Some of the answers that follow in Sections A and B are fuller and more comprehensive than would be expected from a well-prepared candidate. They have been written in this way to aid teaching, study and revision for tutors and candidates alike.

These Examiner's answers should be reviewed alongside the question paper for this examination which is now available on the CIMA website at www.cimaglobal.com/e3papers

The Post Exam Guide for this examination, which includes the marking guide for each question, will be published on the CIMA website by early October at www.cimaglobal.com/e3PEGS

SECTION A

Answer to Question One

Rationale

This question examines learning outcomes from across the syllabus. Requirement (a)(i) examines learning outcome A1(c) ‘discuss the drivers of external demands for corporate social responsibility and the organisation's response’ and is designed to test candidates' understanding of the complexities of managing CSR obligations with multiple stakeholders. Requirement (a)(ii) examines learning outcome A1(b) ‘recommend approaches to business/government relations and relations with civil society’ and is designed to test candidates' understanding of the importance to the CG sector of having a non-market strategy to manage its CSR obligations. Requirement (b)(i) examines learning outcome C1(b) ‘evaluate strategic options’. Requirement (b)(ii) examines learning outcome C1(a) ‘evaluate the process of strategy formulation’ and is designed to test candidates' wider understanding of the impact a decision to reduce its deliveries would have upon TFR's wider strategic objectives. Requirement (c)(i) examines learning outcome D1(b) ‘evaluate alternative models of performance measurement’ and is designed to test candidates' knowledge and understanding of the importance for the Automotive sector of focusing upon its core competences and the critical success factors underlying them. Requirement (c)(ii) examines learning outcome D1(c) ‘recommend solutions to problems in performance measurement’ and is designed to test candidates' understanding and application of the balanced scorecard.
Suggested approach

For requirement (a)(i) candidates are required to discuss the CSR obligations of the CG sector to any two of its stakeholders. Candidates must make sure that they clearly discuss these CSR obligations AND the strategies CG should use to manage these two stakeholders. The strategies discussed must be specific to the stakeholder identified and not a generic discussion of stakeholder management strategies.

For requirement (a)(ii) candidates should not only identify a relevant benefit to the CG sector of working closely with the Minister for the Environment and the Rail Regulator on its agreed carbon emissions targets but they must also evaluate each benefit. This requires candidates to consider the relative impact of each benefit to the CG sector.

Requirement (b)(i) should be a straightforward question, requiring candidates to calculate the contribution earned per delivery and per day from the proposal information presented in the unseen material. Candidates should use the information presented in the table to undertake a calculation of contribution earned from the original number of deliveries and compare this to the contribution earned from the proposed number of deliveries in order to calculate the extra contribution earned.

Requirement (b)(ii) builds upon the answer to (b)(i) in that candidates should consider the additional factors which need to be considered, in particular the potential impact of this decision upon the achievement of the strategic and financial objectives set by T Railways. Candidates are not required to make a final recommendation in this answer.

Requirement (c)(i) should be a straightforward question, requiring candidates to apply their knowledge of critical success factors to the Automotive sector. Candidates are required to present only one critical success factor for each quadrant of the balanced scorecard. That is, only four critical success factors are required. However, candidates must clearly justify the critical success factors they have identified.

Requirement (c)(ii) builds upon the candidates' answers to (c)(i) as candidates are required to present and justify an appropriate performance measure for each of the critical success factors they have identified. Again, clear focus upon performance measures is required and each performance measure must be justified.

For all of the requirements for Question 1, candidates must make sure that they are answering each question from the perspective of the correct sector, as identified at the beginning of each question requirement.

Requirement (a)(i)

The CG sector has multiple stakeholders which each has a different perspective upon the CG sectors CSR obligations. CSR refers to the firm's obligations to maximise its positive impacts upon stakeholders while minimising the negative effects.

The CG sector stakeholders affected by its CSR activities include:
Examiners Note: Candidates are only required to discuss two of the following stakeholders.

The Supermarkets
The supermarkets are a powerful stakeholder as they are large customers and very influential. They are positively encouraging the move to reduced carbon emissions and are in fact driving this through the working party which has been set up with the supermarkets in Country T, the Ministry of Transport and the Minister for the Environment. The supermarkets are trying to reduce the levels of carbon emissions in their supply chain and, therefore, they are considering switching more freight from road to rail, which will help them to achieve some reductions.

Thus the CG sector has a CSR obligation to work with the supermarkets to help them in reaching their own targets and the overall target for Country T in terms of carbon emissions. The CG sector needs to work with its customers to support and encourage this initiative which
will generate higher revenues for the sector, as well as reduce carbon emissions in total. It can help the supermarkets by demonstrating the volume of carbon emissions produced for a given volume of freight per km travelled by rail compared to road.

However, if the CG sector is to convince supermarkets to switch more of their supplies from road to rail it must provide a viable and reliable service. Therefore it would need to invest in newer and more trains / trucks to be able to carry these increased volumes.

As key players in the CSR activities of the CG sector, CG must try to work with the supermarkets in developing strategies for reducing carbon emissions and optimising deliveries. From a business perspective this would be a good way to generate extra business and become more profitable and it offers competitive advantage against the road haulage firms. By working together, the parties can identify optimum delivery methods.

**Rail Regulator**
The Rail Regulator is both a powerful and interested stakeholder in the CG sector's CSR activities. It monitors performance of the rail industry in terms of carbon emissions and also set the targets with Government. The CG sector has an obligation to ensure that targets are met and that recommendations made by the Rail Regulator for improvements in CSR activities are made.

It is important for the CG sector to work closely with the Rail Regulator on emissions targets and on safety issues. It is in CG’s interest if it can develop and work on targets together, rather than CG having targets imposed on it. The CG sector needs to work with the Rail Regulator to demonstrate the volumes of carbon emissions it currently generates, both in total as well as per freight km travelled. This should be compared to similar carbon emissions statistics for road transport to show how much better rail is versus road. Regular and ongoing communication must take place and the CG sector managers must make sure that they fully co-operate with the Rail Regulator.

If CG’s capacity is increased to allow it to carry more freight, then ultimately this will lead to the CG sector producing more carbon emissions in total, although the volume per km travelled by rail should remain the same. However, the overall supermarket freight industry’s carbon emissions should reduce as less freight will be transported by road. Therefore, statistics on carbon emissions should not only be measured in terms of absolute levels of carbon emissions but also carbon emissions per km travelled. The saving of road carbon emissions should be compared to the small increase in rail carbon emissions with more freight. The CG sector will have to also consider negotiating with T Railways’ Board on the targets set for its own carbon emissions in the light of the increased capacity, for example some form of offset against the reduction in road transportation emissions.

**Government / Minister of Transport**
The CG sector has a CSR obligation to the national Government of T to meet the targets and expectations as set by the Government in terms of overall safety, reliability and efficiency of service to the whole country to ensure optimum productivity. The Government has recently been encouraging a move to rail haulage through its national transport and emissions policies, so it should be favourable towards encouraging and assisting in the CG sector’s CSR obligations and activities. The Government of Country T is a powerful stakeholder, as ultimately it is the owner of T Railways and thus sets the agenda for investment and the overall direction and aims of the business. It is not likely, however, to be strongly interested unless there is bad publicity from the CSR activities of the CG sector. However, since the supermarkets have been working with Government officials then this may make the Government more interested in the CSR activities of the CG sector.

The CG sector must ensure that it keeps the Government satisfied and that it actively attempts to engage with the Government and implement government policies as directed. Open and regular communication with the Government must be undertaken. The strategies that the CG sector could adopt include attempting to persuade T Railways to obtain Government funding for the investment in more rolling stock / engines to increase its capacity so that it can help transport greater quantities of freight for the supermarket industry. This
would meet the requirement to encourage more freight onto the railways and off the road. This will help the Government to improve the productivity of the country by reducing road congestion also.

Staff / unions
The CG sector has a CSR obligation to keep its staff safe which needs to be balanced with the need to keep its large supermarket customers happy. The staff of the CG sector are likely to be interested in the CSR activities of the business, in particular those relating to safety, but are not likely to be very powerful. However, staff could become very powerful with the backing of the unions, which have raised concern over the safety of increased capacity. The unions are likely to be very interested and powerful if staff conditions and safety are compromised. The CG sector could form a powerful alliance with the unions to press the Government for more investment.

The CG sector must keep staff and unions fully informed and communicate regularly and clearly to staff with regard to changes in working practices or updates on safety procedures. Training for staff in new methods of working or enhanced safety procedures must be undertaken.

Society
The CG sector has a CSR obligation to the wider public in that it should consider the impact that its overall carbon emissions have upon the general environment and the long-term impact this will have on society. The wider society of Country T is unlikely to have any power and little interest in the CG sector’s CSR activities. Within this, the general road users of Country T are likely to be interested in reduced traffic congestion but will have limited power to influence the activities of TFR. Therefore, this stakeholder group requires minimum effort but some good publicity could be gained by the CG sector in the eyes of the wider general public in Country T through reduced carbon emissions. It may encourage more general train usage across T Railways. There will be less wasted time stuck in traffic and a better quality of life for road users due to less congested roads. This also has the effect of reduced fuel consumption due to less wasted fuel sitting in traffic.

Requirement (a)(ii)

It is widely recognised that all companies need to monitor and report their carbon emissions. Most public companies include a section on carbon emissions in the CSR section of their annual report. T Railways has undertaken to reduce its carbon emissions by a third between now (2013) and 2015 (as per pre-seen material).

The CG sector not only needs to maintain close relationships with its customers, such as the supermarkets, but it can also obtain great benefits from maintaining close relationships with the Government and the Rail Regulator. The freight haulage industry is clearly directly affected by non-market forces such as the Government-led emissions targets and the Government-set regulations in terms of road charges and taxation levels. The Rail Regulator and environmental pressure groups are also likely to be influential in setting the agenda for carbon emissions targets. Therefore it is vital that the CG sector works closely with these influential parties.

Benefits to the CG sector

- The managers of the CG sector can communicate their own position directly to the most influential decision makers and thus gain their direct support. This is an advantage that the individual road haulage firms are unlikely to have. The CG sector can gain a distinct competitive advantage by having access to the Government decision makers which the road haulage firms do not have.

- The CG sector managers can be pro-active in the decision making and target setting, rather than being reactive if they are not involved in the process.

- The CG sector should also have a better appreciation of the needs of the customers as the Government is currently working with the supermarkets in setting emissions
targets for them. By working with the Government it can have a better understanding of the role and needs of its supermarket customers through communication with the Government.

- Increase public perception and society opinion of the CG sector – if it is seen to be working closely with the Government on setting CSR targets and encouraging a commitment to staff safety, then this should result in good publicity.

- As the CG sector increases the volume of freight carried, then the total volume of its carbon emissions will increase rather than reduce. Therefore, this is in direct conflict with the overall agreed objective that has been agreed with the Rail Regulator and this will conflict with the Government’s wish to move more freight onto the railways. Therefore an alternative measure should be agreed and negotiated with CG and T Railways, aside from the total carbon emissions. Perhaps the new measure should be agreed with the Rail Regulator as the volume of carbon emissions per Km, the volume per journey or the volume per million kilogrammes of freight carried. There needs to be some link between carbon emissions and the volume of freight carried and the length of the journey for this freight, in contrast with the consequent reduction in carbon emissions from road haulage. By working closely with the Government and the Rail Regulator, the CG sector’s managers will be able to identify the most appropriate and workable targets.

- More openness, transparency and better understanding of carbon emissions and the targets set should help CG’s managers to demonstrate to the Minister for the Environment and the Rail Regulator that carbon emissions are reducing. It would also demonstrate the CG sector’s commitment in helping to meet the targets for a reduction in carbon emissions.

**Requirement (b)(i)**

<table>
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<th>Per delivery Based on 4 deliveries / day</th>
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<tbody>
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<td></td>
<td>T$</td>
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<tr>
<td>Admin fee charged per delivery</td>
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<tr>
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**Requirement (b)(ii)**

From the calculations undertaken in part (b)(i) above it can be seen that it would generate a much higher level of contribution for the Energy sector to operate at 4 deliveries per day to power station X. At the current level of 6 deliveries per day, the Energy sector generates a negative contribution per delivery of T$52. However, if it were to operate 4 deliveries per day, contribution per delivery would increase to T$3,895 towards covering fixed costs. On a purely
financial basis, this proposal appears to be advantageous to the Energy sector as it would now generate a positive contribution towards covering part of the Energy sector’s fixed costs.

However, as a public sector organisation, TFR and its 3 business sectors must also take into consideration the strategic and financial objectives set for T Railways. There are two main strategic objectives:

(i) To deliver reliable, safe and punctual rail services to customers efficiently and cost effectively thereby helping to achieve economic growth in Country T by reducing congestion on its roads;

(ii) To strive to continually reduce its level of carbon emissions to help provide an environmentally friendly transport infrastructure.

One of its financial objectives is that;

(i) T Railways should at least cover its operating costs from the revenue it earns from its customers.

With regard to the first objective, there is a requirement for reliable, safe and punctual rail services. However, the Energy sector managers have concerns that the proposal may compromise all of these factors.

Firstly, reliability could be at risk due to more breakdowns as a result of the extra capacity required to be handled by the old diesel trains. This is also a very high risk for power station X as it requires the coal to be delivered in order to ensure uninterrupted power supply. Breakdowns of trains could result in missed deliveries and therefore national power disruption.

Safety is also a concern of the unions as this may be compromised by the increased capacity per truck required by the proposal. Staff safety could be reduced by having to handle greater volumes of coal per truck.

Punctuality may also be at risk as the old diesel trains used are likely to be slower as a result of having limited power to cope with the increased capacity per train. If breakdowns occur, replacement coal may be slower to arrive, again risking the continuity of power production.

The second strategic objective refers to the reduction of the carbon emission targets, which clearly is an important issue for T Railways and the national Government. The carbon emissions are likely to increase as a result of inefficient and slower trains, meaning the Energy sector is unlikely to reach its emissions targets as set by the Rail Regulator.

The financial objective set by T Railways clearly does not place significant emphasis upon profitability, profit growth or contribution. As long as operating costs are covered from its revenues then the financial objective has been achieved. However, currently, each delivery to power station X makes a negative contribution of T$52 towards fixed costs. We do not know the level of fixed costs in the Energy sector, but it is likely to be high, due to the likely level of fixed operating costs such as infrastructure costs and staff costs and the re-charges from the TPTS division and Head office charges. Therefore, the current contribution of the deliveries to power station X towards these costs is marginally negative. With the reduced number of deliveries to 4 per day, there is a significant increase in the contribution towards fixed costs.

TFR’s and subsequently the Energy sector’s strategic planning and management activities are driven by these overall strategic objectives and the managers of the business sectors are evaluated against these. Therefore, although financially attractive, the Energy sector’s managers must also consider the proposal’s ability to satisfy the strategic objectives. It would appear that they will be compromised and therefore further discussion is necessary with the power station managers and T Railways' Board before any decision is made on this proposal.
Also, this is only one coal power station. There are other coal-based power stations in Country T and if the Energy sector were to focus more upon its efficiency and increased capacity it could significantly increase the capacity of its deliveries to all of the coal-based power stations which could positively impact upon overall reduced energy costs for consumers and increased profitability and efficiency for TFR.

Requirement (c)(i)

The Automotive sector may wish to expand its operations as it has been successfully growing its business and has already increased its market share to 30%. If it is to expand, it will do so by using its key skills and competences. However, this expansion may be in conflict with T Railways’ strategic and financial objectives. This is a very common problem in many businesses where divisions or subsidiaries have to ‘toe the corporate line’ and amend their strategic plans to fit in with imposed corporate objectives. This can adversely affect the individual division’s performance. A competence based approach is where the emphasis of strategy formulation is to look at what the organisation is good at i.e. its core competences. For the Automotive sector, these should focus upon what the business must be good at in order to succeed in the automotive delivery market. Therefore, the Automotive sector must identify its critical success factors. Such CSF’s will be difficult for its road haulage competitors to copy.

Critical success factors for the Automotive sector

Financial
*Price competitiveness* – a critical success factor in this market. It can be seen that pricing competitiveness has been a success factor for the Automotive business as it has doubled its market share in the last three years. Customers are clearly seeing price as an important factor and therefore it is an aspect of its business that is likely to continue to be critical for this sector.

Customer
*Punctuality* – this is a critical success factor for the customer as tight shipping deadlines must be met. Therefore, it is critical for the Automotive business to ensure that those deadlines will be met. This is a feature of its business that is likely to be difficult for the road haulage companies to easily copy as road congestion is becoming increasingly prevalent and therefore punctuality is an area of potential competitive advantage.

Internal Processes
*Speed and efficient loading procedures* – this is a critical success factor, as fast and efficient loading and unloading facilities will ensure efficiency and punctuality of delivery for customers. Again, this is likely to be a competitive advantage for the Automotive sector against the road haulage businesses.

Learning and Growth
*Staff development* – this is critical for the Automotive sector as well developed and trained staff in the complex logistics of loading and transporting large volumes of vehicles, will ensure the continued efficiency of the service delivered to customers. High levels of staff satisfaction should lead to better customer service.

Or

*New designs or ways to increase capacity of freight trains* - such as improved ‘stacking’ of new vehicles or better designed trucks to fit vehicles in more effectively. These new ways or designs could help to increase the efficiency of the trains which is likely to be critical in winning new business from the road haulage sector.
**Requirement (c)(ii)**

**Financial**
CSF - Price competitiveness

Possible Performance Measures within the BSC could be:

- Profit growth per year (%)
- Growth in market share (%)

Profit growth and market share growth are both important indicators of the success of the pricing strategies of the Automotive sector. If deliveries are priced uncompetitively then the Automotive sector will fail to build upon its market share and the profit earned by the sector will also be limited.

**Customer**
CSF - Punctuality / on time deliveries

Possible Performance Measures within the BSC could be:

- Percentage of shipping deadlines met
- Number of penalties incurred / cost of penalties for late deliveries
- Customer satisfaction ratings

These performance measures are important to both customers (as they need the cars to be at the ports to meet shipping deadlines) and also to the Automotive sector as it will incur penalties for late delivery. The percentage of shipping deadlines met should be as close to 100% as is feasible.

**Internal Processes**
CSF - Fast and efficient loading procedures

Possible Performance Measures within the BSC could be:

- Number of deliveries per day
- Number of vehicles loaded / unloaded
- Time taken to load / unload per delivery on average
- Average number of staff required for each load delivered

These performance measures are justified as they will enable managers to compare the average time to previous time periods and between trains and even between different shifts / teams to encourage 'best practice'. It can also be used as a measure to see if any new designs for loading / unloading are speeding up the process or not. It may also indicate differences in loading for different types of vehicle.

This performance measure can also indicate whether there was a particular incident (such as an accident) which resulted in increased lead times, so that management action could be taken to stop such an incident occurring again.

**Learning and growth**
CSF - Staff development

Performance Measures:

- Staff turnover
- Number of training courses attended per annum
These performance measures are justified as they will identify any problems or weaknesses in any areas of staff training and ensure that staff are operating at the optimum levels of efficiency. It should also identify staff satisfaction levels if turnover is high. Therefore, weaknesses in staff levels of training or experience can be addressed or any issues with staff morale can be spotted before they affect the levels of service to customers.

Alternatively, a performance measure of learning and growth could be:

- Number of new cars transported per train

This measure could demonstrate whether any new operational methods or a new stacking system or truck design could help to increase the number of new cars transported per train. This measure will help to encourage innovation so that more cars can be transported by each train to maximise capacity.
Answer to Question Two

Rationale

Requirement (a) examines learning outcome A2(a) ‘evaluate the impact of the internet on an organisation’s strategy’ and is designed to test candidates’ knowledge of the impact of IT on an organisation, using Porter's Five Forces model. Requirement (b) examines learning outcome C1(d) ‘discuss the role and responsibilities of directors in the strategy development process’ and is designed to test candidates’ understanding of the importance of the directors in making appropriate strategic decisions on behalf of stakeholders. Requirement (c) examines learning outcome C1(b) ‘evaluate strategic options’ and is designed to test candidates’ understanding of the impact of strategic decisions upon GGM.

Suggested approach

Requirement (a) requires a high level of application of the scenario information and industry awareness to a recognised syllabus model, Porter's Five Forces. This is a difficult question as it requires candidates not only to apply the Five Forces model but also to do so in the context of the impact of IT (including the internet). Therefore it is not sufficient to pass this question with an application of the Five Forces model in general terms, with no reference at all to IT and the internet.

Requirement (b) should be a straightforward evaluation of the scenario information in the context of the role played by the directors of GGM in the company's current position. Candidates should focus their answers on both the role played by T and also the role and responsibilities of the other directors in managing the organisation. A high level of application of answers to the scenario information is required in this answer. A generic discussion of the roles and responsibilities of directors will not be awarded a pass mark.

Requirement (c) should be a straightforward question, requiring candidates to focus upon both the short and long-term impacts of the Board's proposal to close 20 stores and to re-locate and downsize its remaining stores. It is important that candidates clearly address all aspects of this requirement, with a clear focus upon the short and long-term impacts and how they affect the employees and the staff.

Requirement (a)

Bargaining power of Suppliers

The presence of powerful suppliers reduces the potential for high profits for GGM. The suppliers of GGM would mainly be the music recording companies, the film distributors and the technology manufacturers. Most of these are likely to be large businesses which themselves will be incorporating information technology into their own business processes. For example, the major film distributors will make use of the internet to advertise their products and will also be likely to use dedicated sites where customers can rent or buy films online. Music recording companies and artists will also make use of internet technology to advertise and promote their music online. This has therefore made suppliers more powerful as they are no longer wholly reliant on the traditional high street retailers such as GGM for the distribution of their products. Also the suppliers are likely to use technology to organise their supply chains and therefore use them to tie in distributors such as GGM.

Bargaining power of Customers

Bargaining power of customers is another aspect which helps in assessing the industry attractiveness. Individual customers in the entertainment retail industry can be identified as the music and film buyers who purchase music either online or offline. The bargaining power of individual customers has been rising in recent years due to their ability to purchase music
and films in downloadable digital formats which has forced the whole music and film retail industry to drive down prices. In addition, with intense competition from supermarkets and dedicated online sites, price cutting is evident especially in online music sales. Therefore, the bargaining power of customers can be assumed to be very high as their access to information technology grows and becomes less expensive. It is, therefore, a significant factor for GGM.

Threat of new entrants
The next force is the threat of new entrants which, to a great extent, depends upon the barriers to entry or the ease of entering the retail entertainment market. New entrants, in the form of online retailers, have grown significantly in recent years as there are no significant barriers to entry. In addition, the supermarkets, to some extent, can be seen as new entrants to the music and film sales market both off and online. Therefore, the threat of new entrants is high and this has largely been driven by the ease of access to the market through the use of information technology and has been a major threat to the existence of GGM.

Threat of Substitutes
A substitute product or service can be identified as a rival product or service which meets the same customer needs approximately in the same way as the product or service of GGM. In the music and film retail industry the substitutes for paid music purchases or downloads can be identified as free streaming music online, pirated music downloads online and the TV & Radio channels playing 24 hour music. Free streaming music such as those on My-space allows customers to listen to tracks an unlimited number of times without purchasing them. Although customers don’t have the luxury of downloading it for free and listening on the move, it still can be considered as a substitute as they are still being entertained. In addition, internet based film sites and catch-up television technology are substituting the need for purchased films. Therefore the threat of this substitute for GGM is very high.

Extra industry effects have a part to play when it comes to 24 hour TV & Radio music channels as the requirements for activating those services such as TV set top boxes and monthly subscriptions are quite expensive compared to the price of an album. But with added facilities of recording and choice of other channels on offer, they may have a better price to performance ratio when compared to a music album.

As part of the entertainment industry, music can also be substituted by other channels of entertainment such as movies and games. Although they may not be direct substitutes for music, they still provide similar services in entertaining the consumer. It may be said that compared to music, movies and games have a larger utility although the prices are set higher than music. In terms of gaming, the complementary products required such as game-stations are higher priced than a regular MP3 player, and the price to performance ratio is higher as the utility is considered to be higher. Therefore it can be said the threat of other entertainment sources are also posing a mid to low level of threat of substitution to the retail entertainment industry.

Industry Rivalry
In terms of the attractiveness, the retail entertainment industry can be said to be highly attractive as more and more customers demand various forms of home entertainment products. The rivalry between online and high street competitors in the form of supermarkets has caused the problems evident in GGM.

Requirement (b)
The Directors of GGM are in a position of trust and must act in good faith in order to further the interests of the company, rather than their own. The Directors must always exercise due care and skill in carrying out their obligations as the key decision makers in GGM.

In the case of GGM, the Executive Chairman, T, has been a strong influence in the direction of the company. He has allowed his own personal beliefs and feelings about the business to sway the strategic direction of the business. Having founded the company in 1970, some 43 years ago, it is likely that T is aged between 60 and 70 years old. It would appear that he has been slow to react to change and perhaps not aware of what the new generation of 16 – 30
year olds demand in today’s competitive music and entertainment market. T is not acting in the best interests of the company or safeguarding the jobs and long-term future of the employees. In addition, the Board is responsible as agents to look after the interests of its other stakeholders, such as banks, suppliers, customers and employees.

The current plan to close a few more stores and to relocate to smaller premises are still old-fashioned methods to cut costs. This plan does not address the change in the fundamental business model that GGM is operating, which is no longer a realistic model in today’s instant world of music and film downloads. The requirements for success in this industry have moved permanently – so GGM has to change or not survive. It may already be too late. A real life example is HMV which ceased trading in January 2013 after over 100 years in the music business.

The Board has been weak and has allowed T to run the company as if it were his own. It has been unresponsive to warning signs of decline and profit reduction. It could be argued that the whole Board of GGM failed to exercise reasonable care, skill and judgement as it failed to consider the key environmental changes, in particular the growth of the internet and digital music, as a key threat to the business. It could be argued that, as a result, it also failed to promote the success of the company, as it undertook a highly risky price war with the supermarkets, which it lost. It could also be argued that T failed to exercise independent judgement as he was acting from personal interests and preferences rather than from strategic and market awareness.

In addition, the Directors have a responsibility to the wider stakeholders, in particular the employees. Redundancies are now likely if the rationalisation occurs which clearly affects a large number of employees. Again, had the Directors of GGM been more environmentally aware, they may have been able to safeguard more jobs by re-aligning the business to more online delivery.

Overall, the whole Board of GGM, led by T, has failed in a number of key duties as directors of the business.

Requirement (c)

Short-term impact

Customers
- The customers are likely to perceive GGM unfavourably as a result of the store closures.
- If they have not done so already, then they are likely to move to online or supermarket purchases or to the independent retailers.
- There will be fewer buying options for hard copy music and other entertainment products but, for most customers, the short-term impact is likely to be small. However, there is likely to be a feeling of negativity towards GGM from the customers as they will see GGM as a failed business.

Employees
- For some employees, the closures will mean immediate redundancy. GGM should consider strategies to lessen this impact on staff, such as redundancy packages, training and re-training and support for those staff remaining.
- There will also be a negative impact on those staff remaining. They may have to re-locate and also work different shift patterns or follow different working arrangements as a result of the rationalisation. Again, good communication and training is essential from GGM to lessen the impact upon remaining staff.
- Morale is likely to be low and staff turnover may increase as uncertainty about the future grows.
Long-term impact

Customers
- In the long-term, customers of GGM may perceive it far more favourably than now as it may become a highly specialised retailer.
- The reputation of GGM as a specialist, niche supplier of music should increase its reputation in the market.
- It is possible that GGM will build up a very loyal customer base for the products that it sells, providing that it survives in the long-term.

Employees
- In the long-term, the employees should develop a more focused and knowledgeable relationship with customers.
- They will have a better knowledge of the product they sell and this should improve staff morale.
Answer to Question Three

<table>
<thead>
<tr>
<th>Rationale</th>
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<tbody>
<tr>
<td>Requirement (a) examines learning outcome D1(b) ‘evaluate alternative models of performance measurement’ and is designed to test candidates’ understanding of BPR and PI. Requirement (b) examines learning outcome D1(c) ‘recommend solutions to problems in performance measurement’ and is designed to test candidates’ knowledge of BPR. Requirement (c)(i) examines learning outcome B1(a) ‘discuss the concept of organisational change’ and is designed to test candidates’ understanding of the cultural difficulties that may be encountered when implementing a change such as BPR. Requirement (c)(ii) examines learning outcome B1(b) ‘recommend techniques to manage resistance to change’ and is designed to test candidates’ understanding of how to overcome cultural difficulties that may be encountered when implementing a change such as BPR.</td>
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<tr>
<th>Suggested approach</th>
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<tbody>
<tr>
<td>Requirement (a) should be a straightforward knowledge demonstration question, requiring candidates to demonstrate their understanding of the two key syllabus areas of BPR and PI. Requirement (b) requires candidates to demonstrate their ability to apply the knowledge of BPR demonstrated in their answers to requirement (a) to the scenario organisation. Candidates must only use the processes mentioned in the scenario to base their answers upon. It is also important that answers should focus upon the application of BPR only. Requirement (c)(i) examines the candidates’ understanding of the impact of BPR upon organisational culture. Candidates should ensure that their answers focus directly upon the possible cultural impact of implementing BPR within SSS. A generic discussion of culture or a description of the cultural web of SSS will not be awarded a pass mark. Requirement (c)(ii) requires candidates to identify and justify the solutions to the cultural problems identified in part (c)(i) of the answer.</td>
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**Requirement (a)**

Business Process Re-engineering and Process Innovation are similar concepts in the area of business process re-design and innovation. Both aim to improve the processes to make a business run more efficiently with the use of technology to help deliver business effectiveness. In the context of the case scenario, these changes should be focused on improving the quality and level of customer service to meet the demands of customers who now have a choice of bank in Country W.

**Business Process Re-engineering (BPR)**

BPR is the fundamental re-design of the existing business processes in order to achieve dramatic improvements in performance to meet the needs of the customers and to eliminate inefficient processes. BPR tries to identify each of the required steps in a particular process and to define a better system to achieve this service delivery. It often involves the use of technology innovatively to carry out business processes in new ways. For SSS it is likely to involve a radical re-think of its existing business transactions and customer service activities and a review of its current use of technology, particularly in undertaking basic customer transactions and the use of its website. BPR needs to link into SSS’s agreed strategy for the future and how that strategy can best be achieved in the long-term. It should not be seen as a short-term fix or way of cutting costs.

**Process Innovation (PI)**

PI focuses upon the invention of completely new processes, rather than re-designing existing ones and it involves the creation of totally innovative ways to do business and nearly always involves the use of new high tech solutions. This approach is likely to involve SSS re-thinking the entire business and its mission rather than upon individual banking processes and activities that it currently undertakes. Therefore, its impact upon SSS is likely to be much
more radical and far reaching than BPR, in that it is likely to involve a complete re-think of the whole mission of the bank and lead to changes in structure and total re-design of processes. An example in the banking business would be the installation of finger print recognition readers at cash machines to identify the customer rather than the use of a magnetic strip on a cash withdrawal plastic card. The use of this new technology would reduce fraud and differentiate SSS from its competitors. Therefore, for each business process, PI would look to see how the use of technology could deliver a better service for customers. This may be through the use of internet banking to save SSS’s branch staff processing each of the transactions, or for customers to be able to download their transactions to their computers for further analysis, which could be an attraction for business users.

**Requirement (b)**

Each business process performed by SSS needs firstly to be broken down into a series of processes. Each process then needs to be recorded and analysed to find out whether it is necessary, whether it is adding value and whether it provides support to other value adding processes. Any process which is not adding value or which is not providing essential support to the value adding activities needs to be eliminated. Those processes that remain need to be re-designed so that they are as efficient as possible. For SSS this is likely to involve the introduction of new technology to improve these processes. However, SSS must ensure that the statutory processes are not compromised.

The benefits that SSS is likely to obtain from BPR are as follows:

**In-branch cash deposits and withdrawals**
The activity of depositing and withdrawing cash from the bank is a vital one for customers and therefore must be retained, but clearly there are inefficiencies in the current way of operating this process. Deposits and withdrawals currently are carried out manually in-branch, resulting in long waiting times for customers. BPR would be likely to involve the review of branch staff processing activities to see if there are any unnecessary or duplicate processes taking place and to eliminate these if they do not add value to the customer. In addition, BPR will involve the review of each process to determine whether it could be improved or eliminated through the introduction of technology. The introduction of automated deposits and withdrawals would drastically reduce the manual input of staff and reduce waiting times for customers but would require investment in the installation of Automated Teller Machines (ATM’s) into branches.

**Loan applications and account opening**
Loan applications and opening of new accounts are complex processes, requiring multiple forms to be completed and an interview process. These are likely to be more complex processes than deposits and withdrawals, but nevertheless, there is likely to be room for improved efficiency. BPR would involve the analysis of the whole process and all of the activities involved. It is likely that BPR would identify the need for only one form that captures all of the necessary customer information and it is likely that this could in fact be improved or indeed eliminated through the development of an online application form through SSS’s website. Online entry should eliminate the possibility of forms being mislaid, lost or completed incorrectly, again enhancing customer service. Online processing checks, ensuring that data fields are correctly entered by customers should reduce errors and eliminate unnecessary staff activities in checking and re-processing forms.

**Customer service activities**
Customer relationship management is not a factor that SSS considers to be necessary, as customers have traditionally been loyal. However, this is largely driven by lack of competition, rather than because of high levels of customer satisfaction. Now that customers of Country W have alternative banking opportunities this has now highlighted the need for SSS to focus attention on managing its relationship with its customers. This is evident from the number of customers now leaving SSS and moving to the foreign banks. BPR activities would assist SSS in understanding those processes which SSS’s customers value the most and eliminate those which are not valued. The foreign banks have introduced a range of new products, including online banking and mobile and telephone banking facilities, as well as much higher levels of customer service. Clearly these are valued by the customer. As discussed above, in-
branch transactions by SSS should be reduced or eliminated completely in favour of online banking facilities. Use of mobile and internet technologies to undertake its business processes and activities should increase customer satisfaction and customer service levels. Also, they will save time and improve efficiency whilst retaining effectiveness.

Overall, it is likely that BPR may increase costs within SSS in the short-term as investment in technology is likely to be required. However, this should have the effect of reducing costly levels of wasted manual activities and processes. In the long-term the benefits should be increased levels of efficiency, profitability and high levels of customer service and retention.

Note: The question only requires candidates to analyse two different business processes of SSS.

Requirement (c)(i)

BPR will be a major change in SSS and is likely to have an impact upon the culture of the business. Culture can be generally defined as ‘the way we do things around here’ (Charles Handy).

Currently, the culture of SSS appears to be highly bureaucratic and process driven, with staff having to follow rigid procedures and rules, regardless of whether those processes are actually necessary or not. The current structure of the organisation is rigid and inflexible and staff are not encouraged to think of new ideas or ways of operating.

This has resulted in a culture where staff follow these rules and procedures, taking them for granted and not questioning the status quo. This has led to a culture of merely ‘doing’, which has resulted in low morale, especially as frontline staff receive the brunt of customer complaints.

There is no cultural focus upon the importance of the customer as customer reviews have never been undertaken. Therefore, culturally, the customers experience is not considered to be an important aspect of the business.

It is likely that this culture is deeply embedded in the staff and therefore will be difficult to change. Therefore, it is likely that any initiative such as BPR will lead to resistance to change from staff.

Managers are also likely to find change difficult due to their lack of experience of change in the bank’s systems and procedures in the past.

Therefore, a change agent may be necessary to lead the process and to direct both staff and management. This in itself may be problematic as the staff will never have had experience of working with change agents and may resist what could be seen as interference, particularly if it is an external change agent.

Requirement (c)(ii)

The use of the Kotter and Schlesinger 6 stage change model or Lewin’s unfreeze / move / re-freeze model may be useful for SSS to adopt to help in the change management process within SSS. It will be necessary for the ‘tone from the top’ to be set and for the SSS Board to be fully committed to change as a way to improve the customer experience. Any cost savings that occur are incidental and a favourable side-effect of change – but the whole focus needs to be on delivering a better service to customers.

It will be necessary to hold road shows and communicate the ideas for change with staff at all of its 100 branches. This could be done by posters, email, newsletters as well as regular staff briefings at all branches.
This change process takes time, but it is a necessary step in order to achieve employee 'buy in' and for all employees to participate in helping to bring about change and to focus on what customers want.

It may also be necessary to introduce performance related pay (PRP) which links SSS’s new business objectives into employees’ bonus payments. This will help motivate both employees and managers to achieve the business objectives.

Employees will resist change but emphasis and time needs to be put in by change agents to help overcome this resistance. Tesco has change agents and 'Champions for change' employees at all stores to help bring about business efficiencies and to focus on the customer.

Employees may fear for their jobs and are not familiar with the extensive use of technology, especially very high technology methods, and training will be required. To reassure them, all employees need to be educated that these actions are for the long-term growth of SSS rather than simply for short-term cost savings.

BPR has a reputation for being seen only as a way of cutting costs and achieving staff reductions / redundancies, so it is natural for employees to be concerned. However, all employees should be briefed about SSS’s current loss of customers and its market share and what impact the new foreign banks have had on SSS’s performance. It should be explained that the BPR review is being undertaken to enable SSS to grow and develop a long-term strategy to enable it to better serve its customers. Structures will need to be considered and new ways of working will have to be set up. Involvement and participation will be new to staff and training must be undertaken. However, if redundancies are a likely outcome, the Board needs to be transparent and clearly and unambiguously explain this to staff to obtain their confidence.
**Answer to Question Four**

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<th>Rationale</th>
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<tr>
<td>Requirement (a) examines learning outcome B1(a) ‘discuss the concept of organisational change’ and is designed to test candidates’ understanding of the environmental influences of change in organisations. Requirement (b) examines learning outcome B2(c) ‘evaluate tools, techniques and strategies for managing the change process’ and is designed to test candidates’ understanding of the importance of organisations being ready for change. Requirement (c)(i) examines learning outcome B2(a) ‘evaluate the approaches to managing change’ and is designed to test candidates’ understanding of the drawbacks and benefits of a change strategy. Requirement (c)(ii) examines learning outcome B3(a) ‘evaluate the role of change management in the context of strategy implementation’ and is designed to test candidates’ ability to make a sound and reasoned recommendation for change.</td>
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<tr>
<td>Requirement (a) should be a straightforward question which requires candidates to present a SWOT analysis. Candidates are expected to identify aspects within each of the four quadrants of the SWOT and to explain each of the points made. The answer must be from the point of view of HFH.</td>
</tr>
<tr>
<td>Requirement (b) requires candidates to apply their knowledge and understanding of change adept organisational characteristics to CFC. Clearly candidates must have the syllabus knowledge of change adept organisations to answer this question. However, a sound evaluation of the unseen material relating to CFC should provide the candidates with sufficient information to answer this question.</td>
</tr>
<tr>
<td>Requirement (c)(i) should be a straightforward question requiring candidates to discuss the benefits and difficulties of a merger between the two charities. Candidates should clearly present a separate discussion for the benefits and difficulties, and answers must be directly applied to the scenario context.</td>
</tr>
<tr>
<td>Requirement (c)(ii) requires candidates to present and justify a final recommendation. Candidates should use their answers in part (c)(i) to help to justify their final recommendation. It is important that candidates clearly and fully justify any recommendation made.</td>
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**Requirement (a)**

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<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>• HFH is well respected in the charity environment and, therefore, in the current climate for mergers, this reputation is a positive factor for change.</td>
<td>• There are obvious opportunities for collaboration in the charities sector.</td>
</tr>
<tr>
<td>• HFH has an experienced Board of Trustees which is open and willing to embrace change and recognise the need for change.</td>
<td>• The Government of the country is positively encouraging this form of collaboration and is providing incentives for collaboration.</td>
</tr>
<tr>
<td>• Specialist skills with helping homeless people.</td>
<td>• HFH could develop and work on larger and more innovative projects by working in partnerships.</td>
</tr>
<tr>
<td>• Committed employees and volunteers.</td>
<td>• HFH may be able to gain access to new sources of funds and volunteers.</td>
</tr>
<tr>
<td>• Board of Trustees with vision to see the need to offer other services.</td>
<td>• Changing needs of beneficiaries opens up new opportunities for new services.</td>
</tr>
<tr>
<td></td>
<td>• Merger with CFC.</td>
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<tr>
<td></td>
<td>• Offer employment training services.</td>
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<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Limited fundraising capability.</td>
<td>• Economic recession leading to a general lack of financial stability and reduced funding.</td>
</tr>
<tr>
<td>• Low profile in charity sector.</td>
<td>• Loss of key personnel and volunteers due to pressure.</td>
</tr>
<tr>
<td>• Declining donor base.</td>
<td>• Greater demand putting pressure on scarce resources.</td>
</tr>
<tr>
<td>• Inadequate resources to cope with rising demand.</td>
<td>• With recession, demand may continue to grow and HFH may struggle to provide adequate service and lose its good reputation.</td>
</tr>
<tr>
<td>• Over reliance on limited sources of funding.</td>
<td></td>
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<tr>
<td>• Employees and volunteers don’t have employment training skills.</td>
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**Requirement (b)**

*Examiner note: The following introductory section is for tuition purposes only. Candidates are not expected to provide this definition of Kanter’s characteristics of change adept organisations in their answers.*

According to Kanter, organisations which are change adept have the following characteristics:

- The imagination to innovate
- The professionalism to perform
- The openness to collaborate

CFC Board of Trustees demonstrates these characteristics in a number of areas.
It is innovative in continually enhancing its services, including helping people to learn new skills such as IT, and it also has always embraced technology and the use of a sophisticated website to advertise its services. Therefore, this fits Kanter’s first characteristic of a change adept organisation, as having the ‘imagination to innovate’.

The Board of Trustees of CFC has also been open and encouraged collaboration and partnerships with other organisations in Country Z, in order to develop and enhance the services it offers and to utilise the expertise and knowledge of other complementary organisations. This aspect of CFC’s activities demonstrates a further characteristic of change adept organisations, in that it has ‘an openness to collaborate’.

**Requirement (c)(i)**

**Benefits for HFH**

- Access to CFC’s employees and volunteers and their greater knowledge of new service areas such as employment training.
- It should allow HFH to expand its services to customers thus improving its service levels.
- Merging should allow for staff retention and a wider access to volunteers.
- It should permit HFH better access to more secure funding.
- CFC provides help to people with IT skills and job interviews and these skills can be passed on to HFH’s employees. The two organisations will have a shared common goal to provide help to people requiring IT skills and jobs.
- The two organisations would be part of a bigger charity and this may give all of HFH’s employees and volunteers an opportunity to gain wider experience in their career and better job security.
- It should provide homeless people with access to a wider range of other services.
- It should allow both organisations to become more efficient and cut central overheads.
- A merger would help HFH survive in the longer term and be less dependent on its existing source of donations.
- It raises the profile of the need to provide shelter for homeless people.

**Difficulties for HFH**

- There is likely to be staff resistance to change and a fear that they may not be doing the work that they used to do and want to do - especially relevant for volunteers.
- When merging the two organisations, their IT systems and different cultures and working practices may cause difficulties in integration.
- CFC, as the larger charity, may appear to ‘take over’ HFH and HFH’s employees and volunteers may feel less needed and lose focus and motivation.
- There may be loss of identity through a merger with a larger charity.
• The wider range of services provided by the larger organisations in the new charity, post-merger, may detract from HFH’s main purpose of providing accommodation for homeless people.

• Management of the change process takes up time and may affect the management's ability to focus on the immediate problems of the growing demand for shelter in the current recession.

• Central Government funding usually comes with some form of central Government control meaning that HFH may lose some autonomy.

Requirement (c)(ii)

It would seem to be highly beneficial for HFH to merge with CFC, therefore the recommendation is for the two charities to merge. In fact it may be the only option for HFH to survive.

In the context of the current climate for mergers and the government positively encouraging mergers it would appear sensible. The two charities are highly compatible in their areas of work and there appears to be a high degree of synergy. CFC is a good fit for HFH and both charities share common goals.

In addition, due to the funding and donations problem, if the merger is not agreed, then the combination of increased demand and falling funding for HFH, which has a low profile, will result in it failing in its fundamental purpose of providing shelter for the homeless. The access to funding provided by the merger is more likely to help HFH in its basic purpose of continuing to try to meet the growing demands of homeless people.

With the government favouring mergers of charities, and the possible mergers of other charities, rejecting this proposal now could ultimately lead to the failure and closure of HFH if it were to lose more funding.

This is a good opportunity and needs to be seized before CFC selects a different charity to merge with.