The Examiner's Answers –
E2 - Enterprise Management

SECTION A

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.

Answer to Question One

Porter's Five Forces model is a useful framework that FF Supermarket could use to help it assess the attractiveness of the supermarket industry. Industry attractiveness refers to the potential for profitability that derives from competing in that industry. Each industry's attractiveness, or profitability potential, is a direct result of interaction of different environment and industry forces that affect the nature of competition.

The model brings together the following five competitive forces:

- Threat of new entrants/barriers to entry
- Bargaining power of suppliers
- Bargaining power of buyers
- Threat of substitute products/services
- Competitive rivalry

It is the collective strength of these forces that will determine the profit potential of the supermarket industry. For example:

- Barriers to entry are those factors which will need to be overcome by new entrants if they are to compete successfully in the supermarket industry. Barriers for the supermarket industry might include, high capital requirement to entry, access to supply channels, customer or supplier loyalty, experience, expected retaliation by existing players. Understanding whether the barriers to entry are high or low would help FF Supermarket appreciate the likelihood of new entrants moving into its industry and how it could increase barriers.

- The bargaining power of suppliers is primarily related to the power suppliers have to raise their prices. If the suppliers have high power then this could influence the margins of FF Supermarket in an unfavourable way and hence have direct consequences for the profitability of the supermarket. Power of suppliers will be higher where the supply is dominated by a few firms, which is an unlikely scenario for the supermarket industry. Power will also be higher where there are significant switching costs associated with moving to another supplier.

- The bargaining power of buyers is gained through their ability to force prices down, or get improved product quality. It also depends on the size and number of buyers. Power will be greater when buyer power is concentrated in a few hands and when the offering is undifferentiated. In terms of the supermarket sector, there are low
switching costs for buyers, so supermarkets have tried to differentiate on bases other than range of products to reduce buyer power.

- Pressure from substitutes is where there are other products that satisfy the same need. For the supermarket general substitution is prevalent. FF Supermarket will need to understand how to retain customers, perhaps for example through the use of a loyalty card.

- Rivalry amongst existing competitors refers to direct competition between an organisation and its immediate rivals, i.e. those organisations offering similar products/services. It will be influenced by the number of firms operating in the industry, and industry growth rates. If there are numerous organisations, particularly with strong brands, and there is low industry growth then this will not be an attractive industry. FF supermarket will need to develop aggressive strategies to compete in such industry conditions.

The outcomes from the analysis can be used to derive conclusions about the potential opportunities and threats facing the supermarket sector. The information from the analysis would also help in identifying the factors driving profitability and inform the competitive strategy needed.
Answer to Question Two

Requirement (a)

A Work Breakdown Structure (WBS) is a hierarchical way of organising the project work to be done into manageable units referred to as work packages. It is a technique used in project management to divide a project into packages of work which have defined deliverables and responsibilities. The work packages can then be used to construct a comprehensive list of activities, set out into a logical sequence of project events.

A Gantt chart can use the information from the WBS process to construct a graphical representation of the activities of a project shown as a bar chart. Each bar in the graph represents the period over which a particular activity is scheduled to be performed. It illustrates the start and finishing time of the various tasks and the resources required for each activity at a particular point in time of the project.

Requirement (b)

Both WBS and Gantt charts have a role in the project communication project process. For example:

- The WBS process enables work packages to be put into the project plan as a comprehensive list of tasks and activities that must be undertaken in the project lifecycle. This can assist the project manager in communicating to the project team specific responsibilities and work elements that need to be undertaken. It can be used by the project team to identify and understand project priorities. WBS also provides a framework for monitoring and control of resources and costs as part of project progress reporting.

- Gantt charts can be used in project communication as a reporting tool in the monitoring of actual progress of the project against projections/forecasts, for example, on a week-by-week or day-by-day basis. Gantt charts provide visual representation of activities and provide an overview of responsibilities of the progress of the project for the project team, assisting in project coordination.
Answer to Question Three

A number of researchers have contributed to theories which have been developed to help explain the different leadership styles that managers can adopt. One such theory which could help TR in understanding the alternative styles he could use is Tannenbaum and Schmidt’s continuum of leadership behaviours. The continuum is based on the degree of authority used by a manager and the degree of freedom for the subordinates in decision making. Tannenbaum and Schmidt identified a range of various styles along the continuum ranging from boss-centred to employee-centred. Boss-centred tends to be associated with an authoritarian approach whereas employee-centred is associated with a more democratic or participative approach.

This theory identifies four different styles labelled, 'tells', 'sells', 'consults' and 'joins' which reflect the degree of authority used by a manager and the degree of freedom for the subordinates in decision making. Taking each style in turn:

- 'Tells' is where TR would make all the decisions and tells the subordinates what to do. The advantage of this style is that decisions can be made comparatively quickly. The downside is that staff may resent simply being told of the decision by TR and this could result in getting compliance rather than commitment from his staff.

- 'Sells' is where TR would make the decision, but rather than just announcing it or telling his staff, he would try to persuade them to accept it. As with 'tells', this style means that decisions can be made quickly by TR, who would have to use his skills of persuasion in selling the decision. However, staff may feel they have been manipulated and controlled.

- 'Consults' is when TR does not make the decisions himself until he has presented the problems to his staff, hears their views and suggestions and then adopts the solutions suggested. This approach should mean that staff feel that they have been involved in the decision making process and hence are more likely to support TR. However, consulting can be time consuming. TR will need to be willing to take on board the suggestions made, otherwise staff may feel that they have not really been listened to and this can be damaging.

- 'Joins' is where TR would define the problem but then delegates the decision-making power to his staff. He would indicate the limits within which the decision must be made. Staff should feel empowered in the decision making process. However, they may disregard the limits and TR could find a decision made which is unacceptable to the organisation. Depending on how it is handled, staff may feel that TR is not taking on responsibility as their leader.

(Marks can be awarded where candidates have used alternative but appropriate theoretical frameworks to answer the question, for example Blake and Mouton’s grids; Lewin’s leadership styles; Likert’s four systems of management)
Answer to Question Four

The Chief Executive puts the impressive performance of Z Company down to adopting the Resource-Based View (RBV) to strategy development.

The RBV is based on the fundamental principle that competitive advantage is derived from some unique assets or competences possessed by a company. This takes an inside-out approach to strategy since it is based on harnessing the internal capabilities of the company to achieve sustainable competitive advantage. This is in contrast to the more traditional positioning approach which views the external environment as the critical factor in determining an organisation's strategy. The strategic choices when adopting the RBV are not dictated by the constraints of the external environment but influenced more by examining how the organisation can best stretch its core competences relative to the opportunities in the external environment.

The RBV posits that it is the resources and capabilities that reside within an organisation which help an organisation to develop to achieve competitive advantage. It has developed from the work of Prahalad and Hamel’s work on core competences which focuses on the strategic intent of an organisation to leverage its internal capabilities and core competences to confront competition. Adopting the RBV would mean that superior performance and profitability is dependent on the possession of a set of unique resources or abilities that cannot be easily imitated by its rivals.

The resources of the organisation are essentially the inputs that enable it to carry out its activities and can be categorised into two types: tangible and intangible resources. Tangible resources are essentially the physical inputs into an organisation that can be seen, for example plant and equipment, raw materials, finance, employees. Intangible resources range from intellectual property rights such as patents, trademarks and copyrights, technological resources, brand and reputation.

It is suggested that intangible resources are the most likely source to achieve competitive advantage, as is probably the case for Z Company. This, it could be argued, is because intangible resources are more difficult to imitate than tangible resources and therefore, more likely to be a source of sustainable competitive advantage. For resources to be unique, Barney (1991) suggests that they must add value, be rare, difficult to imitate and cannot be easily substituted.

Resources alone, however, are not a basis for competitive advantage. Differential performance is based on how an organisation utilises its resources. For example, one of the most important resources for an organisation is the skill and knowledge possessed by the organisation’s employees. It is this skill and knowledge acquired over time and embedded in the organisation’s culture that influences how it operates and determines its success.

Competences become core competences if they are difficult for the competition to acquire. When competences are rare, difficult to imitate, non-substitutable, and allow opportunities to be exploited or threats neutralised, then they can be considered core competences and serve as the basis of an organisation’s sustained competitive advantage.

Z Company’s capabilities appear to be its ability to innovate at a fast pace, its design capability and ability for fast product development. Capacity for innovation is not something that can easily be acquired so could be viewed as providing sustainable competitive advantage.
Answer to Question Five

The overriding purpose of gathering competitor intelligence is to identify the specific competitive advantage of rival organisations. This would help K Company in developing a better understanding of the strengths and weaknesses of its potential competitors and to help predict competitor behaviour were it to follow through with its plans to open up showrooms in other parts of the country.

Having identified which part of the country to concentrate on, the first step would require K Company to make a choice on which competitors it should collect information about. This could be based on which of its competitors it perceives as posing the greatest threat. This is likely to include both local businesses and other larger “chains” like K Company itself.

K Company would need to collect intelligence to help it understand the strategic resources of its main competitors. In other words, those resources which set competitors apart from other players in the industry. It would involve undertaking competitor profiling. This is the basic analysis of key competitors investigating, for example, their objectives, resources, market strength, products and services and current strategies. In terms of the types of intelligence that would be helpful, this might include:

- **Information on current products and services.** It is important to collect information not only about the competitors’ products/services, but also their segmentation strategies, branding and image, and customer segments targeted.
- **Understanding of the present strategies of key competitors.** This could be identified from what the company actually does. Information on explicit statements of intent could be gained from annual reports and presentations to financial analysts.
- **Identifying competitors’ objectives.** For example, is a particular competitor seeking sales growth or market share growth in an aggressive manner? Is it investing in new premises?
- **Identifying the competitors’ resources and capabilities.** This will therefore involve gathering information on their management profiles, organisational structure, financial strength and technologies to understand not only what they are doing now, but also what they are capable of doing in the future. The scale and size of the company’s resources are both important indicators of the competitor’s threat.

To find out the above information will involve collecting both qualitative and quantitative information. The gathering of information should be viewed as a continual process, hence competitor rivals should be continuously monitored for signs of activity and the industry scanned for the emergence of potential new rivals.

There are a range of different sources available to K Company which could be accessed to gain information about its potential competitors, for example:

- Web based Home pages of competitors
- Annual report and accounts
- Newspaper articles and on-line data sources on company information using, for example, LexisNexis
- Magazines and journals including trade media, business management and technical journals
- On-line data services such as FAME to collect financial and statistical information
- Directories and yearbooks covering particular industries
- Market research reports and reviews produced by specialist firms such as Mintel, Economist Intelligence Unit, which might provide information on market share and marketing activity.
- Customer market research could be independently commissioned to establish consumer attitudes and awareness towards K Company’s potential competitors in the various regions.
SECTION B

Answer to Question Six

Requirement (a)

The website development project will have a number of characteristics or attributes that distinguish it from 'business as usual' work:

- A project is usually undertaken to meet two sets of objectives: one relating to the accomplishment of the customer requirements of scope (i.e. the deliverables), quantity, quality and cost, and the other relating to the achievement of the organisation's objectives of profitability and reputation etc.
- The project will have a clearly defined start and end time and will usually be determined in terms of the scope, schedule and cost. In this case, the objective of the project is to develop a new website. The project will be focussed on the tasks needed to design and implement the new website within the stated time period. All tasks must be scheduled to meet this pre-determined end date.
- The project will also have stakeholders, i.e. all those who are interested in the progress and final outcome of the website. For example, the project will have a project sponsor, that is, the individual or group who will provide the funds for the project and who may also chair the project steering committee (or project board) to which the project manager reports. Other project stakeholders will be the project customer/end users and the project owner.
- The project will have a lifecycle, in that it will pass through a number of phases, starting with the identification of need, followed by the development of the product, implementation and completion. The project is also finite as it has a fixed timescale.
- The project will have a budget allocated to deliver its objectives. The project manager must plan the project activities within this budget for costs and resources needed.
- A key feature of a project is that it is unique, in other words it is a non-repetitive activity and does not usually involve routine work. Development of the new website will be a one-off activity. Each project is unlikely to have occurred in the organisation before and each project will differ in some way or other from other projects, even if they have similar outcomes and deliverables.
- A project will inevitably have some degree of uncertainty as the uniqueness of it will lead to some degree of risk in the deliverables and the activities to achieve the deliverables.

Requirement (b)

G, as the project manager, will play a key role in the success or failure of the website development project. She will be the person ultimately responsible for ensuring that the final desired website is achieved on time and within budget to the satisfaction of the project stakeholders (i.e. P Company's customers, the internal department users and the Board of Directors as the project sponsors. As the project team is multi-disciplinary, she will have a complex role in co-ordinating, managing, controlling and communicating the project tasks.

A key role of the project manager is the management of the team members, so G must take responsibility for the whole project team which is carrying out the various project tasks in order to achieve the project objectives. G will be responsible for planning, team building, communication and co-ordinating the various project activities, monitoring and controlling, problem resolution and quality control.
G will also have responsibilities, as the project manager, to the project sponsor (i.e. the Board of Directors) in ensuring that resources are used efficiently. G will need to keep the project steering committee informed and up to date with timely and accurate project communication. G will also need to co-ordinate the communication process between the various project stakeholders.

G will also be responsible for co-ordinating the project from initiation to completion, by making use of a wide variety of project management tools and techniques so that activities are performed on time, within budget and to the quality standards set out in the project plan.

G will also have responsibility for taking the lead in the planning and organisation of work for the project team throughout the project. She will be responsible for ensuring that the necessary resources (people, finance, information, materials, time, etc.) required for performing the project tasks are available. She will also be responsible for assigning particular tasks to the project team members to carry out. She will need to delegate responsibility for performing certain project tasks to team members who will then be accountable to her for the accomplishment of those tasks.

G will be responsible for building a cohesive and productive project team and also for supervising the activities of individual team members throughout every stage of the project. She will need to provide advice or make appropriate decisions in the case of technical difficulties or problems, and must be able to respond and take appropriate action to keep the website development project on target for successful completion.

G is responsible for monitoring and controlling the progress of the project towards its successful completion. She must take corrective action and solve any problems as they arise in the project and communicate the implications of any changes to planned activities.

From the above, it is clear that in view of the various responsibilities of the project manager's role, G cannot rely solely on her technical skills in website development, but rather needs a wide range of skills. For example, G needs strong leadership and team building skills, communication, negotiation, good interpersonal skills and also problem solving skills. These may be lacking from her previous experience in other organisations.
Answer to Question Seven

Requirement (a)

If the finance staff are to play a fuller role in FPC Company they will require a broader understanding of business. They will need to be trained not just to furnish and assemble financial information but draw insights and to communicate these effectively to support other functions in the company in decision making. To achieve this, developing effective communication skills will be crucial.

The training on communication could start by getting the Finance Department staff to explore the barriers that currently exist in their communications with other members of the company. For example, helping them to appreciate that the messages they currently send are often too complex and are not fully understood by the other members of staff because of the technical jargon used. Also, that the receivers feel that they are overloaded with emails from the Finance Department and it can be difficult to find relevant information on the spreadsheets they receive. Hence, they may not be picking up the most important elements of the message to inform decisions.

The training could make reference to the communication process model (see diagram below) as a framework to help the finance team understand the different elements in the communication process which could help them improve their skills.

The training should provide an explanation of the things the sender needs to do to be effective in communication. This would include ensuring that the sender of the message is clear on its purpose with the receiver in mind. The sender of the message should have a clear objective in terms of what he/she wants to achieve from the communication. For example, is the communication aimed at providing information, or does it require specific actions to be taken. This needs to be coded into messages in a way that is understood by its audience. To make communication effective the sender of the message should plan the communication. For example, the sender needs to think about what is to be communicated, to whom it is to be communicated and the best medium to use for the message. For instance should the message be communicated verbally or written, formal or informal etc?

The training could also cover issues associated with the medium used. It is important to select the most appropriate language and medium for the message thinking about the situation that the receiver will be in when the message is received. When creating a message, care needs to be taken so as not to cause confusion in the communication process through the overuse of jargon or lack of fluency in the message to ensure that communications are not being made unnecessarily complex.

Moving through the process of the communication to the receiver, the training should help the finance staff to understand the need to anticipate possible reactions by the receivers to the message and cater for these through the message or choice of medium. For example, if the message from the Finance Department relates to bad news about the financial position or budgets then this could upset the recipient and it would therefore be appropriate to use face to face communications.

Finance staff should also be made aware of the concepts of individual bias and selectivity and the implications of this for the receiver, i.e. people often hear and see what they want to. To help minimise this problem they should view communication as a two way process,
encouraging feedback from the receiver. Feedback is often a neglected part of the communication process, but provides a crucial check for the finance staff to ascertain if their messages have been correctly understood and interpreted.

The training should highlight the concept of ‘noise’ that can occur in the communication process. This refers to any distractions or interference in the environment in which the communication is taking place and which can impede the transmission of the message. It happens when the message becomes distorted by extraneous factors between the sender and the receiver of the message such as distractions in the environment, information overload, such as the overuse of emails for complex messages. People can feel weighed down by the high volumes of information that are being transmitted, and hence ignore the communication.

The training should also cover non verbal communication. For instance, it is important that any non verbal communication reinforces verbal messages and does not undermine them. If the medium channel selected involves personal presentations, such as finance briefings, then it is important to ensure that all elements of communication, for instance words used, tone and non verbal signals (gestures, facial expressions, and posture) all fit with each other rather than contradict, so as not to confuse the receiver.

The overriding aim in terms of improving the communication skills of staff in the Finance Department should be to improve relationships enabling them to make a greater contribution taking on a partnership role in decision making, rather than simply a provider of information.

**Requirement (b)**

A staff performance appraisal system can be viewed as a method of internal control which can be used to assess employees’ performance, potential and development needs. It could be used in the Finance Department of FPC Company to help influence the behaviour of staff in order to improve effectiveness and performance in the drive to achieve the department’s objectives.

An appraisal system consists of a number of elements which together will help improve performance of staff in the following ways:

**Clearly Defined Performance Standards**

Appraisals are designed to measure an individual’s contribution to the organisation in as objective a way as possible. The process involves setting criteria for assessment and the agreement of objectives with members of staff. Therefore, staff in the Finance Department should be clearer on their key deliverables with greater clarity on what they are trying to achieve.

The performance measures should link an individual’s objectives with those of not only the Finance Department but also with key strategic objectives and priorities of FPC Company. This would help individuals in having a better understanding of their responsibilities and how their contribution fits with the strategic business objectives of the company, to provide a unifying framework.

**Effective monitoring system**

As an example of an internal control system, staff appraisal would provide a system whereby their performance is measured against objectives. Through the appraisal process individual performance can be compared against the objectives set. Performance appraisal should therefore help staff in the Finance Department to be aware of how they are progressing in relation to the agreed targets set and can be used to ensure any problems are identified. Where there are gaps, the reasons can be discussed to help staff understand the areas they need to focus on to improve their performance, to correct problems and encourage better future performance.

**Regular Discussions on Performance**

Research has shown that individuals have a strong need to know how they are doing, but to date this does not appear to have been happening in the Finance Department. The appraisal
process should provide the opportunity for open communications between staff and the manager. If carried out properly, it should be motivational since it is an opportunity for staff to reflect on their performance, reviewing past performance, receiving feedback from their manager with discussions on how to improve. In addition, a good appraisal system should be a continual process with regular discussions and feedback. This should provide for a positive experience for all staff, strengthening management/subordinate relations and raising the self esteem of staff, through helping them to improve performance and develop.

*Development of Appropriate Action Plans*
An effective performance appraisal system should be viewed as a problem solving, participative and developmental activity rather than just a management tool of internal control. The appraisal process should provide the opportunity to recognise and agree individual training and development needs and discuss future career aspirations necessary to achieve future goals. Appraisal will therefore help identify potential and inform decisions on promotion, and help employees in think about their career development. This can be instrumental in keeping employees motivated through recognition which should increase staff satisfaction.

To derive the benefits it is important that there are jointly agreed outcomes from the appraisal process and there is good follow up. Actions need to be agreed by both the appraiser and appraisee and monitored to make sure they do take place. For example, if training needs are identified, and the member of staff in the Finance Department does not actually receive the training, this failure to follow up may lead to cynicism on the part of staff.

An appraisal system can have a profound effect on the levels of employee satisfaction and motivation through management recognition and interest in individual performance. If the appraisal system is properly used then it should help improve the motivation and performance of individuals and enhance the effectiveness of the Finance Department.