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)

When an organisation relies on an outside supplier for an input or service, this is known as a market solution. In addition to the price for the bought in input/service it may also include the following transaction costs:

- Negotiating and drafting the legal contract with the supplier.
- Monitoring the supplier’s compliance with the contract on issues such as quality, reliability, invoicing etc.
- Pursuing legal action for redress due to non-performance by the supplier.
- Penalty payments and cancellation payments if the organisation finds it needs to change its side of the bargain and draft a new contract with the supplier.

Requirement (b)

The term asset specificity relates to the inter-party relationships of a transaction. It is essentially concerned with the extent to which a particular asset is of use only in one specific range of operation. Developing this, high asset specificity is where a supplier will need to invest in expensive assets in order to supply a particular client, which have no alternative uses. Hence, this poses a substantial threat to the supplier because if the contract is withdrawn it will not be able to recoup its investment. The implications of this are that few suppliers would take this risk without a guarantee of orders in the long term. The more specific assets are, the higher the transaction costs would be.

Examples of types of asset specificity include:

1. **Site specificity.** This relates to assets being attached to a particular location. For example, a car parts component plant being sited near the customer's assembly plant.

2. **Human asset specificity.** This is concerned with particular human skills and knowledge. For example, specific technical skill relevant to only one product, or knowledge of systems and procedures particular to one organisation.

3. **Physical asset specificity.** This refers to a specialised machine or complex computer system designed for one purpose.

Other types of asset specificity that could also be mentioned in candidates’ answers include brand name capital specificity, temporal specificity, dedicated assets specificity.
Answer to Question Two

Requirement (a)
Management of risk involves having processes in place to monitor risks, access to reliable and up-to-date information about risks, the right balance of control in place to deal with those risks, and decision making processes supported by a framework of risk analysis and evaluation. The steps that might be included in the process include:

Risk identification
This involves producing a list of possible risks facing the project. The project manager needs to focus on identifying the risks that are going to affect project performance.

Risk assessment/measurement/evaluation
This involves the project manager assessing the probability and impact of the individual risks identified. The probability is the evaluated likelihood of a particular risk actually happening, including the frequency with which this may arise. Impact is the financial consequence of a particular risk actually materialising.

Risk prioritisation
The risks can be put into a risk matrix so that the risks can be ranked and the most significant risks can be dealt with first.

Risk management
The project manager will need to decide on the individual strategy for managing each risk. This will include strategies like risk avoidance or retention.

Risk monitoring
The project manager then needs to ensure that the risk is being managed effectively by the strategy put in place. Tracking the progress of the strategy in resolving the risk and ensuring no new risks have emerged.

Requirement (b)
The answer could include any two of the following:

Risk avoidance - this strategy would be 'exiting the strategy that is giving rise to the risk'. This would mean aborting the whole project or changing or abandoning particular goals or objectives of the project.

Risk transference – subcontract the risk to a third party such as a specialist supplier who is more experienced in handling the risk. Insurance is another method to use to transfer some elements of risk.

Risk reduction – a strategy that is going to reduce the probability of the risk happening or to reduce the consequences if it does happen or both. This is often based on putting more internal controls in place like ensuring the project manager uses a project control methodology like PRINCE2.

Risk acceptance – take no action at all to mitigate likelihood or impact as both the probability and impact are low, so a project manager will be better focusing on the more significant risks.
Answer to Question Three

In discussing the benefits of delegation, it is first worth explaining what is meant by the concept of delegation. Basically, delegation is the process of assigning tasks and granting authority for their accomplishment to others. It can only occur if YT has the authority to delegate in his role as Finance Manager.

Delegating work would involve YT giving his team members the authority to carry out certain aspects of his job. An important aspect of delegating is that YT would give his staff the discretion to make decisions within a certain sphere of influence or carry out tasks; he would still, however, remain fully accountable for the decision or tasks undertaken by his staff. There are benefits of delegation for both YT and his team. For instance:

- One of the most important benefits of delegation is that it can have a positive impact on motivating staff. Hertzberg found that encouraging employees to take on responsibility is a motivating factor in enhancing job satisfaction and can promote better work. Hence, delegation could help satisfy YT's team members' higher level needs by giving them more involvement in decision making processes.

- Delegation could also bring decision making closer to the situations that require them, and potentially improve the decisions since they are being made by those with most knowledge of the problems involved.

- Delegation will enable YT's staff to gain experience of any work problems and to take on responsibility for coming up with solutions to resolve them. It can be used as a way of assessing the likely performance of an employee at a higher level, and enhance employees' prospects for advancement. In this sense delegation is a way of training staff and preparing them for promotion.

- Delegation can also assist with the employee development of YT's team and members' self evaluation since staff can be tested under actual conditions. There will be a continuous assessment of staff and this should increase motivation as people are given authority to undertake more demanding jobs. Delegation can also encourage the development of specialist expertise.

- Delegation would help YT make the best use of his time since at the moment he has achieved his objectives by working exceptionally long hours. Time is a limited resource and as a manager it is important that YT uses his time to the maximum advantage. Delegating activities, which can be done just as well by members of his team, will give more time to YT to perform the strategic aspects of his role, making more effective use of his time and should result in a better review for YT next time round.

- In a sense delegation is based on sound economics in that successful delegation benefits both YT's team and himself, enabling all to play their respective roles. It should lead to an overall improvement in the strength of the team, giving staff greater scope and opportunities to develop their knowledge and abilities. Hence, as RP suggests, delegation is beneficial to all concerned and to SBM Magazine Publishing Company in the longer term.
Answer to Question Four

Requirement (a)

HS should be aware of employer’s responsibilities for health and safety, for example, making sure that all work practices are safe and that the work environment is safe and healthy. Staff should also be properly briefed on health and safety hazards, procedures and the use of any protective equipment, if appropriate. The types of hazard that might be found includes:

Mechanical hazards
Z would need to consider hazards like filing cabinets that could tip when heavily laden. Cables trailing across the office floors pose the threat of tripping accidents.

Physical hazards
Z would need to consider glare or reflections from screens or hot components of photocopiers. Z needs to ensure that the department has no poorly designed chairs as these do not provide the user with adequate back support.

Chemical hazards
Z would need to consider vapours in the atmosphere, for example paint solvents or airborne particles like photocopier toner.

Electrical hazards
Z would need to consider hazards such as damaged electrical cables or overloaded power points that may lead to risk of electric shock.

Requirement (b)

HS has a legal duty to comply with health and safety requirements but there are also important benefits from a business perspective.

Reduced absenteeism
Lower number of employee accidents so less time is lost by the company employees. The company will not have to worry about how to manage without a key employee while he/she is recuperating following an accident.

Reduced costs
The company should benefit from lower cost of legal proceedings and any associated fines or penalties. This should help a company to minimise insurance premiums and compensation claims.

Increased reputation
The company should increase its reputation for corporate responsibility among investors, customers etc. This helps to improve the company’s image and generates positive PR for the business.

Increased productivity
The company will find that productivity will be increased because employees are healthier, happier and better motivated because they can see that the company is actively looking after their health and safety.

Attract higher calibre staff
The increased motivation and reputation will enable a company to attract and retain higher calibre staff.

Reduced staff turnover
A company can use a good health and safety record to maintain employee morale, trust and motivation which are likely to lead to retention of staff and lower the cost associated with staff turnover.
Answer to Question Five

Corporate governance is the system by which organisations are directed and controlled, the principles behind governance are in place to enhance corporate performance and to try and minimise the threat of corporate failure. A number of reports have been produced to address the risks and problems resulting from poor corporate governance. In the UK the recommendations are merged into the UK Corporate Governance Code which comprises the purpose and principles of good corporate governance for listed companies.

There are a number of corporate governance issues facing X Company:

**Insufficient number of non-executive directors (NEDs)**

One of the principles of governance is that listed companies should be led by an effective board with a balance of executive and non executive directors such that no individuals or small groups can dominate decision making.

It is doubtful that in X Company two NEDs are enough to bring sufficient scrutiny to the executive board. It would suggest that the family members might have the ability to dominate.

**Senior board positions are based on family membership**

A principle of governance is that appointments to the board should be made in a formal, rigorous and transparent manner usually via a nominations committee.

Senior positions in X Company appear to be based on family membership rather than getting the right person.

**Poor diversity and external expertise**

Whilst experience is very important on a board, governance also calls for the appointment of new members with diversity and external expertise in order to bring in fresh ideas.

X Company has poor diversity of backgrounds amongst members which might reduce the level of debate required when analysing strategic decisions.

**Poor quality information**

Governance requires that the board should be supplied with good quality information in a timely manner in order to discharge its duties. Procedures for preparing notes for discussion and the timely allocation of those notes appears to be absent in X Company.

X Company has omitted the notes for discussion on the contamination issue which could have a major impact on reputation and therefore should be a high priority for discussion. Whilst this omission should have been picked up in advance of the meeting, it is a signal of both poor quality information and poor administration.

**Lack of responsibility for maintaining a sound system of control**

The board is responsible for maintaining a sound system of internal controls to safeguard the company's assets and the shareholders' investments in the company. A sound system needs to be in place and a review of its effectiveness should be undertaken on an annual basis so that shareholders have reasonable assurance that their investments are being protected.

Given that there has been a major contamination issue there appears to be ample evidence for the shareholders to question the competence of the board’s ability to manage the internal control systems at X Company.

**Poor relations with shareholders**

Governance requires a regular dialogue on mutual understanding of objectives. Governance includes principles and provisions for institutional shareholders to intervene if they are unhappy. If shareholders feel that the directors are failing to communicate with them they may intervene to demand more (or better) information.

At X Company there appears to be a breakdown in the normal level of communication. The chairman seems unwilling to be questioned but if the control systems are not working effectively then the shareholders are entitled to demand answers as to why the board is failing to take appropriate action.
Answer to Question Six

Requirement (a)

At the beginning of a project a Project Initiation Document (PID) should be produced. This is sometimes referred to as the project charter. The purpose of the project initiation document (PID) is to define the overall mission, scope and deliverables required, and the roles and responsibilities of the project stakeholders in order to provide the overriding terms of reference for the life of the project. The document can then act as a base document against which progress can be assessed.

Contents

Purpose Statement
From the detailed discussions with the hotel, information should be collected to explain why the project is necessary i.e. why the refurbishment is being undertaken.

Scope statement
This should put boundaries to the hotel project by outlining the major activities. This section is important in preventing 'scope creep' where additional activities are added making achievement of the cost and time objectives totally impossible. This appears to be what is happening with the hotel project and why a meeting is required.

Deliverables
This would list the objectives and tangible elements of the project like reports, assets and desired outcomes. For the hotel project that would be the exact requirements for the refurbishment.

Cost and time estimates
This would cover the hotel’s expectations in terms of timescales which is stated at 30 weeks. This is an important starting point for planning.

It should also provide details on the expectations in terms of the project budget. There is no mention of any detail regarding budget expectations. It appears that S Company is funding the project initially, so it should be clear about the expenditure required.

Project constraints
This might include any constraints regarding available resources. Core staff have been released from the hotel project and this is having an impact on performance.

Stakeholders
A list of the key influential stakeholders in the project and their interest (needs, wants) in the project. It is important to know whether any key stakeholders will be blocking the project so that B can manage any likely disruption to the project. This will be an important aspect of understanding any risks to the project.

Project organisation structure
A statement (and diagram) of the project organisation structure. It is important that everyone understands their role and responsibility. This should also include any authorisation and signatory controls on the project to ensure the correct control mechanisms are in place for authorising the changes to the hotel project that are currently being requested. The PID should also include details of the communication plan e.g. reports, meetings, etc.
Requirement (b)

According to the scenario, there are a number of problems evident in the progress of the hotel refurbishment project.

Unrealistic deadlines
There appears to be pressure from the hotel to get the project finished quickly with strict deadlines. The project is already behind schedule and there is no contingency in the project plan. B will need to look critically at the project deadlines. The time schedule will need to be revised. The critical activities need to be identified and B needs to make sure that they do not slip.

Resource estimates unrealistic
Core project staff that are important to the delivery of the hotel project are being allowed to work on other projects. A critical issue in project planning is resource management. B will need to ensure that the hotel project has the correct level of manpower in the right place at the right time in the right quantities. B could use a resource histogram to provide a visual display of the usage and availability of resources over the project's life. B would then have the ability to reallocate resources or obtain additional resources to ensure that critical activities are achieved on time.

No detailed project plan
A key problem is the absence of a detailed project plan and specification. The hotel project is likely to contain a number of complex tasks. One of the most important stages of project management is the definition of the project objective and the breakdown of work into a comprehensive list of activities. B should use a work breakdown structure to break the project down into work packages in order to clearly identify the person or people responsible for each activity.

Moving targets
A project initiation document should set out the specification and scope agreed for the project. Although the project specification can be changed during the project this could certainly add costs and delay delivery. B will need to ensure that only the essential adjustments are made and that they are authorised by the project sponsor before being incorporated into the project plan.

Lack of control measures
It is essential to be able to monitor the progress of the project. Otherwise it is impossible to know whether project objectives are being achieved and whether any corrective action is required to get the project back on track. B will need to ensure that monitoring is carried out on a regular basis and that corrective action is implemented immediately. A regular project reporting period should be set up and, given that the project is already behind schedule, there might be a need to track the project on a daily basis.

Lack of milestones
A milestone is an event that is clearly identifiable as a measure of how far the project has progressed and how far it has to run. This involves breaking the project down into events and targets of what needs to be done and by when. B will need to set milestones that relate to completion of stages in the project with clear outputs so that the project team is clear about the project's progress and so that it can identify any delays immediately. B could set milestones based on completion of an activity i.e. completion of all painting for the refurbishment project or milestones could be based on a room by room basis.

Insufficient budget information
A project requires a cost plan which will include costs of labour and raw materials. B will need to obtain detailed information on any products required for the delivery of the project and their associated costs. B should also put these costs into a time plan so that a cashflow forecast can be produced. This is especially important to B as the first stage payment is already late due to the delay on the project. This could be putting pressure on the available cash for the project. B needs to get the project back on schedule to ensure no future stage payments are delayed.
Reliance on project management software
Despite the extensive use of project management software, B still needs to be aware that software will help support the management of the project but its use does not guarantee successful completion of the project objectives. B needs to be aware that the software will help monitor the actual time taken against the plan but it cannot match the task with the relevant people and understand how they work. B needs to be aware of the effect that the departure of a key person can have on the plan.
Answer to Question Seven

Requirement (a)

The formal or rational approach to strategic planning can be described as a series of interrelated stages. The first stage in the process would involve WFH Trading Company determining its mission, which essentially sets out a broad statement of the purpose of the company.

The next stage would be the setting of specific goals and objectives for the company which translates the mission into strategic milestones for the business strategy to reach. The strategy of WFH Trading Company must achieve a ‘good fit’ with its environment, hence the next stage in the process involves undertaking analysis to understand the company’s strategic position. This part of the process will involve undertaking a position audit to assess the internal resources and capabilities of the company. The internal position could also be analysed by undertaking a resources audit. The value chain framework could also be used in order to assess how the activities performed by WFH Trading Company add value.

This stage in the process will also involve the appraisal of the company’s external environment using strategic management frameworks such as a PESTEL, and also its competitive environment using, for instance, Porter’s five forces model.

The outcomes of both the internal and external analysis would be consolidated in a corporate appraisal (often termed SWOT) which would help WFH Trading Company better understand its own internal strengths and weaknesses, and the opportunities and threats of its external environment.

After undertaking strategic analysis the next stage in the process is the process of identifying possible strategic options for WFH Trading Company, and then evaluating the alternative courses, to ensure the company objectives are achieved. This will primarily be a process of generating alternatives, building on the strengths of the business, considering the alternative directions available to it and determining the basis of how to improve its competitive position. The evaluation stage would consider each strategic option in detail for its feasibility and fit with the mission and objectives of the Company.

The final stages of the rational approach to strategy development would require WFH Trading Company to draw up detailed plans and policies to implement its chosen strategy. Then a continuous process of monitoring, reviewing and evaluating the suitability of strategy would need to be put in place in order to consider if the strategy puts the company on course for reaching its strategic objectives. In addition, it will assess if the environment on which the strategy was based is still accurate, or whether any unforeseen opportunities and threats have arisen subsequently that might necessitate a reconsideration of the strategy.

In essence the process seeks to answer questions concerning where WFH Trading Company is now, where it should go in the future and how it should get there.

[Candidates could draw the model of the rational strategy process to illustrate the interrelated stage but must go on to explain the various stages]

Requirement (b)

The formal/rational approach to strategy development assumes that strategies develop as a result of structured and systematic planning which follows a logical process. In this view strategies will be intended as a result of making deliberated choices based on underpinning analysis. The benefits of adopting the formal/rational approach to strategy development include:

- It would help the WFH Trading Company take a longer term view of the development of the business avoiding a short term reactive approach.
- It should help encourage both RF and JT to consider the business environment which should inform plans and decisions, helping identify future strategic issues and
promote a more proactive approach. Conducting a formal analysis of the strengths, weaknesses, opportunities and threats will help WFH Trading Company stay ahead of the game.

- It can provide standards against which the performance of the organisation is measured and controlled. It can also provide a basis for strategic control so that there are targets and reports enabling review of the success of strategy.
- It can help in the co-ordination of activities, and link to operational plans in the various parts of the company. In other words, promotes congruence of operational plans with strategic direction. Also, any investment decisions would be taken with the longer term needs of the business in mind.
- It can avoid succession problems, for example if either RF or JT decided to leave the company, the strategy of the business will still be understood and outlast the loss of a key member of the management team.

There are however some disadvantages of the formal/rational approach, for instance:

- A formal approach can be very expensive, time consuming and complicated. There is an opportunity cost for RF and JT in terms of spending time on planning taking them away from the main operations of the business.
- Formal planning may also be considered too static and a process that tends to be infrequent. In a rapidly changing environment, it could be argued that the outcomes on which formally planned strategies are based often become quickly outdated, with the result that the intended strategy fails.
- The process could end up as a bureaucratic process focusing on plans, systems and targets. This could lead to a loss of entrepreneurial spirit in the company and may lead to conservatism in approach.
- One of the aims of formal strategic planning is to achieve goal congruence between different business areas and stakeholders. However in the case of WFH Trading Company the goals are likely to be inseparable from the goals of RF and JT as the owner managers.