Professional Level – Essentials Module

Business Analysis

Monday 10 June 2013

Paper P3

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

ACCA

The Association of Chartered Certified Accountants

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The question paper begins on page 3.

Section A – This ONE question is compulsory and MUST be attempted

1 Introduction

In 2011 Terry Nagov was appointed as Chief Executive Officer (CEO) of MidShire Health, a public authority with responsibility for health services in Midshire, a region with a population of five million people in the country of Etopia. Like all health services in Etopia, MidShire Health is funded out of general taxation and is delivered free of charge. Terry Nagov was previously the CEO of a large private company making mobility appliances for disabled people. He had successfully held a number of similar executive positions in companies producing consumer products and goods for the consumer market. He was appointed to bring successful private sector practices and procedures to MidShire Health. Etopia had experienced a prolonged economic recession and such appointments were encouraged by the government of Etopia who were faced with funding increased health care costs. They perceived that private sector expertise could bring some order and greater control to the functioning of public sector services. One of the government ministers publicly commented on the apparent 'anarchy of the health service' and its tendency to consume a disproportionate amount of the money collected through general taxation. The government was keen on establishing efficiencies in the public sector, by demonstrating 'value for money' principles.

Vision and strategic planning

Terry Nagov believed that all organisations need to be firmly focused on a visionary objective. He stated that 'our (MidShire Health) mission is to deliver health to the people of Midshire and, by that, I don't just mean hospital services for the sick, but a wider vision, where health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.'

He believed that this vision could only be achieved through a comprehensive strategic planning process which set objectives, policies and standards at a number of levels in the organisation. In the strategic plan, the high-level objectives and policies of the organisation would be cascaded down to operational levels in a series of lower-level plans, where departments and functions had specific objectives that all contributed to the overall strategic vision. Terry Nagov had successfully implemented such strategic planning systems at previous organisations he had worked for. He believed that centralised, senior management should decide strategy, and that line managers should be given power and responsibility to achieve their defined objectives. This approach had worked well in the heavily automated industries he had worked in, with semiskilled employees closely following standards and procedures defined by senior managers in the organisation.

Terry Nagov believed that a project should be put in place to establish a formal strategic planning system at MidShire Health and that this should be supported by a comprehensive computer-based information system which recorded the outcomes and activities of the organisation. He immediately engaged the commercial IT consultants, Eurotek, to develop and implement this information system using a standard software package that they had originally developed for the banking sector. The overall strategic planning system project itself would be owned by a small steering group of two senior hospital doctors, two hospital nursing managers and two workers from the health service support sector. Health service support employees provide health services to the wider community in the form of health education and public health information and initiatives. Their inclusion in the steering group was not welcomed by the hospital doctors, but the CEO wanted a wide range of professional input. 'Collectively', Terry declared, 'the steering group has responsibility for delivering health to the Midshire community'.

Initial meeting of the steering group (meeting 1)

The initial meeting of the steering group was not attended by the two senior hospital doctors. In Etopia, it is accepted that hospital doctors, although employed by the health authority on full-time contracts, also have the right to undertake paid private work (practice) where they deliver services for private hospitals to fee-paying patients. This right was negotiated by their professional body, the Institute of Hospital Doctors (IOHD), many years ago. Many of the patients they treat in private practice have paid for private health insurance so that they can be treated quickly and thus avoid the long waiting times associated with the free, public service. The initial meeting of the steering group coincided with a day when both doctors were undertaking private work. In their absence, the steering group approved the overall vision of the CEO and agreed to the initiation of an information system project to generate the detailed planning and control information to support this vision. The exact nature and contents of this information system would be determined by a small multi-disciplinary team reporting to the steering group and referred to as the 'implementation team'. It was made up of three administrative staff employed by MidShire Health supported by four technical consultants from Eurotek, experienced in implementing their software package solution. The composition of the implementation team and steering group is shown in Figure 1.

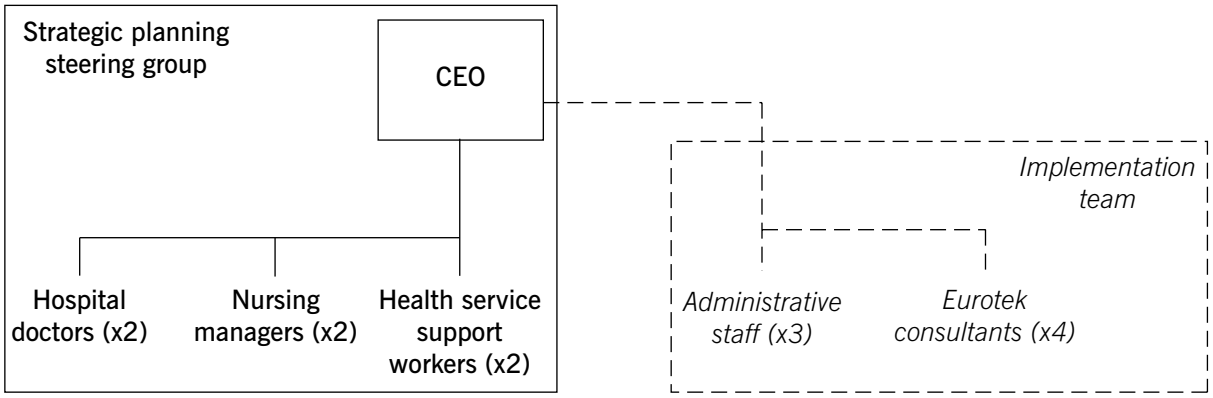


Figure 1: Composition of the steering group and the implementation team

Second meeting of the steering group (meeting 2)

The second meeting was attended by the two senior hospital doctors, but one of the health service support sector workers could not attend. At the start of the meeting, the two hospital doctors questioned the wide definition of health agreed at the previous meeting. One of the hospital doctors suggested that delivering health in this wider context was completely beyond the resources and capabilities of MidShire Health. 'You have to realise', he said, 'that poor health is often caused by poverty, bad housing and social dislocation. You cannot expect MidShire Health to solve such problems. We can advise and also treat the symptoms, but prevention and cure for these wider issues are well beyond us.' The nursing managers, who had previously approved the wider definition of health, now voiced their support for a narrower definition of health and sided with the hospital doctors. One of them commented that 'our real work is treating the sick and we must recognise this'. The CEO, outnumbered and outmanoeuvred in the meeting, had to agree to a modification of his initial vision, narrowing the overall objective to 'effectively and efficiently treating disease'. 'And, as we all know', stated one of the doctors, 'efficiency can only be achieved through giving control and budgets to the doctors, not to the administrators who are an unwanted overhead. This is the very first step we should take.' The nursing managers agreed and the meeting came to a slightly acrimonious and early conclusion.

Meeting three of the steering group (meeting 3)

At the third meeting, a presentation was made by the IT consultants, Eurotek, where they demonstrated their software for recording business activities and showed how these activities could be measured against agreed targets. A great deal of discussion took place on the targets that could be set for measuring health efficiency. After a long heated debate, three measures were agreed for hospitals. It was suggested that similar measures should be discussed and developed for health service support services, such as health education. However, at this point, the two senior doctors declared that they had to leave the meeting to 'return to our real job of treating patients'. The CEO agreed that the health service support workers could establish their own measures before the next meeting. One of these representatives commented that 'in my day-to-day job I am confronted by many people who have preventable illnesses. Their problems are due to poor diet and unhealthy habits. Preventing such problems must be better than curing them!' The CEO agreed; this was what he wanted to hear!

Meeting four of the steering group (meeting 4)

The fourth meeting of the steering group began with a discussion of the preventative perspective of health raised by one of the health service support workers at the end of the previous meeting. Both the hospital doctors and nursing managers suggested that this did not come under the revised definition of health used by the steering group, and the CEO quickly agreed. The rest of the meeting was dominated by a discussion of the costs of the Eurotek software solution. A local newspaper had run the headline 'spending money on computers – not patients' and it included a number of quotes attributed to one of the hospital doctors on the strategic steering group where he criticised the appointment of Eurotek and the attitude of the MidShire Health CEO. 'Running a manufacturing company is very different from running a health service', he said. 'We are motivated by service, not products and profit.' Terry Nagov, as CEO, openly questioned the ethics of members of the steering group discussing confidential internal matters with the press. The hospital doctors and the nursing managers fiercely defended their right to do so. 'You have to understand', they said, 'our loyalty is to the profession and to the public. We must act in the public interest.' Nevertheless, the CEO raised the possibility of disciplinary action against the hospital doctor. At this point, the senior hospital doctors and the nursing managers left the meeting. The health service support workers stayed and pledged their support to the CEO. They revealed that the autocratic behaviour of hospital doctors often resulted in their work

being both unrewarding and unrecognised. One commented, 'We have little professional autonomy, we feel controlled by the agenda of the hospital doctors.'

Meeting five of the steering group (meeting 5)

The possibility of disciplinary action against the hospital doctor had been published in the press and the Institute of Hospital Doctors (IOHD) had made a formal complaint about the CEO's behaviour to Etopia's health minister. Faced with pressure from within the hospital sector, Terry Nagov was forced to retract his threat of disciplinary action and to issue a public apology, but meeting five was boycotted by the hospital doctors and nursing manager representatives due to 'the lack of respect shown by the CEO'. Consequently, meeting five was cancelled.

Meeting six of the steering group (meeting 6)

This meeting received a report from the implementation team working on the specification of the information system for MidShire Health. They reported that the software suggested by Eurotek was excellent for time recording, analysis and reporting, but had very few features to aid the planning and control of activities. 'I suspected this all along', said one of the hospital doctors. 'I think this report shows that you are more interested in finding out what we are doing. The strategic planning exercise is really about cost reduction.' It was agreed that Eurotek should be contacted to provide a price for developing a bespoke solution for the information system requirements envisaged by the MidShire implementation team. 'I realise', the CEO said, 'this will affect the viability of the whole strategic planning project but I ask you all to pull together for the good of MidShire Health and its image within the community.'

Just prior to the next planned meeting, the implementation team specifying the information system reported that Eurotek had quoted a price of $600,000 to develop a software solution that integrated planning and control of hospital activities into their software package solution. This was additional to the $450,000 it was charging for the basic software package. The CEO reacted immediately by cancelling the information system project 'on cost grounds' and disbanding the steering group. He stated that 'from now on, I will personally specify and develop the targets required to bring health to the people of Midshire. I will focus on using the current systems to bring these into place'. Emails were sent to the steering committee members informing them of the dissolution of the steering group, stating that no further meetings would be held and no comments were invited. However, the costs of paying penalty charges to Eurotek were soon released to the press and Terry Nagov resigned from his post as CEO of MidShire Health to return to his previous company as chairman. The Institute of Hospital Doctors (IOHD) took the opportunity to issue the following press release:

'Once again, the government has failed to realise that managing public sector services is not the same as managing a private sector profit making company. Money and time have been wasted, and reputations needlessly damaged. Doctors and nurses, people at the cutting edge of the service, know what needs to be done. But time after time our views are disregarded by professional managers and administrators who have little understanding of health care delivery. The public deserve better and we, the IOHD, remain committed to delivering services in the public interest.'

Required:

(a) (i) Identify and analyse mistakes made by the CEO in the project management process (initiation, conduct and termination) in his attempt to introduce strategic planning, and an associated information system, at MidShire Health. (18 marks)

(ii) Explain how an understanding of organisational culture and organisational configuration would have helped the CEO anticipate the problems encountered in introducing a strategic planning system, and an associated information system, at MidShire Health. (18 marks)

Professional marks will be allocated in part (a) for the clarity, structure and logical flow of your answer. (4 marks)

(b) Johnson, Scholes and Whittington identify three strategy lenses: design, experience and ideas.

Evaluate the strategic planning project at MidShire Health through each of these three strategy lenses. (10 marks)

(50 marks)

Section B – TWO questions only to be attempted

2 NESTA is a large chain of fixed-price discount stores based in the country of Eyanke. Its stores offer ambient goods (goods that require no cold storage and can be kept at room temperature, such as cleaning products, stationery, biscuits and plastic storage units) at a fixed price of one dollar. Everything in the store retails at this price. Fixed-price discount chains focus on unbranded commodity goods which they buy from a number of small suppliers, for which the dollar shops are the most significant customers. Profit margins on the products they sell are low and overheads are kept to a minimum. The target price is fixed. The products tend to be functional, standardised and undifferentiated.

NESTA has observed the long-term economic decline in the neighbouring country of Eurobia, where a prolonged economic recession has led to the growth of so-called 'dollar shops'. Three significant dollar shop chains have developed: ItzaDollar, DAIAD and DollaFellas (see Table One). The shops of these three chains are particularly found on the high streets of towns and cities where there is significant financial hardship. Many of these towns and cities have empty stores which are relatively cheap to rent. Furthermore, landlords who once required high rents and long leases are increasingly willing to rent these stores for a relatively short fixed-term lease. The fixed-price dollar shop chains in Eurobia advertise extensively and continually stress their expansion plans. Few weeks go by without one of the chains announcing plans for a significant number of new shops throughout the country.

NESTA has recognised the growth of fixed-price discount retailers in Eurobia and is considering entering this market.

NESTA recently commissioned a brand awareness survey in Eurobia. The survey results showed that NESTA was relatively well-known to respondents who work in the consumer goods retail market. Most of these respondents correctly identified the company as a discount fixed-price company with a significant presence in Eyanke. However, amongst general consumers, only 5% of the respondents had heard of NESTA. In contrast, the three current fixed-price dollar shop discounters in Eurobia were recognised by more than 90% of the respondents.

NESTA itself has revenue of $120,000 million. It has cash reserves which could allow it to lease a significant number of shops in Eurobia and establish a credible market presence. It has recognised competencies in effective supplier selection and management, supported by effective procurement systems. Its logistics systems and methods are core strengths of the company.

There are also many conventional supermarket chains operating in Eurobia. The largest of these has annual revenue of $42,500 million. Supermarkets in Eurobia tend to increasingly favour out-of-town sites which allow the stores to stock a wide range and quantity of products. Customer car parking is plentiful and it is relatively easy for supplying vehicles to access such sites. As well as stocking non-ambient goods, most supermarkets do also stock a very wide range of ambient goods, often with competing brands on offer. However, prices for such goods vary and no supermarkets have yet adopted the discount fixed-price sales approach. In general, the large supermarket chains largely compete with each other and pay little attention to the fixed-price dollar shop discounters. Many supermarkets also have internet-based home ordering systems, offering (usually for a fee of $10) deliveries to customers who are unable or unwilling to visit the supermarket.

Table One shows the relative revenue of the three main discount fixed-price chains in Eurobia.

	2012 ($million)	2011 ($million)	2010 ($million)
ItzaDollar	330	300	275
DAIAD*	310	290	250
DollaFellas	290	235	200
Total	930	825	725

*Don't Ask it's A Dollar

Table One: Revenue of three main discount fixed-price chains in Eurobia

Required:

(a) Use Porter's five forces framework to assess the attractiveness, to NESTA, of entering the discount fixed-price retail market in Eurobia. (15 marks)

(b) Discuss the potential use of scenarios by NESTA's managers as part of their analysis of NESTA's possible entry into the discount fixed-price retail market in Eurobia. (10 marks)

(25 marks)

3 Chemical Transport (CT) is a specialist haulage company providing transport services for several chemical wholesalers. Despite these wholesalers being in competition with each other, many of them have outsourced their distribution to CT, recognising the company's expertise in this area and its compliance with stringent and emerging legislation. This legislation is at both national and international level and concerns the transportation and handling of chemicals, as well as the maintenance of trucks and trailers and the health, competencies, safety and driving hours of drivers. There are also chemical wholesalers in the country who either organise their own distribution or outsource to one of CT's competitors.

CT handles the distribution of chemicals from either the port of importation or point of production to the wholesaler's depots or directly to the end customers of the wholesaler. The chemical wholesalers are increasingly attempting to minimise their own storage costs, so many of CT's deliveries are now directly from the point of production (or port of importation) to the end customer. Most of these end customers are manufacturing companies with limited chemical storage capacity.

The complex and changing nature of legislation has led to CT engaging a specialist legal consultancy to provide it with advice. They have found this advice to be both useful and proactive. The consultancy has identified the potential effect of employment, tax and health and safety legislation in advance and has notified CT of its likely implications. CT has benefited from this advice but it is concerned that it is expensive and it is considering employing a full-time legal expert, instead of using the legal consultancy.

The chemical wholesalers have asked CT to provide an internet-based system which would allow them to request and track deliveries. CT does currently have a website, but it only contains information about the company: its structures, history, key contacts and case studies. CT has agreed to provide such a system because it is aware that failure to do so will lead to wholesalers looking for an alternative distributor. CT does have an internal IT capability with some expertise in building web-based systems. The internal IT team have also developed a bespoke payroll system. Drivers at CT are rewarded with basic pay, together with a complex set of bonuses and deductions which have been developed and enhanced over the last few years. There are bonuses for certain skills and attainments and deductions for missed or delayed deliveries or mistakes. The drivers themselves find the pay arrangements very confusing. One commented that 'we find it almost impossible to check if we have been paid correctly and it confuses us rather than motivates us!' Changes in national tax legislation are also continually affecting the payroll calculation. Indeed, recent changes in legislation led to the IT team being fully occupied for three months, developing and testing the required modifications to the payroll system.

(a) Three significant business process areas have been identified in the scenario: (1) payroll, (2) legal advice and (3) an enhanced web service allowing wholesalers to request and track deliveries.

Required:

Use Harmon's process-strategy matrix to analyse the characteristics of each of the three process areas defined above and suggest how each should be sourced and implemented at CT. (15 marks)

(b) Requesting and tracking information could be the first part of a comprehensive customer relationship management (CRM) system

Required:

Evaluate how CT could use a CRM system to acquire and retain customers. (10 marks)

(25 marks)

4 Ten years ago Sully Truin formed the Academic Recycling Company (ARC) to offer a specialised waste recycling service to schools and colleges. The company has been very successful and has expanded rapidly. To cope with this expansion, Sully has implemented a tight administrative process for operating and monitoring contracts. This administrative procedure is undertaken by the Contracts Office, who track that collections have been made by the field recycling teams. Sully has sole responsibility for obtaining and establishing recycling contracts, but he leaves the day-to-day responsibility for administering and monitoring the contracts to the Contracts Office. He has closely defined what needs to be done for each contract and how this should be monitored. 'I needed to do this', he said, 'because workers in this country are naturally lazy and lack initiative. I have found that if you don't tell them exactly what to do and how to do it, then it won't get done properly.' Most of the employees working in the Contracts Office like and respect Sully for his business success and ability to take instant decisions when they refer a problem to him. Some of ARC's employees have complained about his autocratic style of leadership, but most of these have now left the company to work for other organisations.

A few months ago, conscious that he was a self-taught manager, Sully enrolled himself on a week's course with Gapminding, a training consultancy which actively advocates and promotes a democratic style of management. The course caused Sully to question his previous approach to leadership. It was also the first time, for three years, that Sully had been out of the office during working hours for a prolonged period of time. However, each night, while he was attending the course, he had to deal with emails from the Contracts Office listing problems with contracts and asking him what action they should take. He became exasperated by his employees' inability to take actions to resolve these issues. He discussed this problem with his course tutors. They suggested that his employees would be more effective and motivated if their jobs were enriched and that they were empowered to make decisions themselves.

On his return from the course, Sully called a staff meeting with the Contracts Office where he announced that, from now on, employees would have responsibility for taking control actions themselves, rather than referring the problem to him. Sully, in turn, was to focus on gaining more contracts and setting them up. However, problems with the new arrangements arose very quickly. Fearful of making mistakes and unsure about what they were doing led to employees discussing issues amongst themselves at length before coming to a tentative decision. The operational (field) recycling teams were particularly critical of the new approach. One commented that 'before, we got a clear decision very quickly. Now decisions can take several days and appear to lack authority.' The new approach also caused tensions and stress within the Contracts Office and absenteeism increased.

At the next staff meeting, employees in the Contracts Office asked Sully to return to his old management style and job responsibilities. 'We prefer the old Sully Truin', they said, 'the training course has spoilt you.' Reluctantly, Sully agreed to their requests and so all problems are again referred up to him. However, he is unhappy with this return to the previous way of working. He is working long hours and is concerned about his health. Also, he realises that he has little time for obtaining and planning contracts and this is severely restricting the capacity of the company to expand.

Required:

(a) Analyse Sully Truin's leadership style before and immediately after the training course and explain why the change of leadership style at ARC was unsuccessful. (15 marks)

(b) Describe the principles of job enrichment and evaluate its potential application in the Contracts Office at ARC. (10 marks)

(25 marks)

End of Question Paper

Answers

1 (a) (i) Project initiation

It is good practice to establish a Project Initiation Document (PID) or Terms of Reference (ToR) at the start of the project defining the objectives, scope, constraints, authority (owner, sponsor) and resources of the project. In the context of the case study scenario, there appears to be confusion around the objectives, scope and ownership of the project.

Project objectives and project scope: what is the project?

The objectives and scope of the project appear to be at three different levels. The project might be 'to establish a formal strategic planning system at MidShire Health', or, it might be more restricted to the development of a 'comprehensive computer-based information system recording the outcomes and activities of the organisation'. Certainly the implementation team set up to undertake the detailed work appears to be primarily concerned with the functionality of the software package and the presence of Eurotek support consultants would tend to support this focus. The assertion from the CEO that the objective of the steering group is 'to deliver health to the Midshire community' adds further confusion. Although this objective is amended later in the project, restricting it to 'effectively and efficiently treating disease', both of these objectives really concern the organisation as a whole, not a specific project within that organisation. It is preferable that the project objectives should be more restricted.

The immediate employment of consultants with a potential software solution will inevitably skew the project towards a particular technical solution designed to support the planning system. There needs to be a distinction at the initiation of the project between the **business objectives** of the project and the **technical objectives** of the software system required to support those business objectives. The CEO confuses the two, a confusion accentuated by the early selection of a technical solution, before the business requirements have been defined (see later).

A failure to define a consistent achievable objective often results in projects lacking focus, leading to confusion amongst the project participants about what they are supposed to be doing. Terry Nagov really needed to establish a proper project objective within a formal Project Initiation Document.

The role of the steering group: who owns the project?

All projects should have a sponsor or authority that makes decisions about the project and supports it throughout its lifecycle. Ideally, this should be one person. It is possible for a group of people to play this role, but it is important that they promote a united front. Even if the objectives and scope of the project can be defined (see previous paragraph), the steering group is disunited in the context of project sponsorship. There are clear conflicts within the group and some of these have been made public. Projects without a well-defined committed sponsor are likely to be unsuccessful as they lack clear leadership and support. Furthermore, if the sponsor is a group, then the focus of the project will veer to reflect changes in interest and power in the make-up of the group. The sponsor (owner) role should have been given more thought at the start of the project and responsibility should have been documented in the Project Initiation Document.

Conduct of the project

Two aspects in the conduct of the project deserve scrutiny. The first concerns the procurement process. The second is group and stakeholder management.

Procurement process

The Eurotek solution was selected before the requirements of the strategic planning process had been defined. Once these requirements had been developed, it became clear that the software package was a poor fit and that a considerable amount of bespoke work was needed to make it fit-for-purpose. The cost of these developments effectively led to the end of the project. This was a poor process. The information system requirements of the strategic planning process should have been developed before a potential software package solution was selected. The selection process should have involved more than one company and should have been transparent, so that the reasons for selecting a particular solution were documented and auditable. It is unclear from the scenario why the Eurotek solution was selected so early in the process, particularly as their expertise appeared to lie in the banking industry, rather than health care. Most public sector organisations have to follow strict procurement guidelines and it is surprising that these were not in place at MidShire Health.

Group and stakeholder management

Terry Nagov appears to believe that the three employee sets within the steering group (senior hospital doctors, hospital nursing managers and health service support staff) are equally powerful within the project context. However, this is clearly not the case. The hospital doctors resent the inclusion of the health service support staff in the steering group. The hospital nursing managers side with the hospital doctors at key points. The objectives of the health service support staff appear to be aligned with those of Terry Nagov, but this support is not as effective as it may appear because it comes from the weakest set within the steering group. In Tuckman and Jenson's terms the group is fractional, stuck in a storming stage. Differences in power and culture will make it extremely difficult for the group to move beyond this stage. However, the person who could make it happen (Terry Nagov) undermines possible progress by choosing to openly question the ethics of one of the hospital doctors. This appears to destroy the possibility of group harmony and also brings into play a significant actor (Etopia's health minister) who, although very powerful, had hitherto had no obvious interest in the project.

Project cancellation procedures

The CEO did not explore opportunities for negotiating the $600,000 quoted development cost or look for alternatives. Eurotek might have been flexible on price, particularly if the developed software could have potentially been used in other health authorities. In such circumstances, MidShire Health might have negotiated a royalty fee, to help them recoup their investment. Perhaps this was also the point when alternative suppliers could have been sought, providing solutions which were closer to the requirements of the organisation. This would have led to the investment in Eurotek being written off, but this was also a consequence of project cancellation. No post-project review was conducted, and lessons learned were not fed back into the project management process. In fact, the email sent to the steering group members specifically stated that there would be no further meetings. As someone once wrote, the 'only unforgiveable failure was the failure to learn from failure'.

(ii) Organisational culture

Johnson, Scholes and Whittington suggest that the culture of an organisation consists of four layers. Firstly, *values* which are often written down as statements of the organisation's mission. The visionary objective of the CEO might be an example of a value. The 'mission is to deliver health to the people of Midshire and, by that, I don't just mean hospital services for the sick, but a wider vision, where health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity'. *Beliefs* are more specific and concern issues which people in the organisation can talk about. The hospital doctors appear to firmly believe that the visionary objective of the CEO is unobtainable. 'You have to realise that poor health is often caused by poverty, poor housing and social dislocation. You cannot expect MidShire Health to solve these problems. We can advise and also treat the symptoms, but prevention and cure for these wider problems are well beyond us.' *Behaviours* are the day-to-day way in which the organisation operates. Certain aspects of these become clear in the scenario describing the strategic planning project. Finally there are the *taken-for-granted assumptions* that are at the core of an organisation's culture. In the scenario there is a contrast between the CEO's vision of delivering health and the perception of hospital doctors and nursing staff that the real work is really about treating the ill.

The *behaviours* of the organisation can be explored further through selected facets of the cultural web.

The *stories* told by the hospital doctors are primarily concerned with belittling the role of the professional administrator. 'As we know', stated one of the doctors, 'we all agree that efficiency can only be achieved through giving control and budget to the doctors, not to the administrators *who are an unwanted overhead*. This is the first step we should take.' We can assume that the chief administrator (the CEO) present at the meeting could not have missed this slight. Secondly, the planning process does not appear to be perceived as real work. During one of the meetings the hospital doctors stated that they had to leave to get back to their *real job of treating patients*. It almost appears that the hospital doctors have agreed to participate in the planning process as a damage limitation exercise, trying to protect their power and status, rather than because they have any real interest or belief in the planning process and its goals.

A definite hierarchy in the *power structures* appears to exist during meetings. When the senior hospital doctors are present, the nursing representatives side with them and provide a powerful block to any of the initiatives proposed by the CEO. When the hospital doctors are not present, the nursing representatives appear to be more conciliatory, agreeing to actions and objectives that they renege on in subsequent meetings. The opinions of the support staff are clearly not valued by the hospital doctors. The hospital doctors showed their disdain by leaving one of the meetings when the objectives and role of the support staff were discussed. Their ideas, for example for preventative care, are quickly dismissed by the powerful coalition of the hospital doctors and the nursing managers.

The activities of MidShire Health are affected by the hospital doctors who, through their powerful professional organisation, have negotiated very favourable terms of employment. Not only do they enjoy high salaries for full-time positions, but they also have the right to undertake private practice where they deliver services for private hospitals to fee-paying patients. This almost unprecedented degree of freedom is tolerated by the government and is a parameter that the CEO has to work within. As Mintzberg observed, such organisations are 'the one place in the world where you can act as if you were self-employed yet regularly receive a pay check (cheque)'. Such flexibility does not seem to stretch to the nursing staff, but long-term loyalties seem to bond them to the hospital doctors. In contrast, the support workers appear to work under difficult circumstances, expected to serve the whims of professionals, but with little recognition of their contribution and little autonomy in undertaking their work. Probably as a result of this, they appear to be the most receptive group to the changes proposed by the CEO.

The lack of *control* the organisation has over the powerful hospital doctors is shown by the fact that one of the doctors perceives that it is perfectly acceptable to criticise his employer in public, disclosing private information from meetings to the press. This behaviour is excused as being in the 'public interest' and the doctor receives support from his colleagues. The CEO, although appalled by the behaviour, cannot pursue any disciplinary action because of threats from nurses and doctors.

Organisational configuration

Organisations tend to *configure* in a number of ways. The attributes or building blocks of the organisation relate to each other in different ways.

Terry Nagov was formerly the CEO of a company making mobility appliances. As well as having a profit motive (unlike MidShire Health), the company developed its business strategy through a centralised management structure, with line managers given the power and responsibility to achieve defined objectives and targets. Production itself was heavily automated, administered and controlled through semiskilled employees who followed standards and procedures defined

by senior managers. In terms of Mintzberg's configurations, the company appears to exhibit many aspects of a *machine bureaucracy*. The work it undertook appears to be routine, with much of it being simple and repetitive, allowing the company to establish efficient highly standardised processes. Within machine bureaucracies much of the power resides with the managers at the top of the organisation.

To outsiders such organisations can often appear to be an example of a focused, structured organisation which, as Mintzberg himself concedes, 'can be enormously efficient and provide an unmatchable reliability of service'. To a government struggling with rising costs in an economic recession, such organisations contrast starkly with, as the government minister put it, 'the anarchy of the health service'. To an outside agency, such as the government, appointing a CEO such as Terry Nagov to bring order and control must have seemed an attractive step. Nagov had an excellent record in the private sector and bringing such skills to the public sector would seem to have self-evident benefits.

In Mintzberg's terms, MidShire Health is probably a *professional bureaucracy*. Although the work is still relatively standardised, its complexity means that judgements are usually required. The type of work undertaken in the professional bureaucracy is quite different to that of the machine bureaucracy. Considerable discretion is required in the application of skills that have been gained over years of training. MidShire Health depends on its professional staff and, consequently, like all professional bureaucracies, gives them considerable control over their own work. A machine bureaucracy generates its own standards internally and enforces them through its line managers. This is the approach that the CEO is familiar with. However, in contrast, the standards for a professional bureaucracy originate from self-governing associations that the professionals belong to. Hence the intervention of the Institute of Hospital Doctors (IOHD) would be viewed legitimately by the hospital doctors, who believe that authority comes through expertise, not through a management hierarchy. In questioning the legitimacy of such advice, the CEO failed to recognise the central role that professional associations play in such bureaucracies. It was bound to cause offence to the professional staff on the working party.

A recognition of MidShire Health as a professional bureaucracy should also have helped the CEO predict the hospital doctors questioning the value of having support staff on the working party. In such organisational configurations, such employees are seen as largely subservient to the professionals delivering the fundamental activities of the organisation. In fact, many support staff are managed in a machine, top-down way, and so their enthusiasm for the formal planning initiative might be expected. It closely matches their experience, as well as providing an opportunity to potentially undermine what they consider to be the comfortable, capricious existence of the powerful professionals.

Similarly, the request of the CEO for the doctors to consider the 'good of MidShire Health and its image within the community' is likely to fall on 'deaf ears'. As Mintzberg comments, 'most professional focus their loyalty on their profession, not on the place where they happen to practice it.'

The problem of introducing change in professional bureaucracies is explicitly considered by Mintzberg. He states that 'change in the professional organisation does not sweep in from new administrators taking office to announce wide reforms or from government officials intent on bringing the professional under technocratic control'. This, of course, exactly describes the situation at MidShire Health. Rather, he sees change as seeping in through a slow process of changing the professionals themselves, through altering recruitment policies and training. In the short term, he would probably suggest that the government would be better off placing pressure on the professional associations that influence their member (such as the IOHD), rather than tamper with the professional bureaucracies directly.

Finally, it has to be recognised that MidShire Health is a public sector organisation funded by general taxation, rather than by its specific users or customers. In principle the provider of the funds (government) provides **resource inputs** into a service that is competing with other services funded by general taxation – such as national security. Thus health services, in principle, need to show that they are providing value for money so that politicians support further funding. Such an approach appears to give the government a lot of power. However, the existence of powerful professions and the willingness of press and public to defend health service principles dilute this power, leading to the kind of frustration explicitly articulated in the case study scenario.

(b) The approach to strategy suggested by the CEO is essentially *strategy by design*, based on a logical process whereby senior management devises a clear strategic direction and a system is then put in place to implement this direction throughout the organisation. The overall mission of the organisation is pursued through increasingly specific objectives cascaded down through the organisation, so that all layers of management are pursuing objectives defined and aligned to the determined strategy. This is probably the most popular perception of how strategy is developed. Although it has its critics, such an approach *appears* to be used by many organisations. Perhaps the relatively simple manufacturing environment of the CEO's former company made a rational planned approach a feasible way of managing strategy. Certainly such order often appeals to politicians, as in the case study scenario, particularly when the provided service is funded out of general taxation and where politicians define the resource inputs – how much money is to be spent on health, compared with competing claims of defence, education etc. Politicians increasingly look for *value for money*, and a designed strategy appears to be an orderly and controlled way of delivering such value.

Strategy as experience is based on the premise that organisational strategy is largely based on the adaptation of past strategies. This adaptation is a reflection of the experience of managers and others working within the organisation. As Johnson, Scholes and Whittington suggest, this is 'strongly driven by the taken-for-granted assumptions and ways of doing things embedded in the culture of the organisation'. This is largely the approach of the senior hospital doctors and nursing managers on the steering committee. Strategy as experience resolves different views and expectations through a process of bargaining and negotiation. By participating in the steering group, these two powerful interest groups were increasingly able to negotiate a vision of health care and health care delivery that matched their perceptions. The powerful position of

professions in a public bureaucracy and the relative weakness of professional managers and administrators make it unlikely that large shifts in strategy will happen. Such organisations as the IOHD are clearly willing to publicly undermine the value of professional managers and administrators in a public service. They do this by alluding to 'public interest', rather than self-interest and appear to have little problem in rallying public support. The CEO is unlikely to have experienced this in previous posts and so would have been relatively inexperienced in developing strategy from a coalition of vested interests.

Strategy as ideas largely concerns the issues of innovation. This strategic lens emphasises the importance of diversity and variety in and around the organisation which can be harnessed to produce new ideas. Strategy emerges from people working within the organisation who are faced with challenges and issues in their everyday work. Senior management provides the context for strategy, selecting and promoting ideas originally emanating from lower down in the organisation. Elements of this can be seen in one of the health support members of the steering committee stressing a strategy that encourages problem prevention rather than problem treatment. However, even within the constraints of the steering committee, these ideas were quickly dismissed by a powerful coalition of the hospital doctors and nursing managers. It is likely that the CEO will have experienced suggestions from employees in the past. Ideas would have probably emanated from production operators for reducing waste and from sales managers suggesting new pricing ideas and new products. However, the current culture of MidShire Health seems unlikely to nurture many ideas and innovations. Powerful vested interests are in a position to smother innovations that reflects 'thinking outside the box'. Certainly such ideas would need special protection, something that the CEO fails to offer even within the closed environment of the steering committee.

Johnson, Scholes and Whittington see the three strategy lenses as complementary. A certain perspective may fail to see important issues raised by using a different lens. In the context of the case study scenario, the CEO would perhaps be better to develop strategy through experience, perhaps supplemented by new ideas and innovation. The strategy by design appears flawed, particularly given the divergent views on the mission of the organisation. However, despite this, strategy by design is the approach that the CEO appears to prefer and adopt.

2 (a) NESTA has identified the growth of discount fixed-price stores in Eurobia and is considering entering the marketplace. The long economic recession in Eurobia has led to the increased popularity of these so-called 'dollar shops', where all goods and products are priced at $1·00. Most of these shops are on the high streets of towns and cities where there is particular financial hardship. NESTA has expertise in running such shops in Eyanke. The company is well-known within the retail trade of Eurobia, but it is largely unknown to the domestic consumers of the country. Only 5% of those polled recognised the NESTA brand.

NESTA is a potential buyer or customer in this industry. The *bargaining power of buyers* appears to be very strong. There are several factors that contribute to this:

- The products supplied by the supplier earn a relatively low profit margin for the buyer. Low profits provide a great incentive to buyers to pursue lower purchasing costs.
- Switching costs are relatively low as the products are largely unbranded commodity goods. The buyer should find it relatively easy to switch supplier.
- The purchased products are standard and undifferentiated. Buyers should always find it relatively easy to find alternative suppliers and can play companies off against each other in their search for better prices and other terms of supply.
- The products purchased from suppliers represent a significant fraction of the buyer's cost. Buying is price sensitive and the company is likely to spend a great deal of effort trying to ensure the best terms of supply.
- Purchasing companies are fewer and larger than potential suppliers. Suppliers may have alternative customers but their scope is limited. In contrast, the buying companies have many smaller supplying companies competing for their business.

In contrast, the *bargaining power of the suppliers* is relatively weak. Supplying companies are fragmented and the fixed-price discount channel represents a significant customer group. None of the suppliers appears to offer a credible threat of *forward integration* whereby they might become competitors of their current customers. From NESTA's perspective, the high bargaining power of buyers and the weak bargaining power of suppliers are attractive aspects of the discount fixed-price channel in Eurobia. Furthermore, effective purchasing systems, supplier selection and excellent logistics are perceived as core strengths of NESTA. There is a good match between the nature of the market and the core competencies of NESTA.

Within Eurobia there are currently three dominant competitors. The three fixed-price discount chains compete on profit margins (the target price is fixed at $1), on brand name and on expanding the number of outlets in the chain. The *intensity of the rivalry amongst existing competitors* is largely caused by their ambitious expansion plans. Apparently, few weeks go by without one of the companies announcing plans to extend their chain of shops. It is likely that a new arrival into the market will be *resisted*, particularly when it is a potential entrant as well-known (in the retail market) as NESTA. Resistance will probably be through tightened supplier contracts (better prices, agreement not to supply competitors), increased marketing and rapid store expansion. However, evidence from Table One also suggests that the market sector is continuing to grow. Year on year growth in the last two years has been around 13%, in an economy that is in recession. In such circumstances, companies competing in the market can continue to improve their results simply by keeping up with industry performance. It gives all competitors greater breathing space. Furthermore, perhaps the arrival of NESTA in the market may help grow the market (by giving it greater legitimacy) and by NESTA exploiting geographical areas not yet comprehensively served by existing competitors.

The main *barriers to entry* to any potential entrant is the capital required to rent, stock and staff the number of stores required to realise the required economies of scale and to establish a credible market presence. It appears that NESTA has both the capital and expertise, particularly as the economic recession has led to reduced shop rents and greater shop availability. Furthermore, possible *exit costs* have also been reduced by the willingness of landlords to consider short fixed-term leases. NESTA's main problem could be quickly establishing a brand name in a country where it is relatively unknown (5% awareness), and competing with three incumbents who are very well known. The survey showed that all three established brands were recognised by more than 90% of the consumers in Eurobia. Finally, there may also be barriers to entry erected by the government to prevent foreign companies opening stores in Eurobia. This will have to be investigated.

The threat of *substitute products* is probably best considered in terms of alternative channels of supply. The scenario notes that the large supermarkets do supply ambient goods, but have so far resisted competing on price. They are differentiating through product (a wider range of branded goods) and through place (providing the convenience of purchasing a wide range of other goods, including food, in one location). Their sheer scale may mean that they have been willing to overlook the discount fixed-price market niche up to now. The largest discount fixed-price company has revenue of $330m, a fraction of the size of the largest supermarket group ($42,500m). However, the arrival of NESTA, an established global player, in the market may change the dynamic and cause the established supermarkets to take another look.

The supply of ambient goods is also well-suited to the internet and the growth of internet-based competitors has to be considered. The current market is firmly based around high street shopping. The internet might be a substitute channel, and indeed might be considered by NESTA as a way of differentiating itself on its entry into the market. The current internet home delivery service offered by the supermarkets is unlikely to be much of a threat as long as they continue to charge a significant fee for using it. It is clearly aimed at a different market segment.

(b) When the business environment is highly uncertain, it may be impossible to develop a single view of how environmental influences might impact on an organisation's strategy. Thus it might be useful for managers to envisage a number of alternative futures. These alternative futures are described in scenarios.

Scenarios are detailed and plausible views of how the business environment might develop in the future, based on different assumptions about key environmental influences and drivers for change within the industry or market itself. It is helpful if the number of influencing factors is *limited to a few significant ones*, so that the analysis does not become too complex. It is also preferable to focus on factors *which are largely out of the control of the organisation*. The organisation can influence its own behaviour and expertise. However, macroeconomic forces in a country are normally well beyond its scope of control. It can react to changes, but not influence them. Indeed, it has been recommended that managers should develop contingency plans (strategies) for each unfolding scenario. Johnson, Scholes and Whittington have also suggested that 'sharing and debating these scenarios improves organisational learning by making managers more perceptive about the forces in the business environment and what is really important'.

In NESTA, scenarios might be developed around four significant factors:

- The continued economic recession in Eurobia. The growth of discount fixed-price shops appears to depend upon continued economic problems. Recovery may lead to consumers shunning such shops. Scenarios might consider the economic situation remaining the same, improving and getting worse.
- The response of established companies in the market-place to NESTA's entry. The response of the incumbents is very difficult to predict. Scenarios might consider a neutral response. The current companies are, after all, relatively small (in retail terms) and inexperienced. A muted response might also be considered (increased marketing, tying in suppliers, more shops) and, alternatively, an aggressive response, perhaps leading to consolidation within the market sector due to takeovers or mergers.
- The attitude of the established supermarkets to the discount, fixed-price market. The conventional supermarkets are currently not competing on price against the discount fixed-price shops. They may continue to do this or they may wish to compete, perhaps by setting up specialised branded outlets or by acquiring one or more of the current significant players, and they have the relative size and economic power to do so.
- The implications of channel change, with customers preferring to shop via the internet. This has been a significant factor in many retail markets.

Scenarios would consider combinations of these factors. For example: economic recovery combined with a muted response from incumbents, together with established supermarkets continuing to ignore the discount, fixed-price niche. The attractiveness of entering the Eurobia market could be considered for each scenario, together with strategies for implementing any proposed entry in to the market.

Statistical information might be used to define and evaluate scenarios. For example, published economic data might assist the managers to define the likelihood of each of the three economic outcomes. Consumer data might help establish a statistical relationship between spending in the market sector and defined economic indicators. This would help managers predict product demand in different scenarios. NESTA is experienced in the sector (although not in Eurobia) and so managers should have some understanding of the costs and margins of running such shops. This should give them some insight into the likelihood and effect of any responses of the firms currently competing in the Eurobia market.

Scenarios may be underpinned by models which predict the outcome of different scenarios. Random selection methods (Monte Carlo simulations) might be used to generate some of the input data to these models.

3 Paul Harmon has proposed a process-strategy matrix that considers the strategic importance of the process on one axis and the complexity of the process on the other. This leads to four quadrants for which Harmon suggests different generic process solutions. For example, for relatively simple processes of low strategic importance he suggests standard software package solutions or outsourcing. The location of each of the three processes defined in the question is considered in the following text, together with potential solution options in the context of CT.

(a) Payroll is usually of relatively *low complexity and low strategic importance*. It is normally fulfilled by a commercial off-the-shelf software package. At CT the payroll requirements are relatively complex because of the combination of bonuses and deductions which have been developed and enhanced over the last few years. Consequently, payroll has been developed as a bespoke application by the in-house IT team. However, there is no evidence that the pay arrangements are effective. Drivers find them confusing and they certainly do not find them motivating. It could be suggested that CT should simplify its pay arrangements and adopt a commercial off-the-shelf package solution. Adopting such a solution would also address long-term costs and problems. Payroll is subject to continual and unpredictable legislative changes. With a standard package these changes are part of a fixed maintenance fee. Bespoke changes are unpredictable in both occurrence and duration and so are potentially time-consuming and expensive. Indeed, recent changes in legislation led to the IT team being fully occupied for three months, developing and testing the required modifications to the payroll system. There is also the chance that the IT team could make a mistake or miss something important in the legislation. IT savings could be recycled into the drivers' pay system. A simplified payment system could lead to drivers being offered better pay deals without costing the company any more overall. It could also help motivate the drivers more effectively, which the scenario indicates is not happening with the existing system.

The legal advice process is currently outsourced to a legal consultancy, although the cost of such advice is causing the company to consider appointing a full-time, employed expert. CT is operating in an environment that is continually subject to legislation. Chemical transport and handling is dangerous and appropriate legislation is inevitable. Drivers and driving hours and the maintenance of trucks and trailers are also likely to be subject to both national and international legislation. Legislation is time-consuming to monitor and the potential cost of non-compliance is very high. It could result in substantial damages or fines. CT recognises that the current legal experts deliver an excellent service. It seems unlikely that it will be easy to find a full-time expert with such a wide range of knowledge, so employment is risky and also likely to be relatively expensive. The person will be the sole expert and so, as well as the problems of verifying advice, it also seems likely that there will be problems in motivating and keeping such an employee in a job role where there is no onward career path. In Paul Harmon's terms, the legal advice process appears to be a *complex process with little strategic significance*. The advice for this type of process is to continue to outsource and maintain the service of the legal consultancy.

The extension of the website to allow the chemical wholesalers to place and track orders is strategically very important to CT. It recognises that failure to implement such functions will jeopardise future contracts. The chemical wholesalers may begin to look for an alternative distributor. CT probably recognises that such a feature might also help them sign up more wholesalers and so the extended website can be part of their business strategy. Whether the process is complex or not is a matter of judgement. There will be clear security issues and it will be important to partition the system so that competitors' details are kept securely and separately. It is also likely that requirements are not yet extensively defined and will change as the details of the wholesalers' requirements become clear. The company has an IT capability with some expertise in web-based systems. If a commercial off-the-shelf software solution is used to fulfil the payroll requirements, then this IT team is potentially freed up to work on the enhanced website system. Consequently it is suggested that this application is a *relatively complex process with strategic importance* and so is best developed in-house as a bespoke system.

(b) The provision of delivery placement and tracking is, at the moment, an important element of customer retention. However, in a wider sense the company's website has to be reviewed to see if it can be harnessed to acquire further customers, to enhance the service it offers (above and beyond placing and tracking deliveries) and also to assist in the long-term retention of customers. It must be recalled that the present website is only used for information purposes. It only contains information about the company: its structures, history, key contacts and case studies. However, it must also be recalled that CT only deals with a relatively small business market. In B2B applications there tends to be far fewer but larger buyers (Chaffey, 2007).

Customer acquisition

The scenario suggests that chemical wholesalers are CT's current customers. The site should be constructed with their interests and requirements in mind. Evidence suggests that CT has recognised expertise in the difficult and dangerous task of chemical distribution where there is a need for compliance with stringent and emerging legislation. The website needs to provide examples of this and also constant updates which tempt people to return to the site to view the latest information. CT does not have to reveal its complete expertise. However, regular, selected updates on new legislative requirements and new chemical distribution challenges may prompt return visits and so increasingly suggest to potential customers that this is a business avenue that is worth exploring. The case studies already on the website will strengthen the message of expertise and also demonstrate to potential customers that outsourcing to CT will have both business and financial benefits. Testimonials from established customers will help support this message. It has to be recognised that it is a B2B website and that no contract or purchase will be entered into as a result of the website alone. It is about building up confidence and information that may lead to contact being made between CT and a potential customer. Overall, the website should look professional and business-like and appropriately discreet. Existing customers may not wish certain information to be given out and CT itself must not give too much valuable information to competitors about its pricing or its range of current customers.

It is also important that potential customers find the CT website when they are looking for information or for a potential haulier. Although it is less important than in a B2C website, it is still helpful if CT ensures that the website is optimised so that it appears high up in website searches. This is not easy to reliably achieve and so purchasing sponsored links can also be very valuable. The website address also has to be promoted in any offline marketing undertaken by the company. Again, it must be recalled that CT must have a relatively finite set of potential customers. These should be relatively easy to target with marketing information and sales calls that will include the website details.

CT may also benefit from collecting details about the people who are visiting its site. This may again be achieved through offering selected information only to visitors who leave their email address. So, although some technical information might be offered for free, other information – such as important changes in international legislation – might only be available to visitors who have provided their email details. These email details may just be used as part of an analysis (which companies are looking at us) or they might be used to target future promotional campaign.

Customer retention

Customer retention refers to marketing activities taken by an organisation to keep its existing customers. The scenario has already identified the placement and tracking of orders. Customers might be offered a service which helps them plan deliveries to help minimise distribution costs. This is potentially even more valuable if it can assist in distributing chemicals directly to the end customer, hence avoiding wholesaler storage costs. Payment for the delivery might also be organised through the website, with inducements made for fast on-line payment. Customer retention is improved by integrating the systems of the supplier and the customer. Not only does this provide a better and cheaper service, it also effectively makes it more difficult for the customer to move to an alternative supplier. Thus, as well as extending its web service, CT should consider establishing links to the front end of the process (ordering, planning) and to the back end (payment and reconciliation). Customers also value relevant management information. CT needs to identify what information it can offer its customers to help them run their company more effectively or keep down costs. For example, making an earlier delivery may enable the wholesaler to use the customer's storage facility rather than their own.

Tutorial note: *It is likely that candidates' answers will vary in scope and credit will be given as appropriate. However, answers must recognise that CT will require a B2B website and that purchase transactions are unlikely to take place on the strength of the website alone. The website will just be the potential start of a selling process.*

4 (a) Prior to attending the course, Sully Truin appeared to have, in McGregor's terms, many elements of a Theory X manager about him. He felt that it was necessary to closely control and direct staff in order to get them to do what was needed. He perceived that, in general, employees wished to avoid responsibility and so wanted to be closely directed and controlled. This belief was reflected in work design in the company where employees were increasingly restricted to relatively simple repetitive tasks, for which he had defined well-established procedures. While he was attending the course, Sully still had relatively trivial control issues referred to him and he was exasperated by his employees' inability to take actions to resolve these issues. His initial diagnosis of this reluctance was that this was due to their personal inadequacies rather than the result of the work situation that he had created. In terms of the Tannenbaum and Schmidt model, Sully originally displayed a manager-centred leadership, whereby he made a decision and then announced it. Finally, in terms of the Blake and Mouton managerial grid, Sully's style is primarily that of authority/obedience. His main concern is task completion, with a leadership style which dictates what should be done and how it should be done.

The course questioned Sully's tough-minded management approach, promoting a more democratic style where leadership responsibilities are shared with subordinates, who are also involved in the planning of tasks, not just their execution. The course essentially suggested that Sully changed his style of leadership, moving to the right on the Tannenbaum and Schmidt model and towards a stereotypical Theory Y manager. The course was run by a company who promoted the benefits of a democratic style of management.

However, contingency or situational theorists have argued that there is no one 'best leadership style' and that style has to be contingent, at least, on the nature of the work to be done and the needs of the people doing that work. Within the context of the case study scenario, the choice of leadership style probably depends on three factors:

- *The characteristics of the leader.* As already discussed, Sully tends towards a Theory X style. However, his willingness to change style as a result of the course might suggest that his approach may be due to a lack of confidence in his subordinates rather than the reflection of deeply held values about leadership.
- *The characteristics of those led.* It could be argued that Sully's style has necessarily led to him employing people who are comfortable with his style, and demand a work environment which is routine, well-specified and tightly controlled. When Sully changes his style after the course, they are unable to contribute effectively and are left confused and anxious. It is their suggestion that Sully returns to his old style of leadership.
- *The situation itself, the nature of the task.* In the case study scenario, the task has been increasingly constrained, so that it can be closely defined and controlled by Sully. It is relatively simple but decisions on problems have to be taken quickly. This is why they are referred to Sully. He is good at making an instant decision and has the authority to back it up. When subordinates were asked to take responsibility for these decisions, they felt that they did not have sufficient authority or experience and so they consulted their colleagues, which took time, before arriving at a decision.

Contingency or situational theorists would probably be critical of a training course that appeared to encourage a management style that would be unlikely to be appropriate for all situations. Even the most democratic of managers has to adopt an authoritarian style at some point to get certain things done or problems resolved.

From a contingency perspective, it could be argued that before going on the course, ARC had a relatively good fit between leadership, subordinates and the task. Sully Truin was relatively well-liked, he was trusted by his employees to make decisions, and his power was high. As owner of the company he has the power to reward and punish employees. The tasks required of employees were clearly laid down and were well defined.

Reversion to Sully's old style of management might make employees feel more comfortable but it does not solve the fundamental problems. The company is still over-reliant on Sully and, as well as causing him personal health problems, this also severely restricts the company's ability to expand. The company could look more closely at the definition of the task and the competencies required of employees. The speed of change may have also been an important factor in the failure of Sully's new democratic approach. His sudden conversion from Theory X to Theory Y manager was too much, too soon and left employees anxious and confused.

Tutorial note: *This part question on leadership may be answered in a number of ways. The main focus of the answer should be on Sully Truin's leadership style both before and after the management training course and the effect these styles have on his employees. It is expected that candidates will also comment on the speed of change and its consequences, as well as the principles of a training company offering a course which promotes a particular style as the 'best approach to leadership'. The model answer includes reference to underpinning theories first encountered in F1,* The Accountant in Business*.*

(b) In general, business systems have five types of business activity: *planning, enabling, doing, monitoring and control*. In the scenario, employees are primarily responsible for doing and monitoring. However, the control activity, taking action when the monitoring shows that some action is required, is undertaken by Sully Truin. This manifested itself in the emails and phone calls he received whilst he was on the management training course.

The term *job enrichment* refers to a number of different processes including job rotation, enlarging and aggregating tasks. However, the term has become specifically used to refer to a policy of vertical task amalgamation. It is roughly analogous to merging the swim-lanes of a current business process model. An enriched job often contains responsibility for *planning* the job and for taking *control* actions when they are required.

There are five core characteristics of enriched jobs.

- *Skill variety:* The job requires the use of a range of skills and talents.
- *Task identity:* (sometimes called closure): the job includes all the tasks needed to complete an identifiable product or process.
- *Task significance:* the degree to which the job has an impact on other people's lives or work.
- *Autonomy:* employees have a degree of freedom, independence and discretion in scheduling and organising the work.
- *Feedback:* the degree to which employees possess information of the actual results of their performance.

In the context of these characteristics, giving employees responsibility for responding to problems (a controlling activity) was a first step towards job enrichment, particularly as it would lead to task closure (completing the solution of an operational problem) and emphasise the task significance (the impact of the decision on the field crews).

However, Sully's sudden change of style caused two problems.

Firstly, it exposed gaps in the knowledge and skills of the employees. These might be addressed through coaching from Sully. Secondly, it identified that the employees were happier following well-established routines and were quite content to be led. Asking them to take responsibility for decision-making led to anxiety and procrastination, culminating in their request for Sully to return to his old style of leadership. The strength of the employee's need for growth in the job is an important moderator. Such moderators explain why jobs which have considerable potential to motivate will not automatically generate a high level of motivation and satisfaction for all employees. Evidence suggests that the employees at ARC are naturally content within their job. People who have found the job too restrictive have left the company.

If Sully pursues his ideas for job enrichment, then he will have to carefully assess his current staff to see which, if any, are willing to pursue this wider role. Evidence suggests that 'employees with low growth needs are less likely to experience a positive outcome when their job is enriched' (Bratton and Gold). Consequently, Sully may have to bring new people in from outside if he wants to pursue his job enrichment policy.

His assessment of the skills, competencies and desires of his employees has to be even more comprehensive if he wishes to extend jobs to include planning and enabling tasks. However, such an extension would allow them to assist him finding and establishing contracts, helping grow the company.

1 **(a)** **(i)** 1 mark for each relevant point up to a maximum of 18 marks.

(ii) 1 mark for each relevant point up to a maximum of 18 marks.

Up to 4 professional marks are allocated for the clarity, structure and logical flow of the answer.

(b) 1 mark for each relevant point up to a maximum of 10 marks.

2 **(a)** 1 mark for each relevant point up to a maximum of 15 marks.

(b) 1 mark for each relevant point up to a maximum of 10 marks.

3 **(a)** 1 mark for each relevant point up to a maximum of 5 marks for each process area. Three process areas required, giving a maximum of 15 marks.

(b) 1 mark for each relevant point up to a maximum of 5 marks for principles and 1 mark for each relevant point up to a maximum of 5 marks for the evaluation.

4 **(a)** 1 mark for each relevant point up to a maximum of 15 marks.

(b) 1 mark for each relevant point up to a maximum of 5 marks for the principles of job enrichment and up to 5 marks for its application at ARC.