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

Requirement (a)

Competitors are organisations that satisfy the same customers’ needs and make similar product offerings. Competitor analysis would essentially involve an exploration of the other companies in FX’s industry sector or market for ice-cream that are competing with its products for market share. Hence, competitor analysis is important for FX company to undertake since the information can provide useful knowledge on the characteristics of its competitors in terms of, for example, their strategies, objectives, strengths and weaknesses. This should help FX company to be better aware of who its competitors are in the market place and how it could react to its competitor strategies. It should also help the management of FX company in understanding the organisation’s competitive advantage (or indeed disadvantage) relative to its competitors.

Conducting competitor analysis can help in generating insights into the past, present and, importantly, potential future strategies of FX company’s competitors. This in turn will provide an informed basis for FX in developing its strategies to sustain and establish advantage over its competitors and ensure the company is ready to respond to competitor activities. It will also assist FX company with forecasting the potential returns on strategic investments and for deciding between alternative competitive strategies.

Requirement (b)

It is important for FX company to understand the concept of market growth since this involves estimating how much the market for home made ice cream has grown and is predicted to grow over a particular period of time. Hence, it represents the increase (or indeed decrease) in demand for FX’s products over time. This is usually specified in terms of the annual growth of the market in which FX operates based on sales, by volume or value.

It is also important for FX company to determine whether the rate of market growth is high or low; this will very much depend on the conditions of the market. New markets may grow very quickly, whilst mature markets may hardly grow at all. A high market growth rate can indicate potential good opportunities for FX company. However, it is important to consider the competitor responses since intense competition in a high growth market can erode profit. On the other hand a market with low growth but one with high barriers to entry can be very profitable. The importance of market growth to developing competitive strategies is that if FX company has a strategy which requires quick growth then it would be attracted to a market which is growing rapidly.
Market share represents FX's sales of a product within a specified market. It is usually expressed as a percentage of total sales of that market, for example 25% market share, and can be measured by sales revenue or sales volume (the number of units sold).

Market share can be used by FX company to determine its competitive strength compared to other companies in the same sector facing the same challenges and opportunities. Knowing its market share of a particular product would enable FX to assess its performance year to year. A high market share is usually regarded as being strategically beneficial since it may make it possible to influence prices and reduce costs through economies of scale. The end result should be increased profitability.

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**Answer to Question Two**

There are a number of different types of culture which are determined by a range of factors such as the organisation's structures, processes and management methods.

It is probable that KCC originally developed as an entrepreneurial organisation with CT, as its founder, bringing the technical and creative expertise which is at the heart of the business. When KCC was first set up it would have been typified as having a power culture. This is based on one or a few powerful central individuals, in this case CT, who keeps control of all activities and makes all the decisions for the company. Control is achieved in an informal way. The culture is often depicted as a web whereby the power resides at the centre and all authority and power emanates from one individual, i.e. CT. This type of culture means that the organisation is not rigidly structured and has few rules and procedures. It can react well to change because it is adaptable, informal and decision making is quick.

As a company grows it often results in the introduction of formal structures and control systems, as in the case of KCC. In contrast to the culture at set up, it is likely that KCC may have developed a role culture. Within a role culture KCC will be dependent upon various functions, each of which has its own areas of strength and influence, with an emphasis on internal processes. This type of culture can be impersonal, illustrated by the employee who commented that he felt he was just a robot and CT's observation that she no longer knew the names of her staff.

It relies on formalised rules and procedures for work routines to guide decision making in a standardised and bureaucratic way. Each job is clearly defined and the power is based on position in the hierarchy. Individuals are selected for particular roles on the basis of their ability to complete a particular task to the required level. The formal rules and procedures which must be followed should ensure an efficient operation. Decisions tend to be controlled at the centre, in KCC this is done by the senior management team.

This type of culture can be depicted as a Greek temple drawing strength from the pillars which represent functions such as marketing, finance and human resource management and are joined at the top where the heads of the functions form the management board, as in KCC. Whilst the role culture can produce a very efficient way of working it can be slow to respond to and react to change. Communication is vertical and the bureaucracy and rigid control can result in stifling creativity within the company. This sums up how CT is feeling about her business today.
Answer to Question Three

Requirement (a)

Critical Path = ACEFGH

Duration of project to set up V's business = 11 weeks

Network Diagram is shown on the following page
Critical Path = ACEFGH
Duration of project to set up V’s business = 11 weeks
**Requirement (b)**

The network diagram will help V in analysing the sequence of activities that must be undertaken in setting up her business, identifying those that can occur in parallel. It will also indicate the start and finish time for each activity and the time of the project overall. However, as with any project, there may be uncertainties associated with the time planning of various activities. For example, the delivery of the equipment may be delayed, or there may be problems with the installation of the equipment, taking longer than anticipated. To plan for possible uncertainties, V could construct contingency or scenario plans. This would require V to look at the various activities involved in setting up her business and have alternative contingency/scenario plans ready in order to minimise the possible risk associated with the project activities, which V could switch to if needed. For instance, V could have a contingency plan to combine staff training with designing the tests on the web based system to make up time if the delivery of the equipment is late.

A more simplistic way to incorporate uncertainty into the plan is to add artificial slack into risky activities. This is known as buffering. This is not the best method to deal with uncertainty as it may cause the build up of slack in a plan and may lead to complacency. By building in slack, then V may not achieve her aim of opening the business in 12 weeks' time.

The project currently has a critical path of 11 weeks, and V wishes to open her business in 12 weeks, leaving 1 week for contingencies. This may be insufficient considering the potential for activities to be delayed. For example, if Activity E, the delivery of the equipment was to be delayed by over 1 week, then the business would not open on time, unless V makes a number of contingency plans, as discussed above.

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**Answer to Question Four**

PW needs to set out the business case for organisations to be socially responsible in a way that will convince the sceptics/cynics who are wedded to the shareholder view of a business, that it is not only possible, but also in the longer term interest of the business, to practice social responsibility. She could, therefore, usefully start her presentation by explaining how her company interprets the concept of social responsibility, defining her terms and setting the concept of social responsibility in the context of the wider debate between the traditional shareholder view of the purpose of business and the more recently developed stakeholder perspective.

PW should argue that essentially social responsibility is about taking account of more than just the immediate interests of the shareholders when considering the corporate purposes and making business decisions. It recognises that there are many groups in society with an interest in the activities of a company, not just its shareholders and that, increasingly socially responsible strategies are expected from companies in the interactions with their different stakeholders. She could go on to make the point that, in a business sense, social responsibility is concerned with externalities. This refers to the costs not absorbed in products and services and not paid for by customers, but borne by the wider community.

PW should then go on to stress that socially responsible business strategies should be viewed as win-win, rather than being a drain on profits. She could present the following points in making the case and providing evidence that there can be a positive link between strategies which are socially responsible and good financial performance:

- There is a strong argument that if a company’s strategies or core business conflict with the needs and values of society it may not survive in the long term. In addition, socially responsible strategies can have commercial benefits. For example, there is the potential to drive down costs by reducing waste and pollution and saving energy and recycling resources may lead to lower overheads, which in turn can help improve profits.

- There are also the reputational benefits to be gained by a company presenting its socially responsible credentials. Adopting a more socially responsible stance should
have a positive impact on the corporate image of a company, attracting favourable publicity. This could be used as a competitive advantage.

- Socially responsible actions might include charitable donations and sponsorship by a company which should reflect well on the company and be good public relations.

- Doing business in a socially responsible manner could attract socially conscious consumers. Consumers may be willing to pay premium prices for products they regard as ‘sound’. Increasingly, customers are becoming more concerned for the environment and may boycott companies that damage the environment preferring to do business with those that demonstrate sustainable business practices.

- Socially responsible strategies can attract socially conscious investors. This means that investment funds may be attracted to a company with a good social responsibility score, which could then have a positive effect on share prices and hence represent a direct increase in shareholder wealth. In turn, this should cause shares to trade at a premium price representing a direct rise in shareholder wealth.

- Being a socially responsible company can lead to improved staff morale. This benefit is based on the fact that feelings of social responsibility are not just external to the firm. The management and staff of the firm are members of society too and may have similar values. If business decisions force managers and staff to contradict their personal ethics on a daily basis the impact will be to reduce morale and increase staff turnover. This could harm financial performance. A socially responsible firm on the other hand may be able to attract good staff.

Another positive is that adopting socially responsible strategies could improve relations with government and other regulatory bodies. Many companies depend on the goodwill of government bodies, for example in granting production licences, planning permission etc. A good record of social responsibility may help convince the decision-makers to use discretion in the company's' favour.

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**Answer to Question Five**

A strategic business unit (SBU) is usually a division within a larger organisation that has a significant degree of autonomy, typically being responsible for developing and marketing its own products and services. [CIMA Management Accounting Official Terminology].

In explaining why it important that the strategies of an SBU link to the overall strategy of a company and also to its functional strategies, it is helpful to think about these different levels as a hierarchy whereby activities at the lowest level are guided by and constrained by decisions at the higher levels. The point here is that the different levels of strategic decisions are interdependent so that one level should be consistent with the strategies at the next level.

It is important that SBU strategies fit with the overall direction of the company, its purpose and scope as articulated in its corporate strategy. This means that the strategies developed at SBU level should be formulated within the broad framework of the objectives determined by the overall corporate strategy of a company. At corporate level the strategy will determine how much investment should be provided to each of its business units and will provide a framework of goals and objectives that will inform business level strategies. Hence, this will influence, at SBU level, decisions such as which products/services should be developed, how each SBU should segment its market/s and how to gain competitive advantage over its competitors. It is worth noting that the extent to which an SBU is free to make competitive strategy decisions varies from organisation to organisation reflecting the degree of centralisation versus decentralisation in the management structure of a firm.

In order that the strategies of an SBU are actually implemented as intended it is important that they inform the development of functional strategies. Functional (sometimes referred to as operational) level refers to the main business functions such as marketing, sales, production, purchasing, human resources and finance. Functional strategies are the longer term management policies that are intended to ensure that the functional areas of a company play their part in helping the SBU achieve its goals and ultimately those of the corporate strategy.
This means translating the objectives of the SBU into digestible elements and converting theory into practice. It is important to ensure that the various functions of the organisation contribute to the achievement of the business level strategies working in a supportive sense rather than conflict with the SBU strategies.
Answer to Question Six

Requirement (a)

Outline Plan

**Project Name:** The COL on-line course delivery system upgrade project

**Project team and responsibilities:** For example, Project Manager D, responsibility to prepare and implement plans, selection and management of the project team, manage the successful delivery of the project to time, cost and quality criteria, communication to all stakeholders.

**Project Objectives and Scope:** To design and implement an upgraded on-line course delivery system to meet the proposed requirements as set by COL. The project must be completed within 12 months from the date of commencement at a maximum cost of $3 million.

**Technical Plan:** This will include the technical features of the project. The requirements as set out by COL will be identified, the systems specifications, systems-diagrams, site plans and any relevant tools and techniques that will be used to undertake the COL project.

**Quality and Management:** The quality plan will identify the key outcomes that COL expects, the acceptance criteria agreed between COL and SYS and a plan of how each outcome will be tested. Safety and security is clearly a key issue for COL and therefore the planning for this criterion is essential as the system must be 100% secure.

**Project Communication Plan:** This will identify the key personnel and main stakeholders in the project. D, as project manager will be responsible for reporting weekly to Mrs Y to update her on project progress and to address any concerns she may have. Project design meetings will be scheduled with the designers of SYS and the users of COL. Project status review meetings will also be scheduled with all of the project team to assess progress and to raise issues or problems. Monthly resource reports will also be necessary as the budget is a critical aspect of this project and must be monitored carefully.

**Organisation and Personnel:** This describes the structure of the project team and the responsibility of team members. Included will be staff from COL, whose main responsibility will be to ensure that the requirements of the system are met and fit the user needs. Any training needs will need to be highlighted.

**Project schedule:** This is likely to be highlighted as a Gantt chart or network diagram and will describe the main phases of the project and key milestones. A Work Breakdown Structure (WBS) will need to be provided to the project team to identify all of the tasks and those responsible for them.

**Project resources and budget:** A cash flow forecast will need to be drawn up to show time phasing of cash requirements. A cost plan, breaking down costs per hour and the cost of purchases will be necessary. COL has made it clear that no extra money is available therefore D must try to ensure that his costings and time/resource management are as accurate as possible. SYS bears the risk of any cost overruns.

**Risk assessment and management:** Risks are identified and assessed and contingency plans made. A contingency plan must be identified for each risk and allocated responsibility and monitoring by a team member. For COL, unauthorised access to candidate details and results is a huge outcome risk and therefore security must be 100%. Therefore, the most advanced security software must be used and cost implications must be considered.

**Change management:** Requests for change may be instigated by D or COL, represented by Mrs Y. These need to be approved by the project board.

**Post-implementation audit:** Provision will be made for a review of the final project to ensure completion. This will involve the project team, suppliers and the customer. It will include a
summary of performance, reviewing all aspects of the project. Lessons learned should be identified.

In addition, a number of separate plans will need to be drawn up by the project manager, including separate plans for time, cost, quality, resources and communication.

Requirement (b)

The project manager D will require a set of skills that will encourage and lead the project team to succeed and create confidence in the project team. These skills are as follows:

Leadership skills

The project manager must have the ability to motivate the project team. Leadership involves influencing others through personality and through the actions of the project manager. This may be difficult for D initially, as some of the project team members are not from SYS and therefore will not be familiar with this style of project working or with his style of leadership. D must ensure that there is open communication between team members and that all team members feel part of the team whether they are from COL or SYS. Therefore, a key role for D is to empower the project team members to take ownership and responsibility for the project.

Communication skills

D must also be an effective communicator. A key role for any project manager is to communicate regularly with a variety of people, including team members, the systems suppliers, the end users of the COL system, the Board of Directors of COL and there has been a specific request by Mrs Y for regular communication Therefore, D must ensure that she is kept in constant communication throughout the project. D will be responsible for communicating through regular formal team meetings, face-to-face meetings with Mrs Y, informal face-to-face meetings with individual team members, written progress reports to all stakeholders and constantly listening to all the stakeholders in the project. Therefore D has a responsibility to communicate in a variety of formal and informal ways to a variety of stakeholders.

Negotiation skills

D will have to negotiate with suppliers, team members and senior staff within COL on a variety of issues such as availability and level of resources, priorities, standards, procedures, costs, quality and people issues. The difficulty for D is that he will have to negotiate with some over whom he has no direct authority over, such as suppliers and with those who have no authority over him, such as Mrs Y. It is vital that D keeps conflict to an absolute minimum. This is particularly relevant in this project as a finite budget has been set and any cost overruns must be borne by SYS.

Delegation skills

Delegation involves empowering the project team members to accomplish their own tasks within the project. Delegation is a key role of the project manager as it is an impossibility for the project manager to take responsibility for every aspect and task occurring in a project. Delegation helps to ensure effective performance of the project team and helps to foster team work and motivation.

Change management skills

D must have the skill to manage and control change, which is inevitable on any project. D must ensure that the impact of change upon the COL project must be kept to a minimum if the time and cost deadlines are to be met. Any changes requested by the customer must be evaluated and costed and presented to the customer for approval.
Answer to Question Seven

Requirement (a)

The concept of outsourcing is concerned with contracting with a third party (external supplier) to provide a part of a business process. The proposal in the scenario could in fact be termed offshoring since the outsourced business function will be carried out in another country. There are a number of benefits T4M could gain from outsourcing to G2O:

- A primary benefit of outsourcing is cost reduction to T4M which is perhaps why the Finance Director is so enthusiastic about the proposal. The supplier, G2O, should be able to perform the functions more cheaply and efficiently for a whole host of reasons, not least if the labour costs are lower in H country. It will also save T4M labour costs such as those associated with recruiting and training staff. Essentially, outsourcing activities converts fixed costs into variable costs.

- The services provided by G2O should be at an agreed cost which could lead to a more accurate prediction of costs for T4M, and therefore assist budgetary control.

- A specialist provider could give access to specialist skills and bring best practice expertise. The outsourced company can leverage skills to achieve greater efficiency gains.

- It may allow the finance function to concentrate on its role as business partner, working more closely with the business, improving its contribution to strategic decision making.

There are, however, a number of drawbacks which the Finance Director should take into consideration:

- Whilst reducing cost, when moving to an outsourced model, T4M will need to factor in the costs of managing the outsourced contract (i.e. transaction costs), along with developing the expertise needed to manage the contract. There will be the negotiation and drafting of the legal contract with G2O and then the monitoring of compliance with the contract in terms of the quality and reliability of service that G2O provides. There is also the possibility of costs associated with pursuing legal actions for redress due to non performance by G2O.

- Outsourcing can result in less managerial control, since it may be harder for T4M to manage the outsourcing service provider, G2O, as compared to managing its own staff.

- Another drawback is associated with risk. Over reliance on external providers can lead to an erosion of internal knowledge and skills and can result in some of the benefits of organisational learning being transferred to the service provider.

- A further potential drawback concerns confidentiality of information given to the external provider, for example that provided by T4M's customers such as bank account details. T4M will need to put in place security measures to limit the risk of any breaches in the use of confidential customer information by G2O.

- T4M could end up having to pay increased costs from additional services required after the service level has been agreed. There may be penalty payments and cancellation payments if T4M finds that it needs to change its side of the bargain and draft a new contract with G2O.

- It will be important to ensure contract compliance to the predetermined standards to reduce the risk of increasing any monitoring costs and the costs associated with loss of customer business as a result of unsatisfactory service.

Requirement (b)

Negotiation is the process of satisfying needs by reaching an agreement. The main aim of negotiation is to use argument and persuasion in order to strengthen one’s own case by undermining the opposition.
F, the Finance Director will need good negotiation skills since it is likely that he will be involved in a number of different negotiation scenarios if the decision to outsource goes ahead. For example, in implementing the outsourcing strategy with the Finance Director will need to use his negotiating skills when securing the contract with T4M on his desired terms.

Negotiation is often necessary within organisations to resolve conflicts of interest between two or more parties which have arisen because the parties have different objectives, when there is a conflict of interest between two or more parties and when what one party wants is not necessarily what the other wants. This is likely to be the case in T4M where the Finance Director will need to reduce numbers of staff but employees will not want to lose their jobs. In this situation F will be involved in negotiations with employees and trade unions regarding the possible redundancies.

If F is to be effective in his negotiations it is essential that he adopts the strategies and tactics that experienced negotiators have learned and developed over the years.

Since negotiation takes place between different parties who have different objectives it is important to find out at the outset what these objectives are, since approaches to the negotiation process can be best achieved through focussing initially on each side’s primary objectives, rather than becoming distracted by minor negotiating points at an early stage. This will be important in determining the terms of the contract with G2O.

Given that G2O is located in H, a different country to that of T4M, it may be necessary to learn something about the prevailing culture in H. Whilst most of the objectives should be made explicit and clearly stated, others may be unspoken and those unfamiliar with culture may not realise that negotiations are not proceeding well because they have not taken into account the unspoken objectives of the other party.

It is necessary to maintain some flexibility within the negotiation process and for both parties to be prepared to settle for what is ‘fair’. It is also important to listen to what the other side wants and to make an effort to compromise so that both sides can attain their goals. However, this is often where negotiation can fail because of the tensions between the different objectives that can never coincide. This could occur for T4M since the employees and the union’s main objective will be to keep jobs, whilst the Finance Director may see no alternative if the outsourcing proposal goes ahead.

With regard to negotiations on redundancies it is likely that in the first stages of negotiation that the union will reject the proposals as unacceptable and will prepare its negotiation strategy. Whilst the union will not want to agree to job losses it might recognise that they are inevitable and concentrate instead on persuading management to provide generous severance pay above the legal minimum and to consider redeployment opportunities. F should have anticipated such a reaction and should have his negotiation strategy worked out.

The ideal will be to achieve a win-win outcome where both sides achieve enough of their objectives to be satisfied with the end result, trading-off wins and losses so that each side get something in return for everything it concedes on. Win-lose or lose-lose outcomes are in no ones best long term interest. Whilst T4M will want to get a good deal, for example with G2O, if one party comes out of the negotiation a loser it may feel resentful and this is not a good basis for building a long term relationship.

Important tactics for negotiation are to use questions effectively so as to control the situation; the use of persuasion. F will not want to weaken his case inadvertently. During the negotiation process it is important from time to time to test that both sides understand clearly what is being proposed and at the stage the negotiations are at.

It is suggested that effective negotiation should go through a number of stages, for example:

- **Preparation**
  This involves both parties in the negotiation gathering information and insight to the problems in order to understand the constraints acting on the negotiating parties. Who is involved in the negotiation, what the concerns of each party are and what the goal of the negotiation is will need to be determined. Another key feature at this stage is to determine the time for negotiation.

- **The opening phase of negotiation**
This involves both sides presenting their starting positions to one another. It is at this stage that the greatest opportunity is present to influence the other side.

- **The bargaining phase**
  This is where both parties will aim to narrow the gap between the two initial positions to persuade the other party that its case is so strong that the other must accept less than it had planned. This might, in the case of T4M, perhaps be in terms of the total number of job losses, or the financial arrangements for redundancy. The union will want the best for its members, whereas the management will want to minimise the cost of redundancy. In terms of the contract with G2O, T4M will want to get the best service level agreement for the lowest cost.

  Some rules of bargaining have emerged which skilled negotiators have found helpful. For example, don’t give anything without taking something in return, give things you can afford to lose and only take the things that you want.

  In the bargaining process, F should be careful not to push things so hard that conflict with the other party ensues. Conflict can damage the relationship between the parties to negotiation to such an extent that a beneficial outcome becomes increasingly difficult.

  If negotiations reach a point of deadlock, which neither party can shift from if its objectives are to be achieved, then the advice is to look for areas of common ground and then to build on them.

- **The closing phase of negotiation**
  This represents the opportunity to capitalise on the work that has been done at the earlier phases. It is at this stage that agreement is reached. The outcomes from the agreement should be formalised and implemented. It is important that the contract or terms of reference document is drawn up, perhaps with the help of the company lawyer to make sure that what has been agreed in the negotiations is reflected in the document.