

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 2017

NOTES:

Section A: Answer Question 1.

Section B: Answer **two** Questions **only**. Should you provide answers to all of Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.

Time Allowed

3.5 hours plus **20 minutes** to read the paper.

Examination Format

This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute's website.

Reading Time

During the reading time you may write notes on the examination paper but you may not commence writing in your answer booklet.

Marks

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Answers

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

Answer Booklets

List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.

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SECTION A - ANSWER QUESTION 1

1. Case Study

The Greater Dublin Area Local Authority (GDALA) provides a wide range of services for the people of the greater Dublin area, including sports amenities. As part of its mandate to provide such amenities, GDALA owns and operates seven sports and fitness centres located around the greater Dublin area. These are all very similar in terms of facilities and services offered. Baytown Leisure and Fitness Centre (BLFC) is one of these sports and fitness centres, and is located in Baytown - a suburb to the north of the greater Dublin area.

The CEO of BLFC reports to a board of directors that comprises five senior managers from GDALA. Legally, the staff of BLFC are not employees of GDALA and, in theory, do not enjoy the same employee protections and union recognition as GDALA employees. In reality, however, this has not been the case as the management of BLFC have always recognised and negotiated with the staff union.

The stated mission of BLFC is:

We bring sport to the community. We provide the people of Baytown access to excellent sporting and fitness amenities, affordable for everyone.

As this mission statement suggests, BLFC is not run as a profit-making enterprise, and instead is viewed as a public amenity. That said, BLFC is mandated to be self-sufficient, year to year. Revenue in any year should fund its full operating costs as well as maintenance and renewal programmes. The GDALA does not subsidise its operating costs. From the beginning, this has created a tension between BLFC's 'mission as a public amenity' and the reality of needing to operate at a surplus every year.

BLFC was completed in 2005, having been designed as a state-of-the-art facility. The original build and fit-out cost of BLFC was €19m. The main facilities include a 30m swimming pool and an 8m learner pool; a 1,100m² sports hall; a 400m running track; three 'five-a-side' AstroTurf pitches; a 250m² gym; and 4 studio rooms for fitness classes. Over the years, and in particular during the recent economic crisis, BLFC was unable to fund maintenance and refurbishment to the necessary level, and the facilities need to be revamped as they look dated. In the past year, two other leisure and fitness centres owned by the Greater Dublin Area Local Authority have received €0.5m each to refit their facilities, although so far such funding has not been proposed for BLFC.

BLFC opens from 7am to 10pm Monday to Saturday and 9am until 6pm on Sundays. The gym and swimming pool are run using its own staff, but it rents the sports hall, studio rooms and pitches to clubs and individuals. These clubs and individuals provide a range of activities including soccer, basketball, athletics, yoga, judo, spinning classes, and so on. As well as the gym, the most popular activities are swimming lessons (mostly for local schools) and holiday camps where parents can book in their children for a range of activities over a five-day camp. BLFC has found it difficult to balance the use of the facilities. Apart from the swimming pool, most facilities are rarely used during the day, but are busy in the evenings and at weekends.

Having transferred from GDALA, Mr Jonathan Curtain was the CEO of BLFC from the time it opened until his recent retirement. After a selection competition, he has been replaced by Ms. Lisa Power, who was an external candidate and a surprise appointment. She has over 20 years' experience working in and managing fitness and leisure centres, and completed an MBA in 2013. Lisa took over as CEO on 1 July 2017. As well as being CEO, Lisa is responsible for managing the swimming facilities (as was her predecessor). Similar to Mr. Curtain, the remainder of the management team have all worked for BLFC since it opened, transferring from other GDALA sports facilities. They were all interviewed, unsuccessfully, for the CEO role.

Apart from the management team, there are currently 54 people working in BLFC, including part-time and weekend staff. During the Summer and Easter holidays additional temporary staff - usually college students - are taken on to help run the children's camps. Due to the nature of the work - for example, gym instructors, swimming

coaches and so on - staff must have the required regulatory qualifications. Reviewing HR records, Lisa has noted that staff turnover, especially in the past three years, is relatively high for front-line employees, including gym instructors, swimming coaches, lifeguards and receptionists. These groups receive average rates of pay for the sector. On the other hand, there is no turnover among supervisory staff / team leaders who have all been with BLFC since it opened.

The pricing of classes and access to facilities has always presented a difficulty for BLFC, particularly on account of its mission to provide community access while at the same time being financially self-sufficient. Over the years, and especially during the economic downturn, many clubs and community groups complained about the prices charged, and around 12% of clubs decided to stop using BLFC's facilities. At the time, management saw it as a vicious circle because as demand fell, BLFC increased prices and cut costs and service, all of which led to more complaints and further reduced demand.

There are still some complaints about prices being too high, although Lisa has compared these with those of private competitors in the area and they are not out of line. However, some clubs and individual members argue that BLFC has the additional objectives of promoting participation and social inclusion, and that this should influence pricing. In the past, BLFC has defended its pricing structure, stating that it is very carefully balanced to achieve these objectives. For example, it offers substantially reduced 'off-peak' and 'special time' rates, where for one hour every day, access to the running track, sports hall and swimming pool costs half the normal price.

Overall, in the past three years the number of clubs using BLFC has recovered, but there is still around 10% reduction in the number of annual memberships and 'pay-as-you-go' visits to the gym and swimming pool facilities. To date, the management team has not been able to decide on an approach to address the fall-off in annual memberships and 'pay-as-you-go' visits. There are several competitors in a radius of 3kms around BLFC, however none have the same range of facilities. There are two hotels, both of which have gyms and swimming pools, while the local GAA Club has two Astro turf pitches and a multipurpose hall. There are three other health and fitness facilities that have gyms and run fitness classes. Clubs and individuals must travel to the next nearest suburb to access any other health and fitness facilities.

BLFC's marketing communications strategy uses both traditional and social media. It takes out a large advertisement in local newspapers every three months: starting with a two-page advertisement every January. BLFC also uses a webpage and Facebook page to promote its services. These were professionally developed externally six years ago but they are kept up to date by one of BLFC's administrators. The administrator is non technical and updating social media is only one of her responsibilities. In fact, she is not always made aware of some of the offers or announcements.

David, the marketing manager, spends a lot of time contacting and dealing with clubs and schools that use BLFC, trying to ensure that the relationship continues. He has built up good relationships with the clubs and schools over the years and believes that this is key to their loyalty. BLFC occasionally - perhaps once per year - conducts a membership drive. This usually involves a reduction of 10%-20% for annual membership or three free months for someone who refers a new member. These initiatives tend to generate between 20 and 30 new annual memberships.

Lisa has agreed to present a strategic review and draft strategy for BLFC to the board of directors in three months' time. She has asked you to evaluate BLFC and its business environment and to advise her on the best way forward.

REQUIREMENT:

Prepare a report for BLFC in which you:

- (a)** Critically analyse the strategic position of BLFC, drawing on your assessment of the key drivers of change prevailing in the environment, and applying the relevant theories and models;
- (b)** Critically evaluate the key issues facing BLFC and the options available for dealing with such issues; and
- (c)** Recommend an appropriate strategy to ensure the best way forward for BLFC.

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about Baytown Leisure and Fitness Centre and its environment that will give you sufficient scope to demonstrate a high level of critical thinking, analytical skills and strategic vision, as over 50% of available marks will be allocated to these areas).

(Total: 50 Marks)

SECTION B - ANSWER TWO QUESTIONS ONLY.

- 2.** Ms. Lisa Power has been CEO of Baytown Leisure and Fitness Centre (BLFC) for less than two months. This is her first appointment as a CEO, however she is keenly aware of the influence and importance of the role. Since her appointment, Lisa has spent a lot of time speaking with front-line employees, for example, gym instructors, swimming coaches and administration staff. These conversations have led her to conclude that in general the staff are well-meaning, but have lost any real enthusiasm for their work and there is a lot of disillusionment. Additionally, staff turnover is relatively high.

While completing an MBA, Lisa attended a number of personal development courses and has a good understanding of her personality traits and how these impact on her leadership style. She would describe herself as “determined, introverted, reflective, but assertive if not receiving the cooperation expected”. Lisa recognises that she will ‘probably never give an uplifting speech that will change the world’, but also emphasises that when dealing with colleagues, one-to-one, she is comfortable and effective.

Lisa has also recognised that she is receiving less than full support from the rest of the management team. In particular, she is finding it difficult to work with David, the marketing manager. Lisa has been told that many staff members expected him to become the new CEO. She is not sure whether the difficulties with David result from a personality clash, resentment towards an outsider, or anger that he failed to be appointed CEO. Irrespective, Lisa knows the management team members need to work effectively together, and, in particular, she must find a way to work effectively with David.

REQUIREMENT:

- (a)** Bearing in mind the staff issues in BLFC and Lisa’s personality, critically appraise an appropriate leadership style(s) for Lisa when managing front-line staff.
- (15 Marks)
- (b)** Advise Lisa on how to constructively manage the potential conflict between herself and David, the marketing manager.

(10 Marks)

(Total: 25 Marks)

3. International Logistics Ltd (ILL) is Ireland's largest road haulage and logistics firm. It is very successful and has gone through a period of rapid growth over the past five years. This has included both international expansion and service diversification. A number of key acquisitions were essential to this strategy. Below is an outline of the company's current areas of activity.

Road Haulage

On account of its competitiveness and through the use of judicious acquisitions, ILL has expanded into several European countries: France, Spain, the Netherlands and the UK. A critical factor in ILL's success is that, despite its large size, it is very responsive to localised customer requirements and local regulations.

Warehousing and Logistics

ILL provides warehousing and logistics services for clients from a wide mix of industries. In addition to the countries identified above, the company has a growing business in warehousing and logistics in Germany. The critical factors in this sector are scale and price competitiveness.

Managed Logistics Services

Using its experience and reputation, ILL has also developed a service where it manages client firms' logistics and warehousing. Currently, the company provides this service only in Ireland, France and the UK. Similar to road haulage, responsiveness to localised customer requirements seems to be the critical success factor in the sector.

Robotics

The company has recently made its largest ever acquisition, a German firm that manufactures and installs robots used in warehousing. ILL intends to use the acquisition to further underpin its competitive position in logistics and managed services. The company considers engineering creativity and product reliability to be the critical ingredients for success in the sector.

While ILL has evolved, its organisational structures have not. The firm is struggling to coordinate all of its activities. Following a review of its organisational structure two proposed alternatives have been put to management for consideration:

1. Product divisionalisation, where ILL would organise activities based on its four main products/services.
2. Area divisionalisation, where ILL would organise activities based on its main country-markets.

REQUIREMENT:

Write a report to International Logistics Ltd in which you critically assess both proposed organisational structures. Recommend, with justification, the alternative that the firm should adopt.

(Total: 25 Marks)

4. Greenland Dairies Plc is a large Irish agri-food business. In 2016, the company reported revenues of over €1bn for the first time, and earned €46m profit. However, investors and the business press described the results as 'disappointing': on the basis that these are considerably weaker than those announced by the firm's main rivals. The CEO at the time, Mr Jim Moriarty, defended the results stating that they were good and over 1% better than those reported by the firm for 2015.

An investment fund which owns 3.5% of the firm's shares has aggressively pushed for changes in both the strategy and the senior management team of the firm. As evidence of the need for change, the investment fund managers prepared a dossier of what it describes as issues regarding how the company's senior management makes strategic decisions. These include:

- The senior management team seems to 'copy' the strategies of competitors rather than identifying a unique strategy of its own.
- Consensus seems to be very important among the senior management team. "We speak with one voice", stated Mr Moriarty.
- The senior management team frequently appears to be arrogant and over-confident; especially in light of the disappointing outcomes arising from its strategic decisions.
- The firm's results have improved incrementally and senior management has repeatedly pointed to this as a justification for decisions made. However, the business has been out-performed by its main rivals in each of the last five years.

Mr Moriarty decided to step down in May 2017. Very reluctantly, the Board agreed to appoint 'an outsider' as CEO. The successful candidate was Ms Ana Bergström, who was previously Marketing Director for Agri-Denmark A/S, Denmark's second largest dairy and agri-foods firm. Ana has over 25 years' experience in the industry and a formidable reputation.

There were no further changes made to the senior management team, who are all male and have spent the majority of their careers with Greenland Dairies Plc.

REQUIREMENT:

- (a) Critique the cognitive biases and distortions that seem to have impacted on the strategic decision-making processes in Greenland Dairies Plc. (16 Marks)
- (b) Advise Ana Bergström on how she and the senior management team might avoid strategic decision-making shortcomings likely to impact the firm's strategic decision-making processes going forward. (9 Marks)

(Total: 25 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 2017

SOLUTION 1

To: Ms. Lisa Power
Baytown Leisure and Fitness Centre
Baytown
Dublin
Ireland

From: A Student
CPA Consultants
Dublin
Ireland

Date 28 August 2017

Re Strategic Review of Baytown Leisure and Fitness Centre

Dear Lisa

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Position and Direction open to Baytown Leisure and Fitness Centre at this time. The enclosed report has three parts:

- (a) Analysis of the strategic position of the organisation.
- (b) Assessment of the key issues facing the organisation and evaluation of its strategic options.
- (c) Strategic proposals to develop Baytown Leisure and Fitness Centre going forward.

I am available to discuss the report and to provide any additional information or explanations if you should require them.

Yours sincerely,
A. Student
CPA Consultants

(a) Strategic Analysis of Baytown Leisure and Fitness Centre

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Baytown Leisure and Fitness Centre (BLFC):

- PESTEL
- Five Forces Model
- Resource analysis
- Value Chain
- SWOT

The General Environment (PESTEL)

1. Political and Legal Factors

The leisure and fitness sector does not have an obvious and direct link with politics, however the Irish Government, like most governments, are concerned with the health and well-being of the population. In addition to the general emphasis on health promotion, of significant concern to the Government at the moment is the worrying trend of inactivity and obesity, and its consequences - for individuals and for the State.

In response, the HSE and the Government have developed policies such as the Department of Health's 'A Healthy Weight for Ireland: Obesity Policy and Action Plan 2016-2025'. The Government and HSE also invest in practical steps to promote activity and exercise, including operating public amenities such as parks - and publicly owned leisure and fitness centres. The main objective of these policies and actions is to increase people's activity levels.

This is likely to translate into a wider appreciation and use of leisure and fitness centres, and is a significant benefit for the sector.

Lastly, although not highly regulated, the sector must comply with normal business regulations, as well as those particular to the sector in relation to the qualifications and numbers of staff necessary to oversee, for example, swimming pools. This tends to increase the cost base for the industry as only qualified, and therefore more expensive staff, may be recruited.

2. Economic Factors

The Irish economy is again performing very well. The ESRI have predicted that the economy will expand by 3.8% in 2017 and a further 3.6% in 2018. This translates into more people in employment and more people with additional money to spend. For example, the ESRI forecast that unemployment will continue to fall, and should reach around 5.4% during 2018 - down from the current unemployment rate of 6.2%. The impact of these economic trends will result in a general increase in demand in the economy, and because the leisure and fitness centre sector is dependent on discretionary spend, an overall increase in use and demand in the sector.

However, while the general economic environment is positive, as a counterpoint, there are a number of concerns that may undermine the performance of the Irish economy, and therefore the performance of the leisure and fitness centre sector. These include the continuing - even increasing - uncertainty about the nature of The UK's Brexit out of the EU and the instability created by the outcome of the recent UK elections. Economic performance tends to dip in times of uncertainty, and these issues may cause a drag on the Irish economy, and as a result, the leisure and fitness centre sector.

3. Social and Cultural

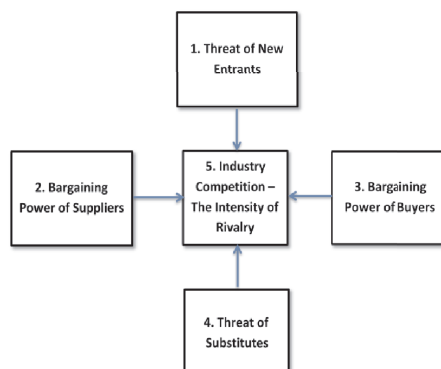
As identified above, Ireland has a growing obesity problem. According to the WHO, Ireland is forecast to be the most obese country in the world by 2030. To avoid this, Irish society will need to change its eating and activity habits radically. To the extent that society does this, and it is by no means certain that it will, leisure and fitness centres should benefit. An increasingly healthy lifestyle will inevitably make more use of leisure and fitness centres' facilities and expertise, developing a new and potentially important target market for the gym and leisure centre sector.

There are two other societal and demographic trends that should prove beneficial to the leisure and fitness centre sector. Firstly, Ireland has a growing population, and especially a growing younger population. The CSO forecast that the population of the Republic will grow to approximately 5m-5.3m by 2026. Those people under 34 are the most important user group, or target market, for leisure and fitness centres, and this trend should provide an expanded target market for the sector. Secondly, people in general, particularly younger people under the age of 34, are more conscious of their image. In addition to spending money on health and beauty products, people see the benefits of membership of leisure and fitness centres. This again should lead to a potentially larger important target market for the sector.

4. Technology

Technology impacts every sector, and the leisure and fitness centre sector is no exception. The technology incorporated into exercise and weights equipment has evolved and equipment such as treadmills, cross-trainers and stationary bikes, are all programmable to provide a variety of exercise routines to users. Although not used to a great extent as yet, the use of wearable technology to support exercise and fitness programmes is likely to increase in the future. This technology will allow users to assess a range of data and supports, for example, heart rate monitoring, distance walked/run, routes run, to enhance their fitness regime. Lastly, the technology used to manage an organisation and to interact effectively with clients, as well as suppliers, is constantly evolving. Websites and social media, computerised record keeping and accounting, and so on, enable leisure and fitness centres to be more efficient.

Competitive Environment (Porter's Five Forces Model)



Porter's Five Forces Model provides an insight into the nature and dynamics of competition in the leisure and fitness centre sector.

1. The Intensity of Rivalry

There are over 100 gyms in Dublin City, ranging from full line gyms which provide a wide range of fitness and exercise activities to gyms that are quite focussed, usually on exercise equipment and weights. As a result, the sector is very fragmented and differentiated - typically on location, equipment, classes and atmosphere. There are only a few chains of fitness centres (for example, Ben Dunne Gyms and Flye Fit) and these each have less than five outlets. As there are a large number of relatively smaller competitors, and no dominant rivals, competition tends to be intense. It is difficult for gyms to achieve meaningful differentiation and customer switching costs are low: once an annual membership has elapsed, customers are free to move to alternative providers. This further intensifies rivalry. The only factor that seems to dilute rivalry at present is the growing level of demand. Overall, the fragmented nature of the sector and the low switching costs would tend to suggest that the level of rivalry in the sector is medium to high.

2. The Threat of New Entry

The combination of the future potential of a sector and the extent of entry barriers into the sector are the key determinants of the attractiveness of a sector to new entrants. The gym and fitness sector does not have significant entry barriers, although if a potential entrant wishes to open multiple outlets, capital may become a potential limitation. The availability of the necessary resources - equipment, premises, staff - makes the sector relatively easy to enter. Although, a shortage of commercial premises, and the consequent increases in rents, has made it a little more difficult. As already identified there are low buyer switching costs and it is difficult to create a true differentiating factor. Presumably, levels of customer loyalty tend to be low. Overall, there are few significant barriers to entry, and as a result, the risk of new entrants tends to be higher.

3. The Bargaining Power of Suppliers

If a supplier of a key input has high relative influence in the contract/sales negotiations, it will naturally use this power to increase prices and improve its sales terms. There is no one critical input into the fitness and leisure centre sector, although there are a number of key inputs, including the suppliers of (qualified) labour such as gym instructors and swimming coaches and the suppliers of gym equipment.

The availability of potential candidates for roles such as gym instructor and swimming coach is quite high. There are a lot of third level institutes, and other organisations, that provide the necessary courses and accreditation for people interested in pursuing a career in the sector. The wider supply of people with the necessary qualifications inevitably puts downward pressure on wages rates in the sector, although, there is always a demand for experienced and expert instructors and coaches. The suppliers of gym equipment try to differentiate using technical specifications, reliability and branding. In addition, individual gyms do not purchase equipment in any volume, and will generally have to accept the given sales terms and prices. On the other hand, larger chains may be able to negotiate more aggressively due to their scale. Overall, suppliers have a low to medium influence on the sector.

4. The bargaining power of buyers

There are three main types of buyer of the services and facilities provided by large fitness and leisure centres. Individuals, and families, who use fitness and leisure centres, for swimming for example, tend to be loyal only to the extent that there are alternatives and competitors in the locality. It can be difficult for fitness and leisure centres to differentiate and therefore maintain a client loyalty: there are few switching costs encountered by clients apart from inconvenience and the comfort factor of familiarity with facilities.

There are two other categories of buyer. Firstly, there are the clubs that use leisure and fitness centre for their own members - for example, swimming or athletics clubs. Secondly, there are the individuals that rent facilities to provide their own classes - for example, yoga or zumba classes. These two categories tend to have more influence than individual users as they frequently provide more revenue and they tend to more actively search for alternatives and negotiate more professionally. Overall buyers have medium to high level of influence. The clubs and individuals who rent facilities are demanding and the individual users will need to find the service provided good or they will be motivated to change to an alternative.

5. The Threat of Substitutes

Similar to rivals and the potential for new entrants, the availability of substitutes constrains competitors in a sector. A substitute provides an alternative service that more or less fulfils the same need, but provided by a different sector. The influence of substitutes depends on their pricing, availability and comparability. With the exception of the swimming pool, fitness and leisure centres confront a range of viable alternatives. These include going walking or jogging, home exercise equipment, exercise DVDs and team sports. These substitutes are easy availability, generally comparable and frequently lower priced. Overall, substitutes have a medium to high impact on the sector.

Conclusion

Overall, the level of rivalry, the availability of substitutes, the relative ease of new entrants and the influence of buyers tend to make the fitness and leisure sector relatively competitive.

Resources and Competences

Resources may be assessed from a number of perspectives

1. Physical resources, human resources, financial resources, intangible resources
2. Strategic capabilities: threshold and unique resources and competencies

1. Physical Resources

BLFC is a full range fitness and leisure facility. It includes a swimming pool, sports hall, gym, running track, studio rooms and Astro turf pitches. BLFC find it difficult to manage capacity: many of the facilities lay idle for most of the week, but are very busy in the evenings and at weekends. BLFC's facilities were state-of-the-art when originally constructed 12 years ago, but have not been maintained as frequently as necessary, and therefore are in need of a refurbishment.

2. Human Resources

In the context of the service nature of the sector, human resources, and in particular, customer facing staff are key to BLFC's success. There are effectively two categories of staff in BLFC. Firstly, there are the managers and supervisory staff who have worked in BLFC since it opened, and who seem embedded in the organisation. The second group are the front-line, customer facing staff. This group seems to be less engaged and employee turnover is high in this group. They may perceive a glass ceiling that prevents them from career progression in BLFC given the lack of promotional opportunities, as supervisory staff and managers have not turned over since it opened.

3. Financial Resources

BLFC is owned by the GDALA, and in theory would have the GDALA's financial resources available to it. However, BLFC is mandated to breakeven, and generate a surplus sufficient to cover maintenance and refurbishment. It has not been able to achieve this for the past several years. It is not explicit in the brief, but it is likely that GDALA has not provided any funding support - other than the original investment. (However, there is the possibility of €0.5m funding for refurbishment being suggested...)

4. Intangible Resources

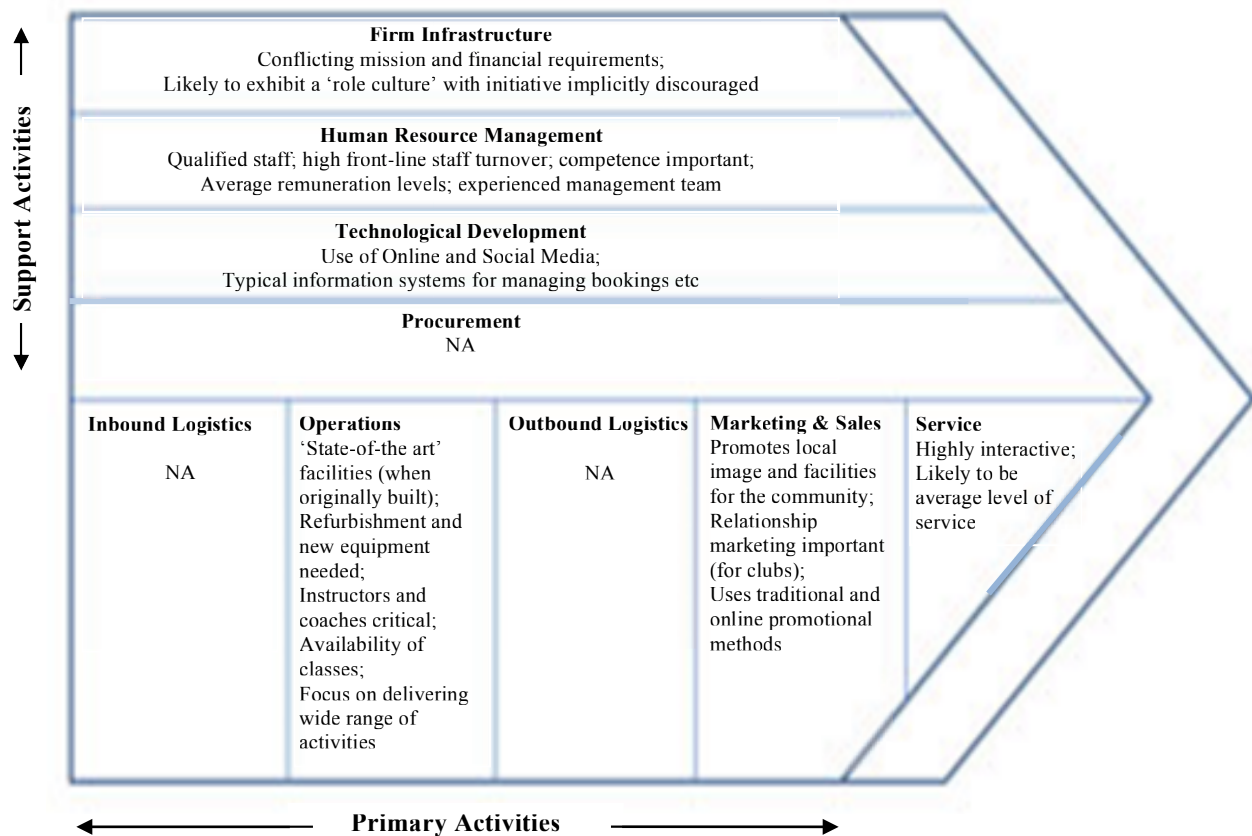
BLFC has been in operation for 12 years and during that time will have accumulated significant experience and operational knowledge. It has a well-known brand name in the locality and it has built up relationships with users of the facilities - especially decision-makers within clubs.

5. Unique resources and competencies

The resource based view of the firm suggests that firms should identify the resources and capabilities it possesses, particularly those that are superior to rivals, and base their competitive strategy around them. Unfortunately, it is difficult to identify significant unique resources and competencies for BLFC that it may leverage for advantage: at present BLFC seems unremarkable. However, possible unique resources and competencies may include:

- Its wide range of activities and facilities;
- Mr. Malone's relationships with client clubs;
- BLFC's brand, reputation and experience: it is open for 12 years;
- Links with, and support - including financial - from the GDALA;
- Ms. Power's experience and the impetus and energy her appointment may create.

Value Chain of BLFC

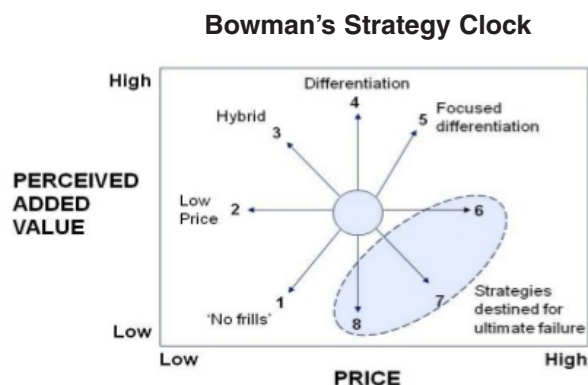


SWOT Analysis of BLFC

A useful analytical summary and decision-making tool is a SWOT Analysis. However, the analyses need to be based on research and data, not just management opinion.

Internal	Strengths <ul style="list-style-type: none"> Comprehensive range of fitness and activity facilities Well-known brand name in the locality Management is very experienced New CEO may reinvigorate the organisation Owned by the GDALA and should have its (financial) support Good relationships with users, especially clubs 	Weaknesses <ul style="list-style-type: none"> Conflict in relation to its mandate as a community amenity and needing to be financially self-sufficient Perceived by some users to be relatively expensive Facilities need refurbishment and equipment to be replaced High turnover of front-line staff Problematic organisational culture Potential tension at management level
External	Opportunities <ul style="list-style-type: none"> The continuing economic recovery in Dublin area; therefore, more people can afford gym membership The increasing importance of healthy lifestyles and body image Making more use of facilities during off-peak times The potential for investment from the GDALA Improved marketing to further grow the existing user base <ul style="list-style-type: none"> Use of social media Link with larger local businesses allowing their employees reduced / subsidised membership Promote other related services to clients <ul style="list-style-type: none"> For example, well-being and nutritional courses, technologically integrated fitness programmes 	Threats <ul style="list-style-type: none"> The relationship between BLFC and the GDALA <ul style="list-style-type: none"> In particular, if this were to deteriorate The market is competitive and highly fragmented The rising cost of living in Dublin <ul style="list-style-type: none"> Causing a reduction in individuals' discretionary spending The implications and uncertainties created by Brexit and the recent general election in the UK <ul style="list-style-type: none"> Creating business and economic uncertainty Technology advances that increase the attractiveness of substitutes for fitness and leisure centres <ul style="list-style-type: none"> For example, wearable technology and internet based courses

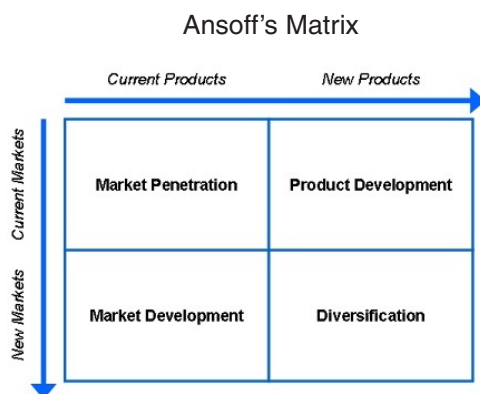
(b) Issues and Challenges BLFC



Bowman's "Strategy Clock" uses price and perceived value combinations to identify eight possible competitive positions open to firms. In that way, it overtly overlaps and develops Porter's three generic competitive strategies.

BLFC seems to be following a 'differentiation' competitive strategy: it provides a wide range of facilities to a variety of individual and family users, clubs and exercise class entrepreneurs. It seems to charge a high price for the facilities, in spite of it having a mission as a community amenity. While following a differentiation strategy BLFC does not seem to have any one key differentiating factor, beyond its range of facilities, which rivals do not have.

In a sense, the strategy being pursued by BLFC is a natural consequence of its public ownership and mission. It was conceived and developed to provide a public service to the local community, and that is how it is operating. For example, the inclusion of a running track in the facility is more related to the original decision to build that amenity than it is related to a deliberate decision to create a specific competitive advantage, or differentiating factor.



Firms have a range of potential growth options available, and Ansoff's matrix of generic growth strategies seeks to categorise these in terms of present and potential products and markets. As the diagram above illustrates, Ansoff identified four possible product-market growth options. The firm's resources and competences determines which combination of options it may realistically pursue.

BLFC has a mission to provide leisure and fitness amenities to the local community. In that context, its mission places an external constraint on its growth options. Initially, and most important, BLFC should attempt to maintain and further penetrate its current market. BLFC needs to attract more users, individual and club, to use its facilities. For example, there is significant available capacity during off-peak times. To achieve this, BLFC need to review its promotional and pricing strategies, particularly its off-peak rates.

BLFC also has the options of developing new markets and / or services. Obviously, it cannot expand into new geographic markets, however, it may develop new demographic or user markets. A potential option for BLFC would be retirees, or 'the grey market', who are more active and wealthier than their predecessors. This group also has the benefit of having more free time during BLFC's off-peak hours. BLFC's may also organise competitions - basketball, soccer - to increase the use of its facilities.

In the context of the above analysis and the issues that Ms. Power has identified and encountered to date in her role as CEO, the following are the key issues that Ms. Power and the Board of BLFC need to consider.

1. The pricing structure of BLFC. This is seen as expensive by some users. BLFC's mandate to provide leisure and fitness amenities to the community, while also being self-financing, is a balancing act in terms of pricing. Therefore, frequently there will be stakeholders who consider the pricing unfair in the context of its community remit.
2. Ms. Power and her relationship with the Board. There are political concerns at play in any organisation, and as 'an outsider' Ms. Power needs to ensure that she has a good relationship with the Board, and access to key decision-makers within the GDALA organisation.
3. The need to refurbish BLFC. Buildings that have a very high footfall inevitably need to be maintained and refurbished on a regular basis. As a result of the economic crisis, BLFC had to reduce prices and services to users, and was therefore unable to put aside funds to finance refurbishments as needed.
4. Staff turnover and engagement levels. There is an issue with regards to front-line staff and their level of engagement and a related higher than average staff turnover. These issues directly impact on BLFC front-line services and will also impact on BLFC's cost base.
5. Capacity utilisation. BLFC has a great range of facilities: running track, AstroTurf, sports hall, etc. However, these are being significantly underutilised as they are only busy in the evenings and at the weekend. This results in the associated fixed costs having to be absorbed by relatively lower levels of activity.
6. BLFC's marketing communications. BLFC makes use of online and social media, however these can be used more effectively. In particular, the person responsible for their maintenance, while enthusiastic, is untrained and not necessarily made aware of relevant announcements or programmes.

(c) Recommendations for BLFC

The following are recommendations that BLFC may use to address its current concerns and to develop into the future.

1. BLFC should continue with its current differentiation strategy. It has the facilities, human resources and experience to effectively deliver this strategy - which is in effect the only one open to BLFC given its dual mandate and ownership structure. Although, technically not a commercial organisation, BLFC nevertheless needs to ensure it is competitive in the marketplace and that it has a coherent strategic approach, albeit consistent with its public remit.
2. BLFC should investigate the specific reasons for the disengagement of front-line staff and for the high levels of staff turnover. The results of the investigation should inform possible changes in wage rates and HR policies, and potentially in particular in relation to promotional opportunities.
3. Ms. Power is an outside appointment. She needs to build a good working relationship with the Board and with other influential actors within the GDALA. Ms. Power's ability to build a political network within the GDALA will be important to BLFC's strategic development.
4. Ms. Power and BLFC should lobby the GDALA for the same refurbishment grant that some other leisure facilities have received. BLFC must involve its users, particularly clubs using its facilities, and all its other stakeholders in this lobbying effort. BLFC need to argue that the grant would not just benefit BLFC but would be a positive investment in the entire local community.
5. BLFC need to analyse the needs of the local market and in particular seek opportunities to increase its capacity utilisation. BLFC need to identify individuals and local groups that are not currently using its facilities and may be persuaded to do so, especially during the day. Of particular relevance may be retirees - the so called 'grey market'.
6. Related, BLFC need to review its current profile of users. BLFC seems to have a good understanding of the needs of the clubs that use the facilities, thanks to Mr. Malone's relationship with them. However, the brief provided suggests not enough is known about the needs of individual users. This research may identify gaps in service that BLFC can fill, thus increasing the number and level of services it provides.
7. Again, linked to the above, BLFC needs to review its pricing policies. There are two reasons for this, BLFC may be able to use pricing policies as a means of attracting users, either individuals or clubs, to its facilities off-peak. Secondly there are complaints about the high level of prices - this may be an early warning that BLFC is overcharging for the level of service it is providing.
8. BLFC needs to make more and better use of online and social media marketing. These are the media of choice for many of its target market. BLFC needs to either provide training to the person currently administering these for BLFC or recruit someone with the necessary expertise. Additionally, at the moment not all offers, information, etc., is made available to the person responsible for these media. BLFC needs to ensure that everyone understands the need, and the benefits, of having an up-to-date and interesting online presence.

Indicative Marking Scheme for Question 1

	Marks
(a) Application of PESTEL	
• PESTEL implications should be related to the case scenario	
• 6 elements x 2 marks; maximum of 10 marks	10
Application of Five Forces Model	
• Indicators identified by Porter must be used to reach a conclusion for each force	
• 5 forces x 2 marks	10
Analysis of Resources and Competences	
• Explain main resources, should indicate relative importance to competitiveness	3
• Explain main competences, should indicate relative importance to competitiveness	3
• Use of Value Chain analysis	3
	<u>9</u>
Preparation of a SWOT Analysis	
• Should relate and link strengths to weaknesses, opportunities and threats	
• Issues in the SWOT should be prioritised, not just listed	<u>5</u>
	34
(b) Assessment of issues and options	
• Must be logical and clearly relate to previous analysis	
• Should refer to relevant models (Bowman or Porter, Ansoff...)	
• Issues and options should be prioritised, not just listed	8
(c) Strategy / Proposals	
• Must be logical and clearly relate to previous analysis	
• Recommendation(s) should be prioritised, not just listed and justified	<u>8</u>
Total Marks	<u>50</u>

SOLUTION 2

(a)

The senior management of an organisation, and in particular the CEO, are the critical drivers of organisational performance. There is no single, coherent theory of leadership; and in the same way, people in leadership roles fulfil them in a wide and sometimes unpredictable variety of ways. This will depend on the organisational situation, but fundamentally, it will be informed by the personality of the person in the role. In a general sense, according to Richard Daft, "leadership is the ability to influence people toward the attainment of organisational goals." However, the level of influence, and how it is manifested, is frequently context specific.

The new CEO of BLFC, Ms. Power, has been appointed from outside the organisation. In theory this can be a significant benefit to her, insofar as she is not identified with either the extant employee and organisation culture problems or the current senior management. As she is not constrained by these, it may give her the freedom to make changes in management style and organisational policies that will alleviate the current HR difficulties. At present, front-line staff are not engaged with their work, there is some disillusionment and staff turnover is relatively high. Among other things, these issues are likely related to staff's wage rates and to the seemingly limitations on promotional opportunities. That said, in one-to-one conversations, Ms. Power has come to have a more positive view of staff, concluding that they are well meaning. There are several leadership theories that may inform Ms. Power in how to most effectively lead front-line staff, and Situational Leadership Theory will be used to explore and inform Ms. Power on how to best approach the situation.

Situational leadership theory was developed by Blanchard and Hersey during the late 1960s through to the mid-1970s. Situational leadership theory argues that leaders may utilise four alternative leadership styles and the choice on which one to use depends on the nature of the situation. In this theory, the leader adapts their leadership style to the follower context. The most effective leadership style will depend on the readiness, or development level, of the individual or group in question. This in turn will on the individual's or group's combination of competence and organisational commitment.

Situational Leadership Theory identifies four leadership styles:

1. Telling and Directing, where the leader makes the decisions, is very involved and closely supervises the staff.
2. Selling and Coaching describes where the leader is still very involved in day-to-day activities, but employees are supervised but in a coaching rather than directive manner.
3. Participating and supporting, where employees are given more responsibility and where the leader provides feedback and increases employees' confidence levels.
4. Delegating, where the leader is involved least with the employees.

For example, if the individual or group is highly competent and highly committed to the organisation's success, the employees know their role and little supervision is required. Blanchard and Hersey explain that this situation requires a 'delegating style' where the employees are more responsible for performance and the leader is less involved, while still providing some direction and performance feedback.

As a result of their particular roles - swimming coach, gym instructor, etc - the front-line staff in BLFC are generally well qualified and capable. In addition, Ms. Power's conversations with staff have led her to conclude that in general they are well-meaning and would wish to do their jobs well. However, she has also recognised that they have lost any real enthusiasm for their jobs and there is a lot of disillusionment and staff turnover is relatively high. From the perspective of Situational Leadership Theory, this situation reflects a readiness, or development level, of 'R3/D3', where staff have moderate to high competence but where their organisational commitment is low and variable. The reasons for the low and variable commitment can probably be traced back to the average wages (for the sector) and the realisation that there seems little prospect of promotion in BLFC as the supervisory/team leader roles seem to be tied down by the original staff who transferred from the GDALA.

As mentioned above, to address this situation, Ms. Power needs to be more participative and more supportive. There needs to be more of an emphasis on building relationships and a positive culture within the organisation. The front-line staff are capable and competent to do their jobs, so less time needs to be given to direction and supervision. The participating and supporting style of situational leadership passes more responsibility to the employees. Ms. Power, and the other managers, need to provide work feedback to the front-line staff and commend them for their work. Over time, this should act to improve front-line staff's engagement and confidence, and to create a more positive culture.

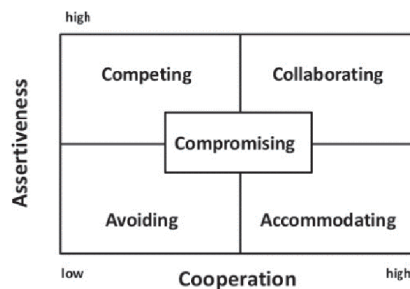
However, it is unlikely that this (changed) leadership style will, by itself, be sufficient to fully address the extant issues with front-line staff. These problems do lead to actual costs for BLFC in terms of staff turnover. In addition to leadership, the wages of front-line staff may be an issue as is the 'glass ceiling' that seems to exist for staff. That said, if Ms. Power does invest time and energy in fostering more participative and supportive relationships with front-line staff, it should go some way toward ameliorating their issues and improving performance.

(b)

It is inevitable that there will be an amount of conflict in any workplace - even in a healthy organisation. Traditionally and intuitively, organisational conflict may be construed as something negative, however there are potentially positive consequence to such conflict as well. These may include the stimulation of interest and creativity and the need for people to resolve long-standing problems. In fact, according to Laurie Mullins, conflict per se is not necessarily good or bad and needs to be judged in terms of its effects on performance.

There are many potential reasons why conflict may evolve, for example, individuals' differences or perceived inequitable treatment. Obviously, conflict is a frequent reality between management and employees, but it also arises among employees and indeed managers. Ms. Power feels that she is not receiving the full support of the management team and in particular, is finding it difficult to work with Mr. Malone, the marketing manager. There are several potential reasons for this, and Ms. Power has already identified a personality clash and resentment due his failure to be appointed CEO as possible explanations.

Irrespective of the reason, because of their critical roles, Ms. Power and Mr. Malone will need to work together constructively going forward. There are a range of possible conflict management styles that Ms. Power may adopt. For example, in 1974 Thomas and Kilmann introduced their model, shown below, based on an individual's level of assertiveness and cooperativeness.



As alluded to, Ms. Power describes herself as determined, introverted, reflective, but assertive when necessary. It should also be recalled that she is the CEO and therefore has position authority. Both of these factors will inform the style(s) that Ms. Power may adopt.

A collaborating style describes where both parties seek to achieve both parties' objectives: it involves a 'win-win' outcome. It is most effective in complex scenarios where novelty and creativity are important. A collaborating style will involve Ms. Power being assertive - as both her CEO role and personality allows - but also being cooperative. This style will mean Ms. Power reaching agreement on strategic decisions with Mr. Malone and exploring the underlying issues in any decision and situation. This is likely to be the most effective style as it ensures Mr. Malone can contribute to the decisions made, and therefore it makes use of his experience, while also publicly recognising Mr. Malone's importance to BLFC.

Depending on the nature and importance of the decision and situation, Ms. Power may occasionally find it politic to pursue an accommodating style, allowing Mr. Malone 'win' the argument. An accommodating style describes where one party 'gives in' and forgoes their own desired outcome. This style may be effective where the other party is considerable expertise or when preserving future relations with the other party is important. Ms. Power may sometimes allow Mr. Malone 'his own way' when the decision or situation is less important. Ms. Power's accommodation should enhance Mr. Malone's self-efficacy and Ms. Power may be able to use it as a bargaining chip in more important decisions.

A third alternative for Ms. Power involves using a competitive style. This involves being very assertive so to achieve her goals while ignoring the objectives of Mr. Malone - in effect a 'win-lose' approach. Ms. Power has the legitimate power to utilise this approach, and seems to also have the character necessary. However, this style will potentially alienate Mr. Malone and undermine her relationship with him. However, Ms. Power may need to assert her authority on occasion: for example, where the issue is critical and she cannot persuade Mr. Malone or where quick, decisive action is needed.

There are two other possible styles that Ms. Power may pursue. An 'Avoidance' style is where Ms. Power would basically ignore the tension and lack of support from Mr. Malone. This is not really a tenable solution in general, and is definitely not advisable in this case: Ms. Power and Mr. Malone have senior roles in BLFC and the organisation will not function properly if the extant conflict is not addressed. Secondly, Ms. Power may attempt a 'Compromise' style. At first glance, this style seems attractive, however it is really a 'lose-lose' scenario where neither Ms. Power nor Mr. Malone really achieve what they want - or what the organisation needs. Utilising a compromise style may be an easy way out, but the more constructive collaborating style would produce a better solution. Overall, depending on the decision and the situation, Ms. Power may utilise different conflict management styles. In general, though, Ms. Power should attempt the collaborating style as much as possible; then, as and when necessary and politic, move to either the accommodating and competitive styles.

Indicative Marking Scheme for Question 2

		Marks
(a)	Explain the importance of effective leadership	
	• Relate explanation to Ms. Power and BLFC	3
	Discuss a theory of leadership in depth. Possible theories:	
	• Managerial/Leadership Grid	
	• Situational Theory	
	• Path Goal Theory...	
	Explain the main elements of the theory	3
	Discuss insight from theory relating it to Ms. Power and BLFC	<u>6</u>
	Conclusion	<u>3</u>
		15
(b)	Explain the nature of conflict management	
	• Relate explanation to Ms. Power and BLFC	2
	Discuss three conflict management strategies, relating them to Ms. Power, Mr. Malone and BLFC.	
	Possible strategies:	
	• Collaborating	2
	• Compromising	2
	• Competing	<u>2</u>
	3 strategies x 2 marks: maximum 6 marks	6
	Recommendation	<u>2</u>
		10
	Total Marks	<u>25</u>

SOLUTION 3

To: International Logistics Ltd
Co Kildare
Ireland

From: A Student
CPA Consultants
Dublin
Ireland

Date 28 August 2017

Introduction

As organisations evolve and grow, they inevitably increase in complexity: more products and services; more markets; more staff. In response to this complexity, organisations create evermore complex organisational structures. This involves differentiating the organisation vertically into management levels with differing responsibilities. It also involves differentiating the organisation horizontally into teams, departments, divisions, and so on. It is then also necessary for the organisation to build integrating mechanisms, such as information systems, cross departmental teams and direct supervision to coordinate the diverse activities of the organisation.

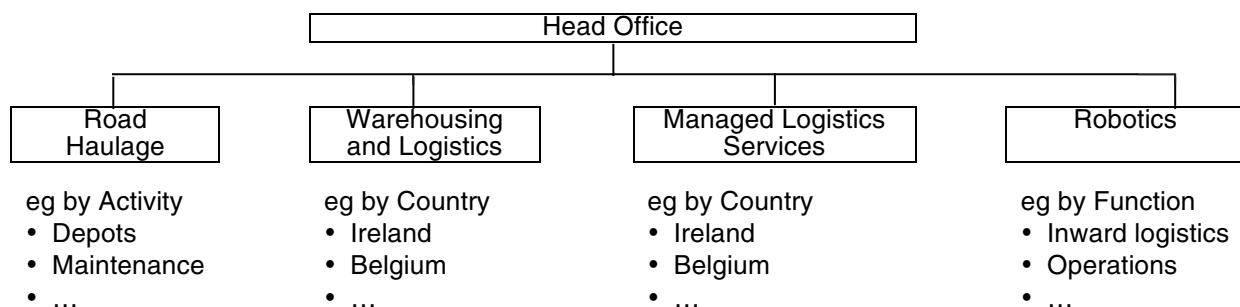
Ultimately, the purpose of organisational structure is to organise resources and activities in a way that supports and enables the delivery of the organisation's strategy. Famously, Alfred Chandler concluded that 'structure follows strategy'. There is no one ideal organisational structure, so that as the organisation's plans and activities change, so too does how the organisation organise its resources. This is clearly the case with International Logistics Ltd (ILL). Over the past several years ILL has changed strategy and has expanded internationally as well as diversifying into new business sectors. ILL has utilised both organic growth and M&As to effect this new strategy. It has now recognised that a new organisational structure is necessary if it is to maximise the benefit from its internationalisation and diversification strategy.

This report will evaluate two potential organisational structures:

1. Product divisionalisation, where ILL will organise activities based on its four main products/services.
2. Area divisionalisation, where ILL will organise activities based on its main country-markets.

Product Divisionalisation Structure

The product divisionalisation structure describes where an organisation uses its product lines to initially differentiate itself horizontally. In this structure, each product line / business area is organised as a largely self-contained division (or strategic business unit) of the organisation, with its own dedicated resources and activities. In the product divisionalisation structure, each division will have the necessary value chain activities to deliver its products and services. In the case of ILL, the product divisionalisation structure would potentially resemble ILL's businesses outlined in the brief: road haulage; warehousing and logistics; managed logistics services and robotics. The diagram below provides a basic imagining of a potential product divisionalisation structure for ILL.



Probably the most important benefit of the product divisionalisation structure is that it enhances the coordination of the resources and activities related to a product line - irrespective of their location. This, in turn, creates the opportunity to achieve economies of scale. This structure would allow ILL to locate its activities in the locations that would most benefit it competitively. In addition, it would enable ILL to generate cost efficiencies due to scaling up activities. The importance of division-wide coordination and scale seems most important in ILL's warehousing and robotics businesses, and less so in its road haulage and managed logistics services businesses.

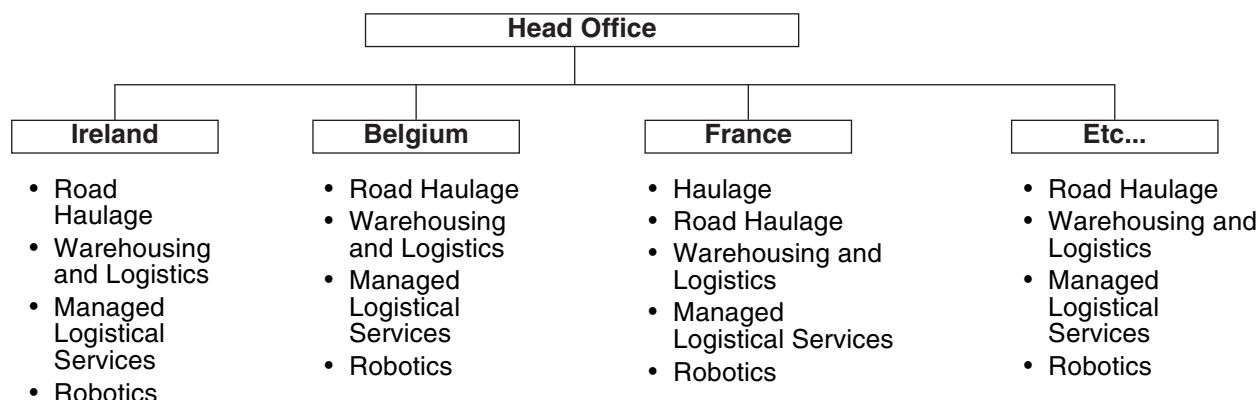
A second significant benefit of the product divisionalisation structure, and related to the issue identified above, is that this structure facilitates the development and diffusion of important competences across the division. In other words, creativity and innovation are less likely to be location-bound in this structure. This would be very useful to ILL, particularly in its businesses which are more technology and competence driven than responsiveness focussed. Therefore, similar to the issue above, ILL's warehousing and robotics businesses would likely benefit most from a product divisionalisation structure.

However, the product divisionalisation structure does create the potential for internal competition for resources and frequently significant duplication of activities and effort. For example, at a country level, each product division is likely to develop its own resources, distribution channels, and so on. This can lead to increased costs as well as inconsistencies across divisions that operate independently in the one country or region. If ILL decides to use the product divisionalisation structure, the potential for competition among the divisions and for duplication at the country level will have to be managed very carefully. For instance, ILL would have to consider mechanisms to encourage cooperation at the country level across the four divisions.

Another concern with the product divisionalisation structure is that it tends to reduce the ability, and even the motivation, for the organisation to identify and address important differences among its country markets. In the search to maximise economies of scale and the leveraging of competences, organisations may ignore competitively significant differences among its markets. ILL would need to remain aware of key regulatory, cultural and economic variations and trends among its geographic markets. Where these become potentially significant, ILL would have to ensure that it has the management capability at both the divisional level and country level to reconcile the need to further modify a product or service, even at the cost of reduced scale economies.

Area (or Geographic) Divisionalisation

The area divisionalisation structure describes an organisation that is differentiated horizontally initially by using countries / geographic regions as the basis for grouping resources and activities. In this structure, each country / geographic region will tend to be largely self-contained and autonomous, with the necessary value chain activities to compete locally: operations, marketing, logistics, etc. In the context of ILL, such a divisional structure might be organised around ILL's largest markets, including Ireland, Belgium, France and so on. The diagram below provides a basic imagining of a potential area divisionalisation structure for ILL.



The most important benefit of the area divisionalisation structure is that it facilitates large organisations maintaining a higher level of local control and responsiveness to the market. A firm can use this structure to adapt its products and services to local demands. This structure would allow ILL to modify its services depending on the local regulatory, cultural and economic context. The capability to modify services seems to be most important in ILL's road haulage and managed logistics services businesses, and less so in its warehousing and robotics businesses.

As many of the operational decisions are made at the level of country / geographic region, a second benefit of the area divisionalisation structure is that country level management can present a more consistent organisational image locally. This could potentially include combining the firm's business lines into a more integrated customer offering. ILL should be able to achieve this, for example, by pricing and marketing consistently across its businesses. Similarly, ILL country management could offer clients a total logistics solution, including haulage, managing clients' own logistics and providing additional space and supports when necessary.

However, the area divisionalisation structure does create a more fragmented organisation and inevitably leads to internal competition for resources and frequently significant duplication of activities and effort. This can lead to increased costs, as economies of scale are foregone. If ILL decides to use the area divisionalisation structure, the potential for competition and duplication will have to be managed very carefully, and where possible, more integrated arrangements put in place. For example, ILL may decide to use shared service centres that transcend market (and divisional) boundaries for some activities.

A last key issue affecting the area divisionalisation structure is the potential for inconsistencies across countries / geographic regions. The area divisionalisation structure makes it more difficult to transfer and use core competencies across countries / geographic regions, so that the mistakes in one location may be repeated elsewhere, or where an innovation is jealously guarded and not diffused. Again, ILL will need to be aware of these concerns and find ways to avoid countries / geographic regions focusing only on their narrow geographic focus to the detriment of wider ILL strategy and objectives.

Conclusion:

Organisations, as they grow and increase in complexity need to redesign how they organise their resources, activities and people to best enable it to implement its strategy. This is the issue currently facing ILL. The firm's strategy has changed and it has diversified into new business sectors and expanded into mainland Europe. The two proposed organisational structures, a form of product divisionalisation structure and alternatively a form of area divisionalisation structure, are widely used and both have significant potential benefits. The product divisionalisation structure facilitates economies of scale and the internal transfer of innovation and competences. On the other hand, the area divisionalisation structure facilitates organisational responsiveness to local conditions and consistency of activities and image in a country or region.

There is no one ideal organisational structure. In the context that economies of scale and the transfer of competences are likely to be more competitively significant than local responsiveness and consistency of organisational image, the product divisionalisation structure seems the most aligned to ILL's current strategy. However, bearing in mind the potential consequences for ILL of ignoring localisation influences, ILL should put into place mechanisms to ensure that when necessary, it is able to recognise and accommodate key local variations.

Indicative Marking Scheme for Question 3

	Marks
Explain nature and importance of organisational structures	
• Especially in the context of International Logistics Ltd	4
Discuss the rationale for product divisionalisation. Possible issues:	
• Useful when product lines are very different and local adaptation is limited	2
• Facilitates consistency and coordination within product lines	2
• Captures economies of scale, eg in operations and R&D	2
• The unique requirements of individual countries/regions are not prioritised	2
• Duplication and internal competition	2
• Any other relevant issue	<u>2</u>
Any 4 issues x 2 marks: maximum 8 marks	8
Discuss the rationale for area divisionalisation. Possible issues:	
• Useful when adaptation to localised requirements are important	2
• Decisions are made by managers who understand the individual country/region	2
• Enables strategy to be adapted to the individual country/region	2
• Lack of integration and coordination across countries/regions	2
• Duplication and internal competition	2
• Any other relevant issue	<u>2</u>
Any 4 issues x 2 marks: maximum 8 marks	8
Recommendation and justification	<u>5</u>
Total Marks	<u>25</u>

SOLUTION 4

- (a) It is self-evident, however making decisions is the the most important responsibility of any senior manager. It is also obviously the most difficult and most risky: particularly for strategic decisions that may impact on the long-term competitiveness of the firm. The rational model of decision-making is the most commonly accepted process of how decisions should ideally be made. The process of rational decision making emphasises objectivity and analysis while discounting subjectivity and 'gut instinct'. The steps in the rational decision-making model include identifying the issue, determining the appropriate decision criteria, development and analysis of alternative solutions, and lastly the selection, implementation and review of the solution chosen.

However, the nature of strategic decisions does not lend itself to the structured process suggested by the rational decision-making model. In particular, there is normally significant uncertainty involved in strategic decision-making: it is future oriented and there is no way of knowing all alternatives or the impact of imponderables. Frequently therefore, there are issues with the structure of the strategic decision-making process. In parallel with these issues is the impact of the mind of the decision-maker themselves, as according to John Hammond, 'The way the human brain works can sabotage our decisions'. People invoke subconscious routines to cope with the complexity inherent in most decisions. In general, these routines, known as heuristics, are useful, as they allow people to make effective decisions more quickly. Unfortunately, research has identified a range of flaws in the way people think when making decisions.

In the context of complex decisions - such as strategic decisions - the possibility for flaws in the decision-making process are significant. The Investment Fund has identified concerns in how the senior management of Greenland Dairies plc make important strategic decisions. The dossier prepared by the Investment Fund outlines some issues that are worrying and need further analyses and discussion by both the Board and the senior management of Greenland Dairies plc. These issues may also provide both motivation and impetus for Ms. Bergström, as she attempts to change the dynamic in of the senior management team, as she is expected to do.

There are several decision-making subconscious biases and shortcuts that may affect the outcome of the decision-making process, even at the strategic level, in Greenland Dairies plc.

Satisficing

The concept of 'Satisficing', or Bounded Rationality, was developed by Herbert Simon. He argued that people do not seek to maximise benefit when making decisions, as suggested by the rational model of decision-making. Instead, according to Simon, people in the real world satisfice, or look for a solution that is 'good enough'. There are several reasons for this, including people's inability to obtain, digest and process all the information that would be needed. Based on the limited information in the brief provided, there is a likelihood that the senior management of Greenland Dairies plc were in fact satisficing in terms of strategic decision-making. In other words, the dossier provided suggests evidence that rather than being innovative, and leveraging the firm's sources of advantage, senior management seem to have instead opted to make strategic decisions that would 'keep the market satisfied'. This may easily have led to significant opportunities foregone.

Anchoring (and Framing)

A further two decision-making cognitive biases that may have impacted the senior management of Greenland Dairies plc are 'Anchoring' and 'Framing'. Anchoring occurs because people tend to weight disproportionately one piece of information when making decisions: in particular the first information they receive in relation to an issue. The initial impression or information "anchors" subsequent judgments and conclusions on that issue. Although a separate cognitive bias, Framing has similarities to anchoring. How an issue is framed influences the way people think about it: in other words, how the situation is described will influence the decision-making process. Both of these seem evident in how Greenland Dairies plc senior management act. For example, Greenland Dairies plc's performance is frequently compared - anchored - to its performance in previous years, which indicates that performance is improving, albeit slowly. In fact, Greenland Dairies plc's performance is deteriorating when compared to its peers. Similarly, Greenland Dairies plc seems to copy the strategy of its rivals - which provides the firm's senior management with a frame of reference - in place of asking, fundamentally what can Greenland Dairies plc potentially do and achieve?

Herd Instinct

Herd instinct refers to the circumstance in which people gravitate to making similar decisions to other people around them, based almost completely on the fact that the others are doing the same. In place of making an objective, independent decision, people effectively copy the decisions of others. The driving force behind herd instinct tends to be the fear of regret of missing out on an opportunity that others are pursuing. Again, the senior management of Greenland Dairies plc seems to be guilty of this. The dossier suggests that the senior management team seem to only 'copy' the strategies of competitors. If this is the case, it indicates a lack of creativity and analysis on the part of the senior management. In addition, it is by no means certain that Greenland

Dairies plc has the necessary resources or competences to effectively pursue choices that were only made because rivals were following that strategy. The disappointing results seem to indicate that such an approach is not working for the firm. Relatedly, when deciding to mimic rivals, the senior management may have inadvertently missed other opportunities that Greenland Dairies plc may have been better positioned to pursue.

- (b) While decision-making shortcuts and heuristics are an important element of the decision-making process, it seems likely that the senior management of Greenland Dairies plc - as do the senior management of many other firms - has allowed their strategic decisions to be effectively undermined by these invisible influences. Obviously, it is impossible to retrospectively change a strategic decision that was inappropriately influenced by these cognitive biases. Nevertheless, it is entirely possible to reduce the likelihood of such errors happening going forward.

Firstly, and most importantly, the senior management of Greenland Dairies plc need to be much more aware of the potential for the strategic decision-making process to be influenced through the effect, subconsciously, of such decision-making shortcuts and heuristics. If the senior management of Greenland Dairies plc are aware of this potential, they can deliberately and expressly debate the impact of these assumptions on the decision at hand. Through making explicit their conjectures and expectations, they can challenge and debate any assumptions, identify those that are relevant, and importantly, disregard those that are undermining.

Related, the senior management of Greenland Dairies plc need to make more use of evidence based decision-making. It seems likely that the senior management may have made strategic decisions in the past without the benefit of rigorous strategic analysis and without the depth of evidence that should be expected.

The senior management team of Greenland Dairies plc is worryingly homogenous: until the appointment of Ms. Bergström they were all Irish, male and long-time managers in Greenland Dairies plc. Homogeneity to this degree is likely to undermine the strategic decision-making process, and in particular lead to group-think. An increased diversity in the profile of the top management team needs to be encouraged. It is likely that Ms. Bergström will wish to make the senior management team 'more of her own' by bringing in new, presumably externally sourced, management. This will have the positive side effect of reducing the possibility of the senior management team succumbing to group-think in the future.

Another important cultural change in how the senior management team of Greenland Dairies plc would be to ensure that all strategic issues and decisions are evaluated from multiple perspectives - even if there is seeming agreement among the senior management team. Ms. Bergström should ask one or two colleagues to play 'devil's advocate', deliberately going against the consensus emerging. If these managers are effective in challenging their colleagues, it will ensure that the logic underpinning the decisions is sound.

In conclusion, it is very difficult for the senior management of a firm to make effective strategic decisions, although in essence that is their role. There are a range of decision-making shortcuts and heuristics that potentially impact negatively on the strategic decision-making process. Unfortunately, there is evidence that this has happened in the case of Greenland Dairies plc. It is also likely that the disappointing financial results the firm is experiencing is a consequence of this. The appointment of Ms. Bergström should allow Greenland Dairies plc the opportunity to change many things about it operates, including, how the senior management make strategic decisions.

Indicative Marking Scheme for Question 4

	Mark
(a) Explain the importance of effective strategic decision-making, especially in large firms <ul style="list-style-type: none"> • Relate explanation to Greenland Dairies plc 	4
Discuss four potential biases or distortions in the strategic decision-making process.	
Possible biases or distortions:	
• Anchoring and framing traps	3
• Herding trap	3
• Sunk cost trap	3
• Confirming evidence trap	3
• Groupthink	3
• Any other relevant decision-making bias or distortion	3
Any 4 issues x 3 marks: maximum 12 marks	<div style="border-top: 1px solid black;">12</div>
	16
(b) Possible options to reduce / eliminate biases or distortions in the strategic decision-making process: <ul style="list-style-type: none"> • Awareness of potential for biases or distortions to occur: consciously focus objectivity • Diversity in the profile of the top management team • Evaluate issues from multiple perspectives • Challenge and debate any assumptions that are being made • Obtain outside expert advice • Use data and evidence • Any other relevant option 	<div style="border-top: 1px solid black;">8</div>
Any 4 options x 2 marks: maximum 8 marks	8
Introduction	1
Total Marks	<div style="border-top: 1px solid black; border-bottom: 3px double black;">25</div>