E2 May 2010 Exam Solutions

SECTION A – 50 MARKS

Some of the answers that follow in Sections A and B are more comprehensive than expected for a well-prepared candidate.

Question One

Required

(a) Explain why FX Company should undertake competitor analysis.
(4 marks)

(b) Discuss why it is important for FX Company to understand the concepts of high/low market growth and market share when undertaking competitor analysis.
(6 marks)

(Total for Question One = 10 marks)

Question One Part (a)

Possible answers could include the below:

- ✓ Too many companies don't know what their competition is doing or what they are planning, it is impossible to be effective in sales and marketing or deploy a successful long range strategy without an understanding of external ÷competitive forcesø and the impact these will have on the organisation.

- ✓ Competitor analysis is vital before competitive strategies are developed by an organisation e.g. design strategies to exploit competitor weaknesses or avoidance of head on competition if they are stronger in certain areas. Awareness of threats about the competition earlier allows an organisation to react and perhaps mitigate or reduce the likelihood of any risks identified.

- ✓ A formal approach will help financially forecast any future competitive strategies introduced by an organisation e.g. the effect of introducing price cuts or new products, if the competition is better understood.

- ✓ A formal approach will help improve the performance of an organisation over the longer-term or help gain competitive advantage, if frequent analysis is undertaken and the information gathered, used to improve its products or processes over time.

- ✓ Competitor analysis enables core competences to be recognised and developed by an organisation when identified.

- ✓ Competitor analysis develops better ÷educated guessworkø of the future competitive strategies of the competition, when they are scrutinised over a long period of time.

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Question One Part (b)

The concepts of high/low market growth and market share when undertaking competitor analysis, could be answered using some reference to either the product life cycle or the Boston Consulting Group (BCG) matrix. Both theories do apply the concepts of market growth, the BCG box also applying market share. Both theories could be used to discuss product strategies when competing.

The product life cycle illustrates the succession of stages that a product goes through in terms of its sales or market share. The market environment in which a product is sold is always changing and therefore must be managed as it moves through a succession of different stages. For example in the case of the maturity (or saturation) stage, there is often continual product development during this stage to extend the products life cycle further and compete more fiercely with rivals as the industry growth rate slows down. The only way rivals can have more share of the cake is to take it from other rivals, demand reaches a limit and competition intensifies for existing market share and sales. The greatest production efficiency and economies of scale have been achieved by this stage. Profitability and cash-flow is high. During this phase there is often significant price cutting by rivals, consolidation as rivals reorganise and the smaller and weaker competitors either withdraw, are acquired or driven out of the market place.

It is important for FX Company to understand these concepts of high/low market growth and market share when undertaking competitor analysis. Low growth often means more intense price cutting and innovation so therefore the FX Company would need to benchmark and look for business areas to improve e.g. new flavours of ice cream or new processes or ingredients to save cost and reduce prices during this stage. Low growth may also indicate the prospects of the ice cream industry is getting worse and help FM understand its future income potential.

In terms of market share, the higher this is for a company then normally the higher sales and cash will be for a business, more importantly in the case of the BCG box, one dimension of this measures the relative size of the organisations product sales (or market share) in comparison to its largest rival. A high market share relative to close rivals could indicate a cost leadership strategy could be highly suitable e.g. large market share can achieve the lowest cost per unit due to possibility of economies of scale. Market share is therefore a huge performance measure for any organisation that wants to measure competitive success.

At the heart of the Boston Consulting Group matrix is that an organisation should have a ─well diversified portfolio of productsø e.g. stars (new products) are essential for future success, cash-cows (established and mature products) to be ─harvestedø and support the introduction of stars. This concept could be applied to the FM company in terms of its different product lines or segments of ice cream that it sells.

The FX Company therefore needs to understand the concepts of industry (market) growth or market share, in particular to understand its position relative to its rivals. Such measures could help FX develop more effective competitive strategies in future and in different circumstances, to compete more effectively and be more successful.

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Question Two

Required:

Distinguish between the characteristics of KCC's culture when it was first set up and the culture the company is likely to have now.

(Total for Question Two = 10 marks)

Question Two

Culture is about the shared values of an organisation, the beliefs and norms that affect every aspect of the organisation, 'the way that things are done around here' e.g. work rituals, leadership style and learned ways that govern and shape the organisation.

According to Larry Greiner's organisational growth model, the small organisation is often initiated by a founder starting the organisation as small, informal and growing though creativity or ideas. This likened to CT when she established her business (KCC), six years ago. However according to Greiner, as the business organisation grows in size, this demands a greater need for specialisation of its workforce, with more structure and formal rules established to make the organisation more efficient, better controlled and coordinated. This is more likened to KCC as a business organisation now.

KCC is now a functional structure e.g. specialised departments finance, sales and production activities. The functional structure is likened to Roger Harrison's role culture. A formal and large organisation with a place for everything and everything in its place. Everything runs as routine with clear job descriptions and clear lines of authority. Communication is formalised by job title, handbooks, supervision and instructions for greater predictability and certainty of outcome. This culture thrives on a routine, stable and unchanging environment and does not work well when developing staff independence or initiative e.g. 'management have little interest in the creative side of the business' Also an employee commented that he just felt he was a robot on a production line rather than a craft worker and that his ideas for new cake designs do not get heard.

Characteristics of a role culture e.g. large bureaucratic organisation.

- Centralisation of decision making
- Strict unity of command
- Communication vertical only through chain of command
- Authority and accountability through chain of command
- Specialisation of workers and activities e.g. departments and staff
- Standardisation of work processes
- Formal rules and procedures

According to Burns and Stalker, organic organisations e.g. small entrepreneurial structures, are more suited for unstable, turbulent and changing conditions. Unlike the rigid 'role culture' of the mechanistic form which is rigid and highly specialised.

An organic firm tries to re-shape itself to address new problems and tackle unforeseen environmental change. This is a design built around the entrepreneurial concept. According to Burns and Stalker this would be the most adaptive form of organisation which would be fluid, flexible and creative. Decisions would be decentralised and coordinated by mutual adjustment rather than command and control, the complete opposite of a mechanistic organisation.

Characteristics of organic organisations e.g. KCC, 6 years ago

- Leadership style of 'consultation' not 'command'
- Less precise job descriptions, everyone's job is to pull together
- Absence of formal rules and procedures e.g. bureaucracy
- Knowledge and expertise of staff integrated to achieve the common aims of the organisation e.g. teamwork not specialisation
- Communication lateral, not just vertical e.g. communication through all management levels and boundaries e.g. vertical, horizontal and diagonal.

The organic structure allows for greater autonomy, promotes individual initiative, and allows employees to be involved in the decision-making process. CT used to be on first name terms with her staff, but this is no longer the case, as characteristics have changed this has hindered the innovation of the company. Roger Harrison defined an organic organisation as a power culture. An organisation driven by the persona of the founder.

In conclusion KCC has now changed over the last 6 years from an organic (power) culture to a mechanistic (role) culture.

Question Three

Required:

(a) Using the above information, construct a network diagram, clearly identifying the critical path, for setting up V's business.

(4 marks)

(b) Explain to V the difference between 'contingency/scenario plans' and 'buffering' in the context of helping V plan for the uncertainties in setting up the business.
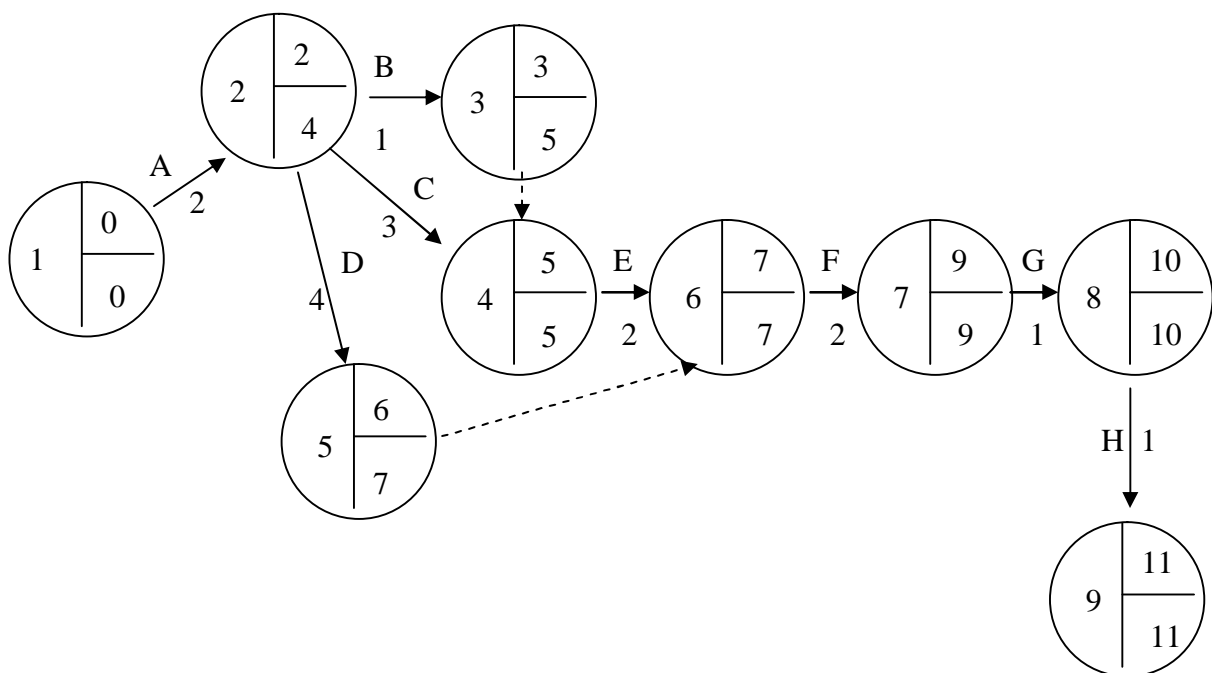
(6 marks)

(Total for Question Three = 10 marks)

Question Three Part (a)

Tutor Note: There are other acceptable methods of producing a critical path analysis, either method is acceptable to gain full marks.

Critical path ACEFGH the elapsed time of the project is 11 weeks

Question Three Part (b)

In a project environment there is always a risk or chance that adverse conditions occur, which could cause the project to fail, or fail to meet its planned objectives e.g. time, cost and quality. The financial and non-financial effects of each risk should be well documented, each risk perhaps classified into groups for better understanding of its implications.   Scenario planning is about perceiving uncertainty e.g. identification of risks and the development of pre-emptive courses of action, if the event or scenario was to occur. It is an attempt to build plausible views of a number of different possible futures for when operating in conditions of high uncertainty.

Scenario planning is a powerful business tool, it is not about predicting the future but exploring the future. If management can be more aware of what could happen, they are more likely to be able to deal with it if it does. Using scenario planning can equip management to think constructively about the future and to plan for it more precisely. It is about setting up systems for monitoring what actually does happen in such a way that management are able to appreciate and respond effectively to any changes that may evolve over time.

V needs to be prepared, and also needs to procure all the necessary equipment before the business can commence, therefore must plan for unforeseen events and think more constructively in terms of how she will manage such events if they do occur e.g. if rental premises cannot be found on time, ways of recruiting staff should be found without the need of a rental office in the meantime, or in the case of delivery and installation of equipment, alternative suppliers identified just in case the existing supplier lets V down.

Buffering (or slack) is the allowance of 'extra' cost, time or resources e.g. 'just in case' certain events or risks do occur. Buffering makes a provision for uncertainty in project environments. V has devised a list of activities that must be completed before the new business can commence. When drawing up this list she was aware that there was a degree of uncertainty in the timescales for some of the activities. If extra time is allowed for activities such as finding rental office e.g. slack, then this can allow for such uncertainty.

In conclusion scenario planning tries to prepare for the future by planning for it, although not all events can be foreseen. Buffering allows for uncertainty by building 'slack' or excess into the estimation of cost, time or resources required, just in case events do arise.

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Question Four

Required:

Discuss the points that PW should include in her presentation on social responsibility.

(Total for Question Four = 10 marks)

Question Four

What is meant by the concept of social responsibility

Social responsibility concerns the organisations duties or responsibilities towards the wider environment, community or society as a whole. The strategy of the organisation can be to adopt either a compliance approach e.g. just keep within the law, or an integrity based approach e.g. the organisation chooses to be more proactive by consulting and learning from different stakeholder groups and seeks advice from other organisations. PWøs company has already introduced socially responsible initiatives including recycling methods, community based projects and reducing its carbon footprint, so the presentation can easily give examples of what CSR is about for those that attend.

Other examples of social responsibility

- Using materials and components that are bio-degradable or recyclable
- Controlling energy consumption, waste and emissions
- Support of charities and the local community
- Good conditions of work for employees e.g. health and safety, minimum wage or the limit of disease, accidents or fatalities

Key benefits from developing strategies which are socially responsible

There has been more pressure on companies today than ever before, to be socially responsible, scandals and media exposure about companies with poor CSR practices can create a bad image through the adverse public relations it can cause e.g. asbestos victims, poor working conditions, employment law breaches or environmentally unfriendly waste or pollution not being properly disposed of. This can often be harmful to the corporate image of the organisation.

Starbucks and Costa today offers its customers certified organic coffee, as well as ÷fair tradeø, ÷green customersø often paying a premium price for their coffee because of this. Fair trade coffee guaranteeing the grower a better deal through fair prices and better working conditions. The Body shop markets its whole organisations persona on ethically sourced products. Such examples reinforce the fact that sustainable competitive performance can be achieved by the organisation when it can differentiate itself on the basis of good CSR practices. This can increase sales revenue and profits for the organisation.

Also there is the benefit of ÷green investorsø e.g. those investors who only invest in recycling companies, renewable energy companies etc, this can bolster up the share price of such companies, due to the shares being more marketable and highly

demanded. Greater shareholder value will be a benefit in the longer-term as share prices rise due to greater marketability. However on the other hand, the fundamental objective of a firm according to the theory of economics is the maximisation of profit. According to traditional theory of shareholder wealth maximisation, the present value of a share price is the net present value of future dividends. Any socially responsible decisions an organisation chooses to make often leads to increased costs or reduced sales revenue because of it, conflicting with this theory.

There are costs for CSR compliance and social audits. Staff, administration and education, the potential loss of dividends as funds are invested into social projects and also the possibility of reduce sales e.g. GSK cutting the price of pharmaceuticals to help third world treatment of HIV. The argument therefore is that being socially responsible does not maximise the value of shareholders in the longer-term, leading to less dividends and a lower share price because of it.

The maximisation of shareholder wealth is still the primary goal of most profit making organisations, however given the ever increasing pressure of media and civic society in the world today, those firms who do not act socially responsible, may not have a sustainable future due to the impact on profit that such actions may have. McDonalds increasing their range of healthy eating options, a prime example of an organisation reacting to the changing values and pressure of society today to be more socially responsible.

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Question Five

Required:

Explain why it is important that the strategies of a strategic business unit (SBU) link to both the overall corporate strategy of a company and to the company's functional strategies.

(Total for Question Five = 10 marks)

Question Five

A division is a distinct business set up within a larger company to ensure a certain product or market is handled and promoted as though it were a separate business. A divisional structure requires strategic business units (SBUs) or divisions to manage an organisations diverse products, brands or markets. This leads to the creation of separate business units to address each market in which the company is operating. The phrase "Strategic Business Unit" came into use in the 1960s.

The process of business strategy is concerned with where the organisation is now, where the organisation wants to be e.g. its chosen mission, aims and goals, and how the organisation is going to get there e.g. strategic choice and direction. Levels of strategy exist within an organisation in order to cascade decisions, instructions, plans and objectives top-down within the organisation.

According to Robert Anthony there are three levels of hierarchy that can exist in an organisation.

- Strategic planning
- Management control and tactical planning
- Operational planning and control

The strategic planning level of the organisation e.g. the holding company or head office of the group, would strategically plan and control the different strategic business units (SBUs) within the group e.g. for Whitbread Plc, each SBU manages different brands such as Premier Inn, Beefeater, Table Table, Brewers Fayre, Taybarns and Costa Coffee. The strategic level is concerned with the overall scope and direction of the organisation, the matching of resources and capabilities of the organisation to keep pace with a changing environment and grow in order to increase value to shareholders.. This level of strategy is primarily concerned with products, markets and growth.

This business level of strategy is concerned with the competitive strategy of the different divisions or SBUs within a large group. The tactical level or divisional managers are concerned primarily with the most efficient and effective deployment of resources e.g. staff, equipment, money, to achieve the strategic aims and objectives, set by its corporate (strategic) level. Each division would determine its competitive strategy and the level of resources deployed, to achieve corporate objectives.

The operational level of strategy is concerned with the different functions or departments e.g. production, sales, human resources (HR) and production, within each SBU, these functions undertaking the day to day routine operations on behalf of each division. Within a group, each division normally has its own separate functions to support the corporate and business strategies determined by the higher levels with the chain of command.

These levels of strategy represent the 'chain of command' connecting the strategic apex (strategic or corporate level) right down to the operating core (operational level). Communication often vertical, flowing up and down formally or informally within the organisation. The middle layer of hierarchy ('middle line' or tactical level) links the 'strategic apex' and 'operating core' within the chain of command together e.g. centralised supervision and control, right down to the routine and regular nature of running the organisation on a day to day basis. The middle line or SBU converting the wishes of the strategic apex into the actions of the operating core. According to Henry Mintzberg, an SBU would be 'the force for concentration', primarily concerned with efficient and effective use of resources to achieve corporate objectives set by the holding company.

It is important that the strategies of a strategic business unit (SBU) link to both the overall corporate strategy of a company and to the company's functional strategies. There is often a need for instructions, objectives and strategy formulation, or the design of good procedures and standards for greater efficiency or consistency. Without such systems and reporting lines, the group could become disorganised or lose strategic direction, this integration between the three levels is therefore of huge importance when it comes to the successful implementation of strategy.

SECTION B – 50 MARKS

Question Six

Required:

(a) Construct an outline project plan for the upgrade of COLøs online system to be presented by D, the project manager, to the key stakeholders of the project.

(15 marks)

(b) Describe the main skills required of the project manager, D, to lead the project team and create customer confidence.

(10 marks)

(Total for Question Six = 25 marks)

Question Six Part (a)

Tutor Note: For a 15% question, you would need about 6-8 good issues to discuss that would be included within a project plan and therefore relevant. Below is 6 clear issues discussed, other discussion could centre around other planning issues such as technical plans e.g. technical features of the project, quality and management issues, gates and milestones (performance measurement systems) or even change management.

Outline project plan to be presented by D

Selection and formation of a project team

A project manager, D, has been assigned from SYS to lead the COL project. He will be responsible for all of the key stages of the project management process, beginning with the project plan. The planning phase of the project will be fundamentally an important stage for D (the project manager) due to the complexity of so many aspects that need to be managed. Resources are less committed at the planning stage e.g. staff time or funds available, and the risk and uncertainty also higher at the start of the project, so costly mistakes need to be avoided now and therefore good planning will be essential for D. Part of the planning stage will be the selection and formation of a project team and the formal appointment of a project manager which seems to have been done already.

A clear strategy developed

A clear course of action e.g. a clearly defined and specific plan should be first of all created by D, perhaps through consultation with the project team. This should specify in detail all resources required and express clear goals and objectives to be achieved by the project. Work breakdown structure (WBS) can help assist planning by breaking tasks or activities down in to more manageable and smaller units of work, activities or stages, it will help plan more effectively for budgeted cost, resources and time, and can be used to monitor and control the project once it gets under way. WBS can be used as an aid to producing a planning document to allocate and delegate responsibilities, budget for cost and control the project easier by sequencing events to achieve maximum effectiveness and efficiency of resources used.

Budget preparation

Cost breakdown structure (CBS) can be used from the WBS, listing every item classified as expenditure for the project in order to get a more detailed estimate of cost or expenditure. If as an example D has a more detailed breakdown of the work to be undertaken, then this will help obtain more accurate forecasts or estimates to complete the project. COL has made it clear that no extra money will be available than that presented in the original budget of $3 million and that any cost overruns will be borne by the contracting company. It is therefore an important aspect of planning to ensure overspending does not occur.

Timing (scheduling) established

Time management tools such as Gantt charts or network analysis should also be prepared for the project in order to manage and control time more effectively

- All tasks should be broken down into a sequence of activities to be accomplished
- An estimation made for the duration of each activity
- Tasks arranged in the most optimum sequence of events

Gantt charts are a horizontal bar chart used to plan the time scale for the project and used to estimate resources required. Network analysis presents visually the high interdependency that exists between the various tasks to be accomplished e.g. those which cannot start until others have been finished first. A network diagram or Gantt chart will be a good communication and planning tool for D when monitoring and controlling the relocation project. It has also set a deadline for final delivery of the system of 12 months. Again, there is no flexibility on this deadline.

Major risks or obstacles identified

Risk management is concerned with forecasting uncertainties or the identification of risks and various strategies or courses of action to deal with them. Despite all of the best planning, things do go wrong, cost can exceed budget, things can be late in delivery and key specialists may leave mid way through. Risk management is most likely to occur at the planning stage, but should be an on-going process whilst the project is being undertaken. The technique of SWOT analysis could be a useful tool to assist D and the team when it comes to the identification of risks. Major obstacles will include the issue of unauthorised access to details or candidatesø results, considered to be the greatest outcome risk to the new system.

Reporting lines and defined roles established

It is important at the planning stage that clear lines of authority are established, as well as a method of reporting established and communicated. This will ensure a good system of monitoring and controlling the project once it commences.

PRINCE 2 defines roles in order to assign responsibility to project individuals and recommends the following

- Project committee or board e.g. experience necessary for strategic direction

- Project manager e.g. the tactical manager for planning, coordinating, controlling and communicating, this would be D
- Team leaders for certain focus if required e.g. a finance or sight manager
- Project assurance e.g. for independent review of progress to the board
- Project support e.g. administration support for reporting and communicating

Question Six Part (b)

Tutor Note: For a 10% question, you would need to aim for around 5 skills a PM will require, each one to include an explanation of why they are important. 5 answers have been discussed below, other skills could have included problem solving skills e.g. despite the best planning many =problemsø will arise, technical skills e.g. PM either a systems analyst or programming background if working within IT, financial skills e.g. the understanding of budgets, cost of finance and exception reporting, and conflict management skills to ensure working relationships are productive and efficient.

Project management is quite often the area and responsibility of an individual project manager. This individual seldom participates directly in the activities that produce the end result, but rather strives to maintain the progress and productivity of various parties in such a way, that the overall risk of failure is reduced. Being a project manager is not an easy job. Having to manage time, cost, quality, suppliers, customers and staff while meeting stakeholder expectations can be enough to keep anyone awake at night! Project management is the discipline of defining and achieving targets while optimising the use of resources e.g. time, money and people.

Leading and motivating skills

Leadership is the actual process of influencing, inspiring and motivating other people. The PM has the responsibility to select and motivate a project team in order to achieve goals or standards, they must lead and inspire them. The PM could have the responsibility of being project champion e.g. someone who is committed to the task and promotes activity, challenges the team to improve, with clear vision, enthusiasm and a drive to accomplish goals.

Communication skills

A key responsibility of a PM is to effectively communicate with project stakeholderøs e.g. suppliers, external consultants, the project team, the client, the board, communication essential to accomplish project tasks and achieve outcomes. Good communication skills ensure deadlines are met, objectives are clear, documentation is clear, listening to and consulting with different stakeholders. D is responsible for communication of the projectøs progress and events to Mrs Y, the senior IT manager at COL, other stakeholders will also need to be communicated with. Mrs Y has insisted that staff from COL should play an active role in the systems development project and that communications between COL and SYS should be a key feature of the project management process.

Negotiation skills

Negotiation skills e.g. persuasion of some stakeholders as they may not like or disagree with what the PM is doing,. Negotiation is the process of wanting to come to an agreement, it differs from consultation in that both parties have some power over the issue and both parties have to come to an agreement or eventual consensus.

According to John Hunt, successful negotiators avoid confrontation, often holding back counter proposals, and using simple and logical reasoning and argument. At the opening phase their tactic is to say as little as possible in order to gauge the other parties overall impression or opinion, they are often patient, calm, and very skilled in the use of persuasive verbal techniques.

Delegation skills

Delegation skills e.g. getting the right person for the right job ó the PM cannot do everything. For effective management, authority and responsibility need to co-exist, but neither are effective without delegation. Ineffective management could include a manager maximising authority and power but minimising responsibility or delegation. A manager can have formal authority through job title, but due to weakness or lack or respect, have no power to exercise it. Importantly a person may not have any formal authority, but through the willingness of others could exercise power.

Time management skills

Personal time management includes the development of processes and tools that increase time efficiency. This helps achieve a better balance between work, personal and family life. Time management also helps ensure that deadlines are met, urgent emergencies or rushing work can be prevented and the avoidance of superfluous activities. It can also help increase energy levels throughout the day.

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Question Seven

Required:

(a) Explain the benefits and drawbacks associated with T4Møs proposal to outsource some of the work currently undertaken in the Finance Department.

(12 marks)

(b) Discuss how F, the Finance Director, should approach negotiations so that they are effective if the outsourcing strategy goes ahead.

(13 marks)

(Total for Question Seven = 25 marks)

Question Seven Part (a)

> **Tutor Note**: You would need at least three benefits and limitations applied to T4Møs proposal to outsource, in order to gain full marks.

Outsourcing, is the contracting of operations and responsibilities of a specific business function (process) to a third-party service provider. Commonly referred to as ÷back office outsourcingø because it involves the outsourcing of internal business functions e.g. finance, human resource management, legal, information technology, even the ÷offshore outsourcingøof call centers by companies today.

Benefits of T4M's proposal to outsource

- ✓ Economies of scale e.g. the outsourcer can share its overhead across a large number of clients helping to achieve cost reduction for each client.

- ✓ Reduces the complexity of managing internally a large number of business activities. Organisations can retain entrepreneurial speed and agility, whilst at the same time avoiding introducing complex and bureaucratic processes.

- ✓ Management can focus on its core competencies e.g. frees up senior management time dealing with non-core or administrative processes, management can focus on key processes that create competitive advantage.

- ✓ Greater flexibility of using the outsourcer during ÷peakø and ÷off peakø periods e.g. financial flexibility if ÷fee-for-serviceøbasis.

- ✓ Does not require the organisation to invest in capital assets often with significant outlay e.g. risk reduction and less constrained by large capital expenditure on people and equipment which may take years to amortise. Low capital outlay can allow the organisation to grow at a faster pace.

Limitations of T4M's proposal to outsource

- ✖ Loss of strategic control over internal expertise. An internal activity could be very difficult to establish once again ‑in house, if the outsourcer does not provide the required standard of service e.g. losses of around 300 staff, can these skills be replaced easily?
- ✖ May make the organisation more vulnerable due to over reliance on the outsourcer. Outsourcing companies are third parties and have their own priorities which may conflict with the client.
- ✖ Loss of competitive advantage due to an activity given to a third party who ultimately may not manage it as well as the organisation. There could be huge disruption to an organisation and its customers, if the outsourcer does not deliver the standard or level of service expected e.g. late deliveries, lost orders, poor customer service etc.
- ✖ Poor morale and motivation of staff when redundancy occurs as a result of outsourcing decisions.
- ✖ Risk to the security of information e.g. confidentiality or privacy policies about customer details breached.
- ✖ Failure to meet service levels by the outsourcer.
- ✖ Practical problems about unclear contractual issues, changing requirements, underestimation of running costs all normally create unforeseen charges.

Question Seven Part (b)

> **Tutor Note**: Using the four phases of negotiation (or other similar theories) would be an ideal way of breaking up the answer and giving better structure to it.

Negotiation is about two or more parties with competing interests, come together to discuss the terms of an arrangement or reach an agreement. Negotiation is the process of wanting to come to an agreement, it differs from consultation in that both parties have some power over the issue and both parties have to come to an agreement or eventual consensus.

Negotiation can be characterised by four phases - preparation, opening, bargaining and closing. In large scale negotiations each of these phases are normally tackled sequentially, in small scale negotiations it is quite common for these phases to merge into a single unstructured process.

Preparation (phase one) e.g. planning, team formation and information gathering.

Determining acceptable outcomes, considering the viewpoint of the other party you are negotiating with. This stage is about good planning for the process of negotiating itself and would include team formation for the negotiation process to be handled. The planning stage should determine what are acceptable outcomes for the T4M company, if the proposal to outsource was to go ahead e.g. redundancy packages offered, also to consider the other viewpoint of the party they will be negotiating with e.g. employee representatives and trade union officials.

It is possible the T4M company will have to compromise, but what is acceptable or unacceptable needs to be determined before the process of negotiation itself. A programme of research may allow insight into employee opinions towards the company's plans, as well as determining the level of resistance that will exist towards the outsourcing proposals.

Opening (phase two) e.g. summarisation of case or argument by both parties.

The opening stage would be the summarisation of the case or argument for both parties put forward, often the strategy used at this point would be to say as little as possible in order to gauge the other parties overall impression of the matter.

Bargaining (phase three) e.g. skills of persuasion, reasoned argument, tactics, suppression, compromise or collaboration, the process of actually negotiating and narrowing the gap to close the deal.

The bargaining stage is all about the skills of persuasion, reasoned argument, tactics, suppression, compromise or collaboration, the process of actually negotiating. It is important that good relations are maintained throughout the negotiation process with employee representatives and trade union officials. Both parties will desire some kind of settlement and accept there maybe compromises, the negotiation process itself can be 'off the record' and informal but whatever the process, it should be 'civil' and avoid things going too far. This stage works towards an ideal outcome for both parties and is often the process of give and take.

According to John Hunt, successful negotiators avoid confrontation, often hold back counter proposals and use simple and logical reasoning and argument, often skilled in the use of use persuasive verbal techniques.

Closing (phase four) e.g. agreement and summarisation at the closure stage of the meeting, the agreement expressed in writing by both parties. Assuming both parties reach a settlement or decision that is acceptable to both.

Assuming both parties reach a settlement or decision that is acceptable to both, this last stage is one of consensus and summarisation. It includes a conclusion process and agreement expressed in writing for both parties e.g. closing the deal regarding relocation of staff if applicable, criteria for job losses and redundancy packages offered.