
Answers

1 (a) BRIEFING NOTE

To: Billy Smith, CFO
From: Senior analyst, finance department
Subject: Car servicing and maintenance performance issues
Date: XX/XX/XXX

Dear Billy

I hope you are well. Further to the note you sent me concerning the focus group meeting you held with site managers about the downturn in performance of the 'car maintenance' service in year three, I below evaluate the impact that incremental budgeting has had on quality, and how Beyond Budgeting might assist in overcoming these issues.

In favour of Beyond Budgeting**The current system budgets for costs incrementally**

There was significant growth in volumes in the first 2 years. Many of the costs associated with car maintenance will be variable – for example, the parts used. It is therefore reasonable to expect that costs should increase as volumes increase. However, in this case, despite increasing volumes, the cost budgets in years 2 and 3 have been based on year 1, and pressure has been applied for sites to meet these unrealistically low budgetary targets. This pressure may have caused sites to sacrifice quality – reducing customer service, or using cheaper parts, or rushing the work. This in turn may be leading to customers taking their business elsewhere in year 3. In other words, the tight cost targets may have inadvertently 'choked off' the growth through the impact they have on quality. As Beyond Budgeting does not set firm targets, this problem would have been avoided. **(2 marks)**

Impact of low-cost servicing

2 years of discounted servicing was offered with new car sales. This would have created a potentially huge surge in work for which only 50% of the normal revenues was generated, potentially overwhelming the capacity of the car service and maintenance service, leading to a reduction in the quality of service levels as teams sought to meet existing cost budgets. Beyond budgeting continuously revises expectation in light of events as they unfold. Therefore, allowance would more likely have been made in the performance assessment for free servicing if beyond budgeting had been used. **(2 marks)**

Novelty has worn off

It could be that there was initial enthusiasm at a site level for the new service 3 years ago, that has reduced over time, potentially leading to staff motivation not being as high as it was, leading to quality issues. Beyond budgeting would have maybe focussed more explicitly on quality on an ongoing basis, dealing with emerging issues. **(2 marks)**

Problems with Beyond Budgeting

Lack of clarity with targets

As beyond budgeting doesn't have specific targets, it is possibly more difficult for managers to appreciate exactly what is expected of them in terms of performance levels. **(2 marks)**

Lack of benchmarks to assess actual performance against

Having a target set in advance enables performance to be reviewed in light of that target to understand whether it was good or bad in relation to it. The beyond budgeting dynamic approach of constantly revising expectations makes it more difficult to form an objective assessment at the end of the period as to whether or not performance has been good or bad. **(2 marks)**

Beyond Budgeting

Although Beyond Budgeting has much to commend it and would probably be an improvement on the current approach, other approaches should also be considered such as rolling budgets to build in learning dynamically. At least this latter approach would yield some target information to allow for wider planning such as funding allocations. Beyond budgeting would mean a complete lack of quantified targets which may not assist with wider business planning. **(2 marks)**

Best wishes
Senior analyst

Marking scheme

- *Impact incremental budgeting has had: up to 2 marks per point if related to MTB, up to a maximum of 4 marks*
- *How Beyond Budgeting may help: up to 2 marks per point if related to MTB, up to a maximum of 4 marks*
- *Conclusion: up to 2 marks for a justified conclusion*
- *Maximum of 8 marks in total for 1a*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Excellent
<i>Commercial acumen</i> skills in deciding whether beyond budgeting would help to assist in overcoming the issues identified in the performance of the car servicing and maintenance.	The candidate has not demonstrated whether beyond budgeting would help to assist in overcoming the issues identified in the performance of the car servicing and maintenance.	The candidate has somewhat demonstrated whether beyond budgeting would help to assist in overcoming the issues identified in the performance of the car servicing and maintenance.	The candidate has demonstrated whether beyond budgeting would help to assist in overcoming the issues identified in the performance of the car servicing and maintenance.
	0	1	2

(b) REPORT

To: Billy Smith

From: Senior analyst

Subject: Performance Pyramid – new car sales

Date: XX/XX/XXXX

Introduction

This report considers the recent performance of MTB new car sales with reference to the latest monthly Performance Pyramid dashboard.

External effectiveness**Market share has reduced by five percentage points**

This could be due to external factors (like increasing local competition) or internal factors (such as poor customer service).

Market share is driven by customer satisfaction and flexibility in the performance pyramid. Customer satisfaction has improved by ten percentage points, and flexibility has remained constant. This therefore suggests that market share has reduced due to external factors.

Implication: The company needs to monitor the outside market and consider perhaps benchmarking performance to competitors to ensure it is not relatively falling behind in terms of service levels or prices. **(3 marks)**

The increase in customer satisfaction is likely caused by the reduction in returns needed for remedial works. This has halved compared to the previous month. The only other possible cause from the KPIs given would be the lead time for delivery, which has actually increased – this would be expected to decrease customer satisfaction.

Implication: An increased likelihood of repeat business, more on-sales of other services like car maintenance, and positive word of mouth to benefit future sales. **(3 marks)**

Returns for remedial work have halved

Given the cars being sold are new, the need for remedial work is outside the direct control of MTB.

Implication: The need for remedial work could increase in the future, potentially damaging customer service. MTB should review the brands of cars it sells to see if any particular brands drive the need for remedial work more than others and consider not stocking those lines in future. **(3 marks)**

Average car delivery lead times has increased from 2 to 3 weeks.

This could be due to manufacturer (i.e. external) issues or MTB issues processing deliveries from manufacturers and turning them round to deliveries to customers.

Implication: MTB need to research the cause of the delays and take action if the reasons are within their control. **(3 marks)**

Internal efficiency

Profit margin percentage has improved over the month from 43% to 50%

This could be because of improved productivity or improved flexibility. Although there is a slight improvement in flexibility, there has been a significant improvement in units sold from 50 to 60 on average per site.

Interestingly this is despite a reduction in market share (see above). It may be that the market has grown significantly in the last month, allowing absolute sales to increase even with a reduction in market share. The increase in absolute sales allows margins to increase as some of the dealership's costs are fixed – salaries and showroom costs for example.

Implication: A higher volume of sales will increase revenues, but costs will not rise by the same proportion due to the fixed cost element. It could also be that prices have been successfully increased. This is a possibility if growth in market is causing industry wide shortages, allowing dealers to increase prices. **(3 marks)**

Cycle times have reduced

The turnaround time from enquiry to order has accelerated, indicating a more efficient sales process. This could be because of improved sales techniques, or external factors.

Implication: If due to improved sales techniques, these need to be replicated and built upon going forwards. **(3 marks)**

Salesperson idle time has reduced

This is likely because the increased number of sales will be taking more salesperson time than the previous month. That said, the improvement in order processing times would work the opposite way to this, i.e. freeing up salesperson time. It may be salespeople are working more intensively to secure the extra sales in a shorter period.

Implication: Whereas improved salesperson utilisation is good for business, care needs to be taken that salespeople are not overworked, in case their morale dips and sales suffer as a result. **(3 marks)**

Overall

MTB appears to have performed well compared to the previous month – MTB is selling more cars, and processing orders efficiently.

More environmental information is needed to understand the drop in market share, and the reason for increased lead times between order and delivery to customer needs to be researched further.

I hope the above is useful, please feel free to contact me if you have any questions.

Best wishes
Senior analyst

Marking scheme

- *Up to 3 marks per point for each point:*
 - *Identifying performance – a relevant metric and its movement – 1 mark*
 - *Possible cause - 1 mark*
 - *Implication - 1 mark*
 - *No marks for simply identifying performance (e.g. 'this has gone up' without any sort of comparator)*

- *Maximum 7 marks for effectiveness commentary*

- *Maximum of 7 marks for efficiency commentary*

Maximum of 14 marks in total for 1b.

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Somewhat	Quite well	Excellent
<i>Evaluation</i> skills in appraising the information provided in Exhibit 2.	The candidate has not evaluated the information provided in Exhibit 2 and has not demonstrated any understanding of the linkages between the key performance indicators.	The candidate has somewhat evaluated the information provided in Exhibit 2 and has demonstrated some understanding of the linkages between the key performance indicators.	The candidate has evaluated the information provided in Exhibit 2 and has demonstrated a limited understanding of the linkages between some of the key performance indicators.	The candidate has evaluated the information provided in Exhibit 2 and has demonstrated a thorough understanding of the linkages between most of the key performance indicators.
	0	1	2	3

(c) EMAIL

To: Billy Smith, CFO
From: Senior analyst
Subject: Outsourcing 'MTB 24/7' development and operation
Date: XX/XX/XXXX

Dear Billy

I hope you are well. As requested, below I put forward arguments against the proposal to outsource the development and operation of the MTB 24/7 app.

The app is strategically important

Currently MTBs customers use phone, email and face-to-face contact with us. The app will play a major part in the deepening and widening of the relationship we have with our customers and in future business model development. As such it should be a core competency of ours to develop and operate the application. That way, specific developments in the dealership can be catered for as we have the business knowledge to build them into the app. If the outsource provider underperforms it could put our entire business at risk.

(2 marks)

Cost

Michael Seng asserts that it will be less expensive to outsource compared to building the application ourselves. This may not be the case as the outsource provider also makes their own profit margin. In addition, there is a risk that costs are loaded into the operational phase as the outsource provider will be aware that we will be heavily reliant on them by that point. Once the customers are familiar with using the app, they may use the app as their primary way to deal with us – for example regularly booking annual car services through the app. We will be heavily reliant on the app being available, functional, and reliable.

(2 marks)

Outsource provider priorities

The outsource provider will have other clients and in the event of suffering operational difficulties there is no guarantee that they will prioritise our business. There is therefore a danger that our customers receive poor performance, and fixing issues would be beyond our control. For example, if the app crashes, financial transactions with a significant value (such as the purchase price of a new car) could be interrupted, leaving customers uncertain as to the progress of payments process. This would reflect extremely badly on MTB's reputation.

(2 marks)

Reliability of the outsource provider: development phase

There is a danger of wasted time and money if the outsource provider fails to deliver a suitable application according to our required specification. We operate in a competitive market, and if competing dealerships are 'first to market', then the idea of developing the MTB 24/7 app into a travel hub in the future may be lost to a competitor. **(2 marks)**

Reliability of the outsource provider: operational phase

The operational phase will extend indefinitely into the future and so the reliability issue extends far beyond the development phase. Unreliable service would affect customer service directly and significantly – for example customers may not be able to browse for vehicles or purchase them through the app. **(2 marks)**

Lack of industry knowledge

The outsource provider will be a technical expert, but they will not know as much about our business as we do. There is therefore a danger that the app they develop does not meet our, or our customers, needs. For example, if customers are purchasing new vehicles through the app, we need to make sure we understand the optional extras they want in their customised purchase, and this will require tailored functionality in the app. In addition, there is also a danger that when they provide support, this impacts negatively on customer service particularly if they speak directly to customers when they don't know our business as well as we do. **(2 marks)**

Commercial risk

Much of the information that we gather about our customers is likely to be commercially sensitive as well as personal information protected by data protection legislation. Although an outsource provider is likely to have good cyber security procedures, they are also more likely to be a target for cyber security attacks. We could suffer from a damaged reputation and lose the trust we have earned from our customers over the years. **(2 marks)**

Outsource provider strength in future negotiations

The outsource service provider will be in a very strong position when it comes to renegotiating their contract at a later date as we will be heavily dependent on them by that time. This could be a particular issue if we look to develop the app further to integrate with more external partners such as public transport as suggested. **(2 marks)**

Recommendation

Michael Seng makes some very good points relating to MTB's lack of skills and abilities. It could be that we look to outsource part of the development process but then look to bring the operational management of the application in-house. A combination of talent acquisition and training could help to provide the skills we need for this. **(2 marks)**

Please let me know if you have any questions.

Best wishes
Senior analyst

Marking scheme

- *Up to 2 marks for an appropriate and relevant point relating to the negative aspects of outsourcing in this case. Limit to a maximum of 3 if not applied to the case facts.*
- *A maximum of 6 marks in total for negative aspects of outsourcing.*
- *Up to 2 marks for a reasoned recommendation for how to proceed.*
- *Maximum of 8 marks in total for 1c.*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Excellent
<i>Scepticism</i> skills when challenging the case presented in Exhibit 3.	The candidate has not demonstrated any <i>scepticism</i> in challenging the case presented in Exhibit 3.	The candidate has demonstrated limited <i>scepticism</i> in challenging the case presented in Exhibit 3.	The candidate has demonstrated sound <i>scepticism</i> skills in challenging the case presented in Exhibit 3.
	0	1	2

(d) MEMORANDUM

To: Billy Smith, CFO
From: Senior analyst
Subject: Ethics issues of data and social and environmental data collection concerns
Date: XX/XX/XXXX

Dear Billy

I hope you are well.

Collecting data through the app and social media

The intended gathering and analysis of data through the MTB 24/7 app clearly affords us the chance to obtain valuable insights into the market as a whole and to build individual customer profiles.

However, it also raises some ethical concerns:

Informed consent

It is likely a legal requirement that we obtain informed consent from data subjects before gathering this information, and that we tell the subjects what information is gathered, and for what purpose. If this isn't done clearly, we could be both breaking the law (which in itself could also be said to constitute unprofessional behaviour) and be accused of a lack of integrity. Of particular concern is the detailed profiling information we will have access to from the social media feed on traffic and local petrol prices. **(2 marks)**

Customers may object to the level of detail

If we profile extensively and in far more detail than customers expect and think reasonable, we could be accused of unprofessional behaviour. As accountants for example, you and I are bound not to bring the profession into disrepute but we may be accused of this if we support this initiative. **(2 marks)**

Customers may object if we share information with business partners

There is the potential to share personal data through the app – for example for insurance and vehicle recovery quotes, and in the future if we expand app functionality to include public transport sales. There is a danger we are seen to breach confidentiality by sharing this information. **(2 marks)**

Lack of internal skills to manage personal data

Michael Seng appears doubtful we have the skills to develop and operate the app in-house. This concern about a skills shortage may extend to data management also. We may be taking on a role we are not able to execute with professional competence and due care. **(2 marks)**

Difficulties associated with recording and processing social and environmental data**Environmental****Reliable measurement**

Measuring environmental impact is difficult as it often cannot be quantified reliably. For example, the amount of carbon-based pollution produced by MTB would have to be inferred from estimates of carbon producing activity levels, making it an approximation. **(2 marks)**

Benchmark data

Obtaining comparable benchmark data is likely to be very difficult. Even if some data can be found, there is no guarantee it has been measured in the same way as MTB measured it. **(2 marks)**

Social**Rating scales are often subjective**

For example, if attempting to measure employee satisfaction by asking them to rate themselves, one employee's interpretation of '4 out of 5' may be different from someone else's. **(2 marks)**

Completeness

It can be difficult to capture the full population for measurement. For example, with a staff satisfaction survey, particularly dissatisfied employees may not participate in the survey or even leave, excluding them from the measures.

(2 marks)

Unquantifiable elements

Some aspects of social impacts may be virtually impossible to estimate, even subjectively. For example, if MTB were to try to measure the social impact of the service it provides to customers, customers will likely find it very difficult to assess, even subjectively, the improvement in their lifestyle as a result of their dealings with MTB. **(2 marks)**

Difficult to summarise

The information gathered would be on a case-by-case base and would likely be largely narrative in nature. It will therefore be incredibly difficult if not impossible to measure or summarise. **(2 marks)**

If you have any questions, please do not hesitate to ask.

Thanks and regards
Senior analyst

Marking scheme

- *Up to 2 marks for each ethical concern, explained in the context of the case facts*
- *Up to 2 marks for each point concerning difficulties with recording and processing the data.*
- *Maximum of 10 marks in total for 1d.*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Somewhat	Quite well	Excellent
<i>Communication skills in presenting both the ethical threats and the problems of recording and processing data</i>	The candidate has demonstrated poor <i>communication skills</i> in presenting both the ethical threats and the problems of recording and processing data	The candidate has demonstrated basic <i>communication skills</i> in presenting both the ethical threats and the problems of recording and processing data	The candidate has demonstrated reasonable <i>communication skills</i> in presenting both the ethical threats and the problems of recording and processing data	The candidate has demonstrated good <i>communication skills</i> in presenting both the ethical threats and the problems of recording and processing data
	0	0	1	2

2 (a) BRIEFING PAPER

To: Megan Lafferty, finance director
From: Strategic development analyst
Subject: Evaluation of the proposal information relation to the expansion into Omegaland
Date: XX/XX/XXXX

This briefing note considers relevant financial and non-financial factors in the decision to expand into Omegaland, reviews the draft investment appraisal calculation prepared by the finance team, and recommends whether to proceed with the overseas expansion.

The investment in Omegaland**Financial factors**

- The investment appears to have a positive net present value, albeit the calculation needs further work (see above). Assuming the objective behind the decision is to maximise shareholder wealth, this seems to be a suitable idea. **(1 mark)**
- A listing on the Penland Stock Market is suggested to raise funds. This should be compared to other alternatives, such as a rights issue (if the Lafferty family are willing and can afford it), before proceeding. The governance changes required are likely to be significant. It may be funding is available from Omegaland to fund the expansion, and this could help with foreign exchange exposure. **(1 mark)**

Non-financial factors

- **Follow on options:** A successful expansion into a new market may be the start of continued international expansion. The experience gained could be used in future to help with internationalisation more generally. **(1 mark)**
- **Other methods of expansion should also be explored:** Geographical market development is not the only option available to FAL to expand. Product development could be considered in the Penland marketplace first. For example, only 10% of revenues currently relate to commercial property construction. This could be explored further as an avenue for expansion. This would have the benefit that it would be in the known Penland market, and the company already has some experience in building commercial properties. **(1 mark)**
- **Rectify current issues first:** If there are internal issues that are causing the current reduction in company performance, the overseas expansion will not address these issues and indeed may even make them worse. It would make sense to research further and identify the source of the current performance issues first before embarking on a program of significant international expansion. **(1 mark)**

Investment appraisal calculation

Growth assumption – sourced from Jerry Lafferty and ambitious

Growth is assumed to be 100% per year for the first two years, then zero percent after that. These seem extreme, and only based on Jerry Lafferty's estimates. Much more research is required on these estimates. **(1 mark)**

Gross margin

Gross margin is assumed to be the same as in Penland. The Omegaland market is likely to be different – for example, it has only recently become a developed nation and so disposable incomes may not be as high as they are in Penland. Further research is required, to assess whether gross margins are likely to be similar to the Penland market. **(1 mark)**

No tax

There is no provision for corporation tax in the calculations. It seems likely that tax will be payable either in Omegaland, or in Penland, or possibly in both. **(1 mark)**

Initial investment is immediate

The initial investment is likely to take some time to roll out and this may mean that the initial set up costs will be staged over a period of time. It may also mean that operational income may be delayed. Realistic timescales should be built into the calculations. **(1 mark)**

Discount rate

The 5% discount rate appears to be based on an anticipated level of inflation. The discount rate should be the cost of capital relevant to the investment. This should include anticipated inflation but should also include compensation for interest foregone and risk suffered by the investors. It is likely therefore that an appropriate cost of capital is in excess of 5%. This will reduce the NPV when it is amended for. **(1 mark)**

Terminal assumption

There is an assumption of no growth after two years going on indefinitely. This assumption has a huge impact on the calculation and seems simplistic. More information is required to justify this assumption and to consider whether or not it is reasonable. **(1 mark)**

Fixed costs: 50% are not incremental

The element of fixed costs that relate to existing Penland central costs should be excluded from this calculation as they are not incremental to the decision to invest in Omegaland. If there are some incremental central costs that would be incurred as a result of the decision to expand into Omegaland, then they should be itemised and included. **(1 mark)**

Prepared in Penland \$

The calculation has been prepared in Penland dollars, where is the investment will be in Omegaland. It is unclear what assumptions have been made about exchange rates within the calculation. **(1 mark)**

Recommendation

Overseas expansion is **not recommended** at this point in time because of incomplete information. More research into the current performance issues in the company is required first, and once these have been rectified then more research is required into the suite of options available to FAL to expand.

(2 marks)

Any questions, please let me know.

Best wishes,
Strategic development analyst

Marking scheme

- *Financial considerations:*
 - *Up to 1 per consideration up to a maximum of 3*
- *Non-financial considerations:*
 - *Up to 1 per consideration up to a maximum of 3*
- *The investment appraisal calculation:*
 - *Up to 1 mark per issue well explained*
 - *Up to a maximum of 5 marks*
- *Recommendation: Up to 2 marks if well justified*
- *Maximum of 10 marks for part 2a*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Excellent
<i>Scepticism</i> skills when evaluating the information presented in Exhibit 1.	The candidate did not apply <i>scepticism</i> skills when evaluating the calculations and assumptions in Exhibit 1.	The candidate applied limited <i>scepticism</i> skills when evaluating the calculations and assumptions in Exhibit 1.	The candidate applied reasonable <i>scepticism</i> skills when evaluating the calculations and assumptions in Exhibit 1 but was either incomplete in the application or not sufficiently sceptical.	The candidate applied excellent <i>scepticism</i> skills when evaluating the calculations and assumptions in Exhibit 1.
	0	1	2	3

(b) BRIEFING PAPER

To: Megan Lafferty, finance director
From: Strategic development analyst
Subject: Corporate governance at FAL
Date: XX/XX/XXXX

Introduction

This briefing paper examines the suitability of current corporate governance arrangements in FAL and recommends changes to be made to ensure compliance with best practice in light of the recent proposal to list on the Penland stock exchange.

Chair and CEO are the same person

Jerry Lafferty both runs the board (chair) and is the head of operations (CEO). Not only is this an excessive amount of power in one pair of hands, but it also creates a conflict of interest between operations and the board. Part of the board's duty is to undertake an objective appraisal of company operations to ensure they are fit for purpose. This objectivity is compromised if the chair of the board is also responsible for those operations. **(1 mark)**

Recommendation: given Jerry's significant and deep experience of both the company and the industry, Jerry should maintain his position as CEO. However, a new independent chair should be appointed to run the board. It is also recommended that this new chair should be a strong personality to ensure the decisions of Jerry and the other executives are sufficiently challenged and objectively assessed. **(1 mark)**

Insufficient NEDs

There are only two non-executive directors on the board (NEDs). At least half the board should be made up of non-executive directors to ensure that executives cannot carry a vote. This improves the independence of the board from operations. Increasing the number of non-executive directors will also make it feasible to have the full complement of subcommittees expected for best practice (see below). **(1 mark)**

Recommendation: several more independent non-executive directors should be appointed. There are currently five executive directors, and a 6th (IT director) is discussed below. Therefore, an additional four non-executive directors as a minimum should be appointed. They should be independent and at least one should have recent and relevant financial experience to improve the constitution of the audit committee (see below). **(1 mark)**

Beth Dolenz is not independent

Beth was not only appointed by Simon Lafferty four years ago, but also currently undertakes consultancy work for Simon. This is a clear conflict of interest as she cannot be independent from operations – Simon could choose to withhold the consulting work, and she's also likely to feel loyalty towards him, given that he appointed her. **(1 mark)**

Recommendation: as a bare minimum, Beth should cease her consultancy work for Simon. It may be that this is still not sufficient to ensure her independence and she may need to be replaced with a new appointment.

(1 mark)

John Harrison probably has insufficient time

John Harrison works on a total of six boards. This may well mean he does not have sufficient time to execute his role as non-executive director on FAL's board. (1 mark)

Recommendation: John's workload should be reviewed in detail, and if he in fact has insufficient time for the FAL role, he could be asked to resign some of his other appointments. If he refuses to do so, he should be replaced.

(1 mark)

The audit committee is badly constituted

The audit committee should be made up of at least three independent non-executive directors (two in a small company), at least one of which needs to have recent and relevant financial experience. It is inappropriate for Megan as CFO to have a seat on this subcommittee. Neither of the remaining team members have recent and relevant financial experience. (1 mark)

Recommendation: Megan should step down from the audit committee and be replaced with one of the new non-executive directors discussed above. The non-executive director appointed should have recent and relevant financial experience. (1 mark)

There is no nomination or remuneration committee

At present it is unclear who appoints directors to the board, and who decides on their remuneration. It may well be that Jerry is responsible for these decisions given his dominant position. This may lead to inappropriate appointments, and inappropriate remuneration packages being awarded that do not motivate the executive directors appropriately. (1 mark)

Recommendation: a nominations committee should be convened to consider the size and membership of the board, and a remuneration committee should also be convened to review the remuneration of the executive directors. These two committees should be staffed by independent non-executive directors, sourced from the new appointments discussed above. (1 mark)

There is no IT director

An IT director is an obvious omission from the executive members of the board. It is likely as the organisation continues to grow, and hopefully moves more towards information-based decision making and analytics, that increasingly FAL would benefit from have IT represented at a board level.

(1 mark)

Recommendation: an IT director should be appointed. The new nominations committee should oversee the appointment process to ensure the new IT director is independent and objective. (1 mark)

Executive appointments seem based on family connections

There are many family connections among the people at board level. This is potentially a concern for a number of reasons. Firstly, the family connection raises questions about whether the appointment was based on merit rather than family connection – this may mean that the appointees are not the most appropriate. Secondly, the family connections will cloud the objectivity of each affected individual when making decisions. **(1 mark)**

Recommendation: the new nominations and remuneration committee should review all existing appointments and associated pay awards for appropriateness. It may well be that significant changes in staffing and remuneration will be required at board level to comply with practice if FAL is to proceed with a listing. **(1 mark)**

Marking scheme

- *Up to 2 marks per point for each point:*
 - *Up to 1 mark for explaining each issue with board structure in the context of the case facts*
 - *Up to 1 mark for each recommendation addressing an identified issue, explained in terms of the case facts*
- *Maximum of 10 marks for part 2b*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Excellent
<i>Evaluation</i> skills in considering the suitability of the current board structure in preparation for a possible listing.	The candidate did not consider the suitability of the current board structure in preparation for a possible listing.	The candidate did somewhat consider the suitability of the current board structure in preparation for a possible listing.	The candidate fully considered the suitability of the current board structure in preparation for a possible listing.
	0	1	2

(c) REPORT

To: Megan Lafferty, finance director
From: Strategic development analyst
Subject: Performance improvements
Date: XX/XX/XXX

Introduction

In response to your recent request, this report seeks to examine the possible causes of the recent loss of sales and profitability in First and Last (FAL), and to recommend a course of action to improve performance going forwards. The Baldrige Criteria for Performance Excellence will be used as a framework.

1. Leadership

The leadership of the organisation needs to suit its circumstances and direction. The current leadership style is directive and non-participatory in nature. It may be that this style is not motivating managers and staff appropriately, and that good staff ideas are not being captured, so the business is losing out as a result. **(1 mark)**

Recommendation: a more collaborative leadership style should be adopted. **(1 mark)**

2. Strategy

The approach the business takes to strategy formulation will impact on whether the most appropriate strategies are formulated and selected. In the case of FAL, strategy formulation appears to be based on the personal experience of Jerry Lafferty. The ideas are not discussed or researched otherwise. **(1 mark)**

Recommendation: a more inclusive, structured strategy formulation and adoption process should be put in place to ensure the strategic direction of FAL is optimal. Using an analytical framework such as the rational model may help to counter the current approach of instinctive decisions being adopted with little research or challenge. **(1 mark)**

3. Customers

A successful business first and foremost meets the needs of their customers better than others can. Customer needs and feedback should therefore be central to, and a driving force behind, decisions being made at FAL. Customer feedback seems to be ignored – at the recent board meeting it was fed back that customers were unhappy about the accuracy of initial designs and demanded more flexibility. This was ignored by the CEO/Chair. **(1 mark)**

Recommendation: the design teams should be led by customer demands, and they should be empowered and incentivised to respond to customer requests. The nature of FAL's product – high price, high quality residential properties – demands a more responsive approach to customer needs. **(1 mark)**

4. Measurement, analysis and knowledge management

It appears key decisions are made without reference to formal analysis – for example, the idea to expand into Omegaland is essentially based on Jerry Lafferty's impressions following one visit to the country. Recent performance issues are being dismissed out of hand as being due to a poor Penland economy. This means potentially that internal problems may be causing the performance issues and are not being addressed.

(1 mark)

Recommendation: internal reporting provision should be reviewed to ensure key decisions can be made using appropriate data and analysis. This will also require a change in culture towards more data-driven decision making. Changing this culture will currently be challenging as Jerry Lafferty, who may be a key part of the cause of the issue, is very dominant in the organisation. **(1 mark)**

5. Workforce

Much organisational value comes from the skills, experience and motivation of the workforce. They should be actively involved in key decisions – not only to maintain their motivation, but their experience may well produce better decisions. It seems currently in FAL that workers are routinely ignored – for example, customer complaints about the accuracy of initial designs, and the design team's suggestion to make the template more flexible have been completely ignored. In addition, the CEO/chair is not currently planning to consult with the workers in relation to the relocation of several members of staff to Omegaland. **(1 mark)**

Recommendation: workers could have board level representation. Terms and conditions could be reviewed (perhaps lead by Simon Lafferty, the HR director) to empower the workers to make more decisions themselves.

(1 mark)

6. Operations

FAL competes using a differentiation approach, so operations need to be effective and responsive to customer needs. The 'standard' design starting point does not allow for sufficient flexibility. In addition, the CEO commented that 'more choice means more can go wrong, which in turn means poorer quality and higher cost'. This suggests operations cannot cope with the flexibility demanded by customers. **(1 mark)**

Recommendation: the design process should be reviewed, maybe even completely re-engineered, with the primary objective of meeting customer needs efficiently and effectively. **(1 mark)**

7: Results

FAL should be results driven, and there should be an enforced 'feedback loop' responding to all feedback, positive and negative. The recent reduction in sales and profitability does not seem to have triggered further investigation, analysis or decisions. **(1 mark)**

Recommendation: procedures for reporting, action plans and following up on feedback should be put in place as soon as possible. For example, the finance department should report internally on performance including narrative, and the CFO should insist on investigation and action points being allocated appropriately. **(1 mark)**

Conclusion

Significant changes in culture and processes are required to shape FAL into an excellently performing organisation using the Baldrige Criteria.

If I can be of any further assistance, please do not hesitate to ask.

Best wishes,
Strategic development analyst

Marking scheme

- *Up to 2 marks for each element of the Baldrige criteria:*
 - *Up to 1 mark for identifying a relevant issue with FAL in the criteria*
 - *Up to 1 mark for recommending a practical solution to the issue identified*
- *For a generic list of the Baldrige criteria or another suitable model, maximum half a mark per criteria up to a maximum of 3 marks.*
- *Maximum of 12 marks in total for 2c.*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well	Excellent
<i>Commercial acumen</i> in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance.	The candidate did not demonstrate <i>commercial acumen</i> in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance.	The candidate demonstrated some <i>commercial acumen</i> in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance. but did so with a lack of depth or completeness.	The candidate demonstrated good <i>commercial acumen</i> in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance.	The candidate demonstrated excellent <i>commercial acumen</i> in using professional judgement in effectively recommending and justifying the appropriate criteria to improve FAL's performance.
	0	1	2	3

(d) EMAIL

To: Megan Lafferty, finance director
From: Strategic development analyst
Subject: CONFIDENTIAL: Leadership
Date: XX/XX/XXXX

Dear Megan

I hope you are well. As discussed, I enclose some thoughts on the leadership style of Jerry Lafferty, our CEO and Chair, being particularly aware in doing so of the changes First and Last (FAL) face in the near future.

The current leadership style

Jerry Lafferty has successfully led the organisation over the first 25 years of its development, with consistent and strong growth for the vast majority of this period. His skill and judgement is evident in the success the company has enjoyed until recently.

Dominant and directive

Jerry is clearly a strong leader that dominates board meetings and decision making. For example, at the recent board meeting where the expansion to Omegaland was discussed, Jerry said he would be making the decision alone and asking others for help if he felt it necessary. This eliminates the opportunity for other experienced board members to have their input and improve the quality of the decision. For example, Jack Singleton, the operations director, has 30 years industry experience and would be a valuable asset in a decision of this magnitude. **(2 marks)**

Instinct-lead

Key decisions are being made with little or no research, and with reliance on Jerry's instinct. For example, the move to Omegaland is based on Jerry's instinct after a recent visit. A decision of this magnitude should ideally be underpinned by detailed research into the location, and the future of the industry in that location. Jerry also seems to believe this 'instinctive' approach is better than empirical research, as evidenced by the fact that he felt data analytics sourcing feedback from customers would not be as informative about customer needs as the skills and experience of the staff. Jerry also notes that the recent performance issues at FAL are due to a dip in the Penland economy, with no further analysis to support this claim. This may lead to internal issues that could be causing the performance issues being unmanaged. **(2 marks)**

Perhaps a little dismissive at times

Simon Lafferty raised a concern about health and safety requirements in Omegaland, which Jerry appears to have dismissed out of hand by saying 'if local firms can cope, so can FAL'. Given Simon is a HR specialist, Jerry may benefit from Simon's expertise in this area. **(2 marks)**

Conclusion

Overall, Jerry is a strong leader, but perhaps a little overly dominant at times, and does not seek out evidence or other opinions. This is risky in such a pivotal role in the business – it may mean key decisions are made sub optimally. To reiterate, Jerry has clearly grown the business successfully over the last 25 years, but the business may benefit from a more collaborative approach and a more evidence-based approach going forwards to support key decisions.

Changes required

Relocating managers and staff internationally is a transformational change for those affected.

Jerry is planning to simply direct the change programme by issuing detailed written instructions to staff. There is therefore no planned consultation, education, or participation. This runs the risk of disenfranchising the staff concerned, generating resistance such as staff refusing to move, or key staff even leaving FAL.

The following changes are therefore recommended:

Face-to-face, sensitive communication

The change is transformational in nature, so the change program should be announced and explored openly in a face-to-face meeting with staff. This will allow staff to ask any questions they have and to feel valued and consulted. The staff need a sensitive and compassionate leader to guide them through the significant change program they face with confidence. They need to feel that their leader is considerate of their needs otherwise they may not trust or be invested in the decisions made by him. **(2 marks)**

Genuine participation

For the change programme to be successful it is important that the staff who move to Omegaland are invested in ensuring the new venture is successful. By asking for and adopting ideas sourced from the staff, this will increase the staff ownership of the change program and will therefore improve the chances of success. **(2 marks)**

Evidence-based decisions

Staff will likely feel uncomfortable with such key decisions being taken that affect their lives without the decisions being underpinned with empirical analysis that they can see themselves. It is important that Jerry presents objective evidence underpinning the decision to invest in Omegaland.

(2 marks)

It may well be that Jerry requires some training and guidance in relation to this change in management style. It might be useful for key family members such as yourself to approach this topic with Jerry privately sooner rather than later.

I hope the above is of some use. Please do not hesitate to ask any questions you may have.

Best wishes
Strategic development analyst

Marking scheme

- *Up to 2 marks per point explained and evidenced in the context of FAL up to a maximum of 4 marks for evaluating the current leadership style, and up to a further 4 marks for how the leadership style needs to change.*
- *Maximum of 3 marks for generic responses.*
- *Maximum of 8 marks in total for 2d*

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Excellent
<i>Communication skills in objectively and sensitively evaluating Jerry Lafferty's leadership style.</i>	The answer did not objectively and sensitively evaluate Jerry Lafferty's leadership style.	The answer somewhat objectively and sensitively evaluated Jerry Lafferty's leadership style.	The answer objectively and sensitively evaluated Jerry Lafferty's leadership style.
	0	1	2