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

These Examiner's answers should be reviewed alongside the question paper for this examination which is now available on the CIMA website at www.cimaglobal.com/e2papers

The Post Exam Guide for this examination, which includes the marking guide for each question, will be published on the CIMA website by early April at www.cimaglobal.com/e2PEGS

SECTION A

Answer to Question One

Rationale

This question tests candidates' understanding of the alternative ways of achieving competitive advantage. It examines learning outcome A1(b) ‘distinguish between different types of competitive environments’.

Suggested approach

Part (a) could start with a description of the different ways of achieving competitive advantage. Part (b) should then develop to explain the factors that should be considered when deciding the basis for the scenario business's competitive strategy.

A good answer will provide a comprehensive description of the different approaches to achieving competitive advantage and then explain the factors that should be considered in the context of the scenario business.

A weak answer will identify the approaches to achieving competitive advantage and will describe some of the factors that need to be considered but with limited reference to the scenario organisation.
**Requirement (a)**

According to Porter, there are three possible ways through which C could develop her business to achieve competitive advantage over rival businesses. Firstly, she could decide to compete on the basis of cost (cost leadership). By offering the laundry and dry cleaning services at significantly lower prices than her competitors, C could attract price conscious customers. However, to sustain its advantage C would need to ensure that customers are satisfied with the quality of service provided in order that they keep returning to her business.

A second option for C would be to offer potential customers something unique that they value in terms of the services her business could provide that competitors might not easily copy or imitate (differentiation), such as excellent customer service.

Finally, C could decide to concentrate her business on just a small part of the potential market by offering a specialised laundry and cleaning service tailored to the needs of a particular market segment rather than trying to cater for the mass market. This approach to achieving competitive advantage is called focused differentiation.

**Requirement (b)**

In deciding the basis for her business’s competitive strategy, C will need to consider which strategy best positions her business relative to potential rivals, in the light of the threats and opportunities posed within the market and also the general environment.

This will involve C analysing the environment in which her business will operate to assess likely strengths and weaknesses when compared to rival businesses.

Cost leadership may prove a difficult route for C’s business due to the potentially high costs normally associated with operating in a city centre location. However, the location C is considering for her dry cleaning and laundry business could prove to be its greatest strength of all despite the fact that its potential customers do not live nearby. C could exploit this by offering commuters a high quality and convenient service together with a fast turnaround, then price may not be as crucial a factor. This would use differentiation as the basis of the business's competitive strategy.

Whilst C’s business may be unlikely to compete with dry cleaners located in the commuter towns in terms of the range and diversity of items cleaned, e.g. curtains and bed linen as well as clothes, it could focus on business suits and other garments dropped off/picked up by office workers on their way to and from work. She could even target commercial premises themselves and have a pick up and drop off service for laundry, which could present a distinct advantage over rival businesses.
Answer to Question Two

Rationale
This question tests candidates' appreciation of the positive and negative effects associated with team work. It examines learning outcome C2(a) 'analyse the relationship between managers and their subordinates'.

Suggested approach
The answer should start with an explanation of the positive outcomes of team working and then should develop to discuss the negative effects.

A good answer will provide a comprehensive and balanced evaluation of both the positive and negative effects of team work, making reference to relevant theories and concepts.

A weak answer will provide a thin and unbalanced description of a few positive and negative effects of team working with no reference to relevant theory/concepts.

There are a number of positive outcomes of team working both for the organisation and the employee. Fundamentally it is assumed that working in a team will lead to increased productivity. This is because tasks can be broken up into different parts and different team members with different skills can work on the task simultaneously, combining their skills and knowledge. This is sometimes referred to as synergy (i.e. $2+2=5$) in which the combined activity of individuals has greater effect than the sum of the activities of an individual.

Working as part of the team can be motivational in terms of meeting social needs (identified in Maslow's hierarchy of needs) and also providing a sense of belonging to the individual, creating increased employee satisfaction. This can also link to productivity in that individuals may work harder for each other, not wanting to let other members of the team down.

Other benefits of team working are related to greater creativity and improved problem solving on the basis that discussions between team members will generate better ideas and solutions than individuals working alone. It is also suggested that working in teams improves communication flows through the organisation and between team members.

Whilst team working has positive effects, it is possible that there could also be negative outcomes associated with team working. For instance, peer pressure may result in individuals being persuaded to agree with a decision which they know will not work. This is referred to as conformity in decision making.

Another negative aspect of team working is the concept of risky shift or group polarisation and concerns the tendency of groups to take decisions which are in fact riskier than individuals would take on their own. This occurs because the responsibility for the decision is not vested in one person.

Group think can also occur where a team is particularly cohesive and team members will try to minimise conflicts and seek consensus without being willing to critically evaluate alternative courses of action. In other words all members "think" in the same way. The team could develop its own norms which may conflict with those of the organisation. Associated with group think is a concept called the Abilene paradox which is a case where the team can end up with an outcome that none of the individuals members actually wanted, but no one wants to disturb what they believe is the consensus.
Answer to Question Three

Rationale
This question tests candidates' ability to compare and contrast different forms of conflict governance. The question examines learning outcome C1(c) 'identify the nature and causes of conflict'.

Suggested approach
The answer could start by explaining the concept of conflict. It should then develop to discuss both horizontal and vertical conflict and associated causes, providing examples from the scenario as illustrations.
A good answer will provide a robust comparison between horizontal and vertical conflict using examples from the scenario to illustrate causes.
A weak answer will just give a general explanation of the different types of conflict with no contextualisation to the scenario.

Conflict occurs when there is a disagreement and one party is perceived as preventing or interfering with the goals and objectives of another. In the case of BL Company, the conflict could be viewed as destructive and dysfunctional between the different groups. Examples of both horizontal and vertical conflict are evident.

The conflict between the production department and the marketing and sales team is horizontal conflict because it is occurring between the same levels in the hierarchy. The cause of the conflict is due to the different objectives of the different groups.

The marketing and sales team is focusing on getting sales with no regard to whether the orders can be met. On the other hand, the production department is focused on producing high quality products and is unable to cope with meeting the demand and feels that it is facing undue pressure. In this sense each of the department's operative goals could be regarded as being incompatible in terms of volume of sales versus quality of production.

Horizontal conflict may also be a feature of the different background, values and skills between the two groups. The marketing and sales team is externally focused on increasing sales opportunities for the company. In contrast those in the production department probably view themselves as craft workers, having served long apprenticeships, and are proud of the quality of the leather products they produce, rather than volume of production. In other words the two groups have very different motivational and psychological positions on what is important.

This is exacerbated by the different reward systems. The marketing and sales team members are on commission and will be keen to win as many orders as they can. At the moment the production workers do not receive any additional payment for increased productivity and this is a source of dissatisfaction.

In contrast, the conflict between the union representing the workers and N is an example of industrial relations conflict which could also be viewed as vertical conflict. This occurs between individuals or groups who are at different levels in the hierarchy and arises because of status and power differences between groups.

The conflict has arisen because of the expectations of N for the workers in the production department to increase productivity but with no proposal to increase their pay. This has led to industrial unrest. The role of the trade union in vertical conflict is to try to equalise the power differences between the workers in the production department and N.
Answer to Question Four

Rationale

This question tests candidates' appreciation of the issues in corporate governance. It examines learning outcome C2(g) 'analyse issues of business ethics and corporate governance'.

Suggested approach

Part (a) could start with an explanation of corporate governance and then go on to explain the difference between the principles-based approach and rules-based approach. Part (b) should then cover the areas that need to be considered when setting the remuneration of a Director.

A good answer will analyse the issues in the scenario from a governance perspective.

A weak answer will just be a general discussion of governance issues with no link to the scenario.

Requirement (a)

Corporate governance can be described as ‘the system by which companies are directed and controlled in the interests of shareholders and other stakeholders’. Governance is an issue for all organisations, however there can be considered to be two different approaches:

The principles-based approach is an approach that means companies should follow a set of principles rather than a rigid set of rules and compliance is not legally compulsory, often referred to as a Corporate Governance code. Some of the provisions of the code may not be followed exactly providing the departure for non-compliance can be justified by the company and if it can be shown that good governance can still be achieved. Shareholders are entitled to challenge the explanation for non-compliance if they are not satisfied with the explanation given in the annual report. The UK Corporate Governance Code is a principles-based approach.

In contrast a rules-based approach provides a set of rules which must be followed by companies in all circumstances. There will be punishment for companies which do not comply. The USA adopts a rules-based approach.

Requirement (b)

If the Remuneration Committee does agree the Finance Director's remuneration package then it will raise the following corporate governance issues:

- No director should be involved in influencing or setting his or her own salary package. The Remuneration Committee should not have acted upon the letter it has received from the Finance Director.
- The basic salary of the director should not be excessive, governance recommends a basic salary sufficient to attract, retain and motivate. T Company should, however, avoid paying more than is necessary for the position.
- The package is not aligned with the interest of shareholders. The basic salary will be paid irrespective of the performance of T Company. The package is not linking rewards to corporate and individual performance.
- The non-executive directors who comprise the Remuneration Committee should be independent. There is a lack of evidence of independence as one of the NED’s is a former colleague of the Finance Director creating a conflict of interest. This is a familiarity threat in that the NED does not want to upset a former colleague.
- The other members of the Remuneration Committee are being coerced into also agreeing the package. This is an abdication of their non-executive responsibilities. Independence means being 'free from the influence of others' and they have failed.
Answer to Question Five

**Rationale**

This question tests candidates' appreciation of the importance of identifying the power and interest of stakeholders so that appropriate strategies can then be implemented for managing their expectations. It examines learning outcome B2(b) 'recommend strategies for the management of stakeholder perceptions and expectations'.

**Suggested approach**

The answer could start with an explanation of stakeholders and then make recommendations on the strategies for managing different stakeholder groups.

A good answer will identify the stakeholders specific to the expansion project and then suggest appropriate strategies for managing their expectations.

A weak answer will not relate the stakeholders to the project and give general explanations on how to manage the stakeholder expectations.

A stakeholder is any individual or group of individuals who have an interest in, can be affected by, or can affect the outcome of, the project. It is important that V Company recognises the claims of each stakeholder group and the fact that some stakeholder groups wield greater power than others.

Mendelow suggests that stakeholders should be classified in relation to the power that they hold over V Company and the extent to which they are likely to show interest in the strategies of V Company. The power/interest map can then be used to indicate what type of relationship V Company should have with each of its stakeholder groups.

Taking each stakeholder group mentioned in the scenario in turn, the recommendations would be:

**Government**

The Government will have a high interest because it believes that the AEP will enhance economic growth of the country. The Government will also have a high power as it has authority to agree the expansion plan.

The Government should therefore be considered as a key player. It has the power to stop V Company's expansion plans if it is not satisfied with the outcomes of the project, hence its participation in the process is essential. V Company will need to meet with the Government to reassure it that the economic benefits can be delivered.

**Environmental Campaigners**

The campaigners will have high interest as they believe that the expansion will have a negative impact on the local environment. They have power to disrupt V Company’s plans since they are threatening to disrupt the project by setting up a blockade at the expansion project site. They also have power to lobby the Government with regard to the decisions on planning permission.

This group could be identified as a key player if the power to lobby government is considered high and the threat to set up a barricade seems a real threat. If this is the case then it will be important for V Company to get their participation in the AEP. For example, representatives could be involved in the planning process so that their concerns can be heard. V Company could try and offset the negative aspects of its environmental footprint by contributing to the local community in other ways.

Alternatively if power is considered to be limited then they could be viewed as a group that needs to be kept informed through regular communication.
Business First
Business First is interested in whether or not the AEP will gain planning permission, but has limited power to influence the decision. Business First has a high level of interest because it recognises the amount of additional employment the AEP can create. It may have some power to lobby the Government but this power is likely to be relatively low in terms of impacting the final decision.

Business First should be given as much information as possible on the project and its benefits. V Company should regularly update representatives of Business First on the progress of the project and continue to promote the economic benefits the project will bring.
## Answer to Question Six

### Rationale

**Requirement (a)** tests candidates' appreciation of the need to use tools and techniques in project management. It examines learning outcome B1(e) "apply key tools and techniques, including the evaluation of proposals." **Requirement (b)** tests candidates' appreciation of how a project team can be managed appropriately to ensure successful delivery of project objectives. It examines learning outcome B1(g) "identify structural and leadership issues that will be faced in managing a project team."

### Suggested approach

**(a)** The answer could start with an explanation of SWOT analysis on projects and then the SWOT should be applied to the software project. A pass standard answer will clearly apply SWOT analysis to the project in the scenario. A weak answer will discuss the SWOT at a general level and not relate it to the scenario.

**(b)** The answer should develop to explain specific challenges associated with poor people and project management skills, and provide an explanation on how each can be overcome. A pass standard answer will explain the challenges and explain how they can be resolved making specific reference to the challenges in the scenario. A weak answer will show a general understanding of the challenges on projects but will not relate them to the scenario.

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**Requirement (a)**

When evaluating a project proposal, it is important to establish whether the proposal helps to achieve the long term aims and objectives. SWOT is an analytical tool that can be used to assess project proposals and their feasibility. For any project proposal, a SWOT analysis can be undertaken to establish whether a particular proposal has sufficient strengths that are compatible with the achievement of the organisation's objectives, or provides the organisation with sufficient opportunities to do so in the future. A SWOT analysis will also highlight the weaknesses and threats of particular proposals so that an organisation can give consideration to the best way of negating or minimising the effect of them.

Applying SWOT to the software project proposal from the large local manufacturing company:

**Strengths**

Z Company is already successful with a strong local reputation for software development and it has delivered previous projects successfully.

**Weaknesses**

Z Company has no previous experience of managing projects of this size; in particular the project manager has no previous experience in projects of this size and complexity which will be important if the project objectives are to be delivered successfully.

This will stretch Z Company's resources in particular with regard to software engineers and this could affect its ability to deliver the required quality to the customer.

**Opportunities**

Z Company could develop a new customer relationship with the client which could generate future revenues.

Z Company could build a reputation with larger companies which will extend the customer database and increase market share.
Threats
If the customer expectations are not met and Z Company’s reputation is affected this will have implications when it is trying to obtain future contracts. Competitors could use this to their advantage and Z Company’s market share could be eroded.

Requirement (b)
M, as project manager, has the ultimate challenge of ensuring the desired result of the software project is achieved on time and within budget to the satisfaction of the various project stakeholders. M, as project manager, will play a key role in the success or failure of the software project and will need to address the challenges faced on the project in order to deliver the project objectives.

Z Company is undertaking a complex project so M will be responsible for a number of negotiations. This will include negotiation on the availability and level of resources with the project sponsor (once the sponsor is identified), negotiation with the project team on working hours and negotiation with the project customer on quality levels.

M will face the challenge of successful negotiation with a range of people on the project. The challenge is often intensified by the fact that the negotiation may be with someone over whom M has no direct authority; this includes the line manager who has taken an engineer from the project. The challenge will be to get the engineer back on the project without delay.

On the software project M has given the project team timescales it believes are unrealistic. M should be negotiating with the team and will be challenged with trying to achieve a solution that is acceptable to both parties so that the project can be successfully completed.

M is facing a major challenge in communicating with the sponsor, since no-one in Z Company has been allocated the role. M should be negotiating with the Sponsor for additional resources. At the outset Z Company was aware that the project would stretch its small number of software engineers. M needs to communicate with the management hierarchy in order to get a sponsor allocated immediately so that changes can be authorised. M should be updating the project sponsor so that changes can be implemented if approved; this is an important relationship on the project and has not been established. M needs to establish who is taking responsibility as project sponsor so that this relationship can be established.

M should also be encouraging team members to help to resolve any problems, and as a minimum to communicate with M as soon as possible so that he can lead the problem-solving effort. The project was impacted in phase one due to the reduction in hours of the software engineers. M should be reflecting this in the project plan and then produce revised versions showing the effect of these changes.

M will be challenged with managing stakeholder expectations; M is the point of communication with the management hierarchy. In particular M should be reporting timely and accurate information on project progress. Reports should highlight problems and changes showing the effect of these on the software project plan and suggesting a course of action.

The challenge is get the right information to and from the right stakeholders on a timely basis. The project customer needs to be contacted on a regular basis to ensure that the customer needs are understood. M appears to have been poor at managing the relationship with the project customer and they are now concerned that their expectations are not being met.

A major challenge for M will be leadership of the project team. M needs to obtain results from the team through his personal direction and influence. M must have the ability to motivate the team. In phase one M should have clearly defined the project objectives to the project team so that everyone was clear on what constitutes a successful project. M needs to arrange team/project meetings so that all project team members understand the progress of the project and so that everyone can contribute to the overall achievement of objectives.
M’s challenge is to build, co-ordinate and lead the project team. M should understand that he has an important challenge in creating a team spirit on the project in order to reduce the dissatisfaction on the team. He currently appears to think that he only needs to focus on the task. One aspect for M to consider is his ability to use his power and that this is done in a responsible manner. He appears to be using an authoritative approach with the team, which appears to be causing resentment. M needs to consider the individual subordinates making up the team. His responsibility is to be flexible in his leadership style in order to create an effective team for project success.

From the above, it is clear that M has a number of challenges in view of the various people responsibilities of the project manager, M cannot rely solely on his technical ability but needs to understand the overall responsibilities required which include people management. People are a valuable asset in helping to deliver the project objectives and M has failed to overcome some of the major issues and now faces major challenges in getting the project back on track.
Answer to Question Seven

**Rationale**

Requirement (a) tests candidates' understanding of the stages in the rational/formal approach to strategy formulation. It examines learning outcome A2(b) 'compare and contrast approaches to strategy formulation'. Requirement (b) tests candidates' awareness of the types and sources of competitor information. It examines learning outcome A1(a) 'discuss the nature of competitive environments'.

**Suggested approach**

(a) The answer should develop to explain all the key stages involved in the rational approach to strategy formulation, making reference to relevant strategic management models.

A good answer will provide a comprehensive explanation of each of the stages of the rational approach to strategy formulation in a logical and structured manner, with inclusion of appropriate strategic management models.

A weak answer will provide a sketchy explanation of some of the stages in the rational approach to strategy formulation, not necessarily in the correct order and with very limited reference to strategic management frameworks.

(b) The answer could start by explaining the importance of competitor information and then explain the type of information that should be collected. The answer should then develop to discuss the different sources of competitor information that could be accessed.

A good answer will provide a solid discussion of both the types and sources of data that 3DC Company should collect, contextualising where appropriate.

A weak answer will simply provide a list of either the type or sources but not both elements.

**Requirement (a)**

In putting together the strategic plan using the rational approach J and P will need to follow a number of clearly defined steps. The starting point would be to set the mission for the 3DC Company. This should reflect the core values, set out the purpose of the business itself, and also the expectations of stakeholders. It would seem that the company clearly already possesses a culture of innovation and this may well be important to future investors, so it is reasonable to assume that this should be incorporated within any mission statement that it develops.

The next step will be to establish the objectives by which the company's future performance could be measured. An acronym often used when setting objectives is SMART - this translates into; specific, meaning clearly expressed; measurable, being quantifiable; achievable for P and J; relevant to the company's overall goals; and timely, meaning that a timescale has to be set for the objectives to be achieved.

For 3DC Company its objectives should be translated in the context of the commercial launch of the 3D copier with measurable and achievable targets for sales and profitability over the next year.

The next step is to carry out a corporate appraisal of both the internal and external environments in which 3DC Company operates. This would involve, for instance, the use of PESTEL and Porter's Five Forces to analyse the external macro and micro environments. An assessment of the company's internal capabilities will need to be conducted to assess threshold and unique resources and competencies, and where value is added, perhaps making use of the value chain model. The outcomes of the internal and external analysis can be summarised in a SWOT, to highlight key internal strengths and weaknesses and external opportunities and threats for the company.
After this analysis, J and P will be able to generate alternative courses of action building on the strengths of the business in order to exploit the opportunities and deal with potential threats identified in the SWOT, including levels of competition.

Having generated a number of strategic options, each one then needs to be considered in detail for its feasibility before a final decision is taken on the best course of action. Any future investors will need to be convinced that the strategy proposed by 3DC Company fits their expectations in terms of financial viability, payback period, and return on investment.

The penultimate stage of the strategic plan will involve drawing up the detailed plans necessary for the strategy to be implemented. For instance how 3DC Company intends to handle the marketing of the new 3D copier, and knowledge of the global marketplace.

The final stage in the rational approach requires that provision is made for the review and control of the chosen strategy. This should be an on-going process by J and P and, because changes to the strategy may be required due to changing circumstances, contingency measures need to be built in to the plan.

**Requirement (b)**

Although it would seem that 3D photocopiers would still be in the introductory phase of the product lifecycle, the threat of competition from rival companies cannot be ignored. It appears from the scenario that 3D copying is not a new concept and it is reasonable to assume that other companies will also have been investing heavily in new product development (NPD) in this field.

Competitor analysis, as defined by CIMA, involves the identification and quantification of the relative strengths and weaknesses compared to competitors or potential competitors that could be of significance in the development of a successful competitive strategy. Hence J and P need to understand the competitor advantages and disadvantages of their company's offer when compared to rival companies. In addition, they should strive to understand competitors' past, present and future strategies with a view to formulating their own strategies and sustaining advantages over them.

J and P need to identify who their competitors might be and understand the current strategies and objectives of potential competitors. It would also be helpful to understand the competitors' resources and capabilities, especially in terms of their ability to innovate or replicate the technologies of 3DC Company's 3D copiers. Aligned with this, it will be important for J and P to know how competitors' products compare with 3DC's 3D copier, particularly in terms of pricing, quality and branding.

There are a range of different sources of data that would be available to 3DC Company as part of the analysis.

Competitors' websites may contain information about their current strategy and objectives as well as details on past performance. This source could also provide information on any new development or products. Information on financial performance may be obtained from copies of competitors' annual reports and accounts which are publicly available and can also be accessed online. Such reports usually contain other information providing insights into a company's past present and future strategies for growth.

Other valuable sources of competitor data can often be found by searching published articles in newspapers, magazines and specialist journals relating to the particular industry, including recent developments. Again, this can be done relatively quickly via an internet search.

It would also be worthwhile for 3DC Company to find out if there has been a review of the market in which it operates by one of the specialist market research firms such as MINTEL or Keynote. If so, these will provide valuable data on market size and activity, although there may be a charge for such reports. Becoming a customer of a rival company could perhaps be considered a more devious way of finding out about the products and services offered by them if such data cannot be obtained by more publically available data.
Finally 3DC Company could commission market research of its own in an effort to establish attitudes to rival companies’ products. Although this could prove costly, such research could be undertaken as a part of a wider market study to find out potential interest in its own new product.