Institute of Chartered Secretaries and Administrators

Canadian Division
Strategy in Practice

Sample Paper – Suggested Answers

Important notice
When reading these answers, please note that they are not intended to be viewed as a definitive 'model' answer, as in many instances there are several possible answers/approaches to a question. These answers indicate a range of appropriate content that could have been provided in answer to the questions. They may be a different length or format to the answers expected from candidates in the examination.

Pre-Released Case Study

The Alexander Mackenzie University

Located in the greater Vancouver area of British Columbia (BC), the Alexander Mackenzie University ('the University'), created from the recent changes in British Columbia where a number of colleges were converted to universities, gained university status in 2008. Student numbers have grown steadily in the past few years and the University met its target level of student numbers for the first time in 2009/10. There are 9,500 full and part-time students.

The University regards helping students to succeed in their careers as a core part of its mission. The vast majority of students attend the University to improve their career prospects or to change career. The University offers programs across a comprehensive range of subjects. Historically, it has been strong in business studies but, more recently, technology, health studies and creative programmes have experienced significant growth. The University has always attracted a high proportion of mature students, and its geographical location, discipline mix and entrance policies have made it attractive and accessible to a diverse student population drawn from the area as well as inland and northern BC.

Mature students account for 50 per cent of full-time undergraduates, and international students account for nine per cent of the student population.

A major issue for the University is to create a more diverse portfolio of income streams without putting its core activity at risk. It is seeking to reduce its dependence on income from the Ministry of Advanced Education, which funds universities and colleges. The University's strategic plan is to deliver high-quality, innovative, flexible programs both on and off the campus. It also aims to work closely with employers, schools, colleges and agencies in the region to offer excellence in research, scholarship and knowledge transfer.

The BC education sector in general is facing uncertainty about the continuing demand for higher education as the level of unemployment, caused by the global economic recession impacting negatively on BC's resource economy, is increasing. Other challenges facing higher education are restrictions on student fee increases, changing political agendas and public funding freezes, as well as the unpredictable demand from international students to whom higher fees can be charged. There is also the challenge of the end of the echo boom where trends are showing a declining high school population from 2012. This may however be offset by immigration. In this climate, it is difficult to predict whether demand will rise or fall.

However, what is clear is that the total cost of education has sharpened students' focus on the value they receive from their universities. There will be increasing pressure on the University, and its competitors, to make their programs and services more attractive to students, while at the same time maintaining their academic standards. The recent conversion of some of the colleges to universities as well as the strong competition from the large, traditional research universities makes the competitive environment particularly intense.

Globalisation has created a booming market in higher education and, aided by new technologies and the reduced impact of national market borders, international partnerships have developed to create 'super' universities with overwhelming competitive advantages over individual locally or regionally focused institutions. Canada has been perceived positively as an attractive country for international education. Australia and the United Kingdom are, however, continuing with their strong recruitment activities. United States (US) institutions are also attempting to increase their market share, and now a new trend is emerging in China and India where some institutions are positioning themselves as international institutions and are attempting to not only retain their own students but also attract students from the US, Canada and Europe.

In the research arena, the large research institutions guard this area very tenaciously. However, there has been increased support from industry for research that can support commercialization of theoretical ideas. The provincial and federal governments are both responding by supporting applied research to a greater extent.

The University has identified a number of strengths: a significant proportion of teaching staff with professional qualifications and experience in addition to their teaching qualifications; an increasing number of programs with professional accreditation with recognition by over 25 professional bodies; and a high student satisfaction rate and reputation for excellent student support. The University also recognises some weaknesses, including a low proportion of teaching staff engaged in research, a poor track record in attracting students with high qualifications upon entry, and very few departments with strong working partnerships with relevant professional employers. In setting a course to achieve its new strategic vision, the University has established five very general strategic goals:

- Helping all career-motivated students to achieve their career aspirations.
- Consistently delivering academic excellence.
- Building the University's track record in applied research and innovation.
- Developing the capacity to generate income.
- Contributing to the cultural and economic prosperity of the region.

A committee has been established by the University's Board of Governors ('the board'). The committee consists of representatives from the teaching staff, heads of teaching departments, the students' union and the human resources department, with the chair of the board, Catherine Hennessey, presiding. The committee has been directed by the board to develop an action plan to advise how the University's strategic goals are to be implemented.

At the first meeting, Daniel Chan, the human resource manager, presented data on external research funding and research-based activities he had obtained from the websites of six medium-sized universities. In closing his presentation, he remarked that although the University's teaching staff were highly committed to teaching, few engaged in research, and this was unlikely to change any time soon because there was no incentive to do so.

Bill Warren, from the Department of Management, forcefully countered that teaching staff do not have time to do research and suggested that the strength of the University lies in the quality of the teaching rather than research.

Dr Martin Peters, from the Department of Applied Sciences, then responded to this by arguing that high-quality teaching and research go together. If the University is to attract and retain students with high qualifications on entry, they must have the opportunity to become involved in research with their professors. He firmly believed that when the teaching staff and their undergraduate students learn with each other and from each other, the result is powerful.

A perceptive contribution came from the mature undergraduate student representative, Alex Boxall, who suggested that students are worried that if teachers are promoted because they have written important books or articles, they will be less interested in teaching.

Dr. Margaret Cook, Head of Social Sciences and recently recruited from a large ‘research intensive’ university, added that, compared with her previous institution, few of the teaching staff discussed research. She made the point that the University is a teaching institution, and if it is to achieve the strategic goals, it must change the culture.

Finally, following extended discussion, it was agreed that a discussion paper would be prepared for the next meeting on what could be done to change the culture at the University as well as focusing on the implementation of the strategic goals.

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental

Questions

*Answer **any four** questions from this paper.*

The following questions, 1 to 4, are connected to the pre-released case study.

1. (a) Provide a brief for the board on how the University and its management could go about initiating a cultural change program, so that it is more aligned with the new strategic vision. Include any limitations of your chosen approach.

(15 marks)

Suggested Answer

(a) There are a number of ways in which this question might be answered but the key thing is that candidates should use course frameworks to do so. One approach is to use Kotter's change model (page 548) as a framework to propose possible approaches under each stage of the process. The environment in which the University is operating is full of uncertainty and highly complex in character. The company secretary will be concerned with sustainability and many change programmes – especially culture change programmes – fail to deliver the expected results. A key point to bring out here is that superficial or simplistic approach that addresses only surface manifestations is unlikely to succeed and there may be unintended consequences.

Kotter's model is well-suited to focusing the discussion on this case:

Step	Description of action
Establish a sense of urgency	*Examine competitive realities. Identify and discuss realities, crises or opportunities relating to why cultural change is needed* E.g. This may require a series of meetings with all departments and representatives of key stakeholder groups if they are to be engaged in any change process.
Create the guiding coalition	*Create a cross-functional group of people with enough power to lead the cultural change* This could be the committee referred to or another group designated by the Board of Governors.
Develop a vision and strategy	*Create a vision and strategic plan to help direct the change process* Strategic goals are in place but may need to be broken down into more specific goals and objectives for each department. This will have symbolic value as well as a direct guide to action.

Communicate the change vision	*Develop and implement a communication strategy that consistently communicates the new behaviour expected of employees* E.g. Organise a series of large scale meetings that seek to both give information about the challenges faced and draw on ideas from across the University.
Empower broad-based action	*Eliminate obstacles to change, and use target individuals and groups to transform the organization. Encourage risk taking and creative thinking and problem solving* E.g. Ensure timetabling takes account of those who are most research active and teaching loads are adjusted accordingly.
Generate short-term wins	*Plan for and create visible short-term improvements or 'wins'. Recognize and reward people who contribute to the wins* E.g. Seek to establish a number of key partnerships with major employers or with business support agencies to demonstrate examples of collaborative research and knowledge transfer projects.
Consolidate and produce more change	*Consolidate gains. The guiding coalition uses credibility from short-term wins to create more change. Reinvigorate the change process with new change agents and new projects* E.g. Set up champions or research specialists and groups in all the major departments. Ensure that the performance management process values research as well as teaching and credit is given for it.
Anchor new approaches in the culture	*Create better customer- and productivity-oriented behaviours. Ensure a reconnection between new behaviours and processes and organizational success. Develop methods to ensure leadership development and succession* E.g. Ensure University and Department web-sites promote success stories in the fields of research AND teaching

Candidates should also take a cautionary view of Kotter's approach (or any other other attempt at planned culture change that they discuss.) These take a managerialist perspective based on assumptions that the organisation is a stable, orderly system that serves specific functions and that organisational culture is generated and managed according to organizational goals and needs.

Organisational culture is seen as a unifying phenomenon, in which cultural processes can create organizational stability and consensus, focusing on how culture can be managed and disseminated downwards by senior management. Management-inspired cultural processes and interventions attempt to mitigate the many forms of the ever-present conflict that arise from managing the labour process. This approach focuses on building a culture that binds members together around the same core values, beliefs and norms, which are considered prerequisites for achieving strategic goals. But there are other perspectives and good answers will recognise this.

Conflict perspectives are based on the assumption that conflict is a basic feature of organizational life as members seek to control scarce resources and the picture represented by conflict theorists is one that represents contradictory, fluid and unstable cultures that are not easily amenable to change. Candidates might cite the work of Ray (1986) that control by corporate culture did not rely on direct supervision, but primarily on acceptance of values and peer enforcement.(Ray, 1986). In an organisation of this size there are likely to be significant sub-cultures and counter-cultures of which are contradictory, fluid and unstable.

Note for Canadian Students: Although Kotter's model is one of the best known models of change management the text only briefly mentions Kotter's approach. There is a lot of focus in the text in Chapter 5 on Culture and Strategy and then in Chapter 14 on Managing Strategic Change. In this chapter, an alternative approach is suggested that would be suitable for an answer e.g. developing a cultural web and completing a forcefield analysis. Then evaluating styles of managing strategic change and making recommendations to the Board on the most appropriate approach considering the University's culture.

A suitable extraction and application of the theory would be appropriate.

(b) Advise specifically on how the board might manage any resistance it may meet from staff.

(10 marks)

Suggested Answer

(b) Candidates might cite the work of Moss-Kanter here but a useful approach would be to use Kotter and Schlesinger's suggestion that there are five tactics for use by organisations.

Education and communication
Resistance can be reduced through communicating with employees to help them see the logic of a change. This tactic basically assumes that the source of resistance lies in misinformation or poor communication. If employees receive the full facts and misunderstandings are cleared up, resistance will subside. Communication can be achieved through one-on-one discussions, intranet sites, group presentations, etc. It works, provided that the source of resistance *is* inadequate communication and that management-employee relations are characterised by mutual trust and credibility. If these conditions do not exist, the change is unlikely to succeed. At the Alexander Mackenzie University, (AMU) it seems that an explanation of changes emphasising research and how this might

enable the University to achieve its strategic aims might make a useful contribution to both students' and lecturers' understanding.

Participation
It is difficult for individuals to resist a change decision in which they participated. Before making a change, those opposed can be brought into the decision process. Hence the suggestions included in part (a). Assuming that the participants have the expertise to make a meaningful contribution, their involvement can reduce resistance, obtain commitment, and increase the quality of the change decision. However, against this it can take a long time and the final solution may be poor. The Committee is part of a participation process but it may be necessary to go further and include groups of lecturers for example in decisions about how the specific changes are to be handled.

Facilitation and support
Organisations can offer a range of supportive efforts to reduce resistance. When employees' fear and anxiety are high, counselling, skills training or a short paid leave of absence may facilitate adjustment. The drawback is that it is time-consuming and expensive and offers no assurance of success. For example, the University might provide additional support sessions for lecturers to help them with the new research emphasis.

Negotiation
Another way for the organisation to deal with potential resistance is to exchange something of value for a lessening of the resistance. For instance, if the resistance stems from a few powerful individuals, a specific reward package can be negotiated that will meet their individual needs. Negotiation as a tactic may be necessary when resistance comes from a powerful source. Yet one cannot ignore its potentially high costs and there is the risk that, once a company negotiates with one party to avoid resistance, it is open to the possibility that others in positions of power may want the same. The new emphasis on research may require negotiation with the trade union representing academic staff/

Manipulation and coercion
Manipulation refers to covert attempts to twist and distort facts to make them appear more attractive, withholding undesirable information and creating false rumours to get employees to accept a change. If management threatens to close down a particular manufacturing plant if that plant's employees fail to accept a pay cut, and if the threat is untrue, management is using manipulation. Coercion is the application of direct threats or force upon the resisters. If the management really is determined to close a manufacturing plant if employees do not agree to a pay cut, then coercion would be the label attached to its change tactic. Other examples include threats of transfer, loss of promotions, etc. Manipulation and coercion are relatively inexpensive and easy way to use but can backfire if the targets become aware that they are being tricked or used. This would not go down well at AMU.

Note for Canadian Students: The text does not appear to mention Moss-Kanter or Kotter and Schlesinger's five tactics. It does contain relevant approaches to managing resistance to change specifically in Section 14.5.2 and 3:

- Managing Revolutionary Change:
    - Clear strategic direction
    - Combining economic and symbolic levers
    - An outside perspective

    - Multiple styles of change management
    - Working with the existing culture
    - Monitoring change

- Managing Evolutionary Change
    - Creation of an organization capable of continual change
        - Empowering the organization
        - A clear strategic vision
        - Continual change and a commitment to experimentation
    - Movement to a changed strategy over time
        - Stages of transition
        - Irreversible changes
        - Sustained top management commitment
        - Winning hearts and minds

(Total: 25 marks)

2. (a) Using examples from the University, brief the board about the concept of strategic capability.

(15 marks)

Suggested Answer

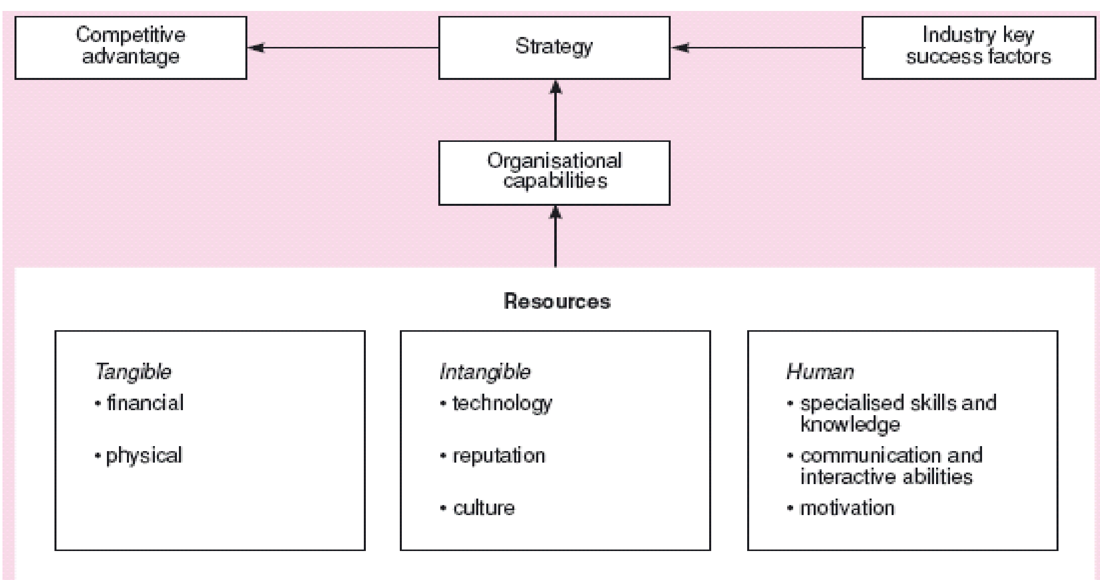
(a) Strategic capability (Chapter 3) focuses on the internal context of strategy: the resources that an organisation possesses, or needs to possess, as the basis of a robust strategy.

By ‘capability’ is meant an organisation’s capacity to engage in a range of productive activities. All organisations possess unique bundles of resources and competencies, and it is how these resources are used that determines differences in performance between organisations. For example, at AMU we might focus on the teaching capability and the professional qualifications of the staff.

Resources are not productive in themselves – they need to be converted into capabilities by being managed and co-ordinated. Skilled, qualified staff will not necessarily be productive.

It is these resultant capabilities that, if hard to imitate, are the main source of competitive advantage. Strategy, from the resource perspective, is therefore about choosing among and committing to long-term paths of capability development as this model by Grant below suggests.

Good answers will use this framework as a basis of describing the situation at AMU.



Strategic organisational capabilities are also often referred to as organisational competences, although strictly a capability refers to the potential *and* competence and suggests an applied and well-practised capability. As long as the skill in teaching is used to secure better results or praise from students, for example. In the long-term there may be other spin-offs such as the possibilities raised in Q4.

So strategic capability can be related to three main factors: the resources available to the organisation; the competence with which the activities of the organisation are undertaken; and the balance of resources, and activities and business units within the organisation.

Understanding strategic capability is important as it may be the 'leading edge' of strategy development. New opportunities may exist by stretching and exploiting the organisation's unique resources and competencies either in ways which competitors find difficult to match or in genuinely new directions, or both. This requires organisations to be more innovative in the way they develop and exploit their resources and competencies such as the closeness to and knowledge transfer with local organisations.

Note for Canadian Students: Johnson, Scholes and Whitington covers Strategic Capability in some depth in Chapter 3. The model used reviews Resources as well as Competencies and divides them into two types: Threshold capabilities (those needed for an organization to meet the necessary requirements to compete in a given market) and capabilities for competitive advantage.

	Resources	**Competencies**
Threshold capabilities	**Threshold Resources** Tangible e.g. a physical campus Intangible e.g. curriculum	Threshold competencies e.g. Teaching competencies, academic systems and administrative competencies
Capabilities for competitive advantage	**Unique Resources** Tangible e.g. geographic location Intangible e.g. recognition by over 25 professional bodies and excellent student support services.	**Core Competencies** e.g. relatively strong teaching competency at the undergraduate level compared to the larger institutions

(b) Assess the University's core competences.

(10 marks)

Suggested Answer

(b) Core competencies are taken to mean the skills and abilities by which resources are deployed through an organization's activties and processes such as to achieve competitive advantage in ways that others cannot imitate or obtain. (Page 97) What might help at the AMU is a Resource Audit (note specifically identified in the text but it would be logical to make a list of resources) as a prelude to assessing competence. The former identifies the resources 'available' to an organisation to support its strategies. Some may be unique in that they are difficult to imitate, for example, the location of the University, its reputation for supporting students. Assessing competence requires analysing how resources are being deployed to create competencies in separate activities, and the processes through which these activities are linked together. Although an organisation will need to reach a threshold level of competence in all the activities that it undertakes, it is only some of these activities that are core competences underpinning the organisation’s ability to outperform competition. They may also be the basis on which new opportunities are created.

Core competences differ from one organisation to another depending on how the organisation is positioned and the strategies it is pursuing. The core competences of University of British Columbia will be very different from AMU.

It is important to identify an organisation’s core competences not only to ensure continuing good ‘fit’ between these core competences and the changing nature of the markets or environment, but also because core competences may be the basis on which the organisation ‘stretches’ into new opportunities. Developing ‘added-value’ services (perhaps elearning modules) and geographical spread of markets (an international partnership) are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

(Total: 25 marks)

3. (a) Assess the environment in which the University is operating and use your analysis to advise the board on the implications for the University's strategy.

(15 marks)

Suggested Answer

(a) A key point to make at the outset is that organisations have choices about where they set their boundaries. These are not fixed and may change over time but it is helpful in strategic analysis to think about the far or near environment as those aspects that an organisation can only respond to or, perhaps, influence. An acceptable answer to this question could look at one of those or comment on both. Johson, Scholes and Whittington specifically identify four layers of the business environment; the organization, competitors, industry (or sector) and the macro-environment. (Page 54)

For example, candidates might start by looking at some of the general issues or 'megatrends' in the far environment affecting organisations. These might include:

- Convergence of communication technologies – telephony, television and the Internet together with user-driven content.

- Internationalisation and globalisation. The decline in costs of transport and communications has made the growing integration of national economies feasible. This has been helped by the liberalisation of trade through blocs such as the EU.

- Global Market Convergence - Markets world-wide are converging for a variety of reasons. In some markets, customer needs and preferences are becoming more similar. Those operating in such markets may become global customers and may search for suppliers who can operate on a global basis. Marketing policies, brand names and identities, may then be developed globally. This further generates global demand and expectations from customers, and may also provide marketing cost advantages for global operators.

It would be equally appropriate to look at issues in the near environment such as the elements and forces in the competitive environment.

The key point to make here is how some of these, perhaps global market convergence for example, affect AMU. This is specifically mentioned in the text. From the secretarial perspective candidates may also identify issues of corporate responsibility and sustainability as well as broader governance issues.

Although changes in the external environment make life difficult for strategy managers, and may pose threats to the organisation, they can also offer opportunities. Managers who can understand and monitor their external environment are therefore likely to be more effective.

To be able to do this, it is important that you understand the factors that make up the external environment of your organisation. PEST(LE) analysis (identifying the political, economic, social, technological, legal and environmental influences on an organisation) can help here. (Page 55) The priority an organisation gives to each of these factors will differ. A university might be especially concerned with political factors such as government policy and understanding the patterns of social and demographic change for example. A small retailer, on the other hand, may be primarily concerned with local customer tastes and behaviour. None of these forces will remain constant, and managers need to be aware of their changing impact. Applying this to AMU:

▪ What environmental factors are affecting the organisation? ▪ Which of these are the most important at present? ▪ Which *will* be in the next few years?	
Political factors E.g. • Government policy towards Higher Education	Economic factors E.g. ▪ Unemployment ▪ Global recession ▪ Public funding reductions
Socio-cultural factors E.g. ▪ Population demographics ▪ Consumerist view of education	Technological E.g. ▪ New learning technologies ▪ Communication technologies
Legal factors E.g. ▪ Employment policies (retirement age)	Environmental factors E.g. ▪ Sustainability and the importance of the local economic base

What is important is that candidate's show an understanding of how PESTLE works and can demonstrate this using the few facts at their disposal in the case.

The headings in the table can be used as a checklist to consider and prompt analysis of the different influences.

The five forces framework (Page 60) may also be used to describe the competitive environment.

However, although a great deal of information can be generated in this way, it will be of limited value if it remains merely a listing of influences. It is important that it is used to answer key questions such as:

- *What are key drivers of change?* - It may be possible to identify a number of key forces likely to affect the structure of *this* industry or market.

- *What are the differential impacts of key environmental influences?* - PEST analysis may also help examine the *differential* impact of external influences on organisations, either historically or likely future impact. This approach builds on the identification of key drivers by asking to what extent such influences will affect different organisations or industries differently.

These sorts of factors can be built into scenario planning which is discussed in (b).

(b) Explain how scenario planning might help the board in its future strategy development.

(10 marks)

Suggested Answer

(b) Constructing scenarios is a useful way of considering environmental influences. Candidates are required in this section to explain how this might help and a long description of scenario planning is not required.

Scenario planning builds *plausible views of different possible futures* for an organisation by grouping of key environmental influences and drivers of change about which there is a high level of uncertainty. (Page 57) Scenario planning is especially useful in circumstances where it is important to take a long-term view of strategy. This will probably be a minimum of five years; where there are a limited number of key factors influencing the success of that strategy; but where there is a high level of uncertainty about such influences.

For example, in the university sector we are offered certain facts in the case. There is uncertainty about future levels of demand, about the fees that can be charged, and about the government policy. Looking further ahead the Board may take a view of the environment up to 20 years in the future; and while a whole host of environmental issues are of relevance, a number of these, such as ‘price and demand’, are of crucial importance. Obviously, it is not possible to forecast precisely such factors over a 20-year time horizon, but it can be valuable to have different views of possible futures.

Scenario planning is not just based on a hunch. The result is a limited number of logically consistent but different scenarios that can be considered alongside each other. There are two main benefits of such an exercise:

- Strategic managers and leaders can examine strategic options against the scenarios and ask: 'what should we do if …?', or 'what would be the effect of ... ?' In effect, the scenarios can be used for sensitivity testing of possible strategies.

- The implications of scenarios can be used to challenge the taken-for-granted assumptions about the environment in which managers operate. In this way scenarios can promote more innovative thinking and approaches to strategy development. This may be particularly important where change is unpredictable and the future uncertain, or where there are long time horizons, because operating managers may be so concerned with the short term that they neglect to consider the long term. At AMU it might help examine the culture of teaching at the expense of research, for example.

(Total: 25 marks)

4. The University is considering a variety of strategic options, including setting up a campus abroad and setting up joint venture companies to exploit research and innovation from University departments. Brief the board about how it might evaluate the suitability of the strategic options available to it.

(25 marks)

Suggested Answer

This question focuses on how strategic options can be evaluated and the processes by which the University might select strategies for the future. Two examples are given in the question and reference should be made to these.

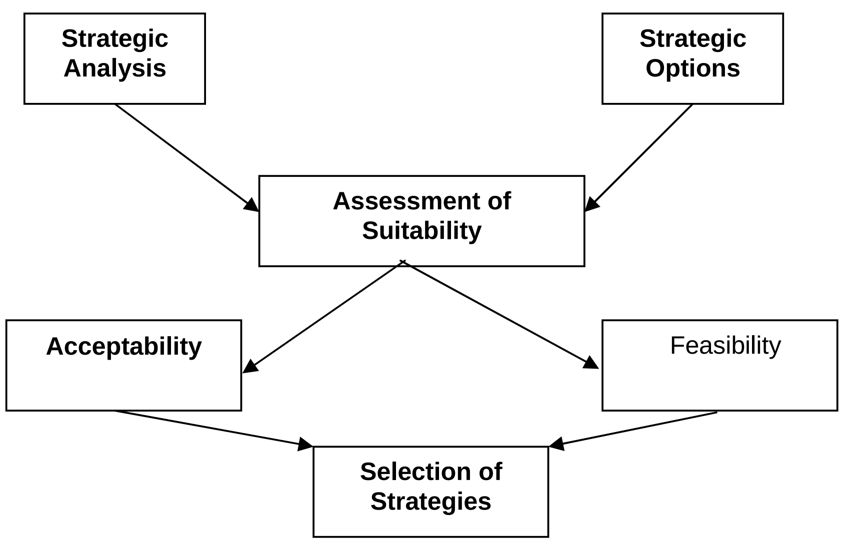
When assessing strategies, three main types of evaluation criteria that can be used:

Suitability a broad assessment of whether the strategy addresses the circumstances in which the organisation is operating. For example, the extent to which new strategies, such as attempting to build a track record in applied research, would fit with the future trends and changes in the environment.

Acceptability is concerned with the expected performance outcomes (such as the return or risk) if the strategy were implemented and the extent to which these would be in line with the expectations of stakeholders*.* For example, to change the emphasis towards research.

Feasibility This is concerned with whether the strategy could be made to work in practice. This means an emphasis on more detailed assessment of the practicalities of resourcing and strategic capability. Is feasible to contribute to the cultural and economic prosperity of the region at AMU in any meaningful way.

The diagram below shows how these various aspects of evaluation and selection can be fitted together, and relate to strategic analysis and strategic options.



Suitability concerns whether a strategy addresses the circumstances in which the organisation is operating. Establishing the suitability of options is a useful starting point as it establishes the *strategic logic* behind a particular strategy. Assessing the

suitability of strategic options can be a useful basis on which to screen options before more detailed analyses are undertaken.
In reviewing strategies, it is important to check that strategies are consistent with the needs of the environment, the resources and values of the organisation, and its mission.

- *Mission and objectives* - Does the strategy fit the current mission and objectives of the organisation? Is it acceptable to the strategic leader and other influential stakeholders? This issue clearly links to the notion of acceptability. For example, is the finding of new income streams entirely consistent with the core mission of helping students to succeed?

- *Effect on the strategic perspective* - Does the strategy proposed have the potential for improving the general competitive position of the organisation? It should seek to become and remain an effective competitor. Is there enough in the current strategy that will allow AMU to thrive and survive.

- *Current strategic position (SWOT)* - Is the strategy appropriate for the current economic and competitive environment? Is the strategy able to capitalise and build on current strengths, competencies and opportunities, and avoid weaknesses and potential threats? To what extent is the strategy able to take advantage of emerging trends in the environment, the market and the industry? Is the notion of research realistic in the short to medium term?

- *Skills, competencies and resources* - Are the strategies being pursued and considered sufficiently consistent that skills, competencies and resources are not spread or stretched in any disadvantageous way? Does any new proposal exploit key organisational competencies? For current businesses and strategies: can the organisation effectively add value, or would a divestment strategy be more appropriate? This builds on the point above about the skills of the academic staff.

- *Culture* - Does the strategy fit the culture and values of the University? If not, what are the implications of going ahead?

- *Simplicity* - Is the strategy simple and understandable? Is the strategy one that could be communicated easily, and about which people are likely to be enthusiastic?

In summary, is there congruence between the environment, values and resources? Candidates need not reach a conclusion about (they have limited data) but should comment that, on the issue of suitability, more detailed investigation is required.

For Canadian Students, Johnson, Scoles and Whittington discuss Strategy Evaluaton on Pages 365 to 383. The same model used above is described with the three main components: Suitability, Acceptability and Feasibility. However the subcomponents and the actual concepts differ slightly. Students may use the above descriptors which are appropriate or provide the theory that more closely follows the text.

Questions 5 and 6, below, are not connected to the pre-released case study.

5. Rupert Jones, the CEO and founder of Rupert's Sounds (a worldwide music production and sales business), is concerned about the future. He is worried about falling sales and the impact of digital downloading of music (both legal and illegal) on profit margins. He is looking at diversification into areas such as travel and clothing, using the strength of the 'Rupert' brand.

Required

Advise Rupert Jones on how diversification might be used as part of the organisation's strategic development and of the risks involved.

(25 marks)

Marking scheme

Pages 262 to 270.

Diversification is a term used in many different ways but candidates should show a clear understanding that diversification involves directions of development that takes the organisation away from its present markets and its present products at the same time much as the proposed move by Rupert Sounds into clothing and or travel

***3 marks** for a clear opening definition.*

Diversification is traditionally considered under two broad headings:

Related diversification. This is development beyond the present product and market, but still within the broad confines of the 'industry' (i.e. value chain) in which the company operates. For example, Unilever is a diversified corporation, but virtually all of its interests are in the fast-moving consumer goods industry.

This might be achieved by

- *Backward integration* refers to development into activities that are concerned with the inputs into the company's current business (i.e. are further *back* in the value chain). For example, raw materials and machinery. In the case this might include managing musicians and promoting concerts.

- *Forward integration* refers to development into activities concerned with a company's outputs (i.e. are further *forward* in the value chain), such as transport, distribution, etc. In the case, this might include looking at other forms of distribution such as a download site or its own shops.

- *Vertical integration* describes either backward or forward integration into adjacent activities in the value chain. *Horizontal integration* refers to development into activities that are competitive with, or directly complementary to, a company's present activities. For example, many organisations have realised that there are opportunities in other markets for the exploitation of the organisation's core competences. In this case this might mean acquiring or developing new channels or new activities in Rupert shops – perhaps travel.

The point should be made that the 'ownership' of more value activities within the value chain does not guarantee improved performance or better value for money for the consumer or client. Indeed, there has been some degree of disillusionment with related diversification as a strategy, and more emphasis on improving performance within the value system through external linkages and the management of relationships with the various parties in the supply and distribution chains. The ability to achieve this could be a core competence. It would include the need to ensure that innovation and improvement of value for money are occurring within the other organisations (i.e. suppliers and distributors).

Unrelated diversification is where the organisation moves beyond the confines of its current industry. It can be divided into three categories:

- It may involve extension into new markets and new products by exploiting the current core competencies of the organisation. The proposals in this case appear to fall into this category.

- It may involve the creation of genuinely new markets. It requires very good market knowledge and the creativity to better provide for market needs.

- The most extreme form of unrelated diversification is where new competences are developed for new market opportunities. Not surprisingly, this extreme end of the diversification spectrum is less common.

***10 marks** for the content demonstrating an understanding of the concept.*

The Company Secretary might see these as something of a risk. One of the reasons why diversification strategies run into difficulties is that organisations misjudge the degree of relatedness involved. This is a clear danger in vertical integration, which moves the organisation into activities that are adjacent in the value chain (e.g. supply or distribution) but which are entirely unrelated to the organisation's current competences. Developments of this kind seek to take advantage of synergy, the idea that the whole can be greater than the sum of the parts. But joining individuals or work groups together does not always result in harmony! An important point in this case is that much depends on the strength of the Rupert Sounds brand and being able to appeal to its existing market.

Diversified companies seek synergistic relationships as follows:

- *Market synergy* Sales of one product reinforcing sales of another; sharing distribution channels; applying brand names across many products, and so on. Both travel and clothing would make use of the strong Rupert Sounds brand
- *Operating synergy* – Filling out product ranges to occupy spare capacity; sharing infrequently used resources; recycling.
- *Technological synergy* – Sharing product or process technology among divisions; exploiting patents throughout world markets.
- *Financial synergy* Allocating funds among units to gain the best return; using financial strength to raise new capital at low cost.
- *Management synergy* Applying core competences learnt in one sector to another; transferring managers with special skills to areas where they are most needed.

Note to Canadian students: These synergies are not specifically mentioned by Johson, Scholes and Whittington. On Page 272 the text uses four other value-added activities that may be used in your answer: envisioning, coaching and facilitating, providing central services and resources, and intervening.

Does diversification improve performance? The various attempts to demonstrate the effects of diversification on performance are inconclusive. The sum total of the research is, according to Johnson and Scholes, unclear apart from one important message: successful diversification is difficult to achieve in practice. There is some evidence that profitability does increase with diversity, but only up to the limit of complexity, beyond which this relationship reverses. This raises the significant issue of whether managers can cope with large, diverse organisations. The evidence on this is particularly stark for service-based businesses (Clayton 1992).

The theoretical benefits of synergy through diversification are often difficult to achieve in practice. This is particularly supported in the research on diversification through acquisition. In the mid-1990s many large diversified organisations were choosing to split into separate companies, each with a much more clearly defined core business or market focus. An important conclusion of many research studies is that the likely success of diversification is extremely dependent on the circumstances of an organisation, such as the level of industry growth, market structures and the firm’s size. Related diversifiers also tend to out-perform those using unrelated diversification strategies.

Johson, Scholes and Whittington also mention value-destroying activities: Adding management costs, adding bureaucratic complexity, and obscuring financial performance.

In summary, diversification is the riskiest of the four strategies presented in the Ansoff matrix and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in a great uncertainty. In addition, diversification might require significant expansion of human and financial resources, which may detract focus in the core business. Rupert’s should choose this option only when the current product or current market orientation really does not offer further opportunities for growth and where the risks to the existing brand are lowest.

12 marks for the discussion of risks and additional issues.

Clear Pass	Clear and accurate discussion of the nature diversification and how it can be applied to the scenario organisation.
Merit or above	Reviews rather than describes and considers some of the issues and problems that may be encountered with diversification as a strategy.

6. (a) Successful strategy implementation requires organising in three areas; structure, processes and relationships. Using an organisation with which you are familiar, analyse the nature of the strategic processes, specifically strategic control processes that are in use in the organisation.

(15 marks)

Marking scheme

(a) Pages 446- 453.

Strategic control processes can be subdivided in two ways. First, they tend to emphasise either control over inputs or control over outputs. Input control processes concern themselves with the resources consumed in the strategy, especially financial resources and human commitment. Output control processes focus on ensuring satisfactory results, for example the meeting of targets or achieving market competitiveness. The second subdivision is between direct and indirect controls. Direct controls involve close supervision or monitoring. Indirect controls are more hands-off setting up the conditions whereby desired behaviours are achieved semi-automatically. How the six processes emphasise either input or output controls or direct or indirect controls is summarised below

	Input	Output
Direct	Direct supervision Planning processes	Performance targeting
Indirect	Cultural processes Self-control	Internal markets

5 marks for clarifying these distinctions

Organisations normally use a blend of these control processes, but some will dominate over others according to the strategic challenges. The exact nature of candidates' responses will vary from this point on depending on the organisation under consideration, but they might look at:

Direct supervision - the direct control of strategic decisions by one or a few individuals typically focused on the effort put into the business by employees. It is a dominant process in small organisations. It can also exist in larger organisations where little change is occurring and if the complexity of the business is not too great for a small number of managers to control the strategy in detail from the centre. This is often found in family businesses and in parts of the public sector with a history of 'hands-on' political involvement (often where a single political party has dominated for a long period).

Controllers must thoroughly understand what is entailed by the jobs they supervise and be able to correct errors, but not cramp innovative experiments. Direct supervision is easiest on a single site, although long-distance monitoring (for instance, of trading strategies in banking) is now possible through electronic means. Direct supervision can also be effective during a crisis, when autocratic control through direct supervision may be necessary to achieve quick results. Turnaround managers are often autocratic in style.

Planning processes - archetypal administrative control, where the successful implementation of strategies is achieved through processes that plan and control the allocation of resources and monitor their utilisation. The focus is on controlling the organisation's inputs, particularly financial. A plan would cover all parts of the organisation and show clearly, in financial terms, the level of resources allocated to each area This would usually take the form of a budget monitored regularly to measure actual spend against plan.

One strength of this planned approach to strategic control is the ability to monitor the implementation of strategy. Planning processes such as the standardisation of work processes and ERP work best in simple and stable conditions, where a budget or a formula can apply equally well to all the units in the organisation and where assumptions are likely to hold good for the whole of the budget or formula period. Where there is diversity in the needs of business units, standard budgets or formulae are likely to advantage some units, while handicapping others. Because of the dangers of insensitivity to diverse needs in the organisation, it is often helpful to involve those most directly involved in bottom-up planning. In 'bottom-up' planning, local business units at the 'bottom' of the organisation propose initial plans 'up' to the corporate headquarters. The role of the corporate headquarters is to set guidelines for these initial plans and review them when they arrive.

Cultural processes - With rapid change, increasing complexity and the need to exploit knowledge, employee motivation is increasingly important to performance. Under these pressures, promoting self-control and personal motivation can be an effective means of control, influencing the quality of employee input without direct intervention.

Cultural processes are concerned with organisational culture and the standardisation of norms. Control is indirect, internalised as employees become part of the culture. Control is exerted on the input of employees, as the culture defines norms of appropriate effort and initiative. Three processes are particularly important in shaping appropriate cultures: recruitment, the selection of appropriate staff in the first place; socialisation, the integration of new staff through training, induction and mentoring programmes, for example, but also through informal influences such as role models; and reward.

Cultural processes are particularly important in organisations facing complex and dynamic environments. Sometime these positive cultural processes happen without deliberate management intervention. Collaborative cultures can foster 'communities of practice', in which expert practitioners inside or even outside the organisation share their knowledge to generate innovative solutions to problems on their own initiative.

Performance targets - focus on the outputs of an organisation (or part of an organisation), such as product quality, revenues or profits. These targets are often known as key performance indicators (KPIs). The performance of an organisation is judged, either internally or externally, on its ability to meet these targets.
However, within specified boundaries, the organisation remains free on how targets should be achieved. This approach can be particularly appropriate in certain situations:

- Within large businesses, corporate centres may choose performance targets to control their business units without getting involved in the details of how they achieve them.
- In regulated markets, such as privatised utilities in the UK and elsewhere, government-appointed regulators exercise control through agreed performance indicators, such as service or quality levels, as a means of ensuring ‘competitive’ performance.
- In the public services, where control of resource inputs was the dominant approach historically, governments are attempting to move control processes towards outputs (such as quality of service) and, more importantly, towards outcomes (for example, patient mortality rates in health care.)

Market processes (or internal markets) can be brought inside organisations to control activities internally. Here market processes typically involve some formalised system of ‘contracting’ for resources or inputs from other parts of an organisation and for supplying outputs to other parts of an organisation. Control focuses on outputs, for example revenues earned in successful competition for internal contracts. The control is indirect: rather than accepting detailed performance targets determined externally, units have simply to earn their keep in competitive internal markets.

Internal markets can be used in a variety of ways. There might be competitive bidding, perhaps through the creation of an internal investment bank at the corporate centre to support new initiatives. Also, a customer-supplier relationship may be established between a central service department, such as training or IT, and the operating units.

Internal markets work well where complexity or rapid change makes impractical detailed direct or input controls. But internal markets can create problems: consuming important management time, creating a new bureaucracy monitoring all internal transfers of resources between units, and an over-zealous use of market mechanisms can lead to dysfunctional competition and legalistic contracting, destroying cultures of collaboration and relationships. These have all been complaints made against the internal markets and semiautonomous foundation hospitals introduced in the UK’s National Health Service.

10 marks for the remaining content

(b) Explain how performance targeting processes may be used. Briefly show how the balanced scorecard might be used in the organisation as part of this process.

(10 marks)

Marking scheme

(b) One technique that has been developed to integrate the various features of corporate strategic success is the balanced scorecard (Page 451); a set of performance measures that provides the framework for strategic measurement and management. The concept was developed in the belief that 'existing performance measurement approaches, primarily relying on financial accounting measures, were becoming obsolete' (Kaplan and Norton, 1996). Their approach considered the intangible or 'soft' factors that had previously been considered as immeasurable, and as such, of little value. The term 'balanced scorecard' reflected the balance between short- and long-term objectives, financial and non-financial measures, lagging and leading indicators and external and internal performance perspectives. The balanced scorecard includes financial measures that tell the results of actions already taken. It complements the financial measures with operational measures on customer satisfaction, internal processes and the organisation's innovation and improvement activities – operational measure that are the drivers of future financial performance.

As such, the balanced scorecard presents a more even view than that provided by conventional accounts. These are complemented with operational measures on customer satisfaction, internal processes and the organisation's innovation and improvement activities. These are the drivers of future financial performance. Current results are no more important than building the business for the future. The diagram below suggests a typical scorecard. The four sections shown correspond to four perspectives:

- Financial – how well are we satisfying those who put up the money?
- Customers – how well do we serve them?
- Internal business – what are we good at and how good are we?
- Innovation and learning – how are we improving to create better value?

Financial Perspective		**Customer Perspective**	
Goals	*Measures*	*Goals*	*Measures*
Survive	Cash Flow	New Products	% sales from new products
Succeed	Sales and income growth	Responsiveness	% orders supplied on time
Develop	Growth in market share and ROI	Partnership	Number of partners
Internal Perspective		**Innovation and Learning Perspective**	
Goals	*Measures*	*Goals*	*Measures*
Technology	Quality compared with rivals	Technology	Development time Success rate
Manufacturing	Speed, cost and waste in process	Process Learning	Time to learn new processes

Design	Output efficiency Measures of manufacturability	Product Focus	% products as market leaders
Innovation	Meeting innovation targets	Time to reach market	Compare with benchmarks

There are many variants of the basic idea of scorecards and the essence of each is practical application in each organisation. The objectives and the measures of the scorecard are derived from an organisation's vision and strategy. For instance, a service business may use six areas to evaluate: competitive performance; financial performance; service quality; flexibility; use of resources; and innovation. In all cases, we see a combination of feedback and feed-forward control. Here competitive and financial performances are instances of feedback. The last four factors, on the other hand, cover 'inputs' that make the difference for the future. Thus, we best see them as examples of feed-forward control.

Companies such as Mobil, PepsiCo and Skandia have made use of the framework.

Kaplan and Norton extended their scorecard idea to propose an enhanced strategic management system. Again, the central theme is to avoid over-reliance on traditional financial controls. Using a range of perspectives helps managers overcome four hurdles of strategy:

- Translating the vision - Enables broad, appealing mission statements to be converted into objectives with practical meaning at all levels.
- Communicating and linking - Helps managers develop a shared view through communicating the strategy throughout the organisation.
- Business planning - Facilitates integration of financial and operating plans.
- Feedback and learning - Ensures that feedback is used to enhance the strategy process for the future.

The idea of the balanced scorecard and the approaches derived from it are practical and less concerned with creating a general model of control but rather correcting imbalances as they confront them. Linked to corporate strategy they apply both internal and external criteria and combine the short-term with the long-term view.
More recently, Kaplan and Norton have developed a version of the scorecard for the not-for-profit sector that charts donors, beneficiaries, processes and learning.

5 marks *for outlining the component parts of the scorecard.*
5 marks *for application or discussion in the context of the chosen organisation.*

Note to Canadian Students: Johnson, Scholes and Whittington only briefly mentions the Balanced Scorecard providing an exhibit and an illustration. The question asks about Performance targeting processes so an appropriate answer would describe some of the approaches that could be used within large businesses, in regulated markets and in the public services. A commentary that these targets may be challenging as they only give a partial view leads to a potential solution of using balanced scorecards. A brief description of the components of a balanced scorecard and how it could be applied would then follow.

Clear Pass	Clear and accurate understanding of the range of strategic controls and uses organisational examples to explain them. Understands the nature and purpose of the BS.
Merit or above	The above and is clear about the application of the controls in certain circumstances. Recognises the main connection of the BS with strategy and purpose.

(Total: 25 marks)