



## The Examiner's Answers - Specimen Paper E2 - Enterprise Management

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### SECTION A

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*Note: Some of the answers that follow in Sections A and B are fuller and more comprehensive than would be expected from a well-prepared candidate. They have been written in this way to aid teaching, study and revision for tutors and candidates alike.*

#### **Answer to Question One**

Porter's five forces model is a useful framework that the business development team of CN Company could use to help it assess the competitive forces at work in the confectionary industry in Country K. It can be used to help management of CN decide whether the industry is an attractive one to enter.

Porter's model brings together the following five competitive forces:

- Threat of new entrants/barriers to entry
- Bargaining power of suppliers
- Bargaining power of buyers
- Threat of substitute products/services
- Competitive rivalry

It is the collective strength of these forces that will determine the profit potential of the confectionary industry in Country K. Essentially, it would only be a sensible strategic decision for CN Company to enter Country K if the forces are relatively weak and the potential returns are high. The information from the analysis would also help in identifying the factors driving profitability and inform the competitive strategy needed.

Taking each force in turn:

CN Company will be a new entrant so it needs to assess the potential barriers to entering the confectionary industry in Country K. These might include issues associated with gaining access to appropriate distribution channels for its confectionary. However, the fact that it is seeking to enter the market in a joint venture with a company already established in K Country could help minimise this barrier.

Another possible barrier to entry is product differentiation. If there are already established firms in Country K with strong brands in the confectionary market it may be hard for a new entrant to rival these. CN Company will also have to assess government policy in Country K to determine whether there are any legal or bureaucratic factors to deter foreign businesses entering the marketplace. From this information, the business development team should be able to assess whether entry barriers are high, moderate or low.

Bargaining power of suppliers is primarily related to the power of suppliers to raise their prices to the industry. Power will increase where the supply is dominated by a few firms, or suppliers have proprietary product differences. It is unlikely that the supply of raw materials and

resources needed for the production of confectionary will be concentrated in the hands of a few suppliers; therefore supplier power is likely to be moderate to low.

The bargaining power of buyers is gained through their ability to either gain products/services at lower prices or get improved product quality. It also depends on the size and number of buyers. Power will be greater when buyer power is concentrated in a few hands and when products are undifferentiated. CN Company will need to determine who its buyers are but assuming these are the end consumers, as individual buyers they will have relatively little bargaining power. Buyer power is increased when there are low switching costs, in other words where moving to a different supplier involves little risk. This would be the case in terms of buying confectionary products, from the perspective of the end consumer, because they are relatively low value purchases.

The buyer could, however, be the distribution channels in which case buyer power may be high if there is a concentration of these buyers.

Pressure from substitutes is where there are other products that satisfy the same need. In the case of confectionary products, it is probable that there will be a high threat of substitutes in the industry since there are many alternatives such as light food snacks, savoury snacks, fruit and other healthier product options available in most markets.

In the confectionary industry, the rivalry amongst existing competitors will be influenced by the number of firms operating in the industry, and industry growth rates. If there are numerous organisations, particularly with strong brand images already operating in Country K, and there is low industry growth then this will not be an attractive market for CN Company. If however, in contrast, the rivals are relatively small domestic producers with a poor brand image, the market could prove to be attractive.

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## **Answer to Question Two**

WBS is an abbreviation for work breakdown structure and is a systematic approach to ensure that all activities required to complete a project are included and carried out. It helps in setting out the logical sequence of project events through breaking down of the project work into smaller parts which are known as work packages. These work packages can be put into the project plan as a comprehensive list of tasks and activities that need to be undertaken during the lifecycle of the project. This provides a hierarchical tree of the way a project is structured and identifies the manageable work elements that need to be undertaken by the project team in order to deliver the project. It also helps in the sequencing of tasks and priorities.

WBS can be used to help calculate the total cost of the project by asking those responsible for each work package to estimate the time and resources needed to deliver the project objectives. Each work package will have defined deliverables which can then be allocated to the appropriate person in the project team so aiding communication of responsibilities amongst the project team and providing a framework for monitoring and control.

Gantt charts can use information from the WBS process to construct a graphical illustration of the activities of a project shown as a bar chart with start and finishing times clearly identified. They can provide a simple representation of a project in terms of presenting the planned time that each activity will take. This helps in showing the resources required for each activity at a point in time.

Gantt charts can be used as a reporting tool in the monitoring of actual progress of the project, for example on a week-by-week basis, or indeed a day-by-day basis. As part of project control they could be used to illustrate both the planned duration of an activity and the actual duration, so any variances are clearly identified. Gantt charts can assist in project co-ordination and are useful as a communication tool since they are easy to understand and provide an overview of responsibilities and the progress of the project. For instance a Gantt chart could be produced for each member of the project team to show their total workload.

### Answer to Question Three

In making his decision J will need to consider the potential influence of different stakeholder groups. Mendelow's matrix can be used to plot the power of interest of different stakeholder groups, which would help T in understanding the effect of his decision of those groups. The stakeholder groups who will be impacted by the takeover bid will include:

T, as owner of the OD Company will have significant power in deciding whether or not to accept the bid. His interest may be in terms of the money he will make from the takeover. However, assuming T is a good employer with an awareness of the social responsibilities of his company, he should also have an interest in how the takeover bid would impact on his employees and wider stakeholder groups.

Employees who work in the manufacturing function of OD Company will have a high level of interest in whether or not the takeover bid is accepted, since they will be most affected in terms of potentially losing their jobs. Whilst as individuals they may have relatively little power, they could collectively lobby the local government of T town in order to gain support, have demonstrations and take industrial action gaining media attention. These actions could damage the reputation and brand of OD Company.

Linked to the above point, the trade union will have high level of interest in how the takeover bid will impact on its members, and could use its power to coordinate industrial action and support its workers.

Employees in design function and retail stores will have a high level of interest in the takeover bid since, whilst they would hope to keep their jobs if the takeover bid is accepted, they would have a new owner, who may have a different style of management, and may want to make changes to the way they work. They would have relatively little power, although if any changes to their working conditions were proposed, the trade union could act on their behalf. They may feel that they are in a difficult position in terms of how they support their fellow workers in the manufacturing function.

The Board of ZZ Company making the takeover bid will have a high level of interest since it will want T to accept the bid to gain access to the brand and design capability. The power they have is linked to financial resources, for example, in terms of how much they are prepared to offer for OD Company.

Other stakeholders who will have an interest in the takeover, but perhaps have relatively little power are the existing domestic suppliers to OD Company. If OD Company is one of their major customers, the proposal to outsource manufacturing could result in them losing business. This could impact on their future viability, unless they can find new customers.

The community in T town and families of those losing their jobs are also stakeholder groups who will have an interest in the takeover bid and T's response. They could support the workers through industrial action and lobbying of local government and politicians regarding the potential impact on the community and economy of T town, particularly since OD Company is a major employer in the town.

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### Answer to Question Four

The formal rational approach to strategic planning being proposed by ZF usually results in a consciously thought out or deliberately intended strategy. It assumes that strategy making is a rational process with strategies based on careful analysis of the opportunities and threats posed by the external environment, and consideration of the organisation's strengths and weaknesses, relative to other players in the industry. MT says that he prefers to let his strategy emerge. This approach arises from ad-hoc, unanticipated or uncontrollable circumstances. It is often referred to as developing from patterns of behaviour in response to unexpected events rather than a consciously thought out or a deliberately intended strategy.

Whilst there are a number of disadvantages to the formal rational approach, ZF's view is that there are a number of potential benefits / advantages. These might include:

The process could help S Software Development Company take a longer term view than a short term reactive approach to strategy development. It should help encourage both MT and ZF to actively monitor the business environment and conduct formal analysis of the company's strengths, weaknesses, opportunities and threats to help them in understanding how they can best stay ahead of the game. The outcomes should inform plans and decisions, helping identify future strategic issues and promote a more proactive approach.

A rational approach could also help the company in assessing the optimum way to allocate its resources more effectively. It can also assist in establishing standards against which the performance of the organisation is measured and controlled. This would provide a basis for strategic control so that there are targets and reports enabling review of the success of the strategy.

As an entrepreneur, it is possible that MT may get frustrated with the bureaucracies that often accompany organisational growth, and he may decide to move on and sell his stake in the business. A rational approach can avoid succession problems, since the strategy of the company should be articulated and understood by other employees.

However, the formal rational process may also have disadvantages for S Software Development Company, as suggested by MT.

The potential disadvantages include the following:

The rational approach can be very expensive, time consuming and complicated for a small business. The opportunity cost needs to be considered, in terms of the time MT would need to spend on planning, taking him away from his main interest in software design which has been the basis for the company's success in the past.

Rational planning may also be considered too static and a process that tends to be undertaken on an annual basis. In a rapidly changing environment, it could be argued that the outcomes on which formally planned strategies are based often become quickly outdated, with the result that the intended strategy fails.

MT may be concerned that such an approach will just end up as a bureaucratic process with systems and targets unhelpful to a small business. The rational approach could also get in the way of MT's interest and talent in software design, since it could be conceived as a rigid approach bound up in processes, undermining MT's core competencies.

One of the aims of formal strategic planning is to achieve goal congruence between different business areas and stakeholders. However, in the case of S Software Development Company the goals are likely to be inseparable from the goals of MT and ZF as the owners. In a small business it could be argued that the rational approach is not appropriate because the success is more dependent of the ideas of MT. Indeed MT may not have aspirations for growth.

As an entrepreneur MT may have a desire to maintain absolute control and may well be unwilling to share or delegate control to others, that may be required as a result of formal strategic planning.

### Answer to Question Five

Corporate governance concerns the ownership and control of profit making organisations and the relationship between owners and managers. A number of reports have been produced to address the risk and problems resulting from poor corporate governance. In the UK the most significant reports include the Cadbury, Hempel and Greenbury reports. The recommendations are merged into a Combined Code which comprises the purpose and principles of good corporate governance for listed companies.

There are a number of corporate governance issues facing SP Company.

Firstly, it is problematic for one person to hold both the role of Chairman and Managing Director since this can result in too much concentration of power being in the hands of one person, and the greater dangers of the misuse or abuse of power. E, through his dominance and associated behaviours, combining chairperson and chief executive roles contravenes much of the recent thinking on corporate governance. This advocates that the separation of the two roles is essential for good control. As illustrated in the scenario, the current arrangement makes it difficult for other directors to challenge E's decisions.

One of the core principles of the Combined Code is that listed companies should be led by effective Boards which meet regularly. Membership should be a balance of executive and non executive directors so that no individuals or small groups can dominate decision making. It is evident from the scenario that Board meetings of SP Company are ineffective; it would seem that they are held on an irregular and infrequent basis with E wielding his power over other directors. It would appear that E has forced through decisions that are in his own personal interest, and could be detrimental to the company. If SP Company does not have non executive directors on the Board, then it would be appropriate to make some appointments to provide independent judgements on decisions.

It also seems that there is a lack of adequate control, accountability and audit in SP Company. The Board should be responsible for presenting a balanced and understandable assessment of the company's financial position. It is responsible for maintaining a sound system for internal controls to safeguard the company's assets and shareholders' investment. To meet corporate governance recommendations, SP Company should establish an audit committee and introduce formal and transparent arrangements for considering how to apply the principles of financial reporting and internal control. The non executive directors appointed to the Board should satisfy themselves on the integrity of financial information and that controls are robust.

The scenario suggests that E has determined his own remuneration package, which he is keen to keep covered up. However, good corporate governance practice states that no director should be involved in determining his/her own remuneration. Non executive directors should be responsible for determining a policy on the remuneration of executive directors and specific remuneration packages for each director, a proportion of which should be linked to corporate and individual performance. It is good practice to include a report on the remuneration policy for directors in the annual accounts. The above points would help support the Finance Director who has been placed in an awkward situation regarding the illegal accounting practices and E's remuneration.

The Finance Director could be encouraged to 'whistle blow', a practice in which she could expose the misdeeds of E, preventing further wrongdoings. That said, because of the lack of legal protection, the Finance Director could risk losing her job. It is apparent from the scenario that she doesn't have the support of other colleagues on the Board.

*Note: Answers which reflect the form of corporate governance in the candidates' own country will be rewarded appropriately.*

## SECTION B

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### **Answer to Question Six**

#### *Requirement (a)*

The customer information database project will have a number of characteristics or attributes that differentiate it from 'business as usual' work. The project can be characterised as having a lifecycle, since it will tend to pass through a number of phases, starting with the identification of need, followed by the development of a solution, implementation and completion.

A project is usually undertaken for a specific purpose to accomplish an objective or goal through a set of interrelated tasks and as such is a temporary process. It will have a clearly defined start and end time and will usually be determined in terms of the scope, schedule and cost. In this case the objective of the project is to develop a new customer information database. The project will be focussed on the tasks needed to design and implement the new database which needs to be completed in the six month period. All tasks must be scheduled to meet this pre-determined end date.

The customer information database project will have a budget allocated to deliver its objectives. The project manager must plan the project activities within this budget for costs and resources needed.

It will also have stakeholders, i.e. all those who are interested in the progress and final outcome of the customer information database project. For example, the project will have a project sponsor, that is the individual or group who will provide the funds for the project and who may also chair the project steering committee (sometimes called project board) to whom the project manager reports. Other project stakeholders will be the project customer/end users and project owner.

A key feature of a project is that it is unique, in other words it is a non-repetitive activity and does not usually involve routine work. Development of the new customer information database will be a one off activity.

A project will often cut across organisational and functional lines, in this case it includes representatives from the customer services department, finance department and the IT department.

#### *Requirement (b)*

P, as the project manager, should play a key role in determining the overall success or failure of the customer information database project. He is the person who will ultimately be responsible for ensuring that the desired result of the project is achieved on time and within budget to the satisfaction of the various project stakeholders. Since the project is interdisciplinary and crosses organisational reporting lines, he will have a complex task in managing, coordinating, controlling and communicating project tasks. The scenario suggests that he is not fulfilling these tasks very well. The role of project manager involves managing people, so P must take responsibility for the whole project team who are carrying out the various project tasks in order to achieve the project objectives. It also involves carrying out the process, i.e. the project work and tasks and producing the final deliverables, in this case the customer information database, on time.

P will be responsible for coordinating the project from initiation to completion, making use of project management tools and techniques so that activities are performed on time within budget and to the quality standards set out in the project plan. He is, therefore, responsible for planning, teambuilding, communication and coordinating the various project activities, monitoring and controlling, problem resolution and quality controlling.

In the early stages of the project P should work with the project sponsor and project customer to clearly define the project objectives, and then communicate these to the project team so that everyone is clear on what constitutes a successful project outcome.

P also has the responsibility for taking the lead in the planning and organisation of work for the project team throughout the project lifecycle. He is responsible for ensuring that the necessary resources required for performing the project tasks are available and for assigning particular project members to carry out the work. In addition, he should delegate responsibility for performing certain project tasks to team members, who will then be accountable to him for the accomplishment of those tasks. From the information in the scenario it would appear that P is not doing this, since project members have said they are uncertain about what they should be doing. He should make sure they know what is going on and that all the members of the project team are properly briefed.

P is not only responsible for building a cohesive project team but also for supervising the activities of individual team members. He must provide advice or make appropriate decisions in case of technical difficulties, taking action to keep the project on target for successful completion.

As project manager, P has responsibilities to the project sponsor in that he must ensure resources are used efficiently and should keep the project steering committee informed with timely and accurate communication. P must coordinate the intercommunications between the various project stakeholders, and linked to this must attempt to satisfy the objectives of both outcome and process stakeholders.

P should be responsible for monitoring and controlling the progress of the project towards its successful completion. He must take corrective action and solve any problems as they arise in the project and communicate the implications of any changes to planned activities.

From the above, it is clear that in view of the various responsibilities of the project manager role, P cannot rely solely on his technical skills but needs a range of skills. For example, P needs strong leadership and teambuilding skills, communication, negotiation, good interpersonal skills, and also problem solving skills.

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### **Answer to Question Seven**

#### *Requirement (a)*

Organisational conflict can occur on a number of different levels and can have a detrimental impact on the business, as in the case of RM Company. The problems mean that management time and effort is being wasted on addressing conflicts rather than concentrating on NPD. Collaboration between the different departments is not occurring. The conflict in RM Company is best characterised as horizontal conflict. This is where conflict occurs between groups or departments at the same level in the hierarchy.

A number of sources creating conflict can be discerned:

Goal incompatibility is often the main cause, where the goals of one area block the achievement of other areas. In RM Company the functional structure of the organisation could encourage employee loyalty to particular departments with employees wanting to concentrate on their own goals. The goals of different departments are often seen as mutually exclusive and it is this that is potentially resulting in conflict and lack of cooperation between the different departments in RM Company.

Goals of innovation can often cause more conflict than other goals since the NPD process requires departments to co-operate. However, as task interdependence between different departments increases, the potential for conflict is also likely to increase. The greater task interdependence means that some departments may exert pressure for fast response since their work has to wait or is reliant on the completion of work by other departments. Employees will need to spend time to share information and communicate across departments, but this can lead to differences in goals and attitudes resulting in conflict.

In RM Company there appears to be a lack of understanding and appreciation of the pressures and needs of other departments during the NPD process. For example, whilst the R&D Department will want to come up with the best possible menus for the new range of luxury ready made meals from a technical perspective, in doing so they may not take account

of the cost aspect, nor of the implications for the mass production of a product, which will be an issue for the Production Department.

The sales staff focus will be on achieving their sales targets and they want the new product ready for market as quickly as possible. They are disinterested in the various activities involved in the NPD process, they just want results. The Finance Department is viewed very much as a controller and an obstacle to the NPD process. The marketers and R&D staff may see finance staff as only taking a short term view rather than investing for the future of the Company.

Another source that can lead to horizontal conflict is the differences in the cognitive and emotional orientations of managers in different functional departments. This is often apparent in the values of individuals, for example, it is probable that those working in marketing will have different values from R&D food scientists. This stems from the different skills, attitudes and time horizons of the people working in these areas.

#### *Requirement (b)*

There are a number of things that T must do if he is going to be effective in leading and managing the NPD team.

Firstly, when forming the NPD team, T should consider the team members in terms of their personalities and characteristics and their personal goals, since the NPD team will bring together individuals from different specialisms and functional departments to contribute to the process of NPD.

In establishing the NPD team, T should consider the suitability of members by assessing how members are likely to fit with the rest of the team and whether or not the team has a balanced portfolio of characteristics relative to the task, in this case the NPD process. To help him T could draw on the research by Belbin who suggests that an effective group should have a balance of team roles. Belbin provided managers with a tool to help guide the nature or mixture of people who will be required to undertake the NPD project. The classification of roles identified by Belbin included: the coordinator; the shaper; the monitor-evaluator; the resource investigator, the implementer; the team worker; the finisher; the specialist.

In addition, when first establishing the NPD team, T should consider the stages of team development and maturity which can affect the effectiveness of the team. Tuckman identifies four successive stages of group development: **forming** where the group come together and starts to establish the purpose of the group, structure and leadership; **storming**, where members get to know each other better. At this stage disagreements can occur over roles and behavioural expectations; this can lead to conflict and hostility; **norming** where the group will establish agreed guidelines and standards and develop their own norms of acceptable behaviour and performance; **performing** which occurs when the group has progressed through the earlier stages of development and created the structure to work effectively as a team.

T will need to ensure that team members understand their roles, responsibilities in the NPD process and the activities that the other team members are contributing. Therefore, it important that T establishes clear communication procedures holds regular team meetings and status reviews. If T can help individuals to understand each other's roles, rather than for which functional department individual comes from, this should have a positive impact on the interactions between team members.

As well as encouraging members to communicate and interact regularly it is important that T establishes a common task/goal that all team members are working towards. T should set out the objectives for NPD and set targets so that all members of the team are clear on what they need to work towards, and provide feedback on progress. He should encourage all members to participate in team meetings. It is important that T motivates all members of the team so that they are committed to achieving the NPD objectives, and feel accountable for their individual activities.

T should also think about the environment such as the physical surroundings at work and where team members are situated. If they are in close proximity then this is probably more conducive to encouraging team work and effective communication than where members are geographically separated from each other.

T also needs to consider the form of leadership style he adopts since this can influence the relationship between members of the team, and can have a major impact on team effectiveness. The team will be affected by the way in which the manager gives guidance and encouragement to the team, provides opportunities for participation and deals with any conflicts. Usually a participative or democratic style of leadership is most appropriate to encouraging high team performance.

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