Answers

1 (a) This first part of the question asks the candidate to analyse the strategic position at WET. Johnson, Scholes and Whittington describe the strategic position in terms of three aspects; the environment, strategic capability and expectations and purpose. All three aspects are appropriate in the analysis of the strategic position of WET and this classification forms the basis of the model answer. However, candidates could have adopted a number of approaches to this question, perhaps choosing to focus on certain models (such as the value chain) or exploring the organisation through an analysis of the cultural web. All such answers will be given credit as long as they are within the context of WET and consider the external environment, internal resources and capabilities, and the expectations of various stakeholders. In the context of the ACCA *Business Analysis* syllabus, the strategic position is defined within section A of the detailed syllabus.

The environment

The PESTEL framework can be used to analyse the macro-environment. A number of influences are discernable from the case study scenario.

90% of WET's income is from members and donors (see Figure 1) who live in Arcadia, a country which has had ten years of sustained economic growth but which is now experiencing economic problems. The scenario reports a decline in Gross Domestic Product (GDP) for three successive quarters, increasing unemployment, stagnant wages and a fall in retail sales. There are also increasing problems with servicing both personal and business debt leading to business bankruptcy and homelessness. These are classic symptoms of a recession and this will have an effect on both individual and business donations and also on membership renewal. WET is 20% funded by donations (see Figure 1). In general, people give more when they earn more and lower earnings will almost inevitably mean lower donations. Furthermore, it could reasonably be expected that a recession places greater demand on certain charities, such as those dealing with social care (for example, homelessness). WET is not one of those charities (and so should not experience an increase in demand), so there must also be a concern that donors will switch donations to social care charities in times of recession. Similarly, current members may not renew their membership for financial reasons.

The pressures in the economy also appear to have stimulated the government to change the rules on charity taxation in an effort to raise government revenues. Previously, charities received an income from the government of 20% of the total value of donations and membership fees to reflect the income tax the donor would have paid on the amount paid to the charity. However, the government has declared that this is unfair as not all donations or membership fees are from Arcadian taxpayers or from people in Arcadia who actually pay tax. Consequently, in the future, charities will have to prove that the donation or membership fee was from an Arcadian tax payer. Collecting the donor's details will place an increased administrative strain on the charity, incurring more costs. The changes are also likely to lead to a fall in income. There are two reasons for this. Firstly, some of the donations were actually from non-Arcadian taxpayers (see Figure 1) and also research and evidence from elsewhere suggests that 30% of donors will not give the GiftHelp details required and so the charity will not be able to reclaim tax.

Although the recession in Arcadia has brought economic and political issues to the fore, the wider environment remains very significant to WET. The wetlands that they depend upon are likely to be drying out in a country where rainfall has dropped significantly. This will lead to the loss of the habitat that the charity wishes to protect. The charity must continue to monitor the situation and to support initiatives that should reduce climate change and perhaps increase rainfall.

The five forces framework proposed by Porter is usually applied to private profit-making organisations. However, the framework could also be useful in a not-for-profit organisation, considering the services provided by a sector (however that sector is defined). In such sectors, competitiveness may be about gaining advantage through demonstrable excellence. From WET's perspective, it needs to consider two overlapping sectors. Figure 1 suggests that 55% of members and 85% of donors give money (through donations or membership) to other charities. In such circumstances, WET is competing for the 'charity dollar'. However, 45% of members and 15% of donors gave no money to other charities, suggesting that these people are focused on the wetlands cause.

If charities as a whole are considered as a sector, then there appears to be a constant threat to WET of new entrants into this sector. The *barriers to entry* appear to be quite low. The ease with which a charity can be established has been widely criticised, but suggested reforms to the Commission of Charities have been rejected by the Government. However, if wetland preservation is perceived as a sector then the barriers to entry are quite considerable. WET already owns all of the significant wetland sites in Arcadia and, because of climate change, new sites would have to be artificially created at great expense. The scenario mentions a charity that has been formed to raise money to create a new wetland. The amount of money pledged so far ($90,000) is not only well below their target but also represents money that may have been donated to WET if this new charity had not been permitted.

The threat of substitutes is ever-present. WET competes for disposable income and so is exposed to *generic substitution* where donors and members decide to 'do without' or to spend their money elsewhere, including other charitable causes such as social care, particularly in a recession. If donors are giving to increase their own well-being and to feel good about themselves ('warm glow') then perhaps any charity will do, as *switching costs* are very low. The point has already been made that certain charities will experience higher demand during a recession and so WET will be vulnerable to such competition. However, if donors are committed to the wetland cause then supplier power is high because WET is the only significant wetland charity in Arcadia. The competitive rivalry again depends upon the perception of the sector WET is competing in. In the charity sector as a whole, WET is a small player. Figure 2 illustrates that most money is given to health charities, followed by social care and international causes. However, in the wetland sector, WET is the dominant charity, led by a recognised and charismatic public figure.

Strategic capability

The strategic capability of an organisation is made up of resources and competences. Considering this capability leads to a consideration of *strengths and weaknesses*, with the aim of forming a view of the internal influences on future strategic choices.

WET have significant tangible resources in terms of the wetlands that they own. They also have experienced and knowledgeable human resources, many of whom give their services for free. They also have a strong brand, associated with a well-known public figure. However, although these resources are significant and represent important strengths, the way they have been deployed needs examination. This analysis concerns the competences of the organisation; the activities and processes through which an organisation deploys its resources. The wetlands are uninviting to members, with poor access and poor facilities. The volunteers are disillusioned by poor management and feel that they are not valued. These significant weaknesses appear to be contributing to the organisation's inability to maintain the *threshold capabilities* required to retain members.

However, it also has to be recognised that WET does have unique resources (the wetlands) that competitors would find it almost impossible to obtain. It also has, in Zohail Abbas, a well recognised public figure that potential competitors in the wetlands sector would find hard to imitate. However, these *unique resources*, do need to be better exploited.

A cursory examination of the value chain reinforces some of the weaknesses identified above and identifies others. Within the primary activities, service is weak and this is contributing to a decline in membership. Marketing and sales is also an acknowledged weakness of the organisation. Within the support activities, human resource management (particularly of volunteers) has already been identified as a problem. Technology development (in terms of IT technology) is also a problem with restricted and cumbersome systems causing problems in the primary activities.

Summary of Strengths and Weaknesses

Strengths	**Weaknesses**
Ownership of wetlands	Management of volunteers
Experienced volunteer work force	Wetland access and facilities
Strong brand	Marketing and sales
High profile leader	Information systems

Expectations and purposes

The two previous sections have considered the influence of the environment and the resources available to the organisation. This section looks at what people expect from the organisation. This is particularly significant in WET because it has undergone a significant change in what Johnson, Scholes and Whittington term 'its ethical stance'. Under Zohail Abbas, the organisation was shaped by ideology and was 'mission-driven', demonstrating a single-minded zeal that charities usually require to achieve their aims. However, charities still have to be financially and operationally viable and WET relies on two important stakeholders; members and volunteers. In his speech at the 2009 AGM Dr Abbas admitted that he had failed to sufficiently take into account the needs of members (leading to a decline in membership) and of volunteers (leading to a large turnover and scarcity of volunteers). WET now needs to recognise that 'stakeholder interests and expectations should be more explicitly incorporated in the organisation's purposes and strategies' (Johnson, Scholes and Whittington). Any strategy devised by the CEO needs to recognise this shift in ethical stance.

Understanding stakeholder perspectives and expectations is an important part of analysing the organisation's strategic position. Members require better access to wetland sites and more feedback on the activities of the organisation. Volunteers wish to be valued more, treated professionally and be given the chance to participate in decision-making. Having sufficient, knowledgeable volunteers appears to be necessary if some of the members' expectations are to be fulfilled. The contribution of volunteers becomes even more significant in a recession, when an organisation might have to reduce paid staff. WET also have to be aware of the potential effects of the recession on individual volunteers. For example, it appears that the failure to pay travelling expenses may have caused unnecessary hardship and led to the loss of volunteers. The CEO must also be aware that the consultation exercise with both members and volunteers will have fostered the expectations of a more open and democratic leadership culture, contrasting with Dr Abbas's autocratic style.

The original mission statement of WET was to preserve, restore and manage wetlands in Arcadia. It might be an appropriate time to revisit this mission statement, to explicitly recognise stakeholder concerns. For example, many members and volunteers are concerned with observing and saving wildlife, not wetlands. This could be explicitly recognised in the mission statement 'to save wetlands and their wildlife' or perhaps to 'preserve, restore and manage wetlands for wildlife and those who wish to observe them'. This would be a mission statement to which most of the stakeholders in WET could subscribe.

(b) A number of problems have been explicitly identified in the scenario. However, the swim lane flowchart helps identify two further problems, which may themselves explain some of the other documented difficulties.

1. Firstly, the flowchart clearly shows that sales and marketing receive renewal confirmations before payment is cleared. This means that membership cards and booklets are being sent to members whose payments have not yet cleared. The receipt of this documentation probably suggests to these members that payment has cleared, so response to the payment request is not necessary. They probably see it as an administrative mistake and ignore the reminder. This would help explain the very low rates of people who pay when they receive their payment request. It is not, as the finance manager said 'an unethical response from supposedly ethical people', but a problem caused by their own system. Perhaps those that do subsequently pay have taken the trouble of checking whether money has been debited to WET from their bank or credit card account. The consequence of this faulty process is that a significant number of members unwittingly receive a

free year's membership. It may also help explain why a number of members do not receive a renewal invoice at the end of their membership year. These renewal invoices are only sent to members who have been updated on the system after their payments have cleared. If the payment never cleared, then the membership will have lapsed on the system and a renewal invoice will not be raised the following year.

2. Secondly, the receipt of a cleared renewal payment is only recorded when the membership details are updated on the Membership computer system by the Membership Department. Consequently, renewal reminders will be sent out to members whose payment is still awaiting clearance. It currently takes the Finance Department an average of five days from the receipt of the renewal to notifying the Membership Department of the cleared payment. There is also a backlog of cleared notifications in this department, awaiting entry into the computer system. These members may also receive unwanted renewal reminders. Finally, members who have received a membership card and booklet through the process described in the previous paragraph will also receive a renewal reminder letter. Presumably most members ignore this letter (after all, they have received the new card and booklet) and believe that the charity is inefficient and is wasting money on producing renewal reminders for those who have already renewed their membership. Charities have to be careful about spending money on wasteful administrative processes. It might be these renewal reminders that led to the accusations about the charity wasting money.

A number of options can be considered for redesigning the membership renewal process. Some are given below. They range from simple changes, remedying the faults identified in the previous answer, to significant changes in the way WET will accept payment. Credit will be given for answers that suggest feasible amendments and also specify the likely consequences of the change to WET as an organisation, to employees in affected departments and to the systems they use.

– Remedy the fault identified in the previous part of the question 1(b) by only notifying sales and marketing of membership renewal once payment has been cleared, not just received. The consequence of this is that a membership card and booklet will only be sent to members who have paid their subscriptions. This should lead to an increase in subscription income because a percentage of members whose payment did not clear first time will now make sure that their payment clears. No changes are required to the membership computer system or departmental responsibilities.

– Remedy the second fault identified above, so that renewal reminders are only sent to members who have not responded to the renewal invoice, not to members who have responded but whose payment is still awaiting clearance. This could be achieved by initially updating the membership system when a payment is received. The consequence of this is that renewal reminder letters will not be sent to members who have renewed, but not yet had their payment cleared. This will reduce waste and improve member's perception of the efficiency of the organisation. However, it will require a change to the computer system and will also lead to more work for the Membership Department and another handoff between the Finance and Membership Departments. This handoff will introduce the chance of error and delay. The Membership Department already has a backlog in entering the details of members' renewals where payments have successfully cleared.

– A suggested generic process improvement is to reduce the number of handoffs between parts of the organisation by reducing the number of swim lanes. It is perceived that handoffs have the potential for introducing delay, cost and error. A number of options are possible, but perhaps the most obvious is to merge (for the purpose of this process) the functions of the Finance and the Membership Departments. This is because at one point (and perhaps two, if the previous suggestion is adopted) Finance are simply notifying the Membership Department of an event (payment cleared and, potentially, payment received), which the Membership Department has to then enter into the computer system. The case study scenario suggests that there is a backlog of membership details to enter. This probably results in renewal reminders being sent to members who have already renewed and whose payment has cleared. Merging the swim lanes will require all staff to have access to the computer system, sufficient competency in using it and sufficient numbers to clear the backlog. The likely consequence of the change is that renewal reminder letters will not be sent to members who have already renewed and paid. This will reduce waste and improve members' perception of the efficiency of the organisation. Another likely consequence is that staff may need re-training, their jobs redefined and any political problems caused by merging two departments will have to be identified and addressed.

– Another generic process improvement approach is to make sure that validation takes place as soon as possible. It should be part of the primary activity, not a separate activity as it is at the moment. This approach is particularly appropriate in the checking of payment details in the renew membership process. The early validation of payment could be achieved by giving the member the option of renewing by credit card over the Internet. 60% of the payments are made through credit cards. About 5% of these payments are completed incorrectly and the Finance Department have to raise a finance request to ask for the correct details. If a member was able to make a credit card payment over the internet then all errors should be eliminated, as the validation of details will be made straight away by the credit card provider. WET should receive the money sooner (improving the cash flow position) and there should be a reduction in finance requests. This should reduce costs and perhaps allow a reduction in head count in the Finance Department. However, the internet site would have to be extended to include an e-commerce solution and this will cost money. As well as the initial cost, the provider of the financial solution will also charge a fee for each transaction.

– The final option presented here is a more radical solution that is currently used by many subscription organisations. The principle is that renewal will happen automatically unless the member specifically asks for it not to. They have to 'opt out', rather than 'opt in' as under the present solution. Automatic renewals could initially charge the credit card used for the previous year's membership. Renewals that required a positive response would only be sent out to those who paid by cheque. Renewals to credit card customers would remind them that the card would be debited on a certain date, but that no action was necessary to secure another year's membership. This should help address the retained membership issue discussed in the scenario, based on the fact that opting out is much harder than opting in. WET might also consider offering payment by direct debit, using similar process logic to that used for credit cards. In a bid to reduce members who pay by cheque, discounts may be offered for paying by direct debit or automatically triggered credit card transactions. As well as increasing subscription income from higher member retention, the solution should lead to improved cash flow and reduced administrative costs. Changes to the membership computer system will have to be specified, implemented and tested.

(c) The incoming CEO of WET has identified the better acquisition and management of members, volunteers and donors as an important objective. She has identified them all as important *customers of WET* and she sees e-mail and website technology as facilitating the acquisition, retention and exploitation of these customers. In discussing customer relationship management, Dave Chaffey (see syllabus Reading List) considers customer acquisition, customer retention and what he terms customer extension. This classification is used in this model answer. However answers that still make the same points, but do not use this classification, are perfectly acceptable.

Customer acquisition

Customer acquisition is concerned with two things. The first is using the website to acquire new customers (donors, members and volunteers). The second is to convert customers acquired through conventional means into on-line customers.

When people visit the WET website they may already be committed to becoming a member, a volunteer or giving a donation. For these people, the process of enrolment or donation must be completely clear and complete. There must be no break in the process which might allow doubt or hesitation and lead the participant to withdrawing. The final two options suggested in the answer to question 1(b), would provide such a complete solution. Customers enrolling or donating on the website might also be given inducements, such as a reduced membership rate or a free book.

People who visit the website and are still uncertain about joining or donating might be induced to take part in an offer, which requires them to enter basic details (such as name and e-mail address) in return for some service or product. For example, free tickets for an open day or discounted prices on selected books. These e-mail details are essentially sales leads and become the basis of selected future e-mails encouraging recipients to join or donate. They might also be used (if a phone number is requested) for telephone sales calls.

Incentives may also be required to convert current customers to the web site. A typical approach is to define a members' area where members have access to various resources and offers. For example, a webcam showing live action from selected wetlands. Existing members would also be encouraged to renew membership on-line, as discussed in the previous part question.

Customer retention

Customer profiling is a key area of both acquisition and retention. WET needs to understand the needs and interests of individuals and target them accordingly. At the broader level, customers can be differentiated into segments, such as prospects, members, volunteers and donors. These segments will be communicated to in different ways and this can be reflected in the website, for example, by establishing different areas for volunteers and members. However, profiling can also take place at the individual level, reflected in personalised e-mails to individuals that reference known interests and so encourage continued participation in WET.

On-line communities are a key feature of e-business and may be created to reflect purpose, position, interest or profession. Two of these communities are particularly relevant to WET. The primary one is of *interest*, creating a community for people who share the same interest or passion for wetlands and the wildlife they support. This could be created as an extension of the current WET website or as an independent site, where criticisms of WET itself could be posted. WET should either sponsor or co-brand such a site. Communities provide an opportunity for members and volunteers to actively contribute to WET and build up loyalty, making continued membership more likely. They also provide WET with important feedback and ideas for improving their service to both members and volunteers. WET themselves might also wish to get involved in communities of *purpose* where people are going through the same process or trying to achieve a particular objective. For example, there are websites dedicated to providing a one-stop-shop for those wishing to make donation to charity.

Customer extension

This has the aim of increasing the lifetime value of the customer by encouraging cross-sales. This may be within the scope of WET itself, for example, by selling WET branded goods. However, it is also likely to include links and advertising on the WET site for associated products. WET will receive income from direct advertising fees or from a commission in the sales generated from the site. For example, book purchases may be handled through a specialist book site (leading to commission payments) or binoculars purchased from a manufacturer (payment for advertising space). Direct e-mail is also an effective way of telling customers about the products of other companies and can also be used to publicise promotions and new features and so encourage visits to the website.

2 **(a)** The acquisition of EVM can be analysed using the success criteria of *suitability, acceptability and feasibility.*

Suitability is concerned with whether a strategy addresses the issues identified when considering the strategic position of the company. In general terms the acquisition appears to make sense. The market is mature and competitive in Ambion, pushing down margins. These margins are further eroded by a government that is hostile to road transport resulting in high taxation on fuel, road taxes linked to carbon emission and restricted working practices. The acquisition of EVM provides an opportunity for Swift to exploit their core competencies in a different geographical market where demand is rising, the national government is investing in road infrastructure and competition is immature. The increased size of the group will further allow Swift to exploit economies of scale when purchasing trucks and other equipment.

Concerns around suitability surround the potential clash of cultures between Swift and EVM. Swift has no experience of acquiring or running foreign companies. It has no experience of trading in Ecuria. Furthermore, although EVM is now in private hands, it may be possible that the work practices and expectations of employees may still reflect the time when they were working for the central government. Although altering these practices may give scope for even greater profitability, it may lead to labour disputes that harm the service and reputation of the company. Swift wishes to acquire this company and adopt the practices, principles and technology of the Ambion operation. This may lead to conflict that they may find hard to resolve.

Acceptability is concerned with the expected performance of a strategy in terms of return, risk and stakeholder reactions.

Return: EVM delivers a very similar (18%) Return on Capital Employed (ROCE) to Swift Transport. This appears to be a strong performance for the sector, and should certainly be acceptable to the Swift shareholders. The gross profit margin (20%) is higher than Swift, but the net profit margin (7.5%) is lower. This may support some of the concerns discussed under suitability. The company may still be carrying high costs from its days as a nationalised company. Swift presumably believes that it can improve the net profit margin by implementing competences gained in the Ambion market.

Risk: Both the current liquidity ratio (1·14%) and the acid test ratio (1·05%) are lower than the Swift equivalents and Swift will need to look at this. The introduction of Swift's practices may help reduce trade payables. The gearing ratio (30%) for EVM is much lower than Swift and perhaps reflects a more conservative approach to long-term lending and a reflection of the fledgling capital markets in the country. However, the interest cover ratio (5) is half that of Swift, perhaps reflecting lower profitability and higher business taxation.

Stakeholders: Joe Swift and his family are the major stakeholders in what is still a family-run private limited company. It is unlikely that there will be any opposition to the acquisition from shareholders. However, stakeholders such as drivers might be wary of this strategy and also the government, outspokenly criticised by Joe, may also respond in some way. For example, by imposing taxation on foreign investment.

Feasibility is about whether an organisation has the resources and competencies to deliver the strategy. It appears that Swift does, as funds are in place and the competences are what are partly driving the acquisition.

(b) In his book *The Competitive Advantage of Nations*, Michael Porter suggests that there are inherent reasons why some nations are more competitive than others, and also why some industries within nations are more competitive than others. He suggests that the national home base of the organisation plays an important role in creating international advantage, something that will be very important to Joe Swift. He identifies four main determinants of national advantage and arranges these as a diamond, with each of these determinants interacting with and reinforcing each other. Two further determinants, chance and government, are discussed outside of the diamond in terms of how they influence and interact with the determinants inside the diamond. This model answer uses Porter's diamond as its basis. However, credit will also be given to candidates who use an alternative appropriate framework or model.

The four main determinants are:

The nation's position in *factor conditions*, such as skilled labour or infrastructure, necessary for firms to compete in a given industry. The acknowledged work ethic of the people and the investment in transport infrastructure by the government are significant factor conditions in Ecuria.

The nature of the home *demand conditions* for the industry's product or service. Home demand influences economies of scale, but it also shapes the rate and character of improvement and innovation. In Ecuria, the move to a market economy has stimulated a rapid growth in the transport of goods. The Ecurian people are traditionally demanding in their standards. They have a passion for precision and promptness and this has shaped the operations of EVM.

The presence or absence of *related and supporting industries* that are internationally competitive. Competitive advantage in certain industries confers potential advantages on firms in other industries. Porter suggests that the 'Swiss success in pharmaceuticals was closely connected to previous international success in the dye industry'. There is no evidence in the case study that Ecuria has internationally competitive industries related to logistics. Hence, it is the absence of these that is significant when considering this determinant.

The final determinant is *firm strategy, structure and rivalry*. This concerns the conditions in the nation governing how companies are created, organised and managed. It also considers the nature of domestic rivalry. EVM was created by nationalising the state-run haulage system. For the first few years of operation it had few competitors. The nature of the capital markets makes it very difficult to raise finance in Ecuria. Consequently, most of EVM's competitors are small, family-run companies who offer a local service. Porter suggests that there is a strong relationship between vigorous domestic rivalry and the creation and persistence of competitive advantage in an industry. There is little evidence of this emerging in Ecuria.

Porter also recognises the influence of chance and government. Chance events are developments outside the control of firms and the nation's government. Wars, external political developments and a reduction in foreign demand are all examples of chance factors. Government, in effect, helps shape the diamond by enacting policies that influence each of the determinants. In Ecuria, the government's approach to infrastructure investment and policies towards capital markets has affected factor conditions and impacted on firm structure and rivalry.

3 (a) The scenario suggests a number of reasons why outsourcing should be beneficial to the city authority.

Firstly, over the last decade there have been fluctuations in demand for IT staff. The authority has recruited to meet short-term demand but, because of the problems of shedding labour, the IT department has not proportionally contracted once that demand has passed. The implication is that, as a result, IT staff costs are higher than they should be. The outsourcing model provides a way of matching supply to demand. Employees are only brought in when there is a specific project for them to work on.

There has been a history of conflict between managers in the IT department and managers in the Finance Department. The Chief Executive Officer (CEO) has spent a significant amount of time trying to resolve this conflict. Employee surveys by the HR department have reported that morale is low in the IT department, despite above average pay and relatively secure employment. Outsourcing IT would appear to offer the following advantages to the authority.

– The chief executive and his team would be able to focus on delivering services to the city, rather than spending time and energy on resolving internal problems. The chief executive has recently been criticised for failing to tackle the housing problems of the city. Outsourcing IT would give him more time to address external issues and services, which are the primary objectives and responsibilities of the authority.
– Although the problems of low morale may be in part due to management problems, it must also be recognised that promotion opportunities and recognition will probably be lower in an organisation where IT is a relatively small support, rather than core activity. This is reflected in the ingratitude of users towards IT staff ('we are always being told that we are overhead, not core to the business of the authority'). It can be argued that IT staff might be better motivated in an organisation where IT is the core activity and where there should be greater scope for learning new skills and gaining promotion.
– Finally, the dispute between IT managers and finance managers has still not been resolved. Outsourcing the IT department will, at best, eliminate the problem and, at worst, make this someone else's problem. In reality, the inability to resolve internal political problems is often given as an important reason for outsourcing.

The director of IT is keen to exploit the opportunities of web services and cloud computing but has not been able to recruit someone of sufficient calibre. As he says, 'there are probably other technologies that I have not even heard of that we should be exploring and exploiting'. An outsourced IT supplier should have a much greater range of knowledge and skills that it can then make available to its customers. It will be keen to be at the leading edge of technologies, because these technologies offer it possible competitive advantage, and so it will bear the cost of recruiting and retaining specialist employees.

Finally, the chief executive recognises that outsourcing IT is likely to be a model followed by other authorities. The formation of a separate company in which the city authority has a significant stake might provide an appropriate vehicle for gaining contracts with other authorities. They might be particularly attracted to working with a company which has significant public sector expertise and ownership. Profits made by the company may be distributed by dividend to the authority, bringing in income that can be used to reduce taxes or improve services.

(b) In the past, business analysts have been employed within the IT department. It is proposed that these analysts will now move to a new BA department reporting directly to the chief executive. Their brief is 'to deliver solutions that demonstrably offer benefits to the organisation and to the people of the city, using information technology where appropriate'. They will be responsible for liaising between users and the new, outsourced IT company. The business analysts will have to establish credibility with the user departments, demonstrating the role and contribution of the business analyst role. The question focuses on new or enhanced competencies they will need, rather than generic skills such as 'good communication skills' and 'team working' which they would have needed when they were sited in the IT department.

Competencies they will require might include:

Strategy analysis They will have to develop an external business focus which, at the very least, looks for opportunities in the wider environment. The CEO expects them to be 'outward looking and unconstrained by current process and technology'. Techniques such as SWOT analysis might be useful here.

Business case development The absence of cross-charging suggests that business cases were relatively simple in the authority and it appears that business analysts were not involved in the process. In the new arrangement, agreeing the business case becomes their responsibility and so they will have to liaise with users to ensure that benefits are properly defined. If the solution requires an IT element then there are now very tangible costs which will be charged by an external supplier. This is particularly significant if software is involved. The supplier will need well specified requirements to estimate from. Costs and benefits will have to be compared using an appropriate approach. The business analyst will also have to participate in benefits realisation, assessing whether the promised benefits had actually been delivered at the cost envisaged in the original proposal.

Business process modelling The business analysts must be prepared to come up with solutions that do not include information technology. For example, they might suggest a small change to a clerical business process that delivers significant benefits. It is unlikely that they would have formulated such solutions when they were part of the IT department. Business process modelling and redesign skills will be needed to facilitate this.

Requirements definition Requirements definition would have been an important part of the business analysts' job when they were in the IT department. However, the scenario suggests a relatively flexible relationship with users, with changes to requirements being accommodated right up until software release. Although the outsourced IT supplier may take a similar approach, changes will be charged for. Hence in the outsourced arrangement there will be a need for business analysts to define requirements more completely and also to manage changes to those requirements. The detailed definition should also allow them to resolve issues where there is debate over whether the change is actually a change or is what was specified in the first place. The business analyst may also be involved in *testing* the solution received from the supplier.

Procurement The relationship between the city authority and the IT provider is now a supplier–customer relationship. The business analysts will have to gain supplier and contract management skills, allowing them to successfully manage this relationship.

(c) The Capability Maturity Model Integration (CMMI) is a process improvement approach that defines five levels of process capability, from capability level 0, where a process is either not performed at all or is partially performed; to capability level 5 where the process is optimised. An optimised process is a quantitatively managed process that is changed and adapted to achieve current and projected business benefits. CMMI is developed, owned and administered by Carnegie–Mellon University.

A recent audit has shown that the internal IT department is currently operating at capability level 2. This is defined as a 'managed process' where the process is performed, planned and executed in accordance with a defined procedure. To move to subsequent levels, the company will have to first progress to a defined process (level 3), where the process is tailored from the organisation's set of standard processes according to the organisation's tailoring guidelines. In software terms, capability level 3 is achieved when the process of software development (not just its management) becomes consistent. Level 4 is characterised as a quantitatively managed process, controlled by statistical and other quantitative techniques. Measuring software quality might be considered at this level. Finally, level 5 is achieved when that monitoring is constantly fed back into the process to improve performance. In an optimised process, common causes of process variation are explicitly addressed.

Organisations that achieve CMMI level 5 should be delivering software effectively and economically. Employees working in the process should be clear about their responsibilities and motivated by both the process and the products it produces. Publicising the achievement of level 5 will demonstrate the competence of the company and should assist in gaining new work. Many customers mandate that suppliers should have achieved a certain level in the CMMI assessment. In this instance, the terms of the contract for the outsourcing deal is that the new company will achieve CMMI level 5 within three years.

4 (a) The appraisal process is concerned with analysing an individual's capabilities and potential, including an assessment of current work behaviour and performance. This analysis forms the basis for agreed outcomes that should lead to improved individual performance, which can be revisited at the next appraisal. Overall, the objective of an appraisal is to improve individual performance.

However, one of the reasons for the unpopularity of appraisals is that the appraisal is also used for unrelated purposes; such as discussing rewards, imposing discipline and selecting people for promotion. This appears to be one of the problems at National College. The scenario suggests the following specific problems:

– Treating the appraisal as a traditional ceremony that has to be gone through to 'satisfy the college and the IMF'. Blake gives the impression that the appraisal is something he has to do as part of his managerial duties, but which he does not agree with or value.

– The discussion of salary and promotional opportunities should not appear in an appraisal interview. There is a complex inter-relationship between appraisal and the reward system and to explicitly introduce it, as Blake does, into the appraisal is unwise.

– The appraisal is not supposed to be a one-sided judgemental process, where the person being appraised is forced on to the defensive. Blake introduces the failed 'performance measures' in the interview and asks for an immediate explanation. Judy is forced immediately on to the defensive, re-iterating her concerns about the numeracy of the candidates and making accusations about recruiting candidates just to make money. Appraisals are not meant to be confrontational.

– The appraisal should end with specific goals agreed between the appraiser and the individual being appraised. Judy's appraisal comes to an inconclusive end, partly caused by Blake's need to get home early to collect the children from school. The appraisal was shorter than planned.

– The appraisal is meant to be forward-looking, not a medium for wrapping up last year's performance issues. Although a focus on past performance is expected in the appraisal, it is meant to be a medium for development. Blake does this to a limited extent, but focuses on his resource needs, not the individual needs of Judy. The appraisal is not supposed to be a work planning meeting.

– During the interview, Blake does not use any standard template for guiding his questions or recording answers and issues. Under such circumstances, appraisal is unlikely to be carried out to the same standard by different managers in the company. A standard template should make the process fairer, if not the outcomes.

– The appraisal is not meant to be a vehicle for discussing the appraiser's hopes and aspirations for the coming year, or to pursue his own agenda.

The performance measures introduced need further investigation. Looking at each in turn.

Percentage of candidates who felt that the course was relevant to their current job – *only 65% of candidates felt that the course was relevant to their current job*.

The syllabus for the examination is set by the Institute of Managerial Finance and Judy has to teach the course to this syllabus. Hence, the course content is not in her control. Secondly, it seems likely that most of the candidates are taking the examination to improve their job prospects and so it might be expected that the course would not be relevant to their *current* job, but it hopefully will be for *future* jobs. Finally, why should it matter if the course is relevant to their jobs in the first place? Education is as much about self-development as about training for tasks that individuals are already doing. This question appears to be both irrelevant and an unfair measure of the trainer's performance.

Percentage of candidates who passed the examination – *only 88·88% of candidates passed the examination*.

This is the question that provokes Judy into discussing the numeracy of candidates attending the course. She has a fair point. Neither the examination board nor the college set any pre-conditions for attendance, so again its achievement is partly outside of her control. To set an expected 90% pass rate is not only very high, but it also does not take into account variations in candidates' previous knowledge. Judy could also have pointed out that she was only two students away from actually achieving this target!

Percentage of candidates who felt that the course pace was satisfactory – *Only 75% of candidates felt that the pace of the course was satisfactory*.

The course has to be completed in three days and candidates are aware of this. However, there may have been issues concerning the way Judy paced learning throughout the three days. This might have been a reasonable topic to discuss at an appraisal, although specific evidence would have to be produced to make the discussion meaningful. The question statistic itself is poorly framed. From the answer it is not possible to know if the course pace is too fast or too slow.

In general, performance standards are required for an effective appraisal system, so that current performance and targeted improvements can be assessed against agreed benchmarks. However, the performance standards have to be within the control of the individual whose performance is being assessed. This is clearly not the case in at least two of the measures currently used by the college.

In general, it is increasingly suggested that appraisals should focus on *developmental* rather than *judgemental* issues. A discussion about how performance targets could be achieved might raise legitimate issues about supporting resources that are required, management support that would be expected, as well as the more usual statements about training requirements.

(b) Competencies define what is expected from an individual in an organisation, both in terms of content and levels of performance. They should provide a map of the behaviours that will be valued, recognised and, in some organisations, rewarded. Employees have a set of objectives to work towards and are clear about how they are expected to perform their jobs. This would have been very useful at National College because the inappropriateness of some of the performance measures would have become clearer at a much earlier stage.

Originally, many competency frameworks concentrated on behavioural elements, for example, developing softer skills such as problem-solving. However, competency frameworks are increasingly becoming more ambitious and including technical competencies that in many ways are more specific and easier to assess than behaviours. Many examination syllabuses are cross-referenced to national competency frameworks and the Institute of Managerial Finance might consider this for their examinations. Competencies are normally expressed at a number of levels; reflecting increasing demands in those competences. For example, in the Skills Framework for the Information Age (SFIA), which has four levels (3–7), level 3 is apply, level 4 is enable, level 5 advise and level 6 initiate or influence.

The competency framework usually defines competencies for each *role* within the organisation. There are typically ten or less competencies for each role. The detail for each competence has to be carefully balanced. If it is too general then employees are unsure of what is required and managers will have a problem in assessing staff against the defined competency. On the other hand, if the definition of each competence is too detailed, it can be excessively time-consuming to develop, administer and maintain. In reality, defining the appropriate level of detail is one of the key challenges of defining an effective competency framework. Performance against current competencies and the development of desired competencies becomes one of the focuses of the appraisal. Adopting an appropriate competency framework should lead to a fairer appraisal system at the National College. It should also improve the fairness of the recruitment process.

Competency frameworks may be developed internally, usually using HR consultants. KPMG developed theirs in partnership with Saville & Holdsworth Ltd (ACCA Case Study). Alternatively, the organisation can use a framework published by an external organisation – usually a trade association or a government body. The best solution is often a compromise between the two, using externally proven frameworks but tuning them so that they are relevant to the organisation. This has the added promise of providing a link between organisational and personal objectives. SFIA is published in two variants; SFIA, which is intended as a basis for tailoring to an organisation's needs, and SFIAplus which should be treated as a standard and should not be customised.

Competency frameworks were originally focused on performance management and development. However, contemporary advocates now see competency frameworks as a significant contributor to organisational performance through focusing and reviewing an individual's capability and potential. The competency framework might also be an important element in change management. The CIPD Change Agenda *Focus on the Learner* concluded that 'competencies have been a feature of progressive human resources development for more than a decade. What is new is their central importance as a means of providing a framework for the learner to take responsibility for their own learning'. Gold (referencing Holbeche, 1999) suggests that advocates of competencies perceive them as a mechanism for aligning organisational objectives with 'the various HR activities of recruitment, selection, appraisal, training and reward'.

1 **(a)** 1 mark for each relevant point up to a maximum of 25 marks.

This includes a professional mark for appropriate tone, a professional mark for appropriate structure and two professional marks for the scope of the answer (4 marks in total).

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

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

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

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

3 **(a)** 1 mark for each relevant point up to a maximum of 12 marks.

(b) 1 mark for each relevant point up to a maximum of 7 marks.

(c) 1 mark for each relevant point up to a maximum of 6 marks.

4 **(a)** 1 mark for each relevant point concerning the appraisal and the appraisal process at the National College up to a maximum of 6 marks.

1 mark for each relevant point concerning the performance measures at the National College up to a maximum of 6 marks.

1 mark for each relevant point about appraisals or performance measures in general up to a maximum of 3 marks.

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