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 August 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 C2(c) ‘produce an organisation’s value chain’ and is designed to test candidates’ ability to apply and evaluate a strategic analysis tool. Requirement (a)(ii) examines learning outcome A1(e) ‘recommend how to interact with suppliers and customers’ and is designed to test candidates’ understanding of the importance to BM of ensuring that the supply chain is effectively managed. Requirements (b)(i) and (ii) examine learning outcome C1(b) ‘evaluate strategic options’. Requirement (b)(iii) examines learning outcome C1(a) ‘evaluate the process of strategy formulation’ and is designed to test candidates’ ability to make a well reasoned recommendation. Requirement (c) examines learning outcome A1(c) ‘discuss the drivers of external demands for corporate social responsibility’ and is designed to test candidates’ knowledge and the impact of CSR activities on the achievement of overall objectives.

Suggested approach

For requirement (a)(i) candidates are expected to apply the value chain model to the primary activities identified in the unseen material. Importantly, answers should be focused upon how these primary activities should add value to BM’s customers.

For requirement (a)(ii) candidates must consider those factors which BM must focus on to achieve an effective supply chain strategy. Importantly, candidates must apply their knowledge of effective supply chain management, particularly in respect of the need to focus on BM’s customers as part of
For requirement (b)(i) candidates are expected to present the three NPV calculations required and the profitability index calculations for the two strategic development options. Answers should be clearly set out and presented as directed by the requirement. This should be a straightforward set of calculations.

For requirement (b)(ii) candidates are expected to undertake a discussion of the two strategic development options, taking into account the differences in the risks between the two and the differences in undertaking organic growth and acquisition. Importantly, answers must be directly focused upon the information provided in the unseen material.

For requirement (b)(iii) candidates are expected to provide a reasoned recommendation based upon the previous analysis. It is important that candidates provide reasoned and justified recommendations which correspond to their previous analysis.

For requirement (c) candidates are expected to discuss the link between the Corporate Responsibility aims of P plc and the achievement of BM’s divisional strategy. Importantly, candidates should make sure that they choose only two of the corporate responsibility aims outlined and clearly discuss their potential impact upon BM’s divisional strategy. Once again, a clear demonstration of the ability to apply answers to the scenario information is required in this answer.

**Requirement (a)(i)**

**Inbound Logistics**

BM has over 40,000 suppliers offering BM’s customers a wide range of products. In the building industry, customers demand prompt supply of products so as not to delay building projects, so it is important that BM holds adequate inventory levels to meet customers’ needs.

Having such a diverse range of suppliers around the world should add value to its customers as they should be able to find the product that they require. However, a wide choice must be supported by high levels of product availability, as and when customers demand products. Therefore close relationships with suppliers is critical in inbound logistics, to ensure that value added is realised.

However, specialist products, or slow moving lines, should not be re-ordered automatically as the speed of sale of these items is not known. BM needs to have the ability to obtain supplies of products ordered by customers on a fast turnaround so as not to lose customers’ loyalty. BM also needs to ensure efficient delivery from suppliers to its warehouses to reduce costs.

**Operations/ Outbound Logistics**

BM does not carry out any conversion process upon the products it supplies; it is merely a distributor of a final product to its retail units and then on to the customer. BM may wish to undertake quality control tests on products from a variety of suppliers.

However, it is important that the operations at the distribution warehouses and the retail outlets are effective and customer focused and that products are distributed to customers in the most effective and efficient way. BM must provide an efficient and prompt distribution network to fulfil its customers’ orders in all of the countries in which BM operates. BM’s retail outlets stock locally focused products, thus adding value to local customers as products are focused upon local needs. Customers can buy at the counter, through supply contracts or via the website which allows a degree of flexibility for customers depending on their needs.

The use of virtual warehousing needs to be carefully considered as BM could lose these customers to competitors if products are delivered direct from suppliers with little added value from BM. In order to retain its customer base, BM needs to ensure that it can fulfil customer orders from its own warehouses. If customers were to get deliveries straight from the supplier, why use BM in the future? BM could be simply cut out. BM needs to add value to the products procured by offering a ‘seamless’ delivery service of all products ordered to meet the prompt delivery timescales demanded by customers.
Sales and Marketing
Sales are carried out at the counter, through the website and through contract sales. Therefore, there is a range of methods by which sales can take place. This offers flexibility to customers and thus adds value.

Through more effective marketing BM should be able to increase sales and by targeting promotions to customers for specific products. The website is a useful tool that can be used for marketing products to customers and allowing them to review product specifications before purchase.

Additionally, through the use of e-marketing, it could reduce its marketing costs. Promotions should be held to improve the volume of online orders. This would help BM to plan and control inventory levels more effectively and reduce stock-outs, thereby adding value.

BM’s website could show all the details / dimensions of the products, to reduce queries and time at its retail units, thereby helping customers.

Service
Customer surveys are regularly carried out by BM. This shows to customers that BM values their opinions. BM also offers service guarantees to customers which should encourage customer loyalty and should also add value to the customer experience.

Summary
As can be seen from the above value chain analysis, most of the primary activities undertaken by BM are done to add value to its customers and to maximise customer service. This is driven by the senior management’s strategic focus upon high levels of customer service being a driving force in sound financial performance.

Requirement (a)(ii)
BM’s supply chain management is key to P plc’s strategic objective to continuously strive to improve its customer services (Pre-seen Page 3). Supply chain management involves all of the activities and information flows necessary to get the goods from the original supplier to the end customer. For BM, as the distributor of the final product, this involves all of the processes involved in identifying sources of supply, transportation of products from suppliers to its warehouses and then distribution of the products to the retail outlets. Some of this will be done electronically through supply chain management technology whereby the suppliers’ systems are directly linked to BM’s systems. Most importantly though, is that the supply chain maximises the level of satisfaction for BM’s customers. Therefore an effective supply chain management strategy would need to consider:

- Potential suppliers (location, size, product range available);
- The number of suppliers (large numbers add to complexity but increases product diversity for customers);
- Cost, quality and speed of delivery (the supply chain management strategy will probably need to make compromises on these and find the correct balance for individual customers).

Customer service is clearly a high priority for the DEMT of BM and an effective supply chain management strategy would help in the achievement of this. In the traditional supply chain model, the suppliers of the raw materials or products are at one end of the supply chain. They are connected to the distributor which in turn is connected to the end customer. The supplier would then ‘push’ the products through the distributor to the customer. This form of supply chain strategy is largely driven by the supplier.

However, a greater emphasis should be placed upon the relationship between the end customer and the distributor, whereby the customers are becoming more empowered and create a ‘pull’ driven supply chain strategy. This means that the supply chain is more focused upon the needs of individual customers i.e. a more customer and market oriented supply chain. In the pull model, customers use electronic connections to pull what they require from the supply chain and enable them to have direct contact with the distributors electronically. In the case of BM, it has focused specifically upon the needs of its customers in developing relationships with its suppliers to ensure that the products that they distribute through its procurement teams and stock management systems are what the
customers demand when they demand them. BM works in a highly competitive market and therefore it must focus upon a customer driven supply chain in order to remain competitive in the market place. Therefore an emphasis upon an effective supply chain management strategy will be a key determinant of the success of the business.

**Requirement (b)(i)**

**Calculation for Option 1**

(a)  

<table>
<thead>
<tr>
<th>Years</th>
<th>Net cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 5</td>
<td>2,400,000</td>
</tr>
<tr>
<td>6 - 10</td>
<td>3,400,000</td>
</tr>
</tbody>
</table>

**NPV**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cashflow</th>
<th>DF @ 10%</th>
<th>PV</th>
<th>Cashflow</th>
<th>PV</th>
<th>Cashflow</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(15,000,000)</td>
<td>1</td>
<td>(15,000,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 5</td>
<td>2,400,000</td>
<td>3.791</td>
<td>9,098,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 - 10</td>
<td>3,400,000</td>
<td>2.354</td>
<td>8,003,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,102,000</td>
<td></td>
</tr>
</tbody>
</table>

**Profitability index**

\[
\text{Profitability index} = 1 + \frac{\text{PV of future cashflows}}{\text{Initial Investment}} = 1 + \frac{2,102,000}{15,000,000} = 1.14
\]

(b) **Calculations for Option 2**

**Weighted EV calculations**

**Cash Inflows**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cum DF</th>
<th>Cashflow</th>
<th>PV</th>
<th>Cashflow</th>
<th>PV</th>
<th>Cashflow</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 10</td>
<td>6.145</td>
<td>3,000,000</td>
<td>18,435,000</td>
<td>4,350,000</td>
<td>26,730,750</td>
<td>2,650,000</td>
<td>16,284,250</td>
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<tr>
<td>Probability</td>
<td>0.5</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>weighted PV</td>
<td>9,217,500</td>
<td>8,019,225</td>
<td>3,256,850</td>
<td>3,256,850</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20,493,575</td>
<td>20,493,575</td>
<td>20,493,575</td>
<td>20,493,575</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cash outflows**

<table>
<thead>
<tr>
<th>Year</th>
<th>DF</th>
<th>Cashflow</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>14,500,000</td>
<td>14,500,000</td>
</tr>
<tr>
<td>1</td>
<td>0.909</td>
<td>4,250,000</td>
<td>3,863,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>18,363,250</td>
</tr>
<tr>
<td>NVP Option 2 (Expected value)</td>
<td>2,130,325</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Probability weighted outcome**

\[
\text{EV Profitability index} = 1 + \frac{2,130,325}{18,363,250} = 1.116
\]

Alternatively, candidates could have calculated the following:

\[
1 + \frac{2,130,325}{14,500,000} = 1.147
\]
Worst outcome
(20% chance)
NPV
Cash inflow 16,284,250
Cash outflow 18,363,250
NPV (2,079,000)

<table>
<thead>
<tr>
<th>Summary</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Weighted</th>
<th>Worst outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV</td>
<td>2,102,000</td>
<td>2,130,325</td>
<td>2,102,000</td>
<td>(2,079,000)</td>
</tr>
<tr>
<td>Profit Index</td>
<td>1.140</td>
<td>1.116</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Requirement (b)(ii)**

**Option 1 – Organic growth in Country X**

Option 1 is an example of organic growth in a new country within which BM has not previously operated retail outlets. It is essentially the same business that BM operates now, but relocated in Country X, with the risks that this might involve. There is some risk in that BM is not familiar with the market conditions in Country X. Although the staff of BM are recognised as being highly skilled in this area of product sales, the business is a commodity business and, as such, is sensitive to price wars, increases in variable costs and changes in demand. Organic growth is likely to be a much lower risk to BM but this risk is increased by operating in a country which is unknown to it. However, this risk is clearly lessened to a degree in that it is operating with familiar products and in a familiar industry environment.

A further consideration is that there is a high level of competition in Country X which is likely to respond aggressively to BM’s entry into the market and it must be prepared for aggressive competitor activities such as price wars.

This project involves the investment of GBP 15.0 million, will offer a net present value of GBP 2,102,000 and has a profitability index of 1.14 over 10 years. On purely financial grounds, Option 1 in Country X is viable. The PI is greater for Option 1 than Option 2 although the NPV is slightly lower. However, NPV for Option 1 is earned on an investment of only GBP 15.0 million compared to the NPV earned by GBP 18.75 million for Option 2.

**Option 2 – Acquisition in a country in which BM already operates retail outlets**

On first consideration Option 2 has a positive NPV for the EV option and would appear to be a financially viable project. The EV profitability index is 1.12 which is lower than the PI for Option 1. However there is a significantly higher investment cost overall for Option 2 at GBP 18.75 million compared to Option 1 at GBP 15 million. The worst case scenario, with a 20% probability would be of concern to BM as it would result in a significantly negative NPV.

Additional non-financial aspects of the venture which need to be considered are that the investment is inherently risky due to the differentiated nature of the products which BM intends to sell. Whilst the company will operate in a familiar market of Country Q, it will have to embrace a new product range, different from the one which it currently sells. Whilst success in the current business model is most likely to be based on cost efficiency, the proposed business involves a differentiated product and, consequently, a different approach to marketing. The forecasts suggest that the market has a strong future, and could be a highly successful venture for the BM division. In general the profit margins available in differentiated markets are higher than those for commodity products. Also there are likely to be fewer competitors in this market place and this could be an opportunity for BM to move into this niche area of building products and become the market leader, both in Country Q and then in other countries around the world. This is clearly a growing area of business in Europe and a potential area for BM to grow its market share.

It must also be considered that this option involves an acquisition, with the risks associated with this type of strategy. These are specialist building materials and, as such, it is likely that demand will be difficult to assess. In addition, as an acquisition, integration costs should be considered and the
further on-going costs of training. The probabilities presented are highly variable and show huge
diversity in possible outcomes which should indicate the level of risk involved in this venture.

Requirement (b)(iii)
Both options are financially viable taking into account the Expected Value for Option 2 as both are
likely to yield positive NPV’s on the investment and show positive PI’s. The main determinant is the
risk appetite of the overall business and the likely future impact that these proposals may have on
achieving P plc’s strategic objective 1. However, a significant consideration between the two options
must be the fact that there is a considerable risk, at 20%, which is not insignificant, that there could be
a negative NPV for Option 2.

On the basis of the arguments put forward above, it is recommended that BM should invest in Option
1. Organic growth is likely to be significantly less risky than an acquisition despite it being within a
country within which BM has not operated previously. It is likely that the Government of Country X will
take a favourable stance towards BM as it is actively encouraging economic growth in the country and
therefore is likely to offer incentives to BM to set up in the country. Less training will be required as
the business model is familiar and the marketing approach can remain unchanged.

Requirement (c)
Note: Candidates should discuss any two of the following of BM’s corporate responsibility aims:

P plc’s CR aims focus upon four key areas:

1. Staff training, development and safety management;
2. Commitment to the highest ethical standards, both internally and from external supplier
   relationships;
3. Environmental performance management including emissions, waste management and
   recycling activities;
4. Product integrity, which means the supply of safe and reliable products that are of the
   required quality in the most efficient way possible.

BM’s divisional strategy is focused upon maximisation of operational efficiency and also the
achievement of high levels of customer service in line with P plc’s corporate responsibilities.
Therefore, it is important that BM applies the principles of P plc’s corporate responsibility aims
through its own corporate responsibility activities.

Staff training, development and safety management
In the buildings materials industry, it is essential that BM’s employees have expert knowledge of its
products so that they can deal efficiently with customers and maximize sales. Customers are looking
for expertise from BM and may rely on BM advising which products work well together and which do
not. So continuous product training leads to knowledgeable and motivated employees.

Safety training will help to minimize delays in getting products delivered to customers. By
demonstrating commitment to staff and managers in BM through training and development, it should
lead to higher levels of staff satisfaction and retention. This in turn will lead to increased productivity
and motivation, improved quality of operations and customer service, and reduced costs.

Similarly, by providing a safe and healthy working environment, and thus protecting the health and
safety of staff, it will help to gain and maintain staff trust and loyalty. It also ensures that BM protects
the skills and experience that are used to serve customers. In addition, maintaining physical assets
minimises the risk of injury, helps to preserve the integrity of operations, improves efficiency, lowers
costs and improves the quality of BM’s customer service. All of this should assist in the achievement
of its divisional strategy of focusing upon customer service and operational efficiency which in turn
supports P Plc’s strategic objectives.

Commitment to the highest ethical standards
BM is committed to observing the highest ethical standards both internally and externally. If BM is to
expand its market share and maintain a sustainable business for the future it must operate in an
ethical way and treat its employees and its suppliers and customers fairly and honestly.
Conducting business responsibly and with integrity minimises risks related to fraud and corruption and strengthens BM’s reputation. It also makes the business more efficient because it avoids costly disruptions. Compliance programmes strengthen internal controls and relationships with suppliers and customers. High ethical standards increase reputation and should increase customer satisfaction levels.

BM should have a clear pricing policy with no hidden costs and should be able to deliver products to customers in accordance with contracts and committed delivery dates. BM must put in place a distribution system to ensure that it continues to meet customers’ needs and deals with them honestly and with integrity.

In terms of suppliers, BM needs to negotiate on prices paid but act honestly with no unfair practices. The ethical stance for a company is not what it says on its website, or what it tells its employees, but it is in the way it conducts its business. A sound mission statement, which ensconces good ethical behaviour, is not any indicator of whether a company is indeed acting with integrity and to high ethical standards.

**Environmental Performance management**

Environmental performance management means that BM will likely consume less energy and fuel, produce less waste and reduce the negative effect of the business activities on the environment. Measuring environmental performance in chosen areas will enable BM to become more efficient, reduce operational costs and reduce its impact on the environment. This is likely to make it more favourable with customers and also with governments in the countries where BM operates.

In addition, BM can strive to be a positive link in the sustainable construction supply chain. In the building industry much of the materials come from quarries or use scarce resources such as marble. It is important that BM sources its products from reputable suppliers which minimize the damage done to the environment through the quarrying process. This could assist it in gaining market share, by exploiting opportunities of this new market and by attracting and maintaining customers through new customer services and high standards in environmental performance.

By using efficient transportation systems, BM should try to minimize its damage to the environment by road or sea. BM should investigate establishing warehouses in Asia and Africa for the main bulky products to minimize the double transportation to and from European warehouses, if virtual warehousing does not materialise or is not appropriate for these locations.

**Product Integrity**

By working with suppliers BM should aim to maintain high standards of product quality and safety. The quality of the products that BM supplies to the building and construction sector must be sound to ensure that the construction projects are not damaged due to faulty goods.

BM should also require its suppliers, contractors and agents to similarly adhere to its Corporate Social Responsibility aims and to adopt similar standards. This in turn will improve product quality, integrity and customer service. Compliance with its product integrity policy reduces risks of litigation, business disruption and increases levels of customer satisfaction and service. BM has a responsibility to test samples of products on a regular basis from all suppliers to ensure agreed specifications are adhered to.

BM also has a responsibility to audit its suppliers to ensure they meet the terms of their contracts and are themselves acting correctly in respect of their employees, safety standards and quality control.
Answer to Question Two

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirement (a) examines learning outcome B1(a) 'discuss the concept of organisational change' and is designed to test candidates' knowledge of the external environmental drivers of organisational change for D. Requirement (b) examines learning outcome B2(a) 'evaluate approaches to managing change' and is designed to test candidates' knowledge of learning organisations as a concept within organisational change management. Requirement (c) examines learning outcome B3(a) 'evaluate the role of change management in the context of strategy implementation' and is designed to test candidates' understanding of the practical application of a learning organisational model to D.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Suggested approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>For requirement (a) candidates are expected to apply the material provided in the scenario to the PESTLE framework. This should be a straightforward question but, importantly, the application of knowledge must focus directly upon the ethical and social responsibility challenges within D's environment.</td>
</tr>
<tr>
<td>For requirement (b) candidates are expected to demonstrate their syllabus knowledge of learning organisations.</td>
</tr>
<tr>
<td>For requirement (c) candidates are expected to apply their knowledge of learning organisations directly to D. It is important that candidates provide a range of applied benefits and barriers and should attempt to provide a balanced answer.</td>
</tr>
</tbody>
</table>

**Requirement (a)**

**Political factors**
Pressure has been continuously applied on the telecommunications industry to improve business ethics and corporate social responsibility which is clearly an important driver to ensure that business ethics and social responsibility are considered to be of strategic importance to D. Governments around the world have introduced regulations to ensure that companies work for the well-being of society as a whole. Governments expect large organisations such as D to operate ethically, both from the point of view of society and people and also from an environmental impact perspective. If D does not operate ethically, then it will face large penalties and fines from governments and is also likely to face bad publicity as a result. Therefore political pressure is a key external driver for D to consider ethics in everything that it does and at all levels of its business strategy.

There has also been a growth in the role of independent regulators in helping to ensure that companies cause least harm to the broader social environment. At a strategic level, D should attempt to go beyond government regulation, by working with its competitors and regulators in the telecoms industry on self-regulation. To retain its leading position in the industry D must exceed both legal regulations and industry self-regulation. This will inevitably require D to consider ethics in everything that it does and at all levels of its business.

**Economic factors**
The state of the economy, for example levels of growth or periods of recession, will inevitably impact on D. As the economic conditions within developing economies improve and people earn more money, their requirements also change. One example is where working in developing economies could lead to the exploitation of cheap labour. D must ensure that, whilst developing its customer base within these fast developing economies, it focuses on the highest ethical standards of behaviour towards employees and customers. Customer loyalty is likely to be highly important in these developing economies and therefore high standards of ethical behaviour are critical. Again, building ethics into its overall strategic activities will be critical for long term success, particularly in developing markets.
Additionally, D employs 50,000 people in 40 countries and needs to ensure that it treats all of these employees fairly and with respect. It should ensure that where employees need to be made redundant in response to falls in the volume of business, that D treats them fairly and makes appropriate termination payments. In order to operate ethically D should ensure that it does not exploit or overwork its employees, due to the pressure of the recession, and that the long-term benefit of retaining loyal, experienced employees is viewed above short term cost cutting processes. Competitiveness will be gained by keeping experienced employees within the company in the longer term.

**Social Factors**

Customers trust D and expect the company to look after their personal as well as financial information. This includes both individual and corporate customers. D therefore must follow a robust data protection and privacy policy worldwide to ensure that customer interests are safeguarded. Again, this will need to be considered at a strategic business level. D should invest in secure, protected IT systems which hold customers’ details to ensure they are held securely and are not shared outside of D, (except by law) without the explicit permission of customers. This ensures that D’s customers trust D to respect their privacy and this builds on the customer loyalty determinant.

A further social factor is individual customer protection. The question material states that there has been a significant increase in young phone users and therefore D has an ethical obligation to protect these young users from ‘cyber bullying’ and from unsuitable Internet sites. Parents will have concerns regarding web material and content available online, accessible through D. D must have a strict policy in restricting this access. Society is concerned about children being at risk from inappropriate content found within the telecoms networks. For example, parents may have concerns about their children being contacted without their consent or having access to inappropriate online content. Therefore, this parental concern must be of a high priority for D if it is to build long term trust and customer loyalty. D therefore has a responsibility to parents to provide technology to under 18’s to protect its young customers and to offer phones and technology with ‘built in’ blocking of certain types of Internet sites.

Different societies around the world will expect D to incorporate social issues specific to their geographical area and adapt policies accordingly e.g. D must not exploit cheap labour wherever it operates.

**Technological factors**

The mobile phone industry has seen a great deal of technological change and will continue to do so. Technological factors include Research and Development (R&D) activities, automation, technology innovations and the rate of technological change. R&D is a driving force behind economic growth, innovation of new products, and increasing quality of products. Much technological advancement, such as 3G and 4G technology, smartphone developments and internet capabilities now being exploited by individuals and companies, has impacted on D’s business operations around the world. D invests in R&D and its technology is consistently evolving. In the telecoms industry the speed of technological change is very rapid and D needs to ensure that it does not breach any IPRs held by other telecoms companies and that all R&D is conducted in an ethical way.

The advent of 3rd generation (3G) and 4th generation (4G) mobile phone technology is bringing with it a richer mix of content and providing more services accessible at a relatively cheap price. This further raises the issue of ethics as D can now offer a wide variety of content on mobile phones with this new technology. Naturally, 4G will help the companies to increase their sales revenues. However, D recognises that it brings additional ethical responsibility. This includes the need to protect individuals from inappropriate content. Therefore further technology should also be developed to protect young people from the misuse of content available on mobile phones.

**Legal factors**

D must act in all aspects of its business, from planning permission for telecom mast sites to tax payments, in the spirit of the law for each of the 40 countries in which it operates. Some laws regulate all businesses, e.g. The Sale of Goods Act 1974 stating all products must be fit for the purpose for which they are intended. A mobile phone must therefore work. Certain laws are created to regulate particular industries. Examples include the ban on using or holding a phone while driving which was introduced in 2003 within the United Kingdom.
D is subject to regulations governing the operation of its business activities. Such regulations typically take the form of industry specific laws and regulations covering telecommunications services and general competition laws applicable to all activities e.g. most member states of the EU have now implemented the ‘EU Regulatory Framework’ for the communications sector, which aims to encourage competition in the electronic communications markets, to improve the functioning of the single market and to guarantee basic user interests that would not be guaranteed by market forces. The impact of the EU Framework on D is significant, in that after member states of the EU enacted national laws implementing the EU Framework, D had to reduce its mobile phone termination rates and mobile roaming tariffs considerably.

Environmental
The mobile telecommunications industry has come under increasing pressure in terms of location of telecommunications masts and their potential impact upon the environment. There has been much adverse publicity about possible health risks associated with mobile telephony masts. In order for D to operate ethically it should ensure that all of its masts are positioned at a suitable distance from schools and other public places, to reduce the possible damaging effects of radio signal transmission.

D could also contribute towards research on this important potential health risk. D must also consider the impact on the environment of the appearance of its radio and cell site masts so that they are not a major eyesore in any of the countries in which it operates.

Requirement (b)
A learning organisation is one which facilitates the learning of its members and continuously transforms itself. A learning organisation is skilled at creating, acquiring and transferring knowledge and, importantly, at modifying its behaviour to take account of new knowledge and developments from both within its internal and external environment. Learning organisations develop as a result of the pressures facing modern organisations and enables them to remain competitive in a fast moving business environment.

From the perspective of D, its constantly changing and highly competitive environment makes it especially important to be a learning organisation in order to continually seek out new ways of operating in order to remain competitive. Technological innovation is only part of the process; innovation is also required in all aspects of its business operations including its culture, structure and systems. D recognises the importance of research and technological innovation to its future success, and even survival, in the telecoms industry and that organisational change and cultural change will be required in order to address the needs of its employees in delivering its chosen strategies. D operates in a fast-paced industry in which technology is constantly evolving and it needs to ensure that all of its employees embrace change and the need to share information and knowledge on all new products and services.

Note: Candidates may also take the approach in their answers of identifying the characteristics exhibited by a Learning organisation. Either approach is acceptable in answering this question.

Learning organisations exhibit five main characteristics:

1. **Systems thinking.** This allows people to study businesses as bounded objects. Learning organisations use this method of thinking and have information systems that measure the performance of the organisation as a whole and of its various components.

2. **Personal mastery.** This relates to the commitment by an individual to the process of learning. Therefore, for D to gain a competitive advantage its workforce must learn more quickly than the workforce of other telecommunications organisations.

3. **Mental models.** The assumptions held by individuals and organisations are called mental models. To become a learning organisation, the staff of D must challenge these models. In a learning environment an open culture promotes inquiry and trust.

4. **Shared vision.** The development of a shared vision is important for D to motivate the staff to learn, as it creates a common identity that provides focus and energy for learning.
5. **Team learning.** The accumulation of individual learning constitutes team learning. The benefit of team learning is that D’s staff would have better access to knowledge and expertise and this in turn would increase its ability to innovate which is critical within its business environment.

**Requirement (c)**

**Benefits to D of becoming a learning organisation**

- By challenging the status quo and having a culture of inquiry, this should increase the levels of innovation for D and allow it to remain highly competitive in the telecommunications market. This is likely to be an important factor in the future as competition intensifies as the market becomes more mature.

- A learning organisation environment would enable D to be better placed to respond to the ever changing external pressures which it faces (as discussed in part (a) of the answer), as it would be ready for change.

- Being a learning organisation will enhance the overall level of skills and knowledge of staff throughout the entire business which should allow D to better understand and link its resources and activities to its customers’ needs. A strong customer focus is critical in this business as loyalty is a key determinant of success.

- It should assist D in improving the overall quality of outputs at all levels of the organisation as the whole culture will shift towards accumulated learning and building expertise in all areas of its business.

- All of these factors should result in the overall improvement of D’s corporate image as it becomes more people-oriented and staff are equipped with state-of-the-art skills and are consequently of the highest calibre.

- It would seem almost inevitable that D must become a learning organisation if it is to keep up with the increasing pace of change outside of the organisation.

**Barriers to D of becoming a learning organisation**

- D’s staff may find it hard to embrace personal mastery because as a concept it is intangible and the benefits cannot be quantified; personal mastery could even be seen as a threat to the organisation. In other words, if individual staff in D do not engage with a shared vision, personal mastery could be used by them to advance their own personal visions.

- A lack of a learning culture could be a barrier to learning in D. An environment must be created where individuals can and want to share learning without it being devalued and ignored, so more people can benefit from their knowledge and the individuals becomes empowered. D needs to fully accept the removal of traditional hierarchical and bureaucratic structures if it is to function as a learning organisation, which may be very difficult due to its size and complexity.

- D may face resistance to learning if there is not sufficient buy-in at an individual level. This is often encountered with people who feel threatened by change or believe that they have the most to lose. They are likely to have closed mind sets, and are not willing to engage with mental models. Unless implemented coherently across D, learning can be viewed as elitist and restricted to senior levels or certain departments such as the R&D department only. In that case, learning will not be viewed as a shared vision. If training and development is compulsory, it can be viewed as a form of control, rather than as personal development.

- In addition, organisational size may become the barrier to internal knowledge sharing. When the number of employees is very large, internal knowledge-sharing dramatically decreases because of higher complexity in the formal organisational structure, weaker inter-employee relationships, lower trust and less effective communication. As such, as the size of an
organisation increases, the effectiveness of internal knowledge flows dramatically diminishes and the degree of intra-organisational knowledge-sharing decreases. D has 50,000 employees across 40 countries and therefore managing knowledge-sharing across this number of staff and locations may prove to be a significant barrier to successful implementation of a learning organisation approach in D.

- The concept of the learning organisation focuses mainly on the cultural dimension, and does not adequately take into account the other dimensions of an organisation. To transform an organisation it is necessary to attend to structures and the organisation of work as well as to the culture and processes. D has 50,000 employees across 40 countries, making the change to a learning organisation slow to implement. This will inevitably require re-structuring, workshops and training. It will also incur a substantial cost to implement the change to a learning organisation.
Answer to Question Three

Rationale

Requirement (a) examines learning outcome C1(c) 'evaluate different organisational structures' and is designed to test candidates' understanding of the relationship between organisational strategy and structure. Requirement (b) examines learning outcome D1(a) 'recommend appropriate control measures'. Requirement (c) examines learning outcome D1(d) 'advise managers on the development of information systems that support the organisation's strategic requirements' and is designed to test candidates' understanding of the impact of e-business upon an organisation.

Suggested approach

For requirement (a) candidates are expected to demonstrate their knowledge of Porter’s generic strategies model and be able to directly apply this to the scenario organisation.

For requirement (b) candidates are expected to use their knowledge and understanding of control to identify a range of appropriate audit activities that would apply to the policies within J’s Code of Conduct. It is important that candidates provide reasoned recommendations for each of the policies identified.

For requirement (c) candidates are expected to provide a range of appropriate benefits and barriers to J of undertaking e-business. Again, it is important that answers are applied directly to J.

Requirement (a)(i)

According to Michael Porter's generic strategies classifications, J would be considered to be following a low cost/ cost leadership strategy. As stated in the scenario, J is cost-conscious in all parts of the organisation:

- by employing its own in-house design team;
- by optimisation of raw material prices through large purchasing volumes;
- by logistics being managed through a just-in-time delivery system.

The very nature of fast-fashion is responsiveness to changing trends. By operating with low fixed costs and reliance on long-term outsourced manufacturers J can change and be more responsive and flexible to the whims of the fashion industry.

Requirement (a)(ii)

J employs its own designers who all work centrally at Head Office. This is likely to maximise the efficiency of the design process and to minimise the costs, as employing external fashion designers for specific fashion seasons is likely to be very expensive. All designers working together in one location should assist in improving efficiency within the design process.

J has production liaison offices located around the world, in locations close to its outsourced manufacturers. Again, this is likely to maximise its efficiency, as they are close to suppliers and therefore can deal with any problems more effectively than if they were positioned in more remote locations.

By having an integrated information system with its production liaison teams and its 400 outsourced manufacturers, which are treated as long-term partners of J, it can provide exchanges of information, from new designs, new orders, updated production forecasts, instantly with no delay in communication or confusion of what J requires. There is a ‘seamless’ link between production liaison offices and suppliers so that response by suppliers is instant.

J does not own factories, which clearly will impact upon its cost base, allowing it to minimise its asset base and the associated running costs. Therefore, its low cost approach has significantly impacted upon its structure.
In addition, J leases most of its stores. This clearly has affected its organisational structure, allowing it to be flexible and aware of customer needs and exploiting cost efficient locations. By having mainly leased stores, and not owned stores, J can be responsive to changes in demand or other environmental changes, such as the opening of new shopping centres, enabling J to change location of a specific shop in a town or city centre more easily. Costs may be increased in cash terms as a result of leasing charges incurred but the main benefit is that there is no need for capital outlay or debt to buy premises and the flexibility of moving location when the leases expire.

With the growth of its online shop, it may choose to close shops which do not meet required revenue or profit targets. With leased shops, J can gain greater flexibility as it has a low fixed cost base.

Requirement (b)

1. **Audit of health and safety records.**

   Whilst J’s customers want low cost clothes and J operates a low cost policy, it needs to ensure that the desire for cost reduction is not put ahead of the treatment of people and the health and safety practices employed by its outsourced manufacturers.

   Level of accidents and injuries within outsourced manufacturers’ factories would need to be monitored, together with the health and safety processes undertaken. This will include monitoring safety training activities, the safety of factory premises, the working conditions of employees, and the health and safety guidance provided to employees. Health and safety is of paramount importance to J, as a large international organisation, as bad publicity could seriously damage its reputation with customers. It is recommended that audits are conducted for all outsourced manufacturers on a regular basis, minimum once a year, but perhaps 4 times a year for large volume manufacturers who have shown health and safety deficiencies in the past. J must operate with integrity by helping factory owners to find new premises or rectify problems found and terminate contracts where factory conditions repeatedly do not meet its Code of Conduct. Additionally, if any of its outsourced manufacturers’ employees have accidents at work, or other health and safety issues, J must ensure that adequate compensation is paid to the victims and their families.

2. **Audit of environmental practices and impact on the environment.**

   Within the current global drive for increased organisational sustainability, J has an obligation to ensure that its outsourced manufacturers are not damaging the environment whilst producing garments on J’s behalf. National legislation and regulations are likely to apply in many countries in which J’s outsourced manufacturers operate and therefore these must be adhered to in order to avoid penalties and fines. Operating sustainably should be a key concern for J and this must be monitored in terms of its outsourced manufacturers’ activities in all areas of sustainability.

3. **Audit of the employment practices.**

   J must ensure that its outsourced manufacturers are not operating illegally for example with child labour and that they are paying staff fair wages. Operating in under developed countries is clearly an advantage to J in keeping its costs low, but this must not mean that outsourced manufacturers’ employees are exploited. J should conduct un-announced spot audits at each of its 400 outsourced manufacturers’ factories at least once a year to ensure that no employed labour is being abused. It is J’s responsibility to ensure that its outsourced manufacturers are adhering to its Code of Conduct. If it finds employees being abused, including being inappropriately employed then action should be taken to warn the employer. Depending on the severity of the abuse of the Code, the outsourced manufacturer should be warned in writing or if there is repeated non-compliance with the Code, then the outsourced manufacturer’s contract should be terminated.

   All of these can be assisted through on-going training for suppliers.
Requirement (c)

J currently uses its information systems to sell to customers through its online store. It could be said that, using McFarlan’s grid definitions, J’s information systems are already ‘strategic’ and therefore the investment in an e-business would be highly appropriate.

The benefits for J of undertaking long term investment in e-business

- Cost reduction – lower overheads as a result of a need for fewer stores and a reduction in procurement costs if the majority of the supply chain is carried out electronically. This will reduce fixed costs of the business and further enable J to be flexible and responsive to customers’ needs.

- Meeting a customer need – satisfied customers fitting in with their lifestyles. Many customers are now shopping more online and are using mobile applications, through smartphone technology. J must ensure that it keeps up with this customer trend if it is to remain competitive. This should in turn increase sales for J and potentially lead to greater customer loyalty.

- Increased revenues – through online sales and better CRM. Through the convenience of online and mobile shopping, customers may be encouraged to buy more products from J. This in turn should improve customer relationships, generating customer loyalty.

- Improved information for control purposes – monitoring website sales to build up an electronic database of customer sales. This should provide J with improved customer information to help to tailor future designs.

- Improved marketing could be introduced though e-marketing. Customers can be more directly targeted, based upon their electronic sales history. This in turn could enable enhanced customer services. There is a potential for greater levels of customer service online as customers can be more effectively and uniquely targeted thus resulting in greater customer loyalty and repeat sales.

- Market penetration – online sales in countries where J does not have any physical stores. E-business can be used by J as a way to expand into other countries without the need to establish new stores. Just despatch/returns logistics need to be established.

- E-business should enhance competitive advantage and hopefully reduce operating costs further.

- E-business is a fairly new and rapidly growing sector and this could enable J to launch new clothing lines, such as accessories or specific designer ranges, without increasing inventory costs by having to supply whole ranges to its 4,000 stores. These new ranges could be available only for online customers.

- E-procurement should streamline the purchasing process, once again reducing costs. Production offices could be significantly streamlined as many of their functions could be carried out electronically.

Barriers J will need to overcome when undertaking long term investment in e-business

- There are likely to be high set-up costs for operating e-business and for setting up outbound and inbound logistics in each of the countries involved in e-business.

- Will each country require distribution bases or could a central warehouse serve several countries in the same locality, such as in the Middle East region?

- Technophobia of customers, staff and senior managers. Although the design process may be technological, the actual physical product is not technical and therefore some staff and customers may not want to use technology to interact with J.
• High running costs – particularly with so many suppliers to manage online. It is likely to involve a high level of complexity in managing suppliers and deliveries electronically.

• Reluctance by some customers to shop online – some customers may prefer to continue to shop in store as they wish to try clothes on. Clothes are clearly a product which customers may prefer to physically touch and try on before making a purchasing decision. Therefore many customers may still want to shop in the traditional way.
Answer to Question Four

**Rationale**

Requirement (a) examines learning outcome A1(a) 'recommend how to manage relationships with stakeholders' and is designed to test candidates' understanding of the importance of engaging with stakeholders when implementing a balanced scorecard. Requirement (b) examines learning outcome D1(b) 'evaluate alternative models of performance measurement' and is designed to test candidates' understanding of the challenges of implementing a balanced scorecard.

**Suggested approach**

For requirement (a) candidates are expected to discuss the importance of stakeholder engagement in the successful implementation of a balanced scorecard. It is important that candidates apply their answers directly to the scenario stakeholders. Candidates should not attempt to apply the Mendelow matrix as this model is not appropriate to the question set.

For requirement (b) candidates should focus their answers directly upon the processes identified within C’s strategy map. It is important that answers focus directly upon actions and performance measures for each of the processes identified directly from C’s strategy map. Answers must be directly applied to C.

**Requirement (a)**

(i)
These stakeholders are key to the continued delivery of high levels of clinical excellence and quality of care. However, the doctors and nurses of C are likely to be more focused on dealing with patients and may not want to be involved in the process of monitoring and measuring quality of care, which is a rather difficult area to accurately determine. Hospital doctors and nurses are likely to be very busy looking after patients and may not see it as being their job to get involved in performance measurement, as this is normally carried out by hospital managers and the Hospital Board. However, the actions that they perform play a critical role in achieving the clinical and business processes and the community and patient engagement processes.

Therefore, if the doctors and nurses do not play an active role in the development of the balanced scorecard, then it is highly likely that it will not be successfully implemented. Therefore, the Board of C must communicate with the doctors and nurses at a very early stage in the development of the BSC, to understand their views of the required performance measures. Communication of the strategy map would be a useful starting point for the Board to demonstrate to the staff how important they are in the achievement of the mission statement. Participation in setting performance measures would also be a useful method of engagement, particularly in setting measures for the training needs of staff. If staff can clearly see how their actions fit into the achievement of strategic objectives and the mission statement, then they are more likely to positively work towards these.

(ii)
The patients and the local doctors in the community, as external stakeholders, are unlikely to have any understanding of the business operations of C. They will only judge C on its outcomes, in the form of the levels of clinical excellence and quality of care achieved by C. Should these fall or be perceived to fall by patients and local doctors in the community or potential patients then this could result in a decrease in the number of patient referrals and ultimately the underutilisation of resources for C.

However, their engagement in identifying their needs in terms of the activities undertaken by C’s staff and the levels of quality of service is fundamental to the achievement of overall business objectives and the mission statement. Once again, communication is vital, both in terms of identifying perceptions about the levels and quality of customer service for patients in the form of customer questionnaires but also in terms of wider community engagement through marketing and advertising activities. Patients, local doctors and the wider community must believe in the mission statement of C and must have confidence that C is delivering this. Therefore it is important that their view and
opinions are sought. The patients are the most important factor in the achievement of the mission statement and therefore play an important role in the process of developing a balanced scorecard.

(iii) The Hospital Board is responsible for achieving its published mission statement. Without a range of performance measures across the 4 areas of the BSC, the Board is not able to effectively monitor and take any necessary control action over C's performance. It is necessary for all members of the Hospital Board to be made fully aware of the importance of performance measurement and the use of the BSC.

The Hospital Board has in the past largely focused upon financial measures of performance. This clearly has not had any significant detrimental effect on C but on reviewing the Board's strategic objectives it is quite clear that all of these are not financially focused. However, in order to successfully implement a balanced scorecard, it must be led and driven from the top of the organisation. If the Hospital Board does not believe in its usefulness, then it will not be implemented successfully. The introduction of a balanced scorecard will require strong leadership and direction and this must come from the Hospital Board.

The FD is clearly leading this initiative and he needs to get the Board's buy in to the BSC. The FD has already devised the strategy map which clearly demonstrates the important linkages between actions, objectives and the achievement of the mission statement. If the Hospital Board members are committed to the BSC then they should drive through its implementation through positive communication and actions. In particular, the senior consultants who are part of the Hospital Board will be a key driver in the adoption of a balanced scorecard as they have a significant interest in the success of the hospital, as some of them are the original founders and will want to see the hospital succeed. Therefore they must be convinced that a BSC will provide the necessary information to help C to improve its overall business performance.

Requirement (b)

Staff Development Processes: Motivate, recognise and retain staff

(corresponds to the Learning and Growth perspective in the BSC)

**ACTIONS:**

- Develop performance related payment of bonuses, based on customer surveys or clinical results.
- Establish regular review of staff training requirements and implement a training policy for all staff.

**JUSTIFICATION:** To motivate and reward all of C's staff to provide an excellent level of care to all patients.

**MEASURES:**

- Employee satisfaction %
- Staff turnover rate
- Number of days training per staff member per annum
- Number of procedural improvements as a result of staff training

Clinical and Business Processes: Provide high quality services

(corresponds to the Internal Process Perspective in the BSC)

**ACTIONS:**

- Review staffing to ensure adequacy and optimisation of resources used within each process/treatment.
- Evaluation of patient flow process (from booking in to patient discharge) in order to streamline.
JUSTIFICATION: To improve patient care and satisfaction by having speedier and more effective treatment or efficiency in administration. This should in turn assist in higher utilisation rates.

MEASURES:
- Number of staff per process/treatment
- Average time of stay per patient per treatment
- Staff hours per process/treatment

Community and Patient Engagement Processes: Increase demand for services provided
(corresponds to the Customer Perspective in the BSC)

ACTIONS:
- Implement customer service and satisfaction review
- Implement a marketing plan

JUSTIFICATION: To increase revenues and utilisation levels through making patients and doctors in the community more aware of services and highlighting the focus upon high levels of customer service and satisfaction.

MEASURES:
- Patient satisfaction in the quality of care received within 95 percentile
- Number of enquiries from the public or local doctors per treatment
- Competitor market share percentage

Financial Processes: increase revenues and generate higher levels of profit
(corresponds to the Financial Perspective in the BSC)

ACTIONS:
- Review billing and collection processes for accuracy and timeliness
- Review management accounting procedures to ensure accuracy and timeliness of reports to key hospital managers/users
- Number of complaints related to accuracy and timeliness of financial reporting by key staff members

JUSTIFICATION: To become more professional, reduce billing errors and speed up collection of invoices and ensure that both internal and external users of the financial services of the business are satisfied with the quality of its output. The actions outlined should improve business operations and lead to increased efficiency and improved profit levels.

MEASURES:
- Net revenue increase over prior year
- Profit % increase over prior year
- Decrease net days in accounts receivable
- Market share percentage
- Number of complaints made relating to finance department reports