

Professional Level – Essentials Module

Business Analysis

Monday 10 June 2013



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

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

Section B – TWO questions ONLY to be attempted

Do NOT open this paper until instructed by the supervisor.

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

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

The Association of Chartered Certified Accountants

Paper 3

ACCA

**This is a blank page.
The question paper begins on page 3.**

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

1 Introduction

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

Vision and strategic planning

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

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

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

Initial meeting of the steering group (meeting 1)

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

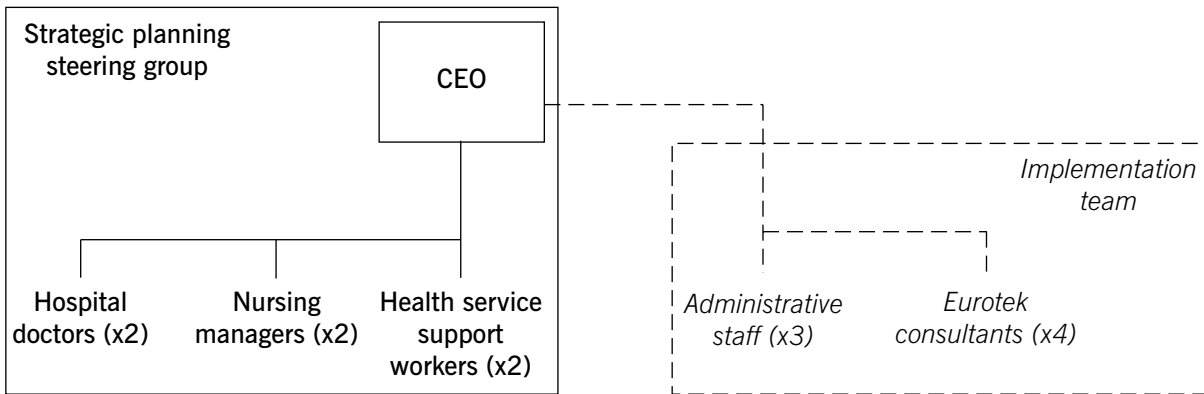


Figure 1: Composition of the steering group and the implementation team

Second meeting of the steering group (meeting 2)

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

Meeting three of the steering group (meeting 3)

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

Meeting four of the steering group (meeting 4)

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

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

Meeting five of the steering group (meeting 5)

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

Meeting six of the steering group (meeting 6)

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

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

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

Required:

- (a) (i) **Identify and analyse mistakes made by the CEO in the project management process (initiation, conduct and termination) in his attempt to introduce strategic planning, and an associated information system, at MidShire Health.** (18 marks)
- (ii) **Explain how an understanding of organisational culture and organisational configuration would have helped the CEO anticipate the problems encountered in introducing a strategic planning system, and an associated information system, at MidShire Health.** (18 marks)

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

(4 marks)

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

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

(10 marks)

(50 marks)

Section B – TWO questions only to be attempted

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

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

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

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

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

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

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

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

*Don't Ask it's A Dollar

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

Required:

- (a) Use Porter's five forces framework to assess the attractiveness, to NESTA, of entering the discount fixed-price retail market in Eurobia. (15 marks)
- (b) Discuss the potential use of scenarios by NESTA's managers as part of their analysis of NESTA's possible entry into the discount fixed-price retail market in Eurobia. (10 marks)

(25 marks)

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

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

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

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

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

Required:

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

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

Required:

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

(25 marks)

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

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

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

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

Required:

- (a) **Analyse Sully Truin's leadership style before and immediately after the training course and explain why the change of leadership style at ARC was unsuccessful.** (15 marks)
- (b) **Describe the principles of job enrichment and evaluate its potential application in the Contracts Office at ARC.** (10 marks)

(25 marks)

End of Question Paper