in performance lapses.

**Question No 55:-**

The pursuit of goals of achieving cost economies and operating with lean and more flat organizational structures has resulted in creation of an environment in which the staff at the managerial levels are required to perform with greater business competencies and responsibilities. Consequently, managers at various levels have to acquire all-round competencies of external business environment awareness as well as deep understanding of the concepts of internal business management to be able to fulfill their
responsibilities and perform in an intensely challenging and rapidly changing business environment.

You are required to identify four different types of competencies each of external business environment and internal business management which in your opinion are most important for the present-day managers to enable them to perform successfully in the prevailing corporate environment.

**Answer:-**

The different types of external business environment and internal business management competencies requirements of managers to perform in the prevailing corporate environment are:

**External Business Environment Competencies:**

i. Capable of evaluating external environment and be able to see the “whole picture”.

ii. Capable of quick thinking and be able to make timely decisions regarding changes in the external environment.

iii. Being proactive in anticipating the changing environment.

iv. Being sensitive to the interests and concerns of the different stakeholders in the organization in which new complex business relationships such as partnerships, alliances, joint ventures are prevalent.

v. Ability to take and manage external business threats.

**Internal Business Management Competencies:**

i. Awareness of the overall organizational objectives, rather than being limited to the day-to-day operations of the organization.

ii. Capable of handling increased workloads and pressures.

iii. Responsible for building effective work groups and developing teams.

iv. Flexible in handling human relations and in managing internal challenges of group work performance.

v. Initiative for self-development, learning and acquiring financial and information management and IT skills.
Question No 56:-

Capital Bank Limited is a leading financial institution and is well-known for its strength in rendering highly efficient professional services to its customers and keeping ahead of the competitors. The Bank follows a policy of recruiting staff at the entry level after careful evaluation of the qualifications of the candidates, their potential for advancement, professional aptitude and career objectives. The staff is groomed and entrusted with increasing responsibilities after careful career-path planning for each employee. The Bank operates in a highly competitive environment where the skills, knowledge and commitment of its human resources are of critical importance for the success of its business. The competitors are always on the lookout to identify professional staff and hire them at more attractive compensation packages.

Required:

a) What do you understand by the term Employee Compensation Package? (02)
b) List and explain the essential steps involved in the formulation and implementation of a well-conceived Employee Compensation Strategy which the Bank should incorporate in developing its overall HR strategy.

Answer:-

a) Employee Compensation Package refers to all forms of pay and rewards received by the employees for the performance of their jobs, including cash, bonuses, benefits, facilities and perquisites.
b) The steps which should have been followed in the formulation and implementation of a well-conceived Employee Compensation Strategy are:

i. **Identification of the Objectives of the Employee Compensation Strategy**
   Compensation objectives should have been identified and articulated as part of the Bank’s overall planning process. The objectives should be in line with the organization's overall corporate strategy and lead to the creation of a work force that is capable of implementing its plans.

ii. **Review of Compensation Plan**
   Examination of the strengths and weaknesses of the existing compensation policies should have been carried on a regular basis to enable the management to formulate new or improved compensation package.
iii. **Identification of the Positions and Prepare their Job Descriptions**
Identification of the positions at various levels and precisely defined job descriptions are essential for the development of a meaningful compensation program. Job descriptions should be reviewed periodically to ensure that they are in conformity with the employee skill requirements, assignments and responsibilities.

iv. **Evaluation of the relative importance of the Positions and their significance for achieving the objectives of the Bank**
Evaluation and comparison of the positions is necessary to establish their relative importance and the relationship between the compensation for different positions. The standards must be well-defined and applied specifically to the positions rather to the individuals in these positions.

v. **Comparison of the Compensation Packages with the packages offered by the competitors.**
Development of a rational compensation program in accordance with the competitive environment by collecting relevant data of compensation packages offered by the competitors. The Bank should identify the competitors and offer competitive compensation packages to attract and retain skilled and motivated employees.

vi. **Administration of the Compensation Program**
Administration of a comprehensive compensation program to be applied uniformly for all employees. By adopting formal procedures and standards, arbitrary or unfair personnel decisions can be avoided.

vii. **Communication of the Compensation Package**
Communication of all aspects of the compensation package to the concerned parties including the employees, supervisors, administrators and management who must have a thorough knowledge of the program to avoid any misunderstandings.

**Question No 57:-**
Orient Cement Limited (OCL) aspires to be included in the category of a select group of progressive companies in the country and is considering a proposal for introducing
significant changes in its labour welfare policies which would offer tangible benefits to the workers. This would include construction of a housing colony, provision of medical benefits, subsidized canteen facilities, besides payment of partial fees for dependent children of the employees.

In your opinion what important benefits would accrue to OCL by introducing welfare-oriented labour policies?

Answer:-

The introduction of welfare-oriented labour policies would offer significant benefits to OCL by way of:

i. Improvement in goodwill, image and reputation of the Company.
ii. Increase in efficiency and productivity of the workers.
iii. More congenial working relationship and better harmony with the workers union.
iv. Ability to attract and retain competent and more committed work force.

Question No 58:-

It is widely realized that companies pass through various stages of growth during the different periods of their existence. State four dominant characteristics which would be apparent in a company which is in:

(a) the start-up or initial stage of its business;
(b) the rapid and dynamic growth stage of its existing business.

Answer:-

The dominant characteristics of a company which is in the start-up stage of its business are:

(i) High financial costs.
(ii) Limited cohesiveness in the senior management team.
(iii) Organization’s systems and procedures are not in place.
(iv) Extremely high workload for key personnel with conflicting and multiple priorities.
(v) Resources are not sufficient to meet multiple demands.
(vi) Relationships with suppliers, customers and other stakeholders are in the developing stage.
The dominant characteristics of a company which is witnessing rapid and dynamic growth of its existing business are:

(i) New markets, products and technology are being introduced.
(ii) Multiple and conflicting demands for allocation of management, technical and financial resources.
(iii) Rapidly expanding organizational structure.
(iv) Unequal growth in various sectors within the organization.
(v) Shift in power structures as the organization witnesses expansion in business.
(vi) Constant dilemma between doing current work and building support systems for the future.

Question No 59:-

Shakeel Ahmed, a competent and hard working young officer, is at the initial stage of his professional career in a leading insurance company. He has an ambitious goal to reach senior management position within a period of seven years. He intends to plan his career path well in advance and pursue a Personal Development Plan (PDP) with a high degree of zeal and commitment.

a) What do you understand by Personal Development Plan?
b) What are the principal advantages of adopting and pursuing a well-formulated Personal Development Plan?

Answer:-

(a) Personal Development Plan is a plan which outlines the process of improving and upgrading one’s work skills, knowledge and capabilities in order to enhance its effectiveness and adaptability. Personal Development Planning is a continuous process to improve and utilize one’s full potential at each stage of the chosen career path.

(b) The principal advantages of adopting and pursuing a well-formulated Personal Development Plan are:

(i) Continuous appraisal of the individual’s career path and upgrading of skills.
(ii) Acquisition and accumulation of new skills thus minimizing the chances of the existing skills becoming obsolete or redundant.
(iii) Continuous monitoring of progress in one’s career to ensure that it is on the right path and taking timely corrective measures, if considered necessary.

Question No 60:-

New Age Automobile Company Limited intends to diversify its operations by establishing a separate division for manufacture of a less-expensive brand of tractors. The tractors would be used primarily by agriculturists having small farm-holdings. The Management is contemplating whether to promote personnel from the automobile
division for certain middle-level technical positions in the tractor division and induct new entry level personnel in the automobile division, or alternatively recruit foremen level personnel from external sources for the tractor division by advertising for the positions in the news media.

Narrate and explain briefly the advantages and disadvantages of internal promotion and transfer of foremen level personnel for the tractor division from the automobile division

**Answer:-**

**The advantages of promotion from internal sources, for the tractor division are:**

i. Improvement of Morale - The internal transfers and promotions would provide an impetus to the morale of the workers. They would feel assured that the company has a policy to provide opportunities to the existing employees rather than to outsiders.

ii. Proper Evaluation of Employees - The management is in a better position to evaluate the performance of existing employees before considering them for higher positions. The past performance of existing employees is a better guide to their skills, competency levels and commitment as compared to interviews with outsiders.

iii. More effective team work - Since the existing employees know the middle and senior level managers, they would be motivated to put in their maximum efforts leading to more effective team work.

iv. Cost-effective - Internal transfer from within the organization is less costly than recruitment from external sources.

**The disadvantages of transfer and promotion from the automobile division are:**

i. Absence of Fresh Ideas - Transfer from internal sources prevents introduction of fresh blood and new ideas which are essential for innovations.

ii. Biases and Personal Preferences of Managers- The managers may not necessarily promote deserving employees strictly on merit because of their personal likes and dislikes for certain individuals.

iii. Limitations on the number of employees to be transferred - Since the transfer has to be made from within the organization, the number of individuals who are eligible to apply would be restricted. The individuals outside the organization
who are more talented would not be given an opportunity to serve the organization.

iv. Rather than being motivated to work hard, employees may become complacent because of their assured promotion and seniority.

**Question No 61:-**

a) What are the distinctive ingredients of Vision and Mission Statements?

b) It has been observed that certain companies adopt, with minor modifications and changes in emphasis, the basic ingredients of Vision and Mission Statements of the more successful rival companies in an attempt to achieve similar results.

Describe the drawbacks of adopting such an approach in formulation of Vision and Mission Statements.

**Answer:-**

a) Vision and Mission Statements are manifestations of the unique identities of an organization. They are enduring statements containing:

- business philosophy
- unique purpose
- goals of business

The above are inter-twined with the competitive advantages which distinguishes it and sets it apart from others.

b) The drawbacks of adopting Vision and Mission Statements of more successful rival companies, with certain changes and modifications, are as follows:

i. Vision and Mission Statement of a firm is inextricably inter-linked with its management philosophy, purpose of business and distinctive capabilities which cannot be replicated in their entirety by other firms.

ii. The imitated version of a Vision and Mission Statement cannot be an enduring or permanent feature and frequent lapses or deviations in actual performance are bound to create resentment and suspicion among the internal and external stakeholders.
Question No 62:-

Corporate and Business Strategies of marketing-focused organizations operating in different product lines pursue entirely different approaches depending on customer, competitor and inter-functional orientations. The features of each of the different types of orientations are:

<table>
<thead>
<tr>
<th>Customer Orientation:</th>
<th>Entire focus on customer e.g. Jeweler boutique selling expensive designer jewelry to a select niche market.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor Orientation:</td>
<td>Emphasis on plans and actions of competitors as only few competitors dominate the market e.g. branded edible oil.</td>
</tr>
<tr>
<td>Inter-functional Coordination:</td>
<td>Marketing is considered to be an all-encompassing company-wide responsibility and all the departments are geared to contribute towards the marketing efforts e.g. a shipyard manufacturing ocean-going vessels for major foreign buyers.</td>
</tr>
</tbody>
</table>

List four characteristics which, in your opinion, would determine the direction of marketing policies and efforts in each of the above three types of business orientations.

Answer:-

The determinants of competitive policies and efforts in the different categories of business are:

Customer orientation

- Customer commitment.
- Creation of customer value.
- Understanding of customer needs and objectives.
- Measure customer satisfaction.
- After-sales service.

Competitor orientation

- Sales force shares competitors’ information among themselves.
- Individual organizations respond rapidly to competitors actions.
- Senior managers frequently discuss competitors’ strategies and tactics.
- Keen to seize opportunities for competitive advantage.
- Constant struggle to achieve market leader status.

**Inter-functional coordination**

- Inter-functional calls on customers.
- Technical, procurement, customer and market information is shared closely among different functions/departments.
- Close integration among different functions and departments in implementation of strategy.
- Functions are geared towards creation and satisfaction of individual customer needs.
- Resources are shared frequently among the various business units.

**Question No 63:-**

Danish Candies Limited (DCL) are manufacturers of a wide range of chocolates, candies and sweets catering primarily to the market segment comprising of children in the age group of 6-15 years. DCL’s products are well accepted in the market in Karachi and its adjoining metropolitan areas and two of its main brands are quite popular in the middle class segment of the market.

The management has now realized that in spite of substantial capital investment in fixed assets and good quality of its products, DCL has not been able to exploit the full potential of the rapidly growing size of the market and achieve high level of operating capacity.

The Board has recently appointed a new Marketing Director and has given him a target to increase DCL’s annual sales from the current level of Rs. 600 million approximately in each of the preceding 2 years to Rs. 1200 million in the next 3 years. Achievement of this target would launch DCL in the league of key market players and also significantly increase its profitability. The incoming Marketing Director has a track record of good performance in the consumer goods industry and achieving high sales targets by pursuing aggressive marketing policies through deep insight of the market dynamics. The Marketing Director is confident that he would be able to achieve the sales target set by the Board of DCL.

Briefly explain the Marketing Penetration Strategies which the Marketing Director should pursue to achieve the sales target set by the Board.
Answer:

The incoming Marketing Director of DCL may pursue the following Marketing Penetration Strategies to increase the Company’s annual sales from Rs 600 million to Rs 1200 million in the next 3 years.

a) **Pricing:** DCL should reduce its prices to achieve a larger share of the growing market. This strategy would be particularly rewarding as the target market for children is assumed to be highly price sensitive and will result in substantial increase in the sales revenue. Besides, DCL’s average cost would decline with increase in production and better utilization of existing capacity. Pursuance of this pricing policy would therefore contribute towards increase in sales revenue as well as overall profitability of DCL.

b) **Increase in Promotion and Distribution Support:** DCL should launch well-conceived advertising and promotion campaigns to attract those segments of the market in which its products are not consumed at present. It would also be necessary to identify and appoint competent new distributors who would aggressively promote DCL’s products. DCL should provide support to the retailers by way of prizes and gifts for distribution among the children and also sponsor special events to increase awareness of its products in the target market. DCL might have to explore both the push and pull marketing strategy along with media advertising.

c) **Product Modifications:** DCL should introduce further product improvements and change design features from time to time to make the products more attractive for the children. This strategy would enable DCL to gain a larger share of the market as the consumers would increase the frequency of their purchases.

d) **Incentives to Marketing Staff:** DCL should offer performance related incentives and special benefits to the marketing staff who are able to achieve and exceed the sales targets given to them.

e) **Market Development:** DCL should introduce its products in new geographic areas besides Karachi which offer good opportunities of achieving larger share of the market and increase in sales revenue.