

SECTION A – 50 MARKS

Question One

Required

(a) Advise F plc's Board as to whether or not it should approve the Desserts Division's proposed relocation to the West of England.

Your answer should include an evaluation of the six conditions of approval set by F plc's Board, including the results of your Net Present Value calculation for condition 1.

There are 10 marks available for calculations.

(20 marks)

(b) Advise the Divisional Accountant how he could deal with any resistance to change he might encounter when attempting to achieve the Chief Executive's first goal.

(15 marks)

(c) Recommend improvements which would enable the Board of the Desserts Division to achieve goals 2 to 5 as set by the Chief Executive of F plc.

(15 marks)

(Total marks for Question One = 50 marks)

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Question One – Part (a) – Possible solution

1. The relocation produces a positive Net Present Value of £989,000 (positive) based on an evaluation over a 10 year time horizon. Workings have been produced below.
2. The relocation has a payback period of 3 years or fewer. Ignoring discounting of any cash-flow, the relocation pays itself back immediately at year 0.
3. There will be adverse and positive effects on F plc's public image. The proposed relocation substantial loss of jobs in the north part of England e.g. over 4000 full-time equivalent staff. However according to the pre-seen information (page 6) the Division has experienced technical and managerial staff shortages. Vacancies exist despite there being a ready supply of manual labour for production work; therefore it seems the north of England also looks like an area of high unemployment for manual jobs. On a positive note however the relocation will offset by the creation of jobs in the West of England, the HR Director forecasting the creation of to 5,600 more jobs! With an overall positive increase in workforce it could help increase F plc's public image.
4. The relocation does make a positive contribution to F plc's Corporate Social Responsibility. The Desserts Division is located in the North of England where road, rail and air links are not well developed. According to page 7 of the pre-seen, road kilometres travelled increased by 5% in 2010 compared with 2009. If relocation occurs there will be a reduction in Road Kilometres Travelled equivalent to 15% of F plc's total Road Kilometres Travelled based on 2010 results (page 10 un-seen) so therefore this will contribute towards better CSR targets.
5. The relocation is consistent with F plc's mission statement. It states that F plc is committed to continually seek ways to increase its return to investors, the relocation will add almost £1 million in shareholder value over the next 10 years. It will achieve this by using efficient processes as stated within the mission statement e.g. savings in transportation.
6. The strategic aims of F plc are on page 3 on the pre-seen. The relocation may not achieve the objective of increased market share in both domestic and overseas markets. With regard to sourcing high quality ingredients or that its factories adhere to the highest standards of food hygiene or strive to be at the forefront in food manufacturing techniques I cannot see how relocation information either supports or hinders these strategic objectives.

For criteria 3 above it would raise the public image of F plc within the West of England. All the other criteria all seem to be met, in which case the relocation should go ahead as planned.

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NPV calculation for moving the Desserts Division

	Year	C/F £000's	D.F 15%	PV £000's
Costs of relocation, £1,820,000.	0	-1820		
£1,000 for each job created in the factory (5600 x 90% x £1,000)	0	5040		
£2,000 for each job created in the offices (5600 x 10% x £2,000)	0	1120		
Cost of redundancy				
From pre-seen information 4,700 F-T equivalent employees less 385				
current vacancies = 4,315 F-T employees x 98% redundant =				
4,229 redundancies x £1,000 redundancy cost per employee	0	-4229		
		<u>111</u>	1	111
Year 1-10 savings				
West of England would be £75,000 cheaper each year	1-10	75		
Savings in transport costs of £300,000 per year	1-10	300		
Labour increase in cost because of relocation	1-10	<u>-200</u>		
		<u>175</u>	5.019	<u>878</u>
NPV				<u>989</u>

NPV is positive and therefore should be accepted on financial grounds

Question One – Part (b) Possible solution

Tutor Note: Change management theorists such as Lewin's 3 stage approach or Kotter and Schlesinger's six methods of managing change, are ideal for answering questions relating to any process of change, use these models to give some practical advice for the Divisional Accountant.

The first goal is that confrontational meetings between the Divisional Accountant and the Marketing staff must change their character and a constructive working relationship must be established between the Divisional Accountant and the Divisional Marketing staff.

There is no one successful recipe for managing change within an organisation. For change to be successfully implemented there needs to be a shared vision and plan, which is effectively communicated, also a senior management team that is committed and build high levels of trust and participation from those affected by it. Kurt Lewin suggests a three stage approach to managing change.

Unfreeze existing behaviour e.g. spell out the reasons why change needs to occur

This stage spells out the reasons why change needs to occur. The most difficult of the three stages of change management and a process that is often overlooked by management or ignored altogether. Unfreezing would involve communication and education to staff about the reasons why change needs to occur in order to sell and give motive for change. Those affected need to be convinced of the undesirability of the existing situation and develop an understanding of the need to change with clear vision communicated and shared.

Behaviour change e.g. modify existing attitudes, norms, values and beliefs

Participation should be encouraged by those affected to aid change, as well as objectives and timescales set to achieve its desired effect. This stage identifies and crafts new norms, attitudes and beliefs e.g. behavioural change, it is concerned with education, communication, participation, manipulation or even coercion to achieve the desired effect.

Refreeze e.g. reinforce new ways by encouragement, reward and praise

Once new behaviour or culture is crafted, the organisation will need to consolidate. This last stage ensures workers are satisfied with the new ways and reinforces the new ways through reward, praise and encouragement. Refreezing is about ensuring the lasting effects of any behavioural change do not revert back to old or undesirable ways.

Kotter and Schlesinger six methods of managing change

The below methods are for managing change and viewed as a hierarchy, going from soft to more hard approaches like manipulation and coercion.

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- **Education and communication** e.g. the CEO could inform and educate the reasons for change to all departments involved, performance suffers unless conflict is managed in a positive and not negative way, this needs to be spelled out. The CEO could also give a constructive indication of how professional conduct should be applied, such as examples of written processes on how to manage conflict.
- **Participation and involvement** by those affected. The Divisional Marketing staff members and Divisional Accountant could themselves agree to resolve differences by participation in any change effort. Marketing say they don't always agree with or understand his figures and that they feel that the Divisional Accountant is spying on them. Both have to be involved in the change process in order for them to be motivated to change so it is important that both are consulted before any changes are imposed. Both could at least admit that IT unreliability is often part of the cause of what could be frustrating meetings e.g. late information, or that given so different personalities it is acceptable to disagree but not to confront so aggressively.
- **Facilitation** is a process of decision-making or support guided by a facilitator. This process ensures that individuals or groups are involved in a meaningful way and that decisions are based on their input and made to achieve their mutual interests. This helps to reduce the anxiety and fear of those affected by change. If both parties were to meet, resolve differences and create a process for working together in future that both are comfortable with, then both parties could be motivated to change. This meeting could be organised with a professional facilitator or someone with authority such as the CEO.
- **Negotiation and agreement** is way of managing change and can achieve quick settlement for the minimum damage acceptable to both parties and can leave relationships undamaged and 'save face' e.g. no damage to egos. But it also creates a cynical view by either party e.g. does not build trust. The Divisional Accountant has recognised that he is, in part, the cause of this problem. The Divisional General Manager, a food technologist by profession, has to understand perhaps that at least the Divisional Accountant should have expert power in cases where financial matters need to be dealt with and controlled, he is perhaps not 'spying' but trying to do his job. The CEO could also negotiate some form of reward to both parties in order to improve working relationships, but will want to see evidence of this?
- **Manipulation and co-optation** e.g. shrewd or devious influence to achieve change. **Explicit and implicit coercion** e.g. compelling change by force. Both fairly aggressive strategies used to manage change. The Divisional General Manager has told the Divisional Accountant that a successful resolution of Goal 1 is very important for both of their future careers within F plc. Perhaps using coercive power he and the CEO could stamp their authority over both managers in conflict. These strategies of change work more on fear and dread e.g. 'you both will never be promoted or advance unless you sort this problem'. These strategies are normally 'last resort' measures, when all else fails or time is urgent and quick decisions need to be made. These last two methods advocated above could also both raise legal and ethical concerns if management behave in this manner e.g. aggression.

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Question One – Part (c) Possible solution

Goal 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.

The savings therefore estimated in 2010 would have been $(1.8\% \text{ reduction} \div 3.8\% \text{ current}) \times £7.5 \text{ million} = £3.6 \text{ million}$ in wastage.

A large proportion of the wastage is caused by poor storage of food raw materials. Therefore it is recommended that the causes of poor storage are identified, documented and adequate controls are introduced e.g. better refrigerated or hygienic methods used and processes and guidance given to staff to preserve these materials longer. This will therefore reduce levels of wastage.

Some raw materials, for example, chocolate, have been subject to theft by warehouse staff. It is imperative that internal audit is consulted to examine and implement more effective controls over pilfering. This could involve CCTV, locked or pin protected doors and regular stock takes to identify discrepancies sooner.

Other raw materials are wasted because they go bad and become unfit for human consumption. It is not identified why this is the case, if due to over stocking prior to production or simply the nature of the ingredients e.g. highly perishable, then better stock control over these raw materials will be essential to reducing wastage levels. Just in time could be the answer to avoid perishability. Perhaps also preservatives or better storage methods above could also be likely advice when it comes to curing this problem.

Lastly financial incentives could also be offered to stock management and warehouse staff, given this may be less than the savings predicted above it could well be a prime motivator to encourage minimisation of wastage.

Goal 3

The Desserts Division must carry out a physical inventory-count 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%.

It is imperative that accountability is assigned for this task with training and a consistent process to follow for a team of staff to carry out this activity each month. The inventory-counts should not be performed by any staff who want to just earn overtime, as little accountability or consistency exists using this current method.

Warehouse staff who issue ingredients should be required to participate in the inventory counts since they are in part responsible for stock management e.g. they deal with the administration and therefore reliability of the data they process, they too must work to improve the existing system.

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ABC is an example of a periodic inventory system, different stock items classified as either

- High value (A)
- Medium value (B)
- Low value (C)

Higher value items are to be reviewed more frequently and controlled by a greater extent than low value items. This is because better stock control of high value items will minimise cash tied up unnecessarily within high value raw material or finished goods stock, supporting more effective cash flow management for the organisation. Regular spot checks could also be made by internal audit as a way of periodically recognising problems and where controls can be improved or implemented.

Goal 4

All customers' orders must be met on time and the Division must achieve 100% of its potential revenue. Poor inventory control has led to customers' orders being delivered late, usually by one or two days. This has led to some customers closing their accounts.

According to the pre-seen information the Divisional Accountant has estimated that 5% of the Division's potential revenue has been lost as a result of not being able to satisfy customer orders on time, due to poor inventory control. £544 million turnover (2010 according to pre-seen appendix 3) $\times (5\% \div 95\%) = \text{£}29$ million turnover lost in customer orders. This would be roughly £29 million (2010 profits) \times (average profit margin from pre-seen appendix 3 ($72\text{m} \div 544\text{m}$)) = £3.8 million profit.

Most of the issues concerning poor stock control have been dealt with above. Poor inventory control has also been experienced due to information technology used e.g. IT unreliable due to technical malfunctions it is also therefore important that this problem is improved with an effective IT strategy. The Divisional General Manager must therefore at strategy meetings put forward proposals to deal with this issue e.g. reinvestment required and the likely costs. The IT Director could play a major part in feasibility studies undertaken, but would need to work with other divisional managers and head office to resolve this issue.

Goal 5

Much of the problems of stock discrepancies have been dealt with above which is one of the main causes of delays in information to head office. The system is a paper-based one and has often been the cause of discrepancies between theoretical and actual inventory balances. It is imperative that less labour intervention is used and this manual system perhaps reverted to more automated processes. Bar coding, e-tagging of stock or even optical mark reading are all cheap forms of technology that can speed up data capture and improve the accuracy, completeness and validity if the information being recorded.

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This system is also incompatible because its information is not in a form which can be directly entered into F plc's standard information management system. It is imperative that any internal forms used are compatible to identify with records within other systems.

The system for ordering and the receipt of goods into the factory should be integrated with F plc's standard information management system and made compatible. This would remove the need for staff to re-key information from one system to another removing time lags and potential inaccuracies that may exist when staff do this.

Possibly in future perhaps an enterprise wide system (ERP) implemented to reduce time lags as the system would be fully integrated and real-time processing could then occur. This could reduce time lags for head office receiving information from all divisions.

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SECTION B – 50 MARKS

Question Two

Required

(a) (i) Identify TWO models that the team could use to analyse the external environment. Briefly explain the models.

(4 marks)

(ii) Explain how these models could assist the team in formulating a wedding package strategy for the Futurist hotel.

(6 marks)

(b) (i) Explain how an understanding of Porter's three generic competitive strategies could help the team design a successful wedding package strategy for the Futurist hotel.

(9 marks)

(ii) Advise the team how information systems strategies could support the three generic competitive strategies.

(6 marks)

(Total for Question Three = 25 marks)

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Question Two – Part (a) (i) Suggested answer

Environmental analysis should be a continuous activity for management, especially within uncertain or complex environments; many of the components used within the models discussed below are interrelated and will affect one another.

Models such as PEST or SLEPT analysis and other derivatives of these e.g. PESTLE or SLEEPT or STEEPLE can be used for analysing the general or industry environment. The models are suitable because they analyse a range of general environmental factors which help management concentrate and focus on factors which influence their organisation.

- Societal e.g. population, demography and culture of customers (customs, attitudes and beliefs) within the market.
- Legal e.g. criminal, consumer, company and employment legislation.
- Economic e.g. exchange rate values, interest rates, taxation rates.
- Political e.g. political culture towards foreign ownership and investment, bureaucracy of regulating domestic or foreign competition.
- Technological e.g. Tesco, self-scanning EPOS devices, or 3G technologies within mobile phones, to improve customer service.

Porters five forces also uses components or a framework to undertake an industry analysis for an organisation. Porters five forces will help determine the competitive forces within the industry and the impact this may have on the profitability within it. By carrying out such an analysis it helps an existing firm or new entrant to understand whether these five forces are either weak or strong. In the case of strong forces, lowering the profits within an industry, in the case of weak forces allowing superior profits to be earned.

- Threat of new entrants into the industry
- Bargaining power of suppliers within the industry
- Bargaining power of customers within the industry
- Competitive rivalry within the industry
- Threat of substitutes outside the industry

Once such an analysis has been undertaken it allows an organisation to decide how it will successfully compete, mitigating negative forces identified or help to improve the organisations profitability.

Question Two – Part (a) (ii) Suggested answer

- ✓ It will provide a vital tool for strategic information to be collected before competitive strategies are developed by the Futurist e.g. CB and his team will be more aware of competitive strengths of the new hotel and be more in touch with customer needs, wants and values when entering different market segments for wedding packages. The 'social' within PEST or the 'bargaining power of customers' or 'competitive rivalry' within the 5-forces model will be a valuable component. The futurist has many competitors and an understanding of different positioning strategies used by them, as well as customer values when it comes to wedding packages offered, will be vital information to CG and his team.
- ✓ It will provide information for early warning signals about 'external threats' much quicker e.g. wedding consumers choosing to use other competing hotels or venues and their reasons why. This would allow the Futurist to react and perhaps mitigate or reduce the likelihood of different factors effecting future sales and profit.
- ✓ It will allow better 'educated guesswork' about the effects of future trends and competitive strategies if the environment is scrutinized regularly over time.
- ✓ It will allow insight into the consequences of the Futurist following its present strategies it intends to implement e.g. overpriced wedding packages, relative to local competition will give insight into forecast revenues, profits and returns. Environmental information can help financially forecast costs, revenues and cash flow helping to budget and plan for the organisation more accurately.

In conclusion a process for systematic environmental analysis, using models, will help provide CB and his team with more timely and effective external information to aid them when strategic planning and making decisions e.g. pricing, customer target segments and how to attract them, product and service features tailored better to the needs of wedding customers.

Question Two – Part (b) (i) Suggested answer

Cost leadership strategy

A cost leadership strategy is when the firm is offering a product or service at the lowest price due to having the lowest cost per unit in the industry. The firm seeks to be the lowest cost producer within the industry in order to compete on the basis of being the lowest priced. Its main objectives would be to reduce costs through improving efficiency and productivity to gain economies of scale.

Characteristics of cost leadership products include cheap and cheerful, basic no frills service, often considered inferior but 'you get what you pay for' e.g. economy brands such as Ryan Air or Easy Jet. The 'Royal Albert' offers its wedding package for 100 guests for a total cost of £1,000, with no overnight accommodation provided in the basic price, this would be an example of cost leadership (£10 per guest), although no evidence exists that this hotel is actually the lowest cost producer, being near a busy interchange could give much lower rents perhaps when compared to nearby hotels.

The futurist would need analyse its cost structure of its different business activities to identify where it can out compete/perform other venues on a sustainable and profitable basis. If it does not possess such unique competences or resources similar to the 'Royal Albert' then alternative competitive strategies such as differentiation should be pursued.

Differentiation strategy

A differentiation strategy is about offering a product or service which has certain characteristics or features that are unique and distinct relative to the competition. The firm seeks to compete by providing a better, unique or more innovative product or service to a customer, the higher cost and perceived added value of doing this normally would mean a premium price is charged for doing so.

The 'De Luxe' hotels, unique selling points include a castle in a beautiful rural setting and it has won many international awards for its food and high standard of facilities and bedrooms. The 'added value' of these features mean that a premium price of £50,000 for a wedding package for 100 guests (£500 per guest) can be charged!

Focus strategy

Focus strategies are about market segmentation of customers, but either differentiation or a cost leadership strategy used as the basis of competitive strategy.

A focus strategy identifies customer groups or segments with certain characteristics e.g. needs, wants and values when seeking a product or service. The organisation then producing on a smaller scale to sell to a market segment or niche identified. The futurist rather than focusing on the mass market for weddings, could position itself to attract one or more different segments of wedding customer. The 'De Luxe'

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hotel charging £50,000 for 100 guests could be viewed as top end luxury clients e.g. differentiation focus, when it comes to a wedding venue, arguably a smaller niche market; the model is not black and white! Arguably a budget hotel situated next to a busy transport inter-change gives distinct cost advantages for cost leadership but more in line with customer segments that want bargain, cheap and cheerful the low cost conscious segment.

The futurist therefore needs to be aware of what it can offer in terms of unique selling points or its own desirable wedding features, when compared to other venues, whichever strategy used by the futurist it seems likely this will be differentiation, aimed at perhaps different segments of customer in mind Clear marketing mix such as pricing, product and promotion will be required to make a focus strategy successful.

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Question Two – Part (b) (ii) Suggested answer

(ii) Advise the team how information systems strategies could support the three generic competitive strategies.

(6 marks)

Information Systems Strategy (ISS)

Information Systems Strategy (ISS) is concerned with the identification and provision of information required to support the wedding strategies, goals and objectives. It is concerned with providing information to CB and his team to help plan and improve decision making, as well as other information to support other stakeholders e.g. the futurist board of directors.

- Identify information needs and sources of information e.g. what hotels, price comparisons, cost and profit projections etc.
- Decide the format and presentation of information e.g. user friendly.

The futurist whichever strategy it decides will require information such as forecast sales, profits and returns from various competitive strategies, also sales, pricing and financial performance of other hotels. The ISS will be concerned with providing all of this as well as qualitative information e.g. hotel and wedding features.

Information Management Strategy (IMS)

An information management strategy (IMS) determines how the organisation will collect, store and maintain its data and information. Data professionals, administrators maybe required to maintain, audit, control and protect data and information help by the Futurist or CB and his team.

- How data or information will be collected and stored by CB and his team
- How CB and his team will gain access to information and use it effectively
- Procedures for security, back-up and recovery of data

It could be that other systems already exist within the organisation e.g. enterprise resources planning packages, spread sheets or databases which will already help. Clear roles and processes will be required by CG and his team in order to protect the integrity of their data processed.

Information Technology Strategy (ITS)

The precise hardware and software (≠the IT delivery kitø) is defined and implemented for data processing, storage and presentation of information to the end user.

- Network infrastructures e.g. integration with other systems to improve information, other external networks and broadband to support communication.
- Software e.g. end user developed, off the shelf or tailor made (bespoke)? In the case of CB and his team this could be basic spread sheets to provide most of the financial projections.

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Question Three

Required

(a) Evaluate the appropriateness of JIK's current control system.

(7 marks)

(b) Recommend TWO Critical Success Factors (CSFs) which could assist JIK achieve future success. You must justify your recommendations.

(6 marks)

(c) Advise JIK of the changes it will need to make:

(i) to its current control system following the introduction of the CSFs recommended in part (b) of your answer;

(4 marks)

(ii) to its standard costing system, reporting frequency and information requirements to achieve improved control.

(8 marks)

(Total for Question Three = 25 marks)

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Question Three – Part (a) Suggested answer

Standard costing

JIK reports weekly on variances: Materials price, Materials usage and Manufacturing labour efficiency. JIK uses standard costing for its manufacturing operations. With more automation of manufacturing operations today and less human intervention, labour standards are becoming less valuable as management information. Automation produces greater uniformity and consistency of products made, with less likelihood of material and labour variances actually occurring. Also these variances work on cost reduction and efficiency not quality of the manufacturing process. These internal control measures are not preventative when it comes to minimising complaints and money back guarantees for its installations, this could be due to inferior materials or the workforce cutting corners to save time.

Standard costing is an internal not external control measure e.g. too internally focused on maximising efficiency and minimising cost. Organisations need to consider other external factors such as competition, customers and other global environmental factors, not just internal cost and efficiency levels. Quality, innovation and customer satisfaction have become far more important to survive as an organisation today.

The revision to standards may be too infrequent to guide or improve performance over time e.g. the life cycle of products are much shorter in a modern manufacturing environment and the environment more dynamic. Standards quickly become out of date due to frequent and continuous change. Modern manufacturing techniques such as TQM and quality circles mean as manufacturers aim for near perfection, the frequency and materiality of variances should not occur so often. Today focus is more on quality and customer satisfaction not the minimisation of cost.

Productivity bonus as financial incentive

Installation teams are paid a basic wage which is supplemented by a bonus for every kitchen they install over the yearly target of 50. This means many work long hours e.g. productivity, and the more efficient they work the more they get paid. However this ignores fundamentally the quality of the work performed or customer satisfaction from the installation, external control measures which are more preventative when it comes to minimising complaints and money back guarantees for its installations.

QC systems

Quality control systems in contrast focus on appraisal and cure often using performance measures for monitoring and controlling e.g. wastage levels, warranty claims, customer returns and complaints. The problems of quality control contrasted to quality assurance is that there could be a significant delay for reporting quality failures and taking corrective action. This could mean sub-standard goods and services are produced by an organisation and then either scrapped, reworked and

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even worse already delivered to a customer unknowingly. JIK is using out of date practices almost accepting a tolerance for sub-standard work e.g. one minor complaint each time a Value kitchen is installed and a major complaint for 10% of the Value kitchen installations. JIK was surprised to see that in its results for 2010 were very poor, evidence of significant delay in information from their existing control systems.

Question Three – Part (b) Suggested answer

(b) Recommend TWO Critical Success Factors (CSFs) which could assist JIK achieve future success. You must justify your recommendations.
(6 marks)

Tutor Note: Candidates were required to provide two CSFs. Two have been provided below but any other sensible CSFs would be given credit.

Critical success factors (CSFs) are key organisational goals that if achieved will make the organisation more successful. The limited number of areas in which results, if satisfactory, will enable successful competitive performance (Rockart and Hoffman)

To improve the quality of kitchen installations

The first CSF I would recommend would be to improve the quality of kitchen installations. Currently incentivising the teams on the basis of saving time is an inadequate control system. Installations are the customer facing side of the business, adding significant value to the JIK organisation as part of its value chain.

If JIK were to improve this CSF there would be a significant reduction in complaints and month money back guarantees, therefore customer satisfaction and brand image would improve. From this there will be financial benefits from repeat orders, customer recommendations and the reduced cost of administering complaints.

To improve the quality of manufacturing

The second CSF I would recommend would be to improve the quality of manufacturing. Current performance measures work on variances e.g. focuses on cost reduction and efficiency, not quality of the manufacturing process.

One reason why complaints and money back guarantees for its installations could exist is poor quality products in the first place from the factory e.g. missing screws, missing or damaged surface tops or panels, can all delay installation and cause complaints. By concentrating on better quality of manufacturing financial benefits will result from this e.g. less manufacturing returns, money back guarantees and more satisfied customers. Innovation will also be vital when improving quality e.g. better designed and manufactured kitchen units in the first place, reliant on customer feedback as opposed to just internal cost and efficiency variances.

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Question Three – Part (c) (i) Suggested answer

The main problem with JIK's control system was the frequency of how often information is reported e.g. management were surprised about poor financial performance, and what information is reported e.g. financial and internal cost measures only. JIK will therefore need to embrace more multi-dimensional and holistic models like the balanced scorecard e.g. performance measures created for the innovation, customer, internal and financial perspective.

Information should not be from just the internal accounting system but also collected from external systems to ascertain key measures such as pricing, market share, sales, brand loyalty and customer satisfaction. Once CSFs have been established, performance indicators (or KPIs) will need to be developed by JIK and its information systems modified.

Question Three – Part (c) (ii) Suggested answer

Standard costing system

Systems for continuous improvement within manufacturing e.g. aim towards zero defects, idle time, wastage etc, could mean either modifications to or abandonment of the existing standard costing system, to give way to new performance measures such as sales returns, rejects, complaints and innovation.

Also currently incentivising the installation teams on the basis of 'saving time' based on standard is an inadequate control system when it comes to improving quality e.g. economy and efficiency encouraged but not effectiveness when it comes to attention to detail and the final touches that are required to complete the job to a high standard. JIK is advised to modify reward systems e.g. performance measures based on completion of other targets, such as less complaints or customer satisfaction ratings from surveys completed after installation work. JIK has never received a complaint about a Lux-Style kitchen installation; it could perhaps internally benchmark to see why and learn from other remuneration schemes?

In conclusion standards for both manufacturing and installation need modification or revision to incorporate better measures.

Reporting frequency

The reporting frequency also has to increase for performance measures reported to management, so that they can react sooner to problems identified e.g. JIK has always been profitable but was surprised to see that in its results for 2010 only made 0.1% net profit on its turnover. Given many of these measures used currently are from the accounting system, JIK is advised to keep its CSF system separate and distinct for more expedient reporting.

Information requirements to achieve improved control

Information Systems Strategy (ISS) is concerned with providing information for all levels of manager at operational, tactical and strategic level within an organisation, as well as other external stakeholders e.g. suppliers and customers. This element of strategy determines what information is required and how the different information systems are organised and interconnected together.

- Identify information needs and sources of information e.g. complaints analysed by reason, levels of scrap, waste, rejects, guarantees, market share etc.
- Decide the format and presentation of information perhaps driven by balanced scorecard headings.
- Ensure all end user needs are provided for e.g. consultation and training.
- Invest in software, processes and staff to accommodate new information.

JIK must create suitable performance measures and implement effective information systems to monitor and report more frequently to management. This will help identify much sooner areas where JIK could be failing or where urgent control action or control measures are likely.

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Question Four

(a) Evaluate, using Mendelow's matrix, the levels of power and interest of HWS's shareholders in the decision to sell alcohol and tobacco. You should justify your evaluations.

(14 marks)

(b) Advise HWS's Board of TWO other stakeholders who would be interested in the decision to sell alcohol and tobacco. You should state the reason for the interest of these stakeholders.

(4 marks)

(c) Advise HWS's Board how it could respond to the increasing demands in society for responsible business practice.

(7 marks)

(Total for Question Four = 25 marks)

Question Four – Part (a) Suggested answer

Stakeholders are those organisations or people that have an interest in the organisation, these interests varied and for many reasons. They can be a source of potential conflict for the successful accomplishment of the organisations strategy and goals.

Mendelow’s stakeholder mapping model

Mendelows matrix is a way of prioritising stakeholders by subjective mapping of them, in order to understand and resolve any issues or conflicts that may exist. This model prioritises by mapping which stakeholders should more likely considered and therefore satisfied by the organisation.

- **Power** e.g. bargaining power, right or ability to exert influence over the organisations strategic aims and the general way it conducts itself.
- **Interest** e.g. interest in the activities or conduct of the organisation for varied reasons.

I have categorised the shareholders of HWS below and explained the rationale for the positioning of each shareholder below this map.

		Interest in the organisation	
		Low	High
Power over the organisation	Low	<p>Minimal Effort</p> <p>Private investors</p>	<p>Keep Informed</p> <p>HWS charitable trust</p> <p>HWS employees</p>
	High	<p>Keep Satisfied</p> <p>Pension funds</p> <p>Investment trusts</p>	<p>Key players</p> <p>HWS directors</p> <p>RCB</p> <p>UK clearing bank</p>

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Minimal Effort

Private investors

$3\% \times £450m = £13.5m \div 15,000$ investors (Many and varied) = £900 average investment. I would argue therefore their level of interest is very low given their investment is very moderate. Their level of power also very low as the shareholding of 3% voting control makes 15000 investors very weak and fragmented.

Keep Informed

HWS charitable trust

10%, 1 investor (Uses funds to benefit health of the population). This shareholder is highly interested, the announcement attracted criticism from the HWS charitable trust which stated: ∴...this is against the whole ethos of HWS. However given that it has only 10% of the shareholding of HWS, it does not have significant voting control to influence whether alcohol or tobacco should be sold.

HWS employees

$10\% \times £450m = £13.5m \div 5,080$ investors (Part of remuneration) = £8,858 average investment per employee. This seems substantial enough to justify a high interest in this decision but once again given only 10% of the total voting control exists (like the HWS charitable trust) employees of HWS do not have significant voting control to influence whether alcohol or tobacco should be sold.

Keep Satisfied

Pension funds & Investment trusts

A substantial holding of shares (£67.5 million each) and both cases very few investors, therefore considerable interest I am sure from these two shareholders. Given similar goals exist e.g. long-term view, these stakeholders are small enough to collaborate and if so together could represent 30% voting control. But each individual shareholder voting power is considered to be much smaller.

Key Players

HWS directors

2%, 6 investors (Part of remuneration). The major decision criticised or otherwise rests with the board to make, regardless of the value or the size of their shareholding, which seems small. They therefore have significant influence over this decision and have high interest given they suggested it in the first place.

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RCB : private equity fund

25%, 1 investor (Seeks short-term profits). Considerable interest given it has the largest shareholding and sees the sale of alcohol and tobacco as a way of boosting its share value. Also considerable shareholding to say it has a large block vote when influencing the board when it comes to the power of removing them.

UK clearing bank

20% 1 investor (HWS is a client). Like RCB similar influence due to significant holding to remove the board if it were dissatisfied with its decision. Given also HWS is a customer of this bank, and especially if sizeable loans or overdraft facilities are provided then significant interest and influence exists over this decision.

Question Four – Part (b) Suggested answer

<p>Tutor Note: Other stakeholders could have been discussed and credit awarded.</p>
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Customers of HWS

HWS has found that many of its customers wanted to buy alcohol and tobacco products, particularly those customers using its shops between 2 am and 6 am. There is an interest in the convenience of what HWS can offer from these customers. Other ethically driven customers could be interested also given this strategy is a movement away from what is considered the core values of HWS.

Competitors of HWS

The Board of HWS has decided to implement a new retailing strategy and sell alcohol and tobacco products from 1 June 2011. Other retailers such as Tesco, Sainsbury or other convenience stores will see this as an encroachment on their business and would be interested on the impact this may have on their own sales of alcohol and tobacco, especially those which open long hours.

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Question Four – Part (c) Suggested answer

Corporate social responsibility (CSR) is concerned with being aware of the impact of actions on others and to act in the best interests of society, business ethics is one part of CSR. CSR is the consideration of social benefits or social costs arising from business transactions the organisation carries out. It is about how companies manage their business processes to produce an overall positive impact on society, the voluntary integration of corporate social and environmental concerns into an organisations own commercial operations. It includes factors such as participation in the local community, green working practices, ethical trading and good corporate governance.

HWS's Board could respond to the increasing demands in society for responsible business practice by;

1. Hold consultative meetings/presentations and educate/communicate with management and staff about the meaning of CSR
2. Participation encouraged e.g. consultation and evaluation of different solutions to improve CSR. Staff can also contribute when setting standards and everyone can do their bit
3. Encourage employees with CSR ideas e.g. financial reward or recognition of their achievement.
4. Incorporate into a mission statement CSR the key challenge of everyone!
5. Reward staff and management for CSR targets reached.
6. Regular communication of actual performance as a way of reinforcing the importance of and value of CSR performance measures.
7. Recruitment of conformists e.g. staff sympathetic and concerned about CSR practices. Training and development of existing staff to improve CSR practices.