## Answer to Question One

### Requirement (a)

**Financial consequences of Desserts Division's proposed relocation**

<table>
<thead>
<tr>
<th>Year(s)</th>
<th>0</th>
<th>1 to 10</th>
<th>Net Present Value £000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moving cost</td>
<td>(1,820)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net inflow (1)</td>
<td>1,931</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs (2)</td>
<td></td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>Net cash flow</td>
<td>111</td>
<td>878</td>
<td>989</td>
</tr>
<tr>
<td>Present Value factors</td>
<td>1.000</td>
<td>5.019</td>
<td></td>
</tr>
<tr>
<td>Discounted cash flow</td>
<td>111</td>
<td>878</td>
<td></td>
</tr>
</tbody>
</table>

### Notes

1. **Incentive payment**
   - People £000's £000's
   - Total employed 5,600
   - 10% Offices 560 2 1,120
   - 90% Factory/Distribution 5,040 1 5,040

2. **Redundancy**
   - Establishment 4,700
   - Vacancies (385) 4,315
   - 98% redundant 4,229 1 (4,229)
   - **Net inflow** 1,931

3. **Costs**
   - Local taxes saving 75
   - Transport saving 300
   - Labour increase (200)
   - **Net saving** 175

The tabulation above shows that the proposed relocation will produce a positive net present value of £989,000.
There is a net cash inflow in year 0 and every year of the project life has a positive cash inflow. The project pays back immediately.

The Board of F plc set the following conditions for agreement to the proposed relocation:

1. The relocation produces a positive Net Present Value (NPV). F plc has instructed the Desserts Division to use a hurdle rate of 15% and to base its evaluation on a 10 year time horizon. All the cash flows associated with this project should be regarded as occurring at the end of the year in which they occur.
2. The relocation has a payback period of 3 years or fewer.
3. There are no adverse effects on F plc's public image.
4. The relocation makes a positive contribution to F plc's Corporate Social Responsibility Targets.
5. The relocation is consistent with F plc's mission statement.
6. The relocation contributes towards achieving F plc's strategic aims.

In section (a) it was demonstrated that conditions 1 and 2 would be met. The remaining conditions are now examined.

**There are no adverse effects on F plc's public image.**

The proposed relocation is likely to provoke criticism of the Desserts Division and also F plc as it will result in a substantial loss of jobs in the north part of England. F plc's Director of Human Resources has forecast that as many as 4,229 people will become redundant as a result of the relocation. Currently, there is a 'ready supply of manual labour for production work' (Pre-seen page 5) which suggests that the Desserts Division is situated in an area of high unemployment for manual labour.

However, the loss of jobs in the North of England will be offset by the creation of jobs in the West of England: F plc's Director of Human Resources has forecast this will amount to 5,600 jobs, (an increase of 900) and that ‘it should be easy to secure all the labour needed’. This suggests that the West of England may also be an area of high unemployment for manual labour.

Although there may be criticism about the loss of jobs in one part of the country, the creation of an increased number of jobs should nullify this criticism. It is possible that F plc's public image will be enhanced by the relocation.

**The relocation makes a positive contribution to F plc's Corporate Social Responsibility (CSR) targets.**

One aspect of F plc's CSR targets is Transportation (Pre-seen page 7). The Internal CSR report for year ended 31/12/2010 showed that road kilometres travelled in 2010 had increased by 5% compared with 2009. If the Desserts Division is relocated it will reduce F plc's total road kilometres travelled by 15% based on 2010 results. This is a significant reduction and, therefore, the relocation will make a positive contribution to F plc's CSR targets.

**The relocation is consistent with F plc's mission statement.**

F plc's mission statement is “… to continually seek ways to increase its return to investors by expanding its share of both its domestic and overseas markets. It will achieve this by sourcing high quality ingredients, using efficient processes and maintaining the highest standards of hygiene in its production methods and paying fair prices for the goods and services it uses.” (Pre-seen page 2).

The proposed relocation will contribute towards an increased return for F plc’s investors as it will increase their wealth by £899,000 over the first ten years of the relocation. The new location for the factory is arguably more efficient as there are savings on local taxes and transport and it may give the Desserts Division the ability to expand production. These are offset to an extent by increased wages costs.
As the relocation will bring a positive NPV and net operational savings it is consistent with F plc’s mission statement.

**The relocation contributes towards achieving F plc’s strategic aims.**

F plc’s strategic aims are to:
- increase profitability of each of its divisions through increased market share in both domestic and overseas markets;
- source high quality ingredients to enhance product attractiveness;
- ensure that its factories adhere to the highest standards of food hygiene which guarantee the quality of its products;
- strive to be at the forefront in food manufacturing techniques by being innovative and increasing efficiency of production with least waste (Pre-seen page 3).

The proposed relocation will contribute to increased profitability for the Desserts Division. However, this will be because of reduced operational costs rather than increased market share. The proposed relocation does not necessarily contribute to any increase in market share. The proposed relocation’s correspondence to the conditions set by the Board is at its weakest with regard to this condition.

**Summary**

Other than condition 6, the proposed relocation of the Desserts Division has a high degree of correspondence to the conditions set by the Board of F plc.

Therefore, the Board of F plc is advised to sanction the proposed relocation of the Desserts Division from the North of England to the West of England.

**Requirement (b)**

The pre-seen Case, page 5, states that:

‘In the Desserts Division, the finance function is the dominant force. …..It is not unusual for the Divisional Accountant in the Desserts Division to have confrontational meetings with managers of other functions. Such confrontation is particularly evident in the monthly meetings between the Divisional Accountant and the Divisional Marketing staff.’

The Chief Executive of F plc has set the following goal: ‘The confrontational meetings with Marketing staff must change their character and a constructive working relationship must be established between the Divisional Accountant and the Divisional Marketing staff.’ It is clear that the Divisional Accountant’s behaviour will have to change and so will that of the Divisional Marketing staff. In the course of the change process any and all of the participants will resist change.

In the attainment of this goal, it is likely that any of the parties may resist change, including the Divisional Accountant who needs to accept that he is part of the problem.

Kotter and Schlesinger identified the following methods with which resistance to change could be overcome.

**Education and communication**

The Chief Executive’s goal needs to be communicated and explained to everyone involved in the confrontational meetings. If everyone understands this goal, this might be sufficient to overcome their resistance. It will also be beneficial if the Divisional Marketing Staff and the Divisional Accountant explain to each other why there has been confrontation in the past. It could have come about because of mutual misunderstandings and/or a lack of information about the other side’s position and aims. Therefore, if all parties are willing to be open with each other this could reduce resistance and facilitate change.

**Participation and involvement**

Although the impetus for the change has come from the Chief Executive, such a change
cannot be imposed but will necessarily require the active participation and involvement of those who currently confront each other. This will then increase their commitment to the change and make it more likely to work.

**Facilitation and support**
Overcoming the resistance to change is not the sole responsibility of the Divisional Accountant; responsibility for this must be shared by the Marketing staff. However, the Divisional Accountant can take initiatives to reduce resistance. For example, the Marketing staff may have been confrontational when presented with results that seemed to show their activities in a poor light. The Divisional Accountant could undertake to provide training to the Marketing Staff so that they better understand the way in which the financial reports are compiled. Such an offer should be done with sensitivity so that the marketing staff do not feel patronised.

**Negotiation and agreement**
Both sides should benefit if constructive working relationships are established. Agreements could be made on procedural matters such as the frequency, timing and location of meetings. If these things have been negotiated it should lead to a feeling of empowerment which should diminish confrontations.

**Manipulation and co-optation**
This approach relies on presenting partial or misleading information to the people resisting the change. This would not be a recommended approach for a CIMA member as it conflicts with an important aspect of the ‘Code of Ethics’, namely, ‘Integrity: A professional accountant should be straightforward and honest in all professional and business relationships’.

**Explicit and implicit coercion**
This method relies on the use of force, or the threat of force to enforce change. This method would also not be recommended for a CIMA member as it conflicts with the spirit of the Code of Ethics although not any particular written section.

Kotter and Schlesinger published their methods in 1979 since when it is arguable that what is acceptable business behaviour has changed. F plc appears to be striving to be a good corporate citizen as evidenced by its internal CSR report. Coercion does not fit in with such aspirations

**Requirement (c)**
The Chief Executive of F plc also set the following goals for the Board of the Desserts Division:

2. *The Desserts Division must reduce its levels of wastage of ingredients to 2% of materials usage: these levels are currently 3.8% which cost £7.5 million in 2010.*

A large proportion of the wastage is caused by poor storage of food raw materials. Some raw materials, for example, chocolate, have been subject to pilfering by warehouse staff. Other raw materials are wasted because they go bad and become unfit for human consumption.

Wastage of ingredients is currently 3.8% at a cost of £7.5 million in 2010. If the level was reduced to 2% this would generate a saving of £3.6 million (See also goal 4 for savings).

The figure of £3.6 million sets a boundary for a budget to achieve all 5 goals set by the Chief Executive.

The problem of material wastage is linked to the problems experienced within F plc with respect to inventory control. Therefore, the solution to attaining the goal will partially be found within the Desserts Division and partially within F plc which operates a standard information management system. The first step in achieving this goal would be to designate an individual or possibly a team to discover the causes and locations of the wastage. F plc’s internal audit department could be asked to carry out an investigation and external consultants could also be asked to review the Desserts Division's materials systems.
Following the investigations it is likely that improvements will be suggested in:

- **Staffing levels and functions**, for example employ additional materials handling staff
- **Organisation**, for example make the stock control manager report to the Divisional Accountant
- **Systems**, for example update the materials accounting software to track receipts, storage and issues of material. Frequent reports should be organised identifying which materials contribute significantly to waste and the reasons it occurs.

Other improvements could include:

- An incentive scheme for production staff to identify areas of current waste and propose ways of eliminating this.
- Increased security to reduce theft, for example, the installation of CCTV and random searches of staff bags.
- The adaptation of Just-In-Time which should reduce the quantity of stock and help to minimise waste.
- Investment in new materials handling equipment.

These recommendations are suitable and acceptable. They are also feasible provided they stay within the boundary of £3.6 million. However, one area of feasibility which requires careful consideration is that of time scale. Although the need to achieve this objective is pressing and it will directly save a significant sum of money it will take time to implement. For example, if the Desserts Division was to order new materials handling equipment, perhaps a crane, there may be a waiting period of several months.

3. **The Desserts Division must carry out a physical inventory-take at the end of each month. There must not be a difference greater than 1% between the theoretical and actual inventory-counts at any time. Currently, the difference is usually 5%**.

The inventory-counts are performed by any staff who want to earn overtime. Consequently, there is no regular group of people carrying out this work. The warehouse staff who issue ingredients are not required to participate in the inventory-counts although sometimes they do take part. The results of the inventory-counts have been unreliable and supplementary counting of high value/large quantity ingredients has been necessary.

It is a reasonable assumption that inventory-counts are already carried out but their frequency is not known. It is likely that when a physical inventory-count happens monthly there will be an increase in costs. This is acceptable if the overall budget of £3.6 million is respected. The organisation of the physical inventory-counts would benefit from being reviewed and strengthened where necessary. It could also be beneficial if a proportion of the ingredients which are high value and/or high usage are subject to continual audit, that is, that they are counted and valued independently of the monthly inventory-count on a frequent basis. The Desserts Division may also have to invest in training for the staff that carry out its inventory-counts.

The achievement of this goal will be assisted by the improvements carried out to attain goal 2.

4. **All customers’ orders must be met on time and the Division must achieve 100% of its potential revenue. Poor inventory control will no longer be tolerated.**

Poor inventory control means that some inventory balances are misleading: items are shown in inventory when there are none. There are other items not shown in inventory even though they are present. This has led to customers’ orders often being delivered late usually by one or two days. This has led to some customers closing their accounts.

The Divisional Accountant has estimated that 5% of the Division’s revenue is lost due to poor inventory control. Based on 2010’s income statement this could amount to as much as £29 million in revenue and £3.8 million in profit. This gives a further amount to draw upon, if
necessary, to effect the improvements.

The lost revenue is linked to the poor inventory control which is experienced across all three divisions (Pre-seen page 6). The remedial actions which the Desserts Division is taking to satisfy goals 2 and 3 should assist in goal 4 also being achieved. However, part of the solution to the inventory problems may lie outside the Desserts Division and will require liaison with the other divisions and also Head Office. It is reported that F plc operates a standard information management system and this may be a contributing factor to the poor inventory control experienced in all three divisions. It is also known that the information technology used has been unreliable due to technical malfunctions since the information management system was installed in 2001. This could also be a contributory factor to the poor control of inventory.

The Desserts Division is unlikely, therefore, to be able to attain goal 4 by unilateral action. There may be a requirement for F plc’s standard management information system and information technology to be modified. It is recommended that the Divisional General Manager approaches his counterparts in the other two divisions to agree on a joint approach to solve these two problems.

Any changes will need to be agreed by head office. However, as the Chief Executive is aware of the problem of poor inventory control it should be straightforward to obtain his agreement to the review and rectification of the problem areas. Providing the Chief Executive agrees to the proposed actions they will be suitable and acceptable: providing they remain within the budget of £3.6 million they are feasible.

5. The Desserts Division’s monthly management accounts must be with Head Office within three working days after month-end.

The management accounts are often delayed because necessary information is missing or incomplete. The system for ordering and the receipt of goods into the factory is a paper-based one and has often been the cause of discrepancies between theoretical and actual inventory balances. This system is incompatible with F plc’s standard information management system.

The Chief Executive has told the Desserts Division’s General Manager that any expenditure required for the implementation of any proposed changes must be self-financing.

As with the solution to goal 4, it is likely that the solution to achieving this goal lies partly within the Desserts Division and partly outside the Division most probably within F plc’s standard information management system and its ‘unreliable’ information technology. Therefore, any actions taken within F plc, in general, should assist in goal 5 being achieved.

The lateness of the monthly management accounts may also be linked to the generally poor state of materials accounting and control within the Desserts Division. Therefore, some of the remedial actions proposed for goals 1 to 4 could assist in achieving goal 5. In addition, the Divisional Accountant should rectify issues which have arisen solely within the division which have contributed to the delays. It will be necessary to analyse the causes for delay which emanate within the division and devise a project plan for their elimination.

The current system for the ordering and receipt of goods should be urgently reviewed. It should be modified to achieve compatibility with F plc’s standard information management system or be replaced by another system.
Answer to Question Two

 Requirement (a)

(i)

There are two main models used to analyse the external environment:

Porter’s Five Forces model which examines:

1. the rivalry among the industry’s existing firms
2. the threat of new entrants to the industry
3. the threat of substitute services and/or products
4. the bargaining power of the suppliers to the industry
5. the bargaining power of the industry's customers/buyers.

The other model is usually referred to by an acronym, PEST. This model analyses the external environment in terms of its:

Political influences: for example, taxation policy
Economic environment: for example, unemployment
Social and demographic factors: for example, age structure of the population
Technological factors: rate of innovation.

The PEST model has been supplemented by the addition of Ecological and Legal factors producing the PESTEL model.

(ii)

The Five Forces model can be used by the team to assess how fierce the competition is likely to be if the Futurist decides to act as a wedding venue. This will then enable the team to appreciate how profitable this new strategy is likely to be and enable it to decide whether or not it should enter this market.

If the Futurist decides to enter the wedding business it will be competing against seven other hotels which are offering a range of different prices to different market segments. Therefore, an analysis of the industry via the Five Forces model could avoid the Futurist making a mistake with regard to its competitive position and enable it to exploit which of the five forces appear to be favourable.

The PEST model should assist the team in arriving at an informed understanding of the external environment which should enable the team to devise a strategy that better fits the needs of the market. It will also assist the team to understand how the various factors within the model are changing and also the direction of future trends. For example, an understanding of the likely future popularity of marriage, a Social factor, will be very important for the team’s wedding venue strategy. The team may also find that some of the factors are inter-linked; if, for example, the popularity of marriage is linked to levels of unemployment. The team could refine its PEST analysis to identify key drivers for change: these are the factors which are likely to have a direct important bearing on whether the strategy will prove successful. An example would be trends in disposable income for people aged 20-30. If incomes are rising customers may be willing to spend more on their wedding which will influence the price the team will set for the wedding held in the Futurist.

Both of the models can be used by the team in the initial stages of formulating its strategy.
Requirement (b)

(i)

Porter’s model of three generic strategic approaches comprises the following:

1. Overall cost leadership
2. Differentiation
3. Focus

To achieve overall cost leadership the Futurist would have to be able to be the lowest cost producer in its market. In order to do this it would require some resource, competence or advantage not possessed by its competitors. It is a new hotel and so its equipment and layout should be modern. However, it is unlikely that this will give the Futurist a sustainable competitive advantage. In the absence of any other unique advantage a strategy of overall cost leadership will not be applicable for the Futurist.

A policy of differentiation should be based on providing a wedding package that its potential customers will perceive as being unique. This would mean that the customers would perceive that they are receiving premium value and so enable the Futurist to charge a premium price. This appears to be the strategy being followed by the De Luxe hotel which is situated in a castle in a beautiful rural setting. This hotel has also won many international awards for its food and its rooms. These attributes of the De Luxe hotel, particularly its location, have enabled it to charge a premium price of £500 per wedding guest.

If the team is able to identify some attributes which would lead its customers to perceive that they were receiving premium value, then the team could pursue a differentiation strategy.

If the team wanted to follow a Focus or Niche strategy then it will have to follow a strategy which concentrates on one or more particular segments of its market rather than try to meet the needs of the entire market with a single service or product. As it seems unlikely that the Futurist will be the overall cost leader in its market, it could apply a Focus strategy to some sort of differentiated offering. Such a strategy appears to be being followed by the Royal Albert hotel which charges £10 per wedding guest. This suggests that it has targeted a market segment of people whom have low incomes or are very prudent with their money or do not like lavish wedding celebrations. However, depending on this hotel’s capacity to cater for weddings, its margins and the number of weddings it attracts each year, it could be as profitable as the De Luxe which is serving a completely different market segment.

Therefore, a Focus strategy could be appropriate for the Futurist to follow.

(ii)

Information systems can contribute to a generic competitive strategy by means of strategies for: Information Systems, Information Management, and Information Technology. The information strategies required to support the wedding venue strategy will be a sub-set of the hotel’s information strategy. It may also be the case that if the hotel is part of a group its information strategy is a sub-set of a larger group information strategy.

**Information systems strategy:** this strategy is concerned with how the Futurist can use information to support its wedding package strategy. This strategy should describe the information needed to formulate the strategy and to maintain it. The Futurist would require regular management information reporting on the profitability of whichever wedding package strategy it decided to implement. This reporting should include internal information, for example, performance against budget, turnover and margins achieved. The management information should also take a strategic focus in placing the Futurist’s performance in an external context. Thus, it should report on market growth and share and comparative...
information about competitors’ performance. As well as the regular reporting there will be a need for ‘ad hoc’ reports, for example, when environmental scanning detects random events outside the internal environment of the Futurist.

**Information management strategy**: the Futurist will require this strategy to describe how the data and information relating to wedding business should be stored and accessed. As the hotel will have other strategies and information systems, the information management strategy should describe how these relate to the strategy for the wedding package. For example, there will be a requirement to calculate costs and margins for weddings. The hotel will also be calculating these for other aspects of its business. Therefore, the information management strategy should state whether there needs to be a separate system for calculating these for wedding business or whether the hotel’s other systems can be used for this purpose.

The project team designing the wedding package strategy consists of CB the accountant, the hotel’s General Manager and the Restaurants Manager. Once their strategy is being implemented they will have different levels of involvement and responsibility for it. With regards to the data and information associated with the strategy, their roles will need to be demarcated. This would be described in the information management strategy.

**Information technology strategy**: this strategy will specify the hardware and software required for the wedding package strategy. The wedding package strategy may not need a separate strategy for its technology as its needs are unlikely to be different from the needs elsewhere in the hotel, which will have been specified in an overall information technology strategy. However, it may require some specialist software in which case this would be stated in this strategy.
Answer to Question Three

Requirement (a)

JIK’s control system

This is ‘focused exclusively’ on the manufacturing process even though JIK is also a retailer and installer of domestic kitchens. It is appropriate for the control system to monitor manufacturing efficiency by means of the three variances: Materials price, Materials usage and Manufacturing labour efficiency. No rationale has been given for concentrating on these three variances and there may be other variances which could provide useful control information which are not currently computed, for example, material yield and labour rate.

Although JIK uses standard costing it is not clear that it computes product costs. A lack of product costs may be the reason it was ‘surprised’ about its 2010 profit margin. Standard costing could be criticised for misdirecting management’s attention. Thus, in the case of a ‘Lux-Style’ kitchen where the highest standards of materials are used it is important that the quality of the finished product is not compromised. Therefore, it might be appropriate to accept an unfavourable material price variance in order to maintain the product’s standards. Variance analysis should not be used in isolation but a holistic view needs to be taken about JIK’s operations and the current control system may not lead to this. JIK is not currently monitoring and controlling aspects which are vital for competitive success. It has not identified its Critical Success Factors.

There is weekly reporting of the variances and implicit is that there should be follow-up actions resulting from these reports. However, a week is not necessarily the appropriate reporting period for all aspects of JIK’s business. If there is a production problem leading to excessive materials waste a week is too long a time to wait before remedial action can be taken. Therefore, real-time or contemporaneous reporting may be more appropriate for manufacturing operations.

A major deficiency of JIK’s control systems is that they do not extend to retailing and installation activities. The Value installation teams are incentivised to complete kitchens which could be good for their productivity. However, there is a high level of complaints associated with their work. As there is no evident means of monitoring the installation teams’ work, the causes of the complaints cannot be identified.

Requirement (b)

CIMA has defined Critical Success Factors (CSF) as ‘An element of the organisational activity which is critical to its future success. Critical success factors may change over time, and may include items such as product quality, employee attitudes, manufacturing flexibility and brand awareness’.

There are a range of CSF’s which could be helpful for JIK. They include:

CSF: Quality of installations

There are different quality expectations for the two kitchens and there has been different levels of quality achieved implicit in the historic pattern of complaints. This strongly implies that the quality of installation should be tracked as a separate CSF for each kitchen. This CSF is important for JIK because of the cost implications of rectifications and guarantee claims. It is also important because of the effect that poor quality will have on JIK’s future business.

CSF: Customer satisfaction

Like quality, this CSF will need to be monitored separately for each kitchen. Customer satisfaction covers the entire life of a transaction starting with the initial enquiry about a purchase and continuing after installation for the life of the kitchen. Customer satisfaction will have an influence on JIK’s future business which is dependent, in part, on repeat orders and recommendations. This CSF will also reflect the market’s perception of JIK’s brand.

CSF: Brand performance

JIK has two distinct brands. They are directed at different market segments and have different
associated attributes. ‘Value’ kitchens offer limited choice to the customer and retail, on average, for £5,000. JIK would like to maintain this business at its present level (2,000 kitchens a year minimum) £10 million revenue. JIK needs to identify where this brand is situated in its life-cycle and what marketing activities may be required to support it.

The ‘Lux-Style’ brand is aimed at a different market segment and JIK would like to grow this aspect of its business which produces revenue of £2 million. The same considerations apply to this brand as to ‘Value’.

The success of both brands is vital for the continued success of JIK and this CSF gives a holistic view of performance.

**CSF: Manufacturing excellence**

JIK manufactures all the kitchens which it sells and installs. Manufacturing will be a significant aspect of JIK’s total costs and an important contributor to profitability. Currently, JIK monitors some limited aspects of manufacturing through its control system. However, there are many other aspects which are not reported upon: for example, manufacturing flexibility, innovation, absenteeism and investment in technology. This CSF has a much wider scope than the current control system and should assist in the quest for competitiveness.


Candidates were only required to provide two CSFs. These others have been given for completeness. Any other sensible CSF provided by candidates were rewarded appropriately.

**Requirement (c)**

(i) JIK’s current control system is one dimensional focusing on the efficiency of its manufacturing process. The introduction of Critical Success Factors means that the control system will have to become multi-dimensional as CSFs are by their nature holistic. They are not confined to financial data arising from the accounting system. Therefore, the introduction of CSF’s will necessitate the synthesis of quantitative and qualitative information. As the CSFs are broad in scope, for example, Brand performance, there will be a need to incorporate and report upon external information such as market share.

In order to implement, or operationalise, the CSFs JIK will need to introduce supporting Key Performance Indicators (KPIs). For example, for the CSF Manufacturing performance, JIK will need to establish and report on a range of KPI’s which inform on the extent to which excellence has been achieved: wastage, downtime, set-ups, stock-outs, cycle time.

(ii) **Standard Costing**

JIK may have to abandon or modify its standard costing and reporting system. This is because the current system could lead to an inappropriate emphasis being placed on certain aspects of performance, for example, labour efficiency to the detriment of the achievement of a CSF, for example, customer satisfaction. It is remarkable that the installations for Value kitchens generate a substantial level of complaints whereas there has never been a complaint made about a Lux-Style kitchen. It could be that the different remuneration arrangements for the installation teams have led to this and as the complaint level will be an important aspect of the CSF, Customer Satisfaction, JIK may need to change its remuneration arrangements. It should also consider whether it would benefit from a wider range of variance reporting: for example it may find it useful to report on material yield and labour rates.

**Reporting frequency**

For all CSFs JIK will need to decide upon appropriate reporting intervals. Although it is convenient to synchronise this with the accounting reporting cycle, CSFs and KPIs do not necessarily coincide with accounting period ends. Some KPI’s may need to be reported in real-time, for example, material wastage, others may be of a much longer duration such as Customer Satisfaction. There is a strong argument for de-coupling the reporting of CSFs from the financial reporting cycles.
Information requirements

The introduction of CSFs and KPIs will require collection of a new range of information. Although some of this will be internally generated, for example, labour absenteeism, others will be external, for example, market share. JIK will be able to collect some of this new information from external sources and databases. These external sources could enrich the quality of JIK’s decision-making and strategy formation. For example, the Internet could assist JIK in its understanding of social trends required for a PEST analysis.

It may also be appropriate to allow JIK’s internal information systems to interface with external users. JIK could solicit customer feedback which the customers could enter directly into JIK’s system, for example, by means of an on-line survey.

Internally, JIK’s information systems could be decentralised to allow users at all levels to contribute information and to use it. These privileges could also be extended to some external users, such as key suppliers, where appropriate. The information systems will need to set appropriate authorisation levels for access for the various users.

With the enhanced collection and dissemination of information, the wider levels of access and the interface with the external environment, JIK may also have to modify its hardware and software resources.
Answer to Question Four

Requirement (a)

Mendelow's matrix (shown below) measures the power and interests of stakeholders:

<table>
<thead>
<tr>
<th>Power</th>
<th>Level of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>High</td>
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**Low power/low interest**

*Private investors:* on average each investor has a shareholding worth less than £1,000. It is unlikely that most of these shareholders would take an active interest in HWS’s affairs. Collectively, as they only hold 3% of the equity, they have little power to affect any of HSW’s decisions.

**Low power/high interest**

*HWS charitable trust:* although this holds 10% of HWS’s share capital, on its own it has a very limited amount of power as regards the company’s decisions. However, as its recent criticism of the decision to sell alcohol and tobacco demonstrates, it has a high degree of interest in the company’s affairs.

*HWS employees:* like the private investors, the employees have little power to affect any of HWS’s decisions. However, as their jobs are associated with their shareholdings, which are worth almost £9,000 on average, they are likely to have a high degree of interest.

**High power/low interest**

*Pension funds and investment trusts:* there are six of these which have 30% of the equity. If they act collectively they have a high degree of power. Their investment is worth £135 million at the current market price which suggests they would have a high degree of interest. However, these investors have not traditionally been interested in the day-to-day running of the companies in which they hold investments. They are more likely to be passive rather than active investors.

**High power/high interest**

*HWS directors:* these have a disproportionate, in relation to their shareholding, amount of power. It was their decision which is now being criticised and they are able to change it or withdraw it instead of implementing it.

*RCB: private equity fund:* this holds a significant proportion of HWS’s equity, 25%. If it held another 5% it would be obliged to make an offer for the company which may be its intention. This puts RCB in a powerful position. Its motive for investing is to see short-term profits, so it is likely to have a high degree of interest in the decision.

*UK clearing bank:* this will be interested in the decision because it has both a substantial shareholding worth £90 million and because HWS is its client. This shareholding gives the UK clearing bank substantial voting power and it will also have power arising from its position as HWS’s bank.

Requirement (b)

Stakeholders are defined by CIMA as ‘Those people and organisations that have an interest in the strategy of the organisation. Stakeholders normally include shareholders, customers, staff and the local community’.

Among the stakeholders who are likely to be interested in this decision are HWS’s customers. This is because the decision to sell alcohol and tobacco products is in response to unsatisfied customer demand. However, other customers of HWS may also be interested in this decision but not be in favour of it. This is because some people view alcohol and tobacco products as being injurious to health and/or unsuitable for young people and may not want...
HWS to offer an additional distribution channel.

Politicians at local and national level, with a particular interest in public health and health promotion, may also be interested in HWS’s new retailing strategy because of its possible side effects on the health of HWS’s customers.

Medical doctors may also have an interest in the new retailing strategy for the same reasons as politicians.

As the new retailing strategy is forecast to increase profits by 25% to £5 million it will be of interest to potential investors.

Although the requirement only asked for two other stakeholders this answer has given four for the sake of completeness. Candidates received marks for any other stakeholders if these were supported by a cogent argument.

Requirement (c)

The first response that HWS could make to these demands is to acknowledge that they reflect current social concerns and should be taken seriously. This acknowledgement is implicit in the recognition of the concept of the stakeholder which covers a broader constituency than that of shareholders.

A set of guidelines describing principles and standards for responsible business conduct has been published by an international organisation, the Organisation for Economic Co-operation and Development (OECD). These guidelines are designed to ensure that companies operate in accord with government policies and strengthen the basis of mutual confidence between companies and society. The guidelines are voluntary but if HWS adopted them it would show a commitment to responsible business practice.

HWS could also demonstrate its commitment to responsible business practice by modifying its mission statement to explicitly state, for example, ‘HWS is committed to responsible business practice’ and/or ‘HWS has adopted the OECD guidelines’.

HWS could operationalise these guidelines and incorporate them into its strategic decision-making process. For example, every important capital investment decision should include an assessment, perhaps in the form of a checklist, to measure the decision’s compliance with the guidelines.

HWS could designate a director to periodically report on their responsible business practice and the report could be published externally. This would be a suitable responsibility for a non-executive director. (See the Higgs report 2003).

HWS could provide training for its employees on the application of ‘responsible business practice’.