Answers

1 (a) ShoalFish

A PESTEL analysis of ShoalFish would focus on the fact that it is fishing in an area where fish stocks are rapidly declining (environmental) and it is increasingly exposed to government intervention and restrictions (political). It is a relatively small player (12% market share) in a large, but declining market place (5% over two years). Profits are declining, although ShoalFish appear to have arrested the decline in the profit margin. The 2009 gross profit margin (4·9%) shows an increase over the 2008 figure (4·7%). This may mean that the company has been able to bring operating costs in line with the declining turnover.

In terms of the Boston Box, it has the characteristics of a dog, a company with a small market share in a declining market. However, Shoal plc perceives that there are important synergies between ShoalFish and the other companies in the Shoal plc portfolio. For example, it helps secure a significant proportion of the raw materials required by ShoalPro. ShoalPro is also ShoalFish's main customer, accounting for 40% of the company's catch. ShoalFish also has an intended role following the purchase of the Captain Haddock group of restaurants. Shoal plc would like ShoalFish to directly supply the Captain Haddock restaurants and so potentially reduce raw material costs at Captain Haddock.

Shoal plc needs to look carefully at the viability of maintaining this fleet. They are operating in an area where owner-skippers are very common (almost half of the boats in the western oceans are owned and operated by the boat's captain). There may be an opportunity for ShoalFish to sell, lease or rent their ships, perhaps to individual owners, with the promise of guaranteed sales to ShoalPro (and potentially Captain Haddock). Alternatively, they could tolerate declining performance from this part of the portfolio, in the knowledge that it forms an important part of the supply chain for other companies in the portfolio.

ShoalPro

ShoalPro is a profitable and expanding organisation. A significant percentage of its raw fish supply is currently provided by ShoalFish, but this percentage is declining as it increasingly processes fish for other companies. It is in a mature, but still expanding (+2% from 2007 to 2009) market-place where it holds a significant (40%) and slightly increasing market share. Gross profit margins are improving slightly (from 10% in 2007 to 10·6% in 2009), suggesting that costs are increasing at a slower rate than revenues.

Its consistent profitability would classify this business, using Boston Box terminology, as a cash cow. A company with a significant market share in a low growth market.

A PESTEL analysis would focus on the fact that ShoalPro factories are in a region which attracts national grants due to high local unemployment (political and economic). This reduces operating costs and the persistence of high unemployment suggests that a local skilled workforce is still accessible to ShoalPro (socio-cultural). Analysis suggests that ShoalPro is an important part of the Shoal plc portfolio and should be retained and maintained.

ShoalFarm

ShoalFarm is a relatively new acquisition. It currently has a relatively low market share (10%) in an expanding market-place. ShoalFarm is itself growing (+12% from 2007 to 2009), but not as fast as its market (+20% in the same period). A PESTEL analysis would reveal a market-place that is perceived as ethically acceptable, stressing the conservation of fish supplies (socio-cultural). It seems likely that this will increase in importance in the future although the difficulty of finding potential sites (environmental) may be a significant factor. Gross profit is high (14% in 2007, comfortably out-performing ShoalFish and ShoalPro) but declined in 2008 (12·7%), recovering slightly in 2009 (13·3%).

ShoalFarm may also have a significant role to play in providing raw materials for both ShoalPro and the potential acquisition – Captain Haddock restaurants. In terms of the Boston Box classification, ShoalFarm is probably a question mark or problem child. It needs increasing investment to ensure that it becomes a key player in a significant market-place. If Shoal plc is prepared to do this, then the recommendation is that they should expand and develop. If they do not – and the potential synergies with Captain Haddock are not realised – they may wish to divest.

Overall, the three companies can be seen as integrated parts in a comprehensive value chain. Conflicting environmental forces are at work, on the one hand reducing the level of dependency between the companies and, on the other hand, reinforcing the competitive advantages (synergies) of being in a vertically integrated group. The potential acquisition of Captain Haddock could further enhance these advantages but only if the correct inter-firm trading relationships are established.

(b) (i) Shoal plc recognises that there is no 'one right way' to manage change. The success of any planned change programme will depend upon an understanding of the context in which the change will take place. Balogun and Hope Hailey have highlighted a number of important contextual features that need to be taken into account when designing change programmes. These features are used as a basis for this model answer. However, other frameworks that recognise the context that changes takes place within could be used by the candidate and appropriate credit will be given.

Shoal plc has little *time* to complete the acquisition and effect the strategic change necessary. The decline in Captain Haddock's turnover and profits is increasing dramatically. The resignation of the chairman and managing director of the company was triggered by concerns about breaking bank covenants. If Shoal plc does acquire Captain Haddock then strategic change will have to be implemented quickly.

Shoal plc will need to put into place policies that help them *preserve* the aspects of Captain Haddock that need to be retained for future success. It is recognised that the employees and the training they receive are first rate. Steps need to be put in place to ensure that these employees remain within the company. Similarly, the Captain Haddock brand is strong and needs to be re-affirmed.

Change is usually easier if there is a *diversity* of experience, views and opinions within the organisation. This is not discernable at Captain Haddock. The suggestion is that most employees are recruited directly from school or university and then remain within the Captain Haddock training programme as they progress through the company. There is very much a policy of 'recruit from below'. In such circumstances it is unlikely that norms and practices will be challenged. A homogenous internally shared view was developed that Captain Haddock did things the right way, whatever was changing in the world outside. Shoal plc will have to be sensitive to this, as well as recognising that it will need to bring the required diversity of thinking to the company.

Capability is concerned with the extent or experience of managing change in the organisation. Within Captain Haddock there appears to be little experience of such change. Indeed the preservation of established norms and practices was the focus of management and the supporting training. In contrast, Shoal plc have experience of managing change and this is a major capability that it should bring to Captain Haddock. However, it has to be recognised that this capability has not been tested in the restaurant sector and Shoal plc will have to be sure that their capability is applicable to this sector.

The *capacity* of an organisation for change considers the resources available to support change. Change may be costly, both in real financial terms and management time. Captain Haddock has little capacity for change from its own resources. So, this is again something that Shoal plc will bring to the company. Substantial investment will not only be required to improve Captain Haddock's financial position, in terms of fulfilling bank covenants, but also to finance the change programme necessary within the company.

There appears to be little doubt that Captain Haddock is *ready* for change. Two senior members of management who could have been the focus for some resistance to change have left the company and employee representatives are keen for someone to come in and 'effectively lead employees who have become increasingly demoralised by the decline of the company'. Shoal plc should acquire an organisation that is receptive to appropriate change.

It is necessary to identify people in the organisation who have the *power* to effect change. Again, this will be a key responsibility of Shoal plc if they acquire Captain Haddock. They must give the appointed management sufficient power to implement the required changes.

So, in summary, Shoal plc will be faced with ensuring that many of the contextual requirements for successful change are put in place. They will need to provide management with appropriate capability and diversity and then give them the power and capacity to effect required changes. They will have to move quickly to preserve Captain Haddock's strengths, but they will find a workforce that is receptive for change.

The final contextual feature that needs consideration is the *scope* of change. The type of change required at Captain Haddock can be viewed in the context of the following model.

		Scope of change	
Nature of change		**Realignment**	**Transformation**
	Incremental	Adaptation	Evolution
	Big Bang	Reconstruction	Revolution

Adaptation is change that can be accommodated within the current paradigm and can be introduced incrementally in the organisation.

Reconstruction is change that may be rapid and create upheaval in the organisation but which does not fundamentally change the underlying paradigm.

Evolution is a change that does require a paradigm change but one that can be introduced over time

Revolution is a change that requires rapid change associated with a change in paradigm.

Reconstruction appears to fit the situation at Captain Haddock.

(ii) This part of the question can be answered in a number of ways and all legitimate approaches will be given credit. However, it is suggested that the answer should consider:

- Focusing on profitable and/or core activities
- Divesting non-profitable and/or ill-fitting activities
- Changing senior management
- Effective stakeholder management
- Financial restructuring.

This model answer uses the structure suggested by Johnson, Scholes and Whittington for implementing a *turnaround* strategy. Change is required quickly but there is no need to radically change what the organisation is doing. There is a need for a *realignment* of strategy rather than a fundamental change of strategic direction. It has already been recognised in the previous answer that Captain Haddock requires reconstruction. This is often associated with a *turnaround* situation where there is a need for structural changes to deal with a decline in financial performance and changing market conditions. In a *turnaround* situation the emphasis should be on rapid change and rapid cost reduction and/or revenue generation. Thus Shoal plc should be aware of some of the main elements of a turnaround strategy as they will need these if they acquire Captain Haddock. These main elements could form the basis of a strategy for change to return the company to profitability.

(1) The change strategy might commence with crisis stabilisation with a short-term focus on cost reduction and revenue increase. One of the synergies identified by Shoal plc (the provision of fish directly to Captain Haddock restaurants)

should aid cost reduction. There is evidence that focusing on reducing operational costs is a significant factor in a successful turnaround strategy.

(2) Implementing management changes at the top level. The resignation of the chairman and managing director of Captain Haddock has already facilitated this. Their resignation will also support the reduction of costs. The reduction of the costs of senior management is a further characteristic of a successful turnaround strategy.

(3) Gaining stakeholder support. It is vital that key stakeholders are kept informed during the change process. A clear assessment of the power of different stakeholders will be vitally important. Evidence from the scenario suggests that employees are supportive of change. The banks should also welcome the acquisition by a large and well-established company such as Shoal plc.

(4) Shoal plc will have to clarify target markets and re-establish the Captain Haddock brand. There is evidence that the company has unsuccessfully diversified into new market-places which did not deliver profits. The company has to get ‘back to basics’ and re-establish itself in its traditional market-place.

(5) Captain Haddock will need to be re-focused on core activities and products. It may be possible to dispose of the land bought for investment. Clarifying the target markets provides the opportunity to discontinue products or services that are not focused on those markets.

(6) Financial restructuring of Captain Haddock is necessary and is part of the capability that Shoal plc will bring to the company. Evidence suggests that Captain Haddock should be delivering gross profits of about $11million per year, so making the $15million investment a relatively modest outlay.

(7) Shoal plc will need to prioritise critical improvement areas, delivering quick and significant improvements.

Finally, Shoal plc need to be aware that a successful turnaround strategy should focus on getting the existing business right, rather than quickly diversifying into new markets and businesses.

(c) Portfolio managers, synergy managers and parental developers represent three corporate rationales for value creation in a multi-business organisation as suggested by Johnson, Scholes and Whittington. The distinction between the three is considered here.

Portfolio managers act as an agent on behalf of financial markets and shareholders. They seek to increase the value of the companies in their portfolio more efficiently and effectively than financial markets could achieve. They seek to acquire under-performing or under-valued companies and to improve their performance so that they can later be sold at a premium. In many instances, poorly performing parts or businesses of the acquired company are sold off as part of performance improvement. The key issue for most portfolio managers is the opportunity to extract value from a business. The nature of that business, the market it is operating in and its relationship to other businesses in the portfolio is relatively unimportant. Portfolio managers manage businesses with a low cost centre and do not intervene significantly in the running of each business in the portfolio. Instead, they set financial targets for the senior executives of those companies, with high rewards for those executives who achieve their targets. The value-added activities of a portfolio manager are usually restricted to investment, setting expectations and standards and for monitoring performance. The profile of a portfolio manager does not fit the philosophy of Shoal plc.

Johnson, Scholes and Whittington claim that synergy is often seen as the *raison d’etre* of the corporate parent, with value being enhanced across the business units in a number of ways. Underpinning this approach is the belief that the whole is worth more than the constituent parts. Johnson, Scholes and Whittington particularly identify the sharing of resources or activities; for example, a common brand name (as in the case of Shoal plc) may provide value to different products within different businesses. There may also be common skills or competencies across businesses. For example, expertise built up in the politics of fishing is likely to be transferable throughout the Shoal plc businesses.

Shoal plc also sees the synergy in terms of one business being a customer of another. For example, guaranteeing a supply of raw material or as a guaranteed customer of a product. This may be problematic because it could lead to inefficiencies and confused objectives within each company. The ‘supplying’ company may not control costs or ensure quality sufficiently because it knows it has a guaranteed customer for some of its products. Similarly, the ‘purchasing’ company might not be able to meet profit objectives because of the cost and quantity of the raw material it has to purchase from its related supplier. Business managers are usually rewarded on the performance of their business unit, but under this strategy they are being asked to co-operate in something that could compromise the performance of their business unit. As Johnson, Scholes and Whittington suggest, the manager of the business unit might respond by asking ‘what’s in it for me? and they may conclude that there is very little’. There is also a concern that Shoal plc knows a lot about sourcing and processing fish, but not much about the restaurant industry. It may be that Captain Haddock is quite different to other companies in the portfolio and so the hoped for synergies may not appear. However, despite these reservations, it is clear that Shoal plc’s overall corporate philosophy is that of a synergy manager.

Finally, the parental developer uses the competencies *of the parent* to add value to businesses in the portfolio. So, in this instance, the parent company is confident about its resources and capabilities and wishes to use these to enhance the value of the businesses in the portfolio. For example, the parental developer may have a brand name that is recognisable throughout the world and is associated with value and quality. Such a company needs to identify businesses which are not currently fulfilling their potential but could if they were associated with a well-known brand. In effect, their brand name brings these companies to a wider audience who automatically assign the values of the parent to those of the acquired company. For parental developers, achieving synergies between companies in the portfolio is not a priority. The focus is on providing the companies in the portfolio with the competencies of the parent. This is not really the approach of Shoal plc. Developing strategic capabilities, achieving synergies and transferring managerial capabilities are not value-adding activities of a parental developer.

2 **(a)** The main drivers for the adoption of e-business at TMP are:

- Cost reduction, specifically raw material costs (the cost of paper) and distribution costs to bookshops.
- Improved profit margin, perhaps achieved by removing the bookshop as an intermediary.
- Increased revenue, increasing sales (as well as profit margins) is an important objective.
- The desire to keep up-to-date (exemplified by the marketing director) and hence to avoid losing market share to businesses prepared to embrace e-business.
- Increased ecological concern about the use of timber for paper manufacture. The trees used to provide the timber are becoming increasingly scarce.
- People, in the shape of the marketing director and the graduate recruited to develop the website.

The main barriers to the adoption of e-business at TMP are:

- Concerns about the cost of developing the website, particularly when revenue and profits are decreasing. Marketing expenditure has been reduced and this is likely to continue.
- Concerns that it will destroy the relationship with bookshops and those sales will decrease overall as a result. Destroying existing channels is often a major barrier to change.
- Lack of technical ability within the company to develop and maintain the website and the impact this may have on its long-term viability.
- Concern about fraud and piracy. This may be within the context of the financial transactions of e-commerce. It may also reflect concerns about the pirating of books, leading to either cheap printed versions being produced and sold in local markets or to illegitimate copies being sold and distributed on the web.
- Other directors could be perceived as a barrier to the adoption of e-business.

(b) ***Product***

At present, TMP offer conventional physical books. E-business may provide opportunities for either replacing or augmenting this product. For example:

- *Replacing* the book with an electronic alternative that customers can read directly from the screen, view through an e-book reader or print off at their own cost. This may allow the range of products to be increased, introducing books that would be uneconomic to produce conventionally.
- *Augmenting* the product by providing supplementary services and features. For example, many text books now have an associated website that includes further case studies, exercises, solutions, simulations etc. This may be particularly applicable to management texts where readers often require further information.

Using e-business to change the nature of the product should help reinforce two of the drivers identified in the first part of this question. It should help reduce raw material costs as well as helping the company meet environmental targets. Augmenting the product should help deliver a better quality product to customers.

E-business also offers opportunities for extending the product range, perhaps offering (through intermediaries) management training, financial advice and other related services.

Price

At present TMP largely sells through bookshops and so the TMP price has to reflect a profit margin for the bookshop. If TMP exploits e-business to develop a channel that eliminates bookshops, then it should be able to simultaneously discount the price of the book and yet still improve their profit margin. E-business may also be an opportunity to experiment with differential pricing. The scenario notes that overseas sales are low because of the relatively high sales price of books. TMP may be able to combine differential pricing (in local currencies) with electronic alternatives to find a product that is saleable in these markets.

TMP has to be aware of any price-comparison websites and be prepared to monitor costs on these sites and react accordingly. They also have to be aware of large established channels, such as Amazon. Such sites will expect keen pricing, but will also pay commissions on books sold through the site.

Finally, TMP might seek an alternative price strategy, based for example on subscribing to the site, rather than selling books. A ‘book’ may become a continually updated web resource that customers pay to use on either a one-off or continuing basis. There is no need for them to actually own the book themselves. TMP therefore becomes a virtual library.

Direct pricing to customers also provides the opportunities for special offers, pre-publication prices and other deals. For example, special discount prices on related books can be offered to customers who have placed an order for a specific book.

Promotion

At present, promotion is restricted to a custom-built display case at bookshops and full-page display advertisements in magazines and journals. Such promotion reflects a conventional ‘push’ approach to marketing that focuses on the product rather than the customers. If the website records the details of visitors, then the company can identify potential customers for its products and target them in mail-shots and on-line suggestions. For example, customers who have bought certain titles may have others suggested to them when they next visit the site. Many sites also make buying suggestions based on the behaviour of other customers, for example displaying ‘other titles which have been bought by customers who have bought this book’.

E-business will require the company to consider both its online and offline promotion. TMP may be able to reduce its offline expenditure, cutting back on advertising. In its place it might spend elsewhere, particularly in making sure that it figures prominently in search engine listings. Links to other sites should also be considered, allowing promotion of TMP books on related sites. For example, internet sites providing management advice, information and glossaries may have a link to the TMP site. TMP pays commission to the site on sales made through such links. Banner advertising might also be considered on such sites. A similar approach might be used with academic websites where a TMP book is recommended reading for a course.

Place
Bookshops have limited reach, although they do provide the facility for the potential buyer to handle the book (see *physical evidence*). The display advertising has unpredictable reach. Circulation figures are usually provided by journals and magazines but this does not give any information on how many people actually read the advertisements in question. The scenario suggests that both bookshops and journals appear to have declining reach, based on statistics about their closure. The internet has global reach. The relatively small percentage of books currently sold outside Arcadia is attributed to the cost of those books. However, it may be that the rest of the world is simply unfamiliar with TMP's booklist, a shortcoming that will be addressed by the internet site

In wider e-business terms, a consideration of place will also lead to TMP considering whether it is economic to continue printing in Arcadia which is a high-cost economy. The printing works were established 50 years ago and it seems likely that cost-savings could be gained by printing and distributing the books in lower labour cost economies.

Physical evidence
One of the problems in buying books is the ability to look inside those books before purchase. Often titles are insufficient to make a purchasing decision. One of the advantages of the bookshop is that the potential buyer can physically inspect the goods, looking at the content in detail to ensure that it meets their needs. In contrast, physical evidence is not possible at all through display advertising in a journal.

On the website, it would be possible to allow the potential buyer to view the contents of the book in detail and (usually) one physical chapter. This so-called 'look inside' facility allows them to base their buying decision on some (but not all) physical evidence. Further evidence can also be provided by unsolicited recommendations and reviews from other customers. Feedback, comments and rating systems are typical features on a website. These are rarely available through the bookshop. The bookshop employees have rarely read all the books they sell and, if they have read the book, are probably biased towards a sale. Sometimes, reviews have been placed in the book, often from a previous printing or edition. However, these are only the ones sanctioned by the publisher. Unsolicited references are one of the advantages of the website (as long as they are good!).

The problem of physical evidence can also be addressed by seeing the book as a website resource rather than a physical entity. If the reader pays for access, then very little expenditure is likely on a book that does not fulfil the reader's requirements and expectations.

3 (a) The cultural web is a representation of the taken-for-granted assumptions, or paradigm, of an organisation. The question specifically references the cultural web, but any framework that is appropriate for understanding the culture of an organisation can be used.

Symbols such as logos, offices, cars, titles, language and terminology are a shorthand representation of the nature of the organisation. At Frigate, the adoption of the term 'Commander' by its managing director, Ron Frew, and his use of naval terminology is indicative of how he wishes to be perceived and the way he wants the company to run. Indeed the name of the company itself reflects his naval obsession. The main symbol of his success is the motor cruiser that Frew owns and moors at the local port. The irony is that Frew actually has no naval experience. He is acting out a stereotype of how he perceives naval life to be.

Power structures are also likely to influence the key assumptions of an organisation. The most powerful groupings within the organisation are likely to be closely associated with core assumptions and beliefs. At Frigate, power is centred on one person. Leadership comes from a person who holds strongly held views, opinions and beliefs.

The organisational structure is likely to reflect power and show important roles and relationships. At Frigate, there is little formal structure and Ann Li's attempt to put one in place was opposed.

Control systems, measurements and reward systems emphasise what is important to monitor in the organisation. Frew is primarily concerned with cost control. Emphasis is on punishment (making deductions from wages for late arrival), rather than reward, which fits his naval stereotype. There appear to be few formal process controls and relationships with both customers and suppliers are confrontational. Ann Li's attempt to install formal controls throughout the organisation was resisted by Frew.

Routines and rituals define the 'way we do things around here'. For Frew there is a distinction between the routines of staff (must arrive on time, minimum holidays with no flexibility) and the rules that apply to himself – flexible working, long holidays, the expectation that employees will help him with his personal life.

The *stories* told by members of an organisation are usually concerned with success, disasters, heroes, villains and mavericks. It appears that Frew is the hero, seeing off lazy staff, unscrupulous suppliers (trying to sell me inferior quality goods for higher prices), problematic customers (moaning about prices and paying later and later) and bureaucratic officials (squandering my hard-earned money). These are identified as the villains. He even extends his stories to society as a whole, believing that a period working in the navy would do everyone good.

Finally, the company *paradigm* summarises and reinforces the other elements of the cultural web. Underpinning all of this is Frew's belief that the company is run for his own gratification and that of his immediate family. The benefits he receives and the lifestyle he enjoys is his reward for being a risk taker in a hostile environment which is always trying to limit him. He appears to see expenditure on his family (such as share gifts and holidays) as perfectly acceptable. Figure 1 summarises the cultural web for Frigate Ltd.

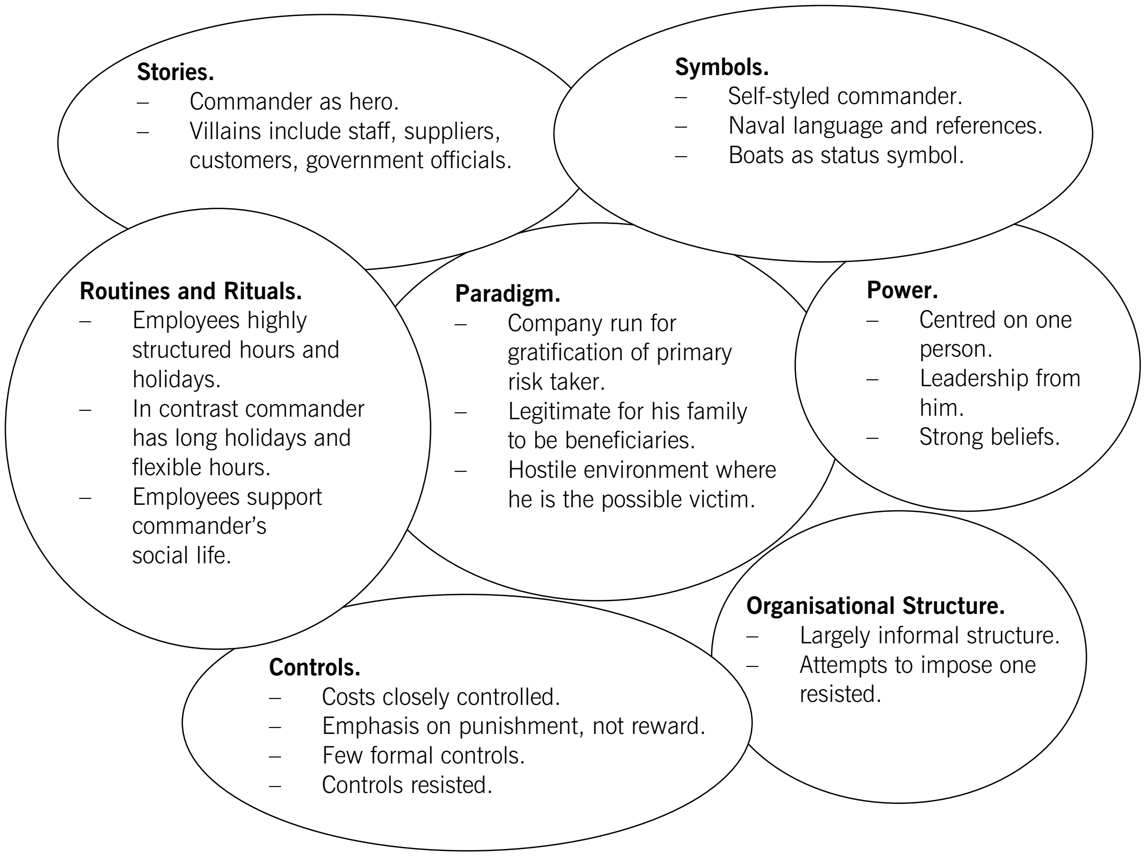

Figure 1: The cultural web at Frigate Limited

(b) An organisation's configuration considers how the structure, processes and relationships of an organisation work together. Henry Mintzberg has identified six configuration stereotypes. Each configuration is idealised, a simplification. Mintzberg is at pains to point out that no real organisation is exactly like any one of them. Some come close to a specific stereotype, others reflect combinations and yet others are in transition from one form to another.

In the context of Frigate, two configurations are of interest:

Firstly, the *entrepreneurial* organisational configuration has the following attributes relevant to Frigate.

Structure
- Simple, informal and flexible with few staff and no significant middle-line hierarchy.
- Activities revolve around the chief executive, who controls personally through direct supervision.

Context
- Simple and dynamic environment
- Strong leadership, autocratic
- Small organisation.

Power is focused on the chief executive, who personally exercises it. Formal controls are discouraged and seen as a threat to that person's authority. The typical owner (such as Ron Frew) exercises control through informal, direct (face-to-face) supervision. Employees may find such organisations highly restrictive. In Mintzberg's words they may not feel 'like the participants in an exciting journey, but like cattle being led to market for someone else's benefit'. Frigate Limited has many of the characteristics of an entrepreneurial organisation.

Secondly, in contrast Ann Li has joined from an organisation which is likely to have the attributes of a *machine bureaucracy* – another stereotype identified by Mintzberg. In structural terms these organisations are characterised by:

Structure
- Formal procedures
- Sharp division of labour
- Strict hierarchy.

Context
- Usually larger, mature organisation
- Rationalised, standardised processes.
- Simple and stable environment

In such organisations some operations are routine, many are rather simple and repetitive and as a result work processes are highly standardised. This is Ann Li's experience that she is trying to bring to Frigate.

An understanding of organisational configurations would have helped identify the likely failure of Ann Li's proposal. She is trying to introduce a functional organisational structure into a CEO-controlled environment and a formal set of processes into an environment where flexible processes are directed by the CEO. The key factor here is the mismatch between structure, processes and context. The failure of her proposals could have been predicted by someone who understood the need to correctly match organisational structure, controls and processes.

4 (a) Benefits

Reduction in venue and invigilation costs
Approximately 70% of these costs are associated with the foundation level examinations. Using internet-based assessment (*anytime, anyday, anywhere*) the IAA will reduce costs which the scenario suggests are currently increasing. This is particularly significant for smaller centres which only offer foundation level examinations. These smaller centres have long been acknowledged to be uneconomic and have only been retained because of the IAA's accessibility objective.

Reduction in financing costs
The accessibility of foundation level examinations throughout the year should help address the cash flow problems associated with two large diets of examinations. The scenario suggests that the association uses its $5m loans and overdraft facility for at least four months of the year, incurring bank charges of $350,000 in the last financial year.

Reduction in marking costs
Moving the foundation examinations to on-line multiple choice assessment will eliminate marking costs completely for examinations at this level. The candidate's answers are automatically marked and the result presented within seconds of the paper being completed.

Elimination of checking costs
These are eliminated completely at both foundation and advanced levels. At the foundation level, multiple-choice examination answers require no checking at all. At the advanced level, on-line marking software accurately totals the marks allocated to each question, so no manual checking process is required.

Reduction in central administrative costs
In the current system, temporary administrative employees are employed in peak periods to help with processing results. Using on-line multiple choice examinations for the foundation level examinations should reduce the need for temporary staff.

Elimination of courier costs
Courier costs (from invigilator to marker and from marker to IAA central checking) will be eliminated completely, delivering considerable savings.

The benefits identified above have all been concerned with cost reduction and should be relatively easy to quantify. There may also be benefits associated with the following.

Increased fee income
The *anytime, anyday, anywhere* principle of the foundation examinations may lead to more students registering all over the world.

The ability to process results quickly may tempt students to study with the IAA, rather than competitors. This may again lead to increased income.

Costs

Security costs
The removal of formal twice-yearly foundation level examinations creates significant security issues. It is not clear if the head of education has yet recognised these issues and it may not be technically feasible to address them. They are listed here as costs, because if the problems can be solved it will be at a cost. Three immediate problems to overcome are:

– Ensuring that the specified candidate has taken the examination and that they have not employed a more able substitute to take their place. At present, the invigilator checks the validity of the identification presented. It will be costly for the IAA to guarantee that personal identification checks are in place in all places and at all times when examinations are being sat.

– Ensuring that the candidate does not consult books and texts during the examination. Again it will be costly to ensure that candidates are checked for the presence of such materials whenever and wherever these examinations are taken.

– Ensuring that all centres used for on-demand examinations can be trusted not to assist candidates, many of whom may be students who are being taught at the venue, or employees whose employers want them to pass so that they qualify sooner.

Hardware costs
This is the cost of the computers that will be used for the advanced examinations. It is likely that these will be rented. Appropriate word processing software will have to be available on these computers. Support will have to be provided during the examination.

Software licence costs
Software licence costs will be associated with the software for delivering the multiple-choice examinations and for the on-line marking of the advanced examinations. There will be initial purchase costs and continuing support costs for both of these applications.

Increased setting costs
There is likely to be a significant one-off cost in producing a large enough bank of multiple-choice questions for the foundation examinations. These questions will also need continuing review and renewal.

On-line support costs
Anything relying on technology requires back-up and support teams that can react when that technology fails, particularly during an assessment session. The provision of support incurs a continuing cost.

Redundancy costs
There may be redundancy costs associated with reducing the number of internal IAA staff required for checking.

Some of the costs incurred above are capital costs which have to be incurred to launch the e-assessment process. The IAA is not cash rich and so the launch of e-assessment will incur significant initial financing costs.

(b) The answer to the first part of this question suggests that there are still significant cost issues that need to be considered, particularly concerning the delivery of appropriate security. The requirement to define a formal business case will mean that the head of education will have to quantify the amount and timing of costs and benefits. Dependent on the investment appraisal method used, this will lead to a suggested time to payback, an Internal Rate of Return (IRR) or a Net Present Value (NPV) for the project. Such quantification will be particularly valuable where costs and benefits are difficult to define because of the intangible nature of the benefit or issue. For example: the potential benefit of attracting more students and the potential cost of providing adequate security requirements for on-line assessment require considerable definition. The need for a formal business case will force the head of education to define the features of the project more accurately and with that precision will come a realistic assessment of costs and benefits. It will also allow the project to be compared with other projects that might be considered by the IAA as well as seeing whether it is feasible overall, given the Institute's cash flow problems.

Managing the benefit through the progress of the project ensures that it remains on track to deliver value to the organisation. During the conduct of a project there are often changes in requirements, and these are particularly likely in a project as innovative as e-assessment. Without proper benefits management the initial business case might not be re-visited and so costs may soar and the proposed benefits may not materialise. Consequently, even if the justification of the project was initially 'self-evident', benefits management would be necessary to ensure that justification remained.

Finally, a formal benefits realisation review should take place some time after the project has been completed and the product (in this case e-assessment) has been implemented. It will assess whether the benefits promised in the original business case have actually been delivered. One of the primary advantages of benefits realisation is that it forces the sponsor to carefully define the nature, timing and value of each benefit that is being claimed. It thus provides a yardstick that success can be monitored against.

The business sponsor at IIA is extremely enthusiastic about e-assessment and this could easily lead to it being adopted without careful consideration of the costs and benefits. The existence of a business case and benefits management programme is that the business case will have to be carefully defined and its validity monitored throughout the process, culminating in a formal review. Organisations where such a process is missing often adopt projects based on enthusiasm and political will, usually to the long-term detriment of the organisation. The expectation that the sponsor will be formally held to account for the delivery of the benefits is a good discipline. It should discourage the development of business cases based on spurious benefits which are unlikely to be delivered.

1 **(a)** 1 mark for each relevant point up to a maximum of 5 marks for each company. There are three companies in the analysis, giving a maximum of 15 marks for this part of the question.

(b) **(i)** 1 mark for each relevant point up to a maximum of 13 marks for this part question. In addition there are 2 professional marks allocated as follows: 1 mark for the *identification* of an appropriate model, 1 mark for the *justification* of an appropriate model.

(ii) 1 mark for each relevant point up to a maximum of 8 marks for this part question.
In addition, there are 2 professional marks allocated as follows: 1 mark for the cogency of the analysis and 1 mark for overall application to the case study environment.

(c) 1 mark for each relevant point up to a maximum of 3 marks for each corporate rationale. There are three corporate rationales giving a maximum of 9 marks. 1 mark for recognising that Shoal plc is a synergy developer, giving a maximum of 10 marks for this part of the question.

2 **(a)** 1 mark for each relevant point up to a maximum of 5 marks for this part question.

(b) 1 mark for each relevant point up to a maximum of 4 marks for each element of the marketing mix. There are five elements in the marketing mix specified in the question.

3 **(a)** 1 mark for each relevant point up to a maximum of 15 marks for this part question.

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

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

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