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

Leaders have a number of sources of power that they can use to influence the behaviour and actions of others. A useful framework that can be used to describe the different sources of power that KK could use in managing the changes to the Finance Department is that proposed by French and Raven which includes referent, reward, coercive, expert and legitimate power.

- **Referent power**, sometimes referred to as charismatic power, is found in a person who is respected, likable and worthy of emulation. The scenario mentions that KK is well liked and respected, and also highly regarded for the interest in and support she gives to those who work for her. It is, therefore, likely that she will have referent power which will help her in the change process, since people are often motivated to comply with requests made by a charismatic leader since they will want to please her and gain her approval.

- Another source of power is **reward power**. This is where the leader is able to directly influence the intrinsic or extrinsic rewards available to followers. For example, this would include the ability to provide incentives for individuals who behave in a particular manner and the control over the organisation’s resources such as salary, bonuses or promotion. This type of power is usually used in a positive manner. It is worth noting though that it can be used in a negative way through the threat or removal of rewards. As a senior manager, KK may have reward power that she could use to encourage people to adopt the changes in roles and responsibilities. As well as financial rewards, KK could use intrinsic rewards such as verbal praise and even, perhaps, recommendations for promotion.

- **Coercive power**, as the term implies, is the ability to threaten, punish or deprive people of things that they value. This includes the use of penalties or sometimes physical punishments to enforce compliance. It is based on fears and the use of the ‘stick’ or sanction, making life unpleasant for people. It is doubtful that KK would want to resort to using this type of power, unless there is strong resistance to the changes, in which case she may have no choice. Whilst the immediate response might be compliance, it is unlikely to result in long term commitment by staff, but rather resentment, anger and possibly retaliation.

- **Expert power** is based on the followers’ belief that the leader has certain expertise and knowledge relevant to a particular problem or issue. It will only work if staff acknowledge the expertise. The scenario suggests that KK is respected for her expert
knowledge so this should assist her in introducing the new roles and responsibilities and should encourage respect from staff.

- **Legitimate power**, sometimes referred to as position power, is the power which is associated with a particular job and formal position in the organisational hierarchy which gives an individual authority to make decisions and command the action of others. It is when followers accept that the leader has the right to influence them in certain areas or aspects of behaviour. Since KK is a senior manager and leader of the change, she will be deemed to have legitimate power and hence the right to issue instructions to staff.

The list proposed of sources of power identified by French and Raven is not exhaustive and there are other sources of power, such as resource power, personal power and connection power, the latter resulting from personal and professional access to key people and information.
Answer to Question Two

As a project evolves it is important that the project is kept on track. A process of project control will ensure that performance is checked at regular times throughout the project process.

Project Planning
The early stages of the project must be spent carefully establishing a baseline plan that provides a clear definition of how the project scope will be accomplished on time, to budget and using available resources. The plan is establishing the targets that need to be controlled throughout the project.

The resource plan checks peaks and troughs of workload to ensure the plan is feasible and will list purchases to be bought. This enables the control of limited resources.

The time plan lists all of the activities, who will do what and how long each activity is planned to take. This includes the milestone finish dates of each stage of the project lifecycle and the estimated completion date of the whole project. This enables the control of critical activities.

The cost plan will include cost of products from the product breakdown structure, costs of purchases from the resource plan, plus any contingency in order to create a budget for the project. This enables the control of expenditure.

Calculate updated project timings, budget and resources
It is important for project control that all data is collected about the actual progress of the project. This should be collected on a regular timely basis. As the project evolves, it is important to monitor it continually in order to ensure that it is progressing towards the final objective.

This requires a continual measurement of actual activities, including monitoring activities started and completed, how long it has taken so far (and how long it is estimated to take up to completion), and how much money has been spent on each activity.

Analyse current status compared with plan
When the update information has been collected a comparison needs to be made with the baseline budget and timings in order to determine whether any variances have occurred.

One of the most important aspects of project control is ensuring that monitoring progress is carried out on a regular basis. More complex projects are likely to require more frequent progress assessment.

Reports from the project manager to the project board should be made on a regular and frequent basis. Areas covered in the report would focus on progress in terms of cost, scope and time, with any variances from plan highlighted.

Identify corrective actions and incorporate into revised schedule.
The next part of the project control process would be to establish any corrective action required. If it is considered that the project is satisfactory and on target then no corrective action is required. If corrective action is required then how to revise the schedule or budget needs to be established. The project manager must report the deviation and, following authorisation if necessary, take corrective action to get the project back on target.

These control decisions may be very difficult as they will require a trade off of cost, time and scope. For example, getting the project back on time may require extra resources and therefore additional costs or a compromise on the original scope. Reducing excess expenditure may mean using fewer or lower quality resources which may again affect the overall scope and performance of the final project.

Once a decision is taken the changes must be incorporated into the schedule and budget. This project control process should be carried out continually throughout the duration of the project.
Ensure the revised schedule and budget is sent to all project stakeholders.
The updated schedule and budget need to be sent out, on a timely basis, to all project stakeholders. This control is important to ensure that all stakeholders are working with the correct updated version. The new version should be given a unique number so that everyone is clear about the items within the correct configuration. If any project stakeholder is working with an incorrect version of the plan this might take the stakeholder off in the wrong direction and result in a waste of time and effort.
Answer to Question Three

Transaction cost theory was originally proposed by Williamson and is concerned with the way in which resources are organised for producing a product or delivering a service. The foundation of the theory is based on how best an organisation can achieve economic efficiency.

The theory proposes that whilst asset specificity may drive vertical integration, outsourcing activities that are not viewed as core should be considered by the organisation. In the case of JKL Bank the key issue will be to determine whether or not the activities of the CCC are designated as a core business. It would also need to investigate whether the activities of the Car Insurance Customer Contact Centre (CCC) could be performed at a lower cost by external providers.

Transaction cost theory is essentially based on a more complex development of make or buy decisions. In other words, JKL Bank can choose between two mechanisms to control and carry out the activities of its customer contact service. The two mechanisms are hierarchy solutions, where the service is within the organisation using a hierarchical arrangement, or market solutions, where services are bought in, obtained through the market. Developing this further:

- **Hierarchy solutions** occur when management decides to own the assets or employ staff directly, in other words, internalise transactions. The policies and procedures of the Bank in this case would be used to control all resources and its performance. This is the way JKL Bank has operated to date.

- In contrast, **market solutions** are when the management of a company decides to buy in the uses of assets or staff capability from another organisation under the terms of a contract. This mechanism involves an increased reliance on the market and will result in the company incurring transaction costs.

The proposal to outsource the CCC would suggest that JKL Bank is looking to shift from a hierarchy solution to a market solution. Adopting this solution is based on the assumption that CCC activities can be provided at lower transaction costs by markets, and hence achieve the efficiency gains the Bank is requiring.

In making the decision on whether or not to outsource, JKL Bank needs to look beyond the fact the outsourced company can perform the activities of the CCC function more cheaply but must also consider the transaction costs. These will include those costs associated with performing a transaction with the organisation to which the CCC activities are being outsourced. The proposal will create reliance on an outside provider to provide the quality and reliability of service JKL Bank’s car insurance customers expect. Therefore, the decision to use external providers will need to take into consideration the costs connected with managing the transactions and setting and monitoring service standards.

Other additional transaction costs JKL Bank will incur if it outsources are those associated with selecting a suitable partner, specifying what is required, writing and managing the contract, enforcing the contract, and communications with the partner organisation. A further consideration, given the nature of the outsourced activities, concerns the confidential nature of the information given to the external provider, such as bank account details. Therefore JKL Bank will need to put in place security measures as part of the contract to limit the risk of any breach in the use of confidential customer information.
Answer to Question Four

Like many other professional bodies, CIMA has adopted a professional code of ethics which is designed to regulate the conduct of its members and, in doing so, protect the individual client or employer and the public interests more generally. A number of fundamental principles are in danger of being breached by the actions of the Finance Director and D, if she accepts the bonus, as outlined in the scenario.

The Finance Director’s claim for non-business related expenses does not observe the principle of **professional behaviour**. This states that a professional accountant should comply with relevant laws and regulations (in this case the regulations of the tax authorities). This could also be regarded as damaging public interests since in effect, as a local government authority, it is the public through payment of rates and taxes, who would ultimately be paying for the Finance Director’s non-business related expenses. In condoning the behaviour of the Finance Director, D would also be taking action that could discredit the profession. In not informing the relevant authorities she is not carrying out her duties as a financial controller.

If D accepts the bonus from the Finance Director and remains silent, then the principle of **integrity** is compromised. D is not being honest in dealing with the non-business related expenses claims and is accepting a bonus to which she is not entitled. In making the claim in the first instance, the Finance Director is also in breach of the integrity principle because he has not acted in an honest way.

In addition, the principle of **professional competence and due care** is contravened since D is expected to deliver a competent behaviour towards her employer and act diligently in accordance with applicable technical and professional standards.

Whilst there is a principle of confidentiality with regard to the information acquired as a result of professional and business related relationships, in this particular case D would be expected to disclose the claim of non-business expenses to her employer, the local government authority. It is part of her professional duty to disclose to the local government authority the infringement of regulatory requirements by the Finance Director.

The principle of **objectivity** requires a professional accountant not to allow bias, conflict of interest or undue influence of others to override professional or business judgement. This could be compromised since D may feel she is under undue influence from the Finance Director. In accepting the bonus this could create a conflict of interest in that D may feel she needs to do whatever the Finance Director requests, because she may be worried that he might report her acceptance of the bonus at some point in the future.

In offering D a large personal bonus, the Finance Director could be guilty of the charge of bribery and attempting to corrupt a fellow employee if no action is taken. This could have the effect of damaging the standing of CIMA as a professional body.
Answer to Question Five

Disciplinary action requires a manager to use authority to deal with situations whereby an employee has made some offence. For example as in the scenario, T constantly arriving late for work, poor work performances, aggressive behaviour towards others and bullying. The main purpose of undertaking disciplinary action is to achieve a change in the behaviour of an employee so that future action is unnecessary. Whilst this should be viewed as a positive approach, in reality it is often seen as carrying out the threat of punishment rather than as remedial and corrective.

In advising P what is involved in the process of discipline, P must first check that T has been informed that certain behaviours could lead to disciplinary action, what constitutes misconduct and gross misconduct and what the consequences are. In large organisations this is usually covered in the employee handbook.

The starting point of the disciplinary process, in this case, would be for P, as T's line manager, to give T an informal warning. This would involve having an informal discussion to explore the issues and establish why T is behaving in an unacceptable manner and to try to determine how to resolve the problems. At this stage, it is important that P carries out a full investigation in order to be clear on what 'rules/regulations' have been broken, how frequently and the implications for other members of staff. T must be made aware of the complaints, and also provide his version of events. After the meeting a way forward should be agreed on and progress reviewed.

T should be advised that if, following the informal discussions, there is not an improvement in his behaviour, then it may be necessary to implement formal disciplinary proceedings. The HR Department should be involved and kept informed of what is happening.

If T’s behaviour does not change P will need to move to the formal process, the first step will be to issue a formal verbal warning via an interview. This would highlight to T the seriousness of the situation and that he is on notice that his conduct will not be tolerated. At this stage it is important that T is asked if he wants to be represented or accompanied by a colleague. The purpose of this meeting should be to help T correct his behaviour and to prevent the need for future formal action. A written record should be kept, detailing why the action has been invoked and what level of improvement is required.

During the disciplinary interview P should explain its purpose and outline the charges regarding T’s offences in an unambiguous manner, so the employee is clear on the reasons for the action. P should go on to explain the company’s position with regard to the disciplinary issues involved. He should then explain the expectations on the individual with regard to future behaviour, for instance there must be no repetition of the offence, or performance must improve.

P should explain the reasons for the penalties, and explain that an entry of the formal warning will be made on T’s personnel record. A record of the interview should be kept in T’s staff file, for formal follow-up review, and in case of any future necessary action. There should be clear warning given about the consequences of T’s failure to meet the improvement targets or continuation of inappropriate behaviours. The appeals procedure should then be explained.

The next step, if there is no improvement by T is a written warning, which is more formal in nature and will become a permanent part of the T’s staff record. The nature of the offences will be stated and it should specify the future disciplinary action that will be taken if there is no improvement in T's behaviour. A copy of the written warning will be placed on T’s staff record. The documentation is necessary in case of grievance procedures. As with the verbal warning, T has the full right of appeal.

If performance and behaviour problems continue it may be possible to demote T or to transfer him to another part of the organisation. The ultimate stage of disciplinary action is dismissal which could lead to T exiting the organisation.
In the UK, the Advisory Conciliation and Arbitration Service (ACAS) publishes booklets on internal disciplinary procedure, so P could also refer to this information to help him understand the process of discipline.

[Note: Candidates may refer to practices governing disciplinary proceedings that are specific to their country]
Answer to Question Six

Requirement (a)

The way strategy currently develops in VRC Company would seem to be characterised by the emergent approach to strategy development. This perspective was suggested by Mintzberg and is based on the notion that most of what organisations intend to happen, often does not happen. Indeed very few strategies followed by organisations are consciously planned but rather emerge.

Emergent strategies result from a number of ad-hoc choices or responses to circumstances. They can be described as developing out of patterns or behaviours that are realised despite, or in the absence of, specific intentions. This means that they just happen along the way with differing degrees of management intervention. The role of the manager is to craft a vision through moulding the organisation and its strategy.

Mintzberg argues that strategy formulation is a continually evolving process in which strategies emerge, as a result of the processes of negotiation, bargaining and compromise, rather than due to a deliberate planning process. He contends that intended strategies often becomes invalid and not implemented because the pace and unpredictability of developments in the business environment overtake it. The claim here is that strategy should not be considered a linear process, but rather an iterative process in which problems raised in implementation are fed back so that the strategy can be adjusted to take account of changing circumstances.

Mintzberg further maintains that the strategy development process is not so much about thinking and reasoning, as it is about involvement, a feeling of intimacy and harmony, developed through long experience and commitment. This is perhaps the case for F, who has adopted an opportunistic approach to strategy formulation which to some extent represents his own personal interests in the development of racing cycles.

In contrast, the formal/ rational approach that is being proposed by the Business Consultant, assumes a step by step organised approach to strategy development which requires a systematic analysis of competitors and markets. It involves the careful and deliberate formulation, evaluation and selection of strategies for the purpose of preparing a cohesive long term course of action to attain objectives. The three main stages are strategic analysis, strategic choice and strategic implementation.

The process is iterative and is often linked to an annual planning cycle. Strategic analysis helps in understanding the current position of VRC Company in terms of its internal and external environments in which the company operates. In other words, what its strengths and weaknesses are and what opportunities and threats exist. It also helps in formulating what the Company's mission and objectives should be which can then be communicated to employees.

The next stage in the linear process involves generating strategic options for VRC, exploring how it might develop in the future, given its current position. The different options would be evaluated in terms of whether each is feasible, suitable, and acceptable to VRC’s key stakeholders.

The strategies selected need to be implemented, in other words strategy needs to be translated into action plans to make the strategies happen.
Requirement (b)

Analysing the strategic position of the VRC Company will involve an assessment of both its internal and external environment since the future strategy of VRC company needs to achieve a 'good fit' with its environment.

An external appraisal will involve scanning the external environment for factors relevant to the Company's current and future activities. A number of strategic management tools could be used to assist in this process. For instance the PESTEL framework could be used to analyse factors in the general environment for cycle manufacturing. This framework is used to categorise the environmental influences into headings, political, economic, social, technological, ecological and legal. This will assist in the assessment of the external factors that might impact on VRC’s future strategic development and can help in identifying key trends and drivers for change in the industry for cycles.

As well as the general environment factors, part of the external analysis also requires an understanding of the competitive environment in order to establish what are likely to be the major competitive forces in the cycle industry in the future. A well established framework for analysis and understanding the nature of the competitive environment is Porter’s Five Forces model. The basis of the model is that competition in an industry is determined by its basic underlying economic structure - the five competitive forces:

- Rivalry among existing firms
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of new entrants
- Threat of substitute products/services.

The results from the external and competitive environment analysis should help VRC gain a better understanding of the opportunities and threats it faces.

In understanding VRC’s strategic position an assessment of the company’s internal environment will also need to be conducted. This will involve appraising the company’s internal resources and capabilities in manufacturing cycles, identifying the things which VRC is particularly good at in comparison to its competitors.

The analysis will involve undertaking a resource audit to evaluate the resources VRC has available and how it utilises those resources, for example financial resources, human skills, physical assets, technologies, brand and so on. It will help in assessing the company’s strategic capability, which is to establish the adequacy and suitably of the resources and competences to survive and prosper in the bicycle industry.

The internal position of the company can be analysed by looking at how the various activities performed in manufacturing cycles by the company add value, in the view of the customer. To do this use could be made of the Value Chain model. The value chain of VRC can be divided into its primary activities and support activities. Each of these activities can be considered as adding value to the company’s products or services.

The internal appraisal for VRC Company should highlight:

- **Strengths**, which are the particular skills or distinctive/core competences which the company possesses and which will give it an advantage over its competitors in the bicycle industry. These are the things the company should seek to exploit. In indentifying strengths it is important that it highlights not just what VRC Company is good at, but how it is better, relative to the competition, for instance brand.
- **Weaknesses**, which are the shortcomings in the company and which can hinder it in achieving its strategic aims. For example, lack of resources, expertise or skill.

Strengths and weaknesses should relate to industry key factors for success and help VRC Company to assess how capable it is in dealing with changes in its business environment.
Having undertaken an analysis of the external environment and internal capability that may be significant to VRC Company, the next step is to bring together the outcomes from the analysis. This is often referred to as a corporate appraisal or SWOT.

The outcomes from the analysis could then be used to determine VRC’s current position in the bicycle industry and it will facilitate the identification and generation of possible future strategic options for VRC.
Answer to Question Seven

Requirement (a)

The successful accomplishment of the project objective is usually constrained by time, cost and quality factors. Time and cost tend to be positively correlated in projects (i.e. when time increases so does cost) as taking longer to complete a project generally means that human resources are needed for longer.

Project decisions on the strategies to implement are difficult as they will often require a trade off of cost, time and quality. For example getting the project back on time may require extra resources and therefore additional costs or a compromise on the original scope. Reducing excess expenditure may mean using fewer or lower quality resources which may again affect the overall scope and performance of the final project.

Time

If there is a degree of urgency in a project it may be possible to reduce the timescale to completion by adding additional resources. The timescale can also be reduced by scheduling overtime working. Both of these situations will increase cost while reducing time.

Resources could also be asked to work smarter, eliminating any distractions and focusing time on real output producing activities. The team should focus on activities that add real value to the website project for example the website functionality and eliminate any non-value adding activities.

Increasing the amount of resource will have an impact on profitability. The addition of resources will reduce the profit margin and indeed, in the extreme, may make the project itself unprofitable.

Although the deadline date is important to J Company, due to the revenues that might be generated by the website, it is unlikely to be crucial. It is unlikely that the customers will know that the website is being re-designed so will have no expectation of when the new site is due to come on-line. The deadline is not crucial in the wider scheme of things and there is no statutory requirement to deliver on time.

Quality

Project quality is usually about customer specification and requirement. Quality in terms of computer systems can be measured in terms of the number of errors, response times and fit-for-purpose, i.e. matches the business process it is intended to support.

For J Company, quality is linked to customer convenience and it will be important that the website is easy to use and navigate. A customer will want quick response times and a guarantee of secure transactions.

Fit for purpose is an important concept for a customer facing process. It is important that J Company has a clear understanding of the customer specification and requirements and that the project plan ensures that sufficient testing is included to ensure that quality requirements are fully met.

Costs

In order to manage the issue of costs, the website may have to have a slightly reduced scope in terms of its functionality. Any reduced scope might have an impact on how many customers use the site in the future. The importance of the customer perception has already been discussed. Any reduction in scope is likely to have a detrimental impact on the revenues generated by the website.
**Requirement (b)**

The Board J Company has recommended that CW needs guidance on how to improve his management of project teams. The following are some suggestions for CW:

**Improve Leadership**

As project manager, CW needs to dedicate time to a project and ensure they are visible to the key project stakeholders including the project team. He must continually encourage individuals and support progress. It will be difficult to achieve if he is not visible. CW must make himself more available when managing future project teams.

CW should create an environment in which members can feel free to contribute and provide feedback. He needs to determine the motivating factors important to each individual and should ensure that the project environment is a motivating one.

**Increased Communication**

Communication mechanisms should be set up by CW to ensure regular, multi-directional flow of information about plans, adjustments and progress of the project. CW could hold daily team review meetings with regular progress reports.

**Clear Goals and Objectives**

It is the responsibility of CW to explain the project objective to the team. The goals of the project need to be clear and the team needs to be focused on its achievement. CW must ensure that all team members understand their goals and the benefits of achieving them. Otherwise, they may work to their own objective rather than project objectives.

**Team Building**

CW needs to undertake team building throughout the life of the project. This will help with improving communications between team members and understanding project objectives. One way of helping with this would be to organise a social event outside the work environment, so the project team can get to know each other. CW could also periodically call team meetings (rather than project meetings).

**Group Performance**

CW needs to understand that effective group performance is affected by the manner in which groups come together. According to Tuckman’s analysis, groups typically pass through four stages of development:

- **Forming** is the first stage, in which members try to find out about each other and about how the group is going to work. CW needs to understand that this awareness stage is essential but not conducive to task effectiveness.

- **Storming** is the second stage, this is more or less open conflict, but this may also be fruitful as more realistic targets are set and ideas are generated. CW needs to resolve the conflict so that the team can move forward to the next stage.

- **Norming** is the next stage, team cohesion develops and the group establishes cooperation.

The final stage is **performing**, the team is now beginning to work smoothly and full productivity is achieved. It is only once this stage is reached that effective team performance is achieved.

**Clear Team Roles**

The team members need to be clear on how they can contribute to a project. CW must communicate the role and responsibilities of each team member and make sure each individual is clear on the specific role they are performing on the project. It is important that roles are not duplicated leading to a waste of time and effort. This would help the team to work smarter.
Mixed Balance of Individuals
Belbin suggests that an effective team is made up of people who, between them, fill nine roles. The model will help CW with team selection and management. Examples of team members would include the Plant who is a creative, imaginative individual who solves difficult problems. The Team Worker is cooperative, mild, and perceptive and who listens, builds, averts friction and calms the waters. If there is not the right balance of team roles, work will not be performed effectively.

Supervision of Team Activities
CW will be responsible for building a cohesive and productive team and also for supervising the activities of the team members throughout every stage of the project. He will need to respond to any difficulties and take appropriate action to keep a project on target for successful completion.