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 February at www.cimaglobal.com/e2PEGS

SECTION A

Answer to Question One

Rationale
This question tests candidates' understanding of the competitive environment. It examines learning outcome A1(a) 'discuss the nature of competitive environments'.

Suggested approach
Answers should commence by describing what the analysis shows for each product, and then explain the implications for future development. Candidates could use the BCG matrix to organise their answers.

Good answers will work through the analysis in a systematic way and explain the position of each product in the portfolio, with a clear description of implications for future development.

Weak answers will be unstructured and limited to describing the position of products without consideration of the implications for future development.

To help understand the position of the four products referenced in the scenario in terms of R Company's product portfolio, the BCG matrix could be used.

Product A can be classified as a 'cash cow' in that it has a high market share, but low market growth. This product will be a generator of cash which can be used to invest in other products in their developmental stage. A defensive strategy could be adopted in order to protect the
position of the product to maintain its market share, since low growth suggests a lack of opportunity for future growth.

Product B is a ‘question mark’ (alternatively known as a problem child) product with a low market share but operating in a high growth industry. This creates a dilemma for R Company, in that this product will need significant investment to nurture it, in the hope that it will eventually become a ‘star’ in the future. In making the decision on product B, R Company will need to be confident that with any further investment it will be able to gain market share.

As a market leader in a high growth area, Product C is in the ‘star’ quadrant of the BCG matrix. This product should have good long term prospects in that it may one day become a ‘cash cow’. At the moment though, it will require large amounts of investment to sustain its growth and beat off any competitor attack strategies.

Product D could be classified as a ‘dog’ in that it has low market share in a low growth market. As such it has limited future prospects without significant investment and substantial risk. R Company will need to decide when is the right time to divest this product, unless it is using the product as a ‘loss leader’ against competitors’ action.
## Answer to Question Two

### Rationale

This question tests candidates' appreciation of the importance of corporate strategy as the hierarchy to the other levels of strategy that exist within the organisation. It examines learning outcome A2(c) ‘explain the relationships between different levels of strategy in organisations’.

### Suggested approach

**Requirement (a)**

The strategic management process is essentially concerned with decisions that organisations make about their future direction and development. Corporate strategy is concerned with an organisation’s basic direction for the future. The corporate strategy will look at what businesses the organisation is in and what businesses it should be in. Common errors with strategy include decisions on acquisitions, mergers and sell-offs, or closure of business units. The corporate strategy would strive to establish a balanced portfolio of business units for the organisation.

Corporate strategy is typically concerned with determining the overall purpose and scope of the organisation. The overall mission statement will be developed at this level. It will set out the overriding purpose of the business in line with the values and expectations of stakeholders.

Corporate strategy is concerned with delivering value to the key stakeholders such as customers and shareholders. Strategic decision making requires consideration of stakeholders when setting the mission statement and objectives of the organisation. Stakeholders can affect the success of a strategy depending on whether they support it or oppose it. For example, customers refusing to buy products and shareholders selling their shares would disrupt any strategy, so should be considered before setting strategic objectives.

Corporate strategy will also be concerned with the development of corporate policies on issues such as public image and social responsibility. The corporate level should determine the overall ethical stance the company will take and to what level the company will use social responsibility as a means of strategic differentiation.

**Requirement (b)**

The business strategy is concerned with how a business unit approaches a particular market. Management will be responsible for winning customers and beating rivals in the particular market. The functional strategy looks at how the different functions of the business support the corporate and business strategies.

The corporate strategy is set in order to guide and constrain the decisions made at the lower levels. The levels of strategy need to be interdependent so that all levels are consistent in their decision making. The corporate level sets the strategic direction and decisions made at the lower levels need to fit in with the overall aims and purpose of the organisation. Any objectives set at the lower levels should link to the overall strategic aims. Any divergence from the guidance could lead to a poor reputation and therefore reduced revenues and profitability.
The lower levels are often given autonomy to make decisions based on local knowledge. The greater the autonomy, the greater the importance that clear direction is set from the top. The corporate strategy should be clear as any misunderstanding could lead to conflict. Any conflict will lead to wasted resources and reduction in the overall efficiency and effectiveness in achieving the strategic objectives. The guidelines need to be clear to ensure control and goal congruence is achieved.
Answer to Question Three

Rationale

This question tests candidates' comprehension of the concept of competitive advantage and the factors that can create competitive rivalry. It examines learning outcome A2(b) 'compare and contrast approaches to strategy formulation'.

Suggested approach

To address the first part of the question, candidates should start by explaining what is meant by the concept of competitive advantage and then go on to explain the bases for achieving competitive advantage. The second part of the question should provide a description of the different factors that can create competitive rivalry.

A good answer will provide a comprehensive explanation of the concept of competitive advantage, articulating the different ways in which it can be achieved. Candidates will describe a range of factors that can create competitive rivalry. Weak answers will give an unclear explanation of competitive advantage and will describe only a couple of factors that can create competitive rivalry.

Requirement (a)

Competitive advantage is anything that can give an organisation an edge over its rivals and competitors. An important aspect of competitive advantage is that it needs to be sustained over time, rather than being short-lived. It is important for DF Company to understand on what basis it will seek to achieve competitive advantages since, to be sustainable, it must identify those activities that competitors cannot easily copy and imitate.

The basis on which to compete essentially comes down to determining why customers would choose to do business with DF Company rather than its rivals, or vice versa. The reasons can be categorised in broad terms as:

The prices of the product/service is lower (sometimes referred to as low cost strategies);
or
The product/service is perceived to provide better ‘added’ value (sometimes referred to as differentiation strategies).

Another consideration for DF Company is to decide whether it is going to compete in the broad market place in terms of farming or whether it is going to focus on one or more segments/niches of the farming industry.

In determining the basis on which to compete, DF Company will need to understand its own core competences, its strengths and weaknesses and also the strengths and weaknesses of its competitors. It must also have a good understanding of both the macro environment in which it operates and also the critical success factors of its customer base.

Requirement (b)

Competitor rivals are organisations with similar products/services aimed at the same customer group (Johnson et al 2011). The more competitive the rivalry, the worse it is for those operating in the industry. Low barriers to entry can increase the number of rivals within an industry.

There are a number of factors that can create competitive rivalry between an organisation and its immediate competitors in an industry. With reference to Porter’s Five Forces model these include:

- The rate of growth in an industry. If this is low, in other words the market is not expanding, then there is likely to be increased competition because any growth is probably going to be at the expense of a rival.
• Another factor creating rivalry would be if the fixed costs are high. This is because organisations will try to spread their costs by increasing their volumes and to do so may cut their prices. This may trigger price wars in the industry.

• High exit barriers can increase competitive rivalry. The reason for this is that those in the industry will fight to maintain market share, because the alternatives of closure or divestment come with a high price. For instance, the costs associated with high investment in specific assets such as plant and machinery that does not have alternative uses. If the cost incurred in leaving the market is high, then companies will hang on until forced out, hence increasing competition.

• If there is low differentiation between products then rivalry may increase because there is little to stop customers switching between suppliers, and, in this instance, the only option is to compete on price.

[Answers could also make reference, amongst other points, to low switching costs, and competitor balance]
### Answer to Question Four

#### Rationale
This question tests candidates' appreciation of the roles of important project stakeholders. It examines learning outcome B2(c) 'explain the roles of key players in a project organisation'.

#### Suggested approach
The answer should start with an overview of the role of the project owner and project sponsor highlighting the differences and should then develop into the project manager's relationships with the project owner, project sponsor and project team. A weak answer will simply identify general responsibilities. A good answer will discuss the responsibilities relating to the scenario.

#### Requirement (a)

**Project Owner**
The project owner in the X Company project is the organisation for which the project is being carried out, in this case the local police authority. It is interested in the end result being achieved. The police authority has made a statement regarding 'greater savings' and 'improved effectiveness and efficiency' and these are the needs that must be met.

**Project Sponsor**
The project board is effectively also acting as the project sponsor. It will be ensuring that the project is successful at the business level. The person who chairs the project board will normally take overall responsibility for the successful delivery of the business needs.

#### Requirement (b)

**Project manager and project owner**
The local police authority has set out its required objectives but is not responsible for providing the funds. The project manager will need to work with the authority to ensure there is no conflict between its expectations and the funds being provided.

The project manager will have little direct reporting/communication with the local police authority as responsibility for project progress is mainly to the project board. However, the ultimate objectives of the local police authority need to be monitored as it will be concerned with ensuring that the whole project is not seen to waste public resources.

**Project manager and project sponsor**
The project board is effectively the project sponsor. The project manager is responsible for achieving the objectives set by the project board. The board is responsible for the overall running of the project and it needs to achieve the local police authority objectives without disrupting the achievement of its own business objectives.

The project manager will need to have regular communication with and provide regular reports to the project board. He or she will need to discuss the project progress and the achievement of project milestones. Any deviation from the project objectives will need to be addressed on a timely basis and corrective action taken to get the project back in line with objectives required.

**Project manager and project team**
The project board will ultimately decide whether changes are implemented or not and it will then be the responsibility of the project manager to produce the revised versions of the plan and get them circulated to all project team members.

During the project, it is the responsibility of the project manager to motivate team members so that the tasks assigned are completed in line with X Company's project objectives. The project manager will have direct responsibility for the work assigned to each team member, the responsibility each member is given and the recognition they are accorded on completion of
their work. How the project manager goes about these management tasks will critically affect morale and motivation of team members.
**Answer to Question Five**

**Rationale**

This question tests candidates' ability to explain the factors which can influence the development of organisational culture. It examines learning outcome C1(b) *demonstrate the importance of organisational culture*.

**Suggested approach**

The answer could start by providing a brief explanation of the concept of culture, developing to provide examples of the various factors that can influence the development of culture. Good answers will offer a wide ranging set of factors, whereas weak answers will only be able to provide a few.

Organisational culture is a complex concept. However, it is an important concept since it has a significant impact on the behaviours and actions of employees. The culture of any organisation will develop over time and will be influenced by a complex and wide ranging set of factors.

For example, Schein (1985) suggests that the vision, management style and the personality of the founder or other significant dominant managers will influence the culture of an organisation.

Other factors that might influence how culture develops include:

- **The nature of the business**, for instance the type of products and the environment in which the organisation operates.
- **The ownership status of the organisation**, such as whether it is owned by a sole trader/owner manager or by a small number of institutional shareholders or a large number of small shareholders.
- **The size of the organisation**, for instance in terms of turnover, physical size and employee numbers.
- **The history and age of the organisation**, for instance, what has worked in the past, do decision makers have past success to draw on.
- **The structure of the organisation**, and communication patterns, for instance is there a formal hierarchy or informal network.
- **The extent of risk** connected with activities of the organisation and the speed of feedback, as proposed by Deal and Kennedy.
- **The reward systems in place**, for example, are individuals rewarded on length of service or on individual performance criteria.
- **The diversity of the organisation** in terms of either product range, geographical spread or the cultural make-up of its stakeholders.

Some writers, such as Hofstede suggest that development of organisational culture is influenced by the nation in which the organisation is based.

From the above list, it is apparent that there are a number of different factors that can influence the development of an organisation’s culture and hence an organisation’s culture is not easy to change.
Answer to Question Six

Rationale

Requirement (a) tests candidates’ appreciation of the need to manage projects using a recognised methodology. It examines learning outcome B1(b) ‘apply suitable structures and frameworks to projects to identify common project management issues’. Requirement (b) tests candidates’ appreciation of the importance of a post completion review. It examines learning outcome B1(i) ‘discuss the value of post-completion audit’.

Suggested approach

(a) The answer should start with an explanation of PRINCE2. It should then make reference to the project issues mentioned in the question and apply them to the methodology.

A pass standard answer will define the project components and processes and discuss them in the context of the scenario giving justification for their use on future projects. A weak answer will discuss the project methodology at a general level and will not develop the answer in the context of the scenario.

(b) A pass standard answer would identify and explain the importance of a review and would go on and explain the benefit to L Company. A weak answer will discuss the general process and not relate it to L Company.

Requirement (a)

PRINCE2 is a process based approach for project management providing an easily tailored and scalable method for the management of all types of project. Each process is defined with its key inputs and outputs, in addition to the specific objectives to be achieved and activities to be undertaken. It includes bureaucratic controls on the planning and execution of projects. It would have helped L Company to identify some of the potential problems that have now transpired which it could have rectified earlier in the project life cycle.

PRINCE2 suggests an organisation chart for the project so that there is a clear structure of authority and responsibility. Everyone on the robotic painting system project would then have understood their role and responsibility for the delivery of objectives and the level of reliability would have been allocated to a specific member of the project team. Control is achieved through the authorisation of work packages. These include controls on cost, quality and time. It would appear within L Company that nobody took overall responsibility for the project.

A business case is prepared to justify the undertaking of the project. L Company does not seem to have been successful in understanding the objectives and main scope of the project. The project does not seem to be aligned to the critical success factors identified. The business case also makes sure that the project stays aligned to business objectives and benefits. This would have helped prevent any reputational issues related to L Company.

PRINCE2 recognises that successful control includes setting plans/standards for everything that needs to be delivered including time, quality and cost. Regular and formal monitoring of actual progress against plan is essential to ensure the timeliness, cost control and quality of the project. Control points should be created throughout the project and the project should be broken down into stages. Reports should be produced on progress towards plans and any problems encountered at each stage should be identified and corrective action taken. This does not appear to have happened in L Company. When the project overran in terms of cost and time, the problem was not detected until the end of the project.
The methodology includes a series of ‘management products’ for example project initiation documents, project budget, quality plan and various checkpoint and progress reports, which would have improved controls for L Company’s project.

All of the above should be considered important elements of any good project management. The difference with PRINCE2 is the level of structure and documentation required. This helps in providing controls on the planning and execution of projects and forces the identification of potential problems.

Requirement (b)

At the end of the project, an independent post completion evaluation and review of the project should be undertaken. This might involve debriefing meetings with all parties involved to assess project performance. The process will include assessment of all aspects of project performance including the issues with the level of quality achieved, the cost and time variances and the effectiveness of the project manager and the project team.

The review will provide an opportunity to discuss the successes and failures of the project process. The feedback should provide the reinforcement of good skills and behaviours and the identification of areas for improvement or change in practice for the smooth running of future projects.

When a project appears to be badly planned, an investigation into project planning must be carried out and recommendations for improvements to the management of future projects can be produced. It provides a forum to discuss with individual team members their role in the project and how they could improve their own performance in the future.

An evaluation from the client’s perspective will establish if the project was successful in satisfying their requirements and gives them the opportunity to voice any concerns. Any mistakes or inefficiencies should not be carried forward to future projects. When the critical success factors have been confused it is important to understand why and ensure that on future projects there is clear understanding of the project objectives.

A review of the business case is important in order to establish whether the intended benefits have been realised. It is important to examine project performance by comparing achievement with the original project plan to show that the project has delivered the intended outputs. When there have been a large number of failures in the management and control of the project it is important that the review reinforces the need for milestones and progress reporting throughout the project.

An important part of the review will be assessing the quality achieved to ensure the robotic painting system is fit for purpose. The reliability of the system will be key to achieving one of the critical success factors ‘the quality of the paintwork’. This should, therefore, form an important part of the review.

For L Company the cost of the project compared with the budgeted expenditure and the reasons for over or under expenditure should be identified. Again lessons need to be learnt and any follow up actions need to be implemented for future projects.

The post completion audit is important because it will establish the problems and issues on the project. The suggestions for improvements will be circulated throughout the organisation. This will allow the participants in other projects to learn and improve. The lack of a project management methodology will be of particular concern for L Company. The effectiveness of a methodology like PRINCE2 and the process areas to be considered should be an important part of the circulation of information.
Answer to Question Seven

Rationale

Requirement (a) tests candidates' appreciation of the different ways in which the finance function can be positioned. It examines learning outcome C2(c) ‘discuss the effectiveness of the relationship between the finance function and other parts of the organisation and with external stakeholders’. Requirement (b) tests candidates' appreciation of the factors that make for a high performing team. It examines learning outcome B2(e) ‘identify tools for managing and controlling individuals, teams and networks, and for managing group conflict’.

Suggested approach

(a) The answer for part (i) should provide a discussion of the advantages of embedding the finance function in each strategic business unit. This should be followed by a discussion of the disadvantages. For part (ii) a description of two alternative models for delivering the finance function should be given, for instance shared service centre model and outsourced model.

Good answers will provide a balanced discussion of the advantages and disadvantages, and then provide a solid description of the two alternative models. Weak answers will provide only a superficial explanation of the advantages and disadvantages, and will simply identify alternative models, rather than provide a description.

(b) Answers should explain the various factors that will contribute to ensuring the multi-disciplinary management team is high performing team.

Good answers will provide a thorough explanation of the range of factors, drawing on relevant theory to support points made, and with specific reference to multi-disciplinary teams. Weaker answers will provide only a few general factors, without the use of theory.

Requirement (a)(i)

GBF Group has a dedicated finance function embedded in each business area operating as a business partner. This should mean that members of the finance function will play a full role in strategic development of the business unit and providing information to help inform strategic decisions.

There are a number of advantages for GBF Group which are associated with having the finance function as part of the business area that it serves. For instance, the finance function should have a stronger connection with the activities of the business unit and, as such, will build up a solid knowledge and understanding of the business, its products and the markets it serves. As a dedicated resource, members of the finance function should be able to play a more valuable role in contributing to strategic decisions, rather than being at arm’s length. Members of the finance team will gain a detailed local knowledge of the business and understand its finance information needs.

Being part of the business unit should foster stronger relationships and trust between the finance function and the management of other business areas. This lends itself to the concept of a business partner where members of the finance function are viewed as an essential part of the management team.

There are some disadvantages of this model. Specifically, from a cost perspective there could be duplication of effort across the organisation, with similar work carried out across the business. This is often the reason that some organisations are moving to a shared service model.

The finance function in the various business units may feel isolated and may develop their own ways of working which may not constitute best practice. There may be little scope for the sharing of best practice within the organisation if different teams build up their own ways of doing things.


**Requirement (a)(ii)**

If the Finance Director of GBF Group decides not to embed the finance function within the business area which it supports, the various finance functions across the business units could be consolidated into a central service unit, which is often referred to as a shared service centre (SSC).

This model of organising the finance function is sometimes referred to as ‘internal outsourcing’ where the financial activities are consolidated at one site. This option would allow the organisation to gain the cost benefits of consolidation of activities, whilst maintaining full internal control, and developing consistent financial management practices across the organisation.

Another option in the positioning of the finance function is business process outsourcing. This would involve contracting with a third party/external supplier to take on the responsibility of the finance system. Whilst GBF Group would lose control and risk unsatisfactory quality, there is the potential to achieve cost reduction using this model as well as accessing best practice expertise, particularly before routine accounting processes such as payroll, invoicing, chasing debts. However, this approach may not work so well in providing ad hoc financial information to support decision making specific to a SBU.

**Requirement (b)**

A multidisciplinary team is one that brings together individuals with different specialisms so that their skills, knowledge and experience can be pooled or exchanged.

There are a number of models which could be helpful to consider how GBF Group can build a high performing multidisciplinary management team.

It is important that the individual members of the multidisciplinary management team understand its purpose and objectives. Associated with this team, members need to be clear of their individual roles, responsibilities and activities as well as understanding what other team members are contributing. In this context, it is essential to have clear communication procedures, regular management team meetings and status reviews. Understanding each others’ roles, rather than just the functional area an individual comes from, will have a positive impact in the leadership team on the interactions between team members.

Members of the team must all have commitment to the purposes of the team and be focused on the achievement of the team’s objectives. There needs to be a high degree of trust and participation by all team members.

Strong leadership will be crucial, particularly as members of the multi-disciplinary team are coming from different functional areas and will have different backgrounds and perceptions of other team members. It is therefore important that there is a feeling of mutual trust between team members notwithstanding the fact that in a multidisciplinary team, individuals will come from different backgrounds. The leader should ensure that there is full participation by all members with a free flow of information and communication. Equally, conflict in a high performing team is best resolved by the members themselves.

Referring back to team roles as well as functional roles, a high performing team will need to be made up of a balance of individual skill and personality types. This is based on the work of Belbin who proposed that a well-balanced group should contain eight main character types. He suggested that a member of a team can adopt two or more roles if necessary. However the absence of one team role can mean a reduction in the effectiveness of the team.

The classification of roles identified by Belbin included: the coordinator, the plant, the shaper, the monitor-evaluator, the resource investigator, the implementer, the team worker and the completer/finisher. Another role added to Belbin’s original work is the expert or specialist which should be present in the multi-disciplinary management team.