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CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

SM3.2: STRATEGIC MANAGEMENT

DATE: FRIDAY 28, AUGUST 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

Qn	Description	Marks
	Identifies the ED/consortium relationship as a principal-agent relationship and explains goal incongruence/information asymmetry in general terms	1
	Applies the agency problem specifically to the target-setting process (bonus linked to targets the ED helps set)	2
	Explains the "too low" targets view as evidence of budgetary slack/self-interested behaviour	1
	Explains the "too optimistic" targets view as evidence of the ED downplaying risk to secure approval	1
	Distinguishes "lack of trust" (relational symptom) from "lack of transparency" (structural cause) with justification	1
	Recommends at least three specific, well-justified governance mechanisms tailored to LCS (not generic agency remedies)	3
a	**Maximum for part (a)**	**9**
	Control Environment - identifies absence of written risk appetite statement and/or lack of risk committee as a weakness, with justification	2
	Risk Assessment - evaluates risk map as partial evidence of the component, and identifies the missing vendor risk as a gap	2
	Control Activities - identifies the automated reordering/price-authorisation gap as a control weakness	2
	Information and Communication - uses the risk-manager/board evidence to evaluate this component specifically	2
	Monitoring - evaluates the quality (not just existence) of board review, and notes absence of internal audit	2
	Recommendations are specific, actionable and linked to the evaluation given (not generic)	2
b	**Maximum for part (b)**	**12**
	Correct definition/distinction between operational and strategic risk	1
	Operational risk 1 identified with justification specific to LCS	2
	Operational risk 2 identified with justification specific to LCS	2
	Strategic risk 1 identified with justification specific to LCS	2
	Strategic risk 2 identified with justification specific to LCS	2
c	**Maximum for part (c)**	**9**
	Award 1 mark for evaluation of each risk	7
d	Award 1 mark for Recommended response of each risk	7

	Maximum for part (d)	**14**
	At least two well-explained opportunities, grounded in scenario evidence (e.g. take-up %, marketing director's comment, inventory efficiency)	2
	At least two well-explained threats, grounded in scenario evidence (e.g. phishing incident, vendor contract, price exposure)	2
	Explicit discussion of consistency (or inconsistency) between the benefits pursued and the board's risk-averse reputation stance	2
	Maximum for part (e)	**6**
e	**Total**	**50**

Model Answer

a) The Agency Problem in LCS's Target-Setting Process

Diagnosing the agency problem

Agency theory describes the relationship between a principal (the consortium, as owner) and an agent (the ED, appointed to manage the business on the consortium's behalf). The core agency problem is goal incongruence combined with information asymmetry - the agent has more day-to-day knowledge of the business than the principal, creating scope for the agent's self-interest to diverge from the principal's.

In LCS, this is manifested very specifically in the target-setting process. The ED's bonus is assessed by the finance committee against financial targets, and the ED is closely involved in proposing those targets as part of presenting the six-month projections. This creates a direct conflict of interest: the ED has an incentive to negotiate targets that are comfortably achievable ("budgetary slack") rather than ones that reflect the business's true potential, particularly given the strong app take-up figures and technology investment already committed.

The boardroom split is diagnostic of two different agency symptoms operating at once. Directors who believe the targets are "not high enough" are implicitly alleging budgetary slack - that the ED is under-promising to make bonus targets easier to hit. Directors who believe the targets are "overoptimistic" are alleging the opposite risk: that the ED may be presenting an unrealistically positive picture (understating risks such as the vendor concentration and wholesale price exposure) to secure board approval and protect her own position. Both are classic agency behaviours, and the fact both views exist simultaneously shows the board itself is unable to resolve the information asymmetry using the data currently available to it.

The ED's comment that this "feels like a lack of trust" and the chair's comment that it is "more a lack of transparency" are two lenses on the same underlying problem, not competing diagnoses. Trust is the relational symptom - the erosion of the working relationship that agency problems produce over time. Transparency is the structural cause - the absence of a designed, mandatory information flow that would let the board verify the ED's assertions independently. Addressing

only the relational symptom (e.g. team-building, softer language) without addressing the structural cause will not resolve the underlying agency problem.

Recommended governance mechanisms (tailored to this relationship, not agency problems generically)

Independent challenge of targets: require the finance committee (or a newly formed risk/audit committee) to build projections independently, or at minimum to formally stress-test the ED's proposed targets against externally sourced data (e.g. wholesale price indices), rather than accepting the ED's figures as presented.

Rebalance the bonus scorecard: tie a meaningful proportion of the ED's bonus to non-financial and risk-management KPIs (e.g. timely escalation of risk-rating changes, vendor contingency planning) so that the ED's incentive is not purely to protect short-term financial numbers.

Mandatory standing information pack: define, in writing, a fixed set of information the ED must provide every quarter (e.g. status of the vendor contract, cyber-incident log, wholesale price movements against budget) so that "transparency" is designed into the reporting cycle rather than left to the ED's discretion.

Activate and test the risk manager's direct line to the chair: since this right exists on paper but has never been used, the board should require the risk manager to report risk-rating changes directly to the chair/board as a standing agenda item, independent of the ED's own presentation.

Formal escalation trigger: any material change in a risk rating (such as Risk D moving from likelihood 3 to 5) should automatically trigger a documented board discussion, closing the specific transparency gap seen at the last meeting.

Relationship-level mechanism: alongside the structural fixes above, the chair and ED should agree a regular one-to-one dialogue outside formal board meetings, to rebuild the trust dimension once the transparency dimension has been structurally addressed.

b) Evaluation of the Five COSO Components

1. Control Environment

Weak. The absence of a formally documented, board-approved risk appetite statement is itself a control environment deficiency - COSO requires the board to set and communicate a clear risk philosophy, and LCS has only ever discussed appetite verbally, with directors privately holding different interpretations. The lack of a separate risk or audit committee, leaving risk oversight with the full board, is a further structural weakness in the control environment, reducing the depth of independent scrutiny available.

2. Risk Assessment

Partially effective. The risk map itself is evidence of a functioning risk identification and rating process. However, the vendor concentration risk (single vendor for both the customer app and inventory-automation platform, with no exit/transition plan and 18 months left on the contract) is not on the risk map at all - a significant gap in the completeness of risk identification given its potential impact. In addition, the process for re-assessing risks appears reactive rather than embedded: Risk D's likelihood was raised from 3 to 5, but this was not accompanied by a wider re-assessment of related risks (such as the vendor risk) that a genuine risk assessment process should have prompted.

3. Control Activities

Mixed. Positive evidence includes the automated stock-reordering system, which has materially reduced stockouts. However, the same automation removes a control point - purchases are triggered without a price-authorisation check, exposing LCS to unplanned cost increases from wholesale price rises. This is a control activity designed for operational efficiency but not for cost or risk control, illustrating that control activities have not kept pace with the sophistication of the technology deployed.

4. Information and Communication

The weakest component in evidence. The risk manager's update on Risk D's likelihood increase was contained in “a single sentence that attracted no discussion,” and no director asked for further detail on the underlying phishing incident. A major investor stated directly that the board was not getting the information it needed. This is direct, first-hand evidence that information is not being communicated in a form, and with the emphasis, that allows the board to discharge its oversight responsibilities - a core failure of this COSO component.

5. Monitoring Activities

Weak/passive. The board's quarterly review of the risk map is a monitoring activity in form, but not in substance, since it did not generate follow-up questions or actions on a materially worsened risk rating. There is no evidence of an internal audit function or any separate, independent evaluation of whether controls (e.g. over vendor management, or IT security following the phishing attempt) are actually operating effectively. COSO requires deficiencies to be identified and communicated in a timely manner - there is no evidence this is happening at LCS.

Recommended improvements

- Adopt a formal, board-approved written risk appetite statement, defining growth vs reputational risk boundaries in operational terms.
- Establish a dedicated risk and/or audit committee, separate from the finance committee, with delegated authority to challenge the ED and risk manager directly.
- Add vendor/supply-chain concentration risk to the risk register and risk map.

- Introduce a price-authorisation threshold within the automated reordering system, or a periodic reconciliation against budgeted prices.
- Require any risk-rating change to be presented as a standalone board agenda item with mandatory discussion and minuted follow-up actions.
- Introduce an internal audit function (in-house or outsourced) to test the design and operating effectiveness of key controls, particularly IT security and vendor management.

c) Two Operational and Two Strategic Risks

Operational risks arise from failures in day-to-day processes, people or systems within the existing business model; strategic risks threaten the achievement of LCS's long-term objectives, competitive position or the viability of its business model itself.

Operational risks

- Risk B - Theft by staff from the till: a routine, internal, process-level control failure. It arises from weaknesses in day-to-day cash-handling procedures and, as the risk map notes, its impact is low because only small cash amounts are held on-site. It does not threaten LCS's strategy or business model, only the integrity of a specific operational process.
- Risk F - Extended outage of the ordering/payment app: this disrupts the existing service-delivery process (customers cannot order or pay as normal) and requires a manual back-up process, but it is a temporary interruption to current operations rather than a threat to LCS's underlying competitive position or long-term strategy.

Strategic risks

- Risk D - Cyberattack leading to loss of data, fines and reputational damage: LCS's entire customer proposition and competitive differentiation is built on its digital ordering, payment and data-driven personalisation model. A successful cyberattack strikes at the heart of that model and at brand/reputation - the dimension the consortium has explicitly said it is risk averse about - making this risk strategic rather than a routine IT fault, particularly given its likelihood has just been raised to the maximum rating following a real (if unsuccessful) attempt.
- Risk G - A pandemic shutting down all restaurants: an external, macro-environmental risk that would force a fundamental, chain-wide change to the business model (from dine-in to takeaway/delivery only). Its scale (affecting all 34 sites simultaneously) and its threat to the entire premise of "technology-enabled table service" on which LCS's strategy is built make it strategic, not operational.

Credit should also be given to candidates who reason that the (unlisted) vendor concentration risk is arguably strategic - since losing the sole technology vendor with no transition plan in place

would threaten the entire digital operating model underpinning LCS's growth strategy - provided the reasoning is clearly explained.

d) Risk Evaluation and Recommended Responses

The risk map itself (an impact/likelihood matrix) is the appropriate evaluation model, with risk responses selected using the "4Ts" framework: Tolerate, Treat, Transfer, Terminate. Each risk should be evaluated not only by its position on the map, but by reference to the consortium's stated (if undocumented) appetite - moderately risk hungry for growth, risk averse for reputation.

Risk	Evaluation	Recommended response
D - Cyberattack	Now at maximum likelihood (5) and impact (5) following the phishing incident - the single highest-priority risk on the map, and one that sits squarely within the reputational risk the board says it will not tolerate.	TREAT as first priority: invest in cybersecurity (multi-factor authentication, phishing-awareness training, penetration testing). TRANSFER residual risk via cyber-insurance. The board's failure to discuss the likelihood rise should be corrected immediately.
G - Pandemic	Low likelihood (1), maximum impact (5): a catastrophic but rare tail risk.	TREAT via a tested business continuity plan enabling rapid switch to takeaway/delivery using existing app infrastructure. Consider TRANSFER via business-interruption insurance.
C - Fire	Low likelihood (1), high impact (4).	TREAT via fire prevention/detection systems and staff training. TRANSFER via property/business-interruption insurance.
A - Key personnel loss	Moderate likelihood and impact (3,3).	TREAT via succession planning, retention incentives, and documentation of critical knowledge to reduce single-person dependency.
E - Community complaints	High likelihood (5), moderate impact (2), but with regulatory/reputational consequences that engage the board's reputation-averse appetite.	TREAT via proactive community engagement and licence-compliance monitoring - resourced disproportionately to its raw map position given the reputational dimension.
F - App outage	Low likelihood and impact (2,2).	TOLERATE/TREAT - maintain the existing manual back-up process; further investment is proportionate but not urgent.
B - Till theft	Higher likelihood (4), low impact (1).	TOLERATE - existing basic cash controls (reconciliation, spot checks) are

		proportionate; further investment unlikely to be cost-effective.

e) Opportunities and Threats of Digital Technology and Data

Opportunities

- Customer personalisation and retention: 78% app-based transactions (up from 40% three years ago) and the marketing director's own assessment that profiling is "the single biggest driver of repeat visits" demonstrate a quantifiable, realised commercial benefit directly attributable to the data strategy.
- Operational efficiency: automated inventory reordering has materially reduced stockouts across all 34 sites, lowering the administrative burden of manual stock management and supporting consistent service levels chain-wide.
- Scalable growth enabler: because the technology platform is standardised across the estate, it can, in principle, be replicated efficiently as LCS pursues its stated ambition of reaching 60 sites, supporting the consortium's growth appetite.
- Dynamic, targeted commercial activity: customer profiles allow tailored promotions, guest beers and event invitations at an individual level, a capability not available to competitors reliant on manual, generic marketing.

Threats

- Elevated and rising cyber risk: the phishing attempt that caused Risk D's likelihood to be raised to the maximum rating shows the threat is not theoretical - LCS holds contact details and stored payment cards for the large majority of its customer base, making a successful breach potentially severe in both financial and reputational terms.
- Single-vendor dependency: both the customer-facing platform and the inventory-automation platform are built and maintained by the same third-party vendor, with 18 months left on the contract and no transition plan - concentrating operational, cyber and negotiating-power risk in a single relationship.
- Reduced financial control: automated reordering removes the manual price-check step that previously existed, increasing exposure to wholesale price volatility and reducing management's real-time visibility over cost commitments.
- Data protection and regulatory exposure: the scale of personal and payment data held creates an ongoing compliance burden and potential exposure to fines and legal action in the event of a breach or misuse.

Discussion: are the benefits being achieved consistently with the board's risk-averse stance on reputation?

The evidence suggests a growing mismatch. LCS is aggressively pursuing and realising the commercial benefits of its digital/data strategy (high app take-up, embedded personalisation,

chain-wide automation), consistent with the consortium's risk-hungry appetite for growth. However, the safeguards that should accompany a reputation-averse stance have not kept pace: there is no written risk appetite statement to guide investment trade-offs, the vendor concentration risk is not even recorded on the risk register, and a real escalation in cyber risk (Risk D) passed through the board without discussion. In other words, LCS is capturing the upside of its digital strategy while under-investing in the governance and control infrastructure that its own stated reputational risk aversion would require. The working group/board should treat this as a signal to rebalance - not to slow the digital strategy itself, but to close the gap between the growth benefits being pursued and the reputational protections the consortium says it wants.

SECTION B

QUESTION TWO

Marking Guide

Qn	Indicative marking point	Marks
	Explains why generic change-leadership skills/models are insufficient, with specific reference to contested authority and/or fragmented power in this scenario	2
	Identifies and explains at least three specific leadership skills/behaviours tied directly to scenario evidence (e.g. stakeholder management, cultural bridging, governance literacy, transparency, ambidexterity)	3
	Recommends a specific leadership/role structure that resolves the reporting-line tension and reflects the dual-culture context (e.g. joint steering group, charter, co-leads)	2
	Clarity, structure and use of scenario evidence	1
a	**Maximum for part (a)**	**8**
	Correctly identifies the contextual features (kaleidoscope) as the diagnostic tool and the four-type model (Adaptation/Reconstruction/Evolution/Revolution) as its output - i.e. understands what "nature of the change" requires	1
	Applies at least four (4) contextual features to specific scenario evidence, with clear reasoning (Any 4 features @1.5=6Marks).	6
	Identifies and explains impacted aspects of BTL and UGC specifically (e.g. governance, HR, finance, culture/retention for BTL; R&D, governance risk, PMO for UGC) (Any 3 impacts of the merger for each company award 0.5Mark)=3 in total	3
b	**Maximum for part (b)**	**10**
	Identifies and explains barriers spanning structural/process, cultural, and political/power dimensions (up to 1 mark each)	3
	Identifies the disclosure/trust barrier (undisclosed patents) as a distinct risk to the change programme	1

	Recommends a change management approach (e.g. phased/differentiated integration) explicitly justified against the barriers identified, rather than described in general terms	3
	Maximum for part (c)	7
	Total	**25**

Model Answer

a)Why generic change-leadership skills are insufficient here

Standard change-leadership models (e.g. Kotter's emphasis on vision, communication and short-term wins) generally assume a single, legitimate leader with clear authority to drive the change. That assumption does not hold at BTL/UGC: authority is contested (the project manager's reporting line is unresolved between joint-CEO reporting and UGC's PMO), power is fragmented across multiple parties (Northfield's veto right, the institutional shareholders' public 12-month demand, BTL's founders, and UGC's board), and there is a live, undisclosed governance risk (the founder-held patents) that could destabilise trust at any point in the programme. Generic vision-and-communication skills will not resolve a contested authority structure or a hidden disclosure risk; the leadership response here needs to be specific to a post-merger integration between a fast, informal founder-led business and a listed, compliance-driven acquirer.

Specific skills and behaviours required

- Political/stakeholder skill: the ability to map and manage multiple, competing power bases (Northfield, institutional shareholders, BTL founders, BTL staff, UGC's board and PMO) using structured stakeholder analysis (e.g. a power/interest matrix), and to build coalitions across them rather than assuming one command line.
- Cultural bridging: fluency in both organisations' norms, sufficient to translate UGC's compliance requirements into terms BTL's developers can accept, and to explain to UGC's board why BTL's informality is a source of value rather than simply a deficiency to be corrected.
- Integrity and transparency: the skill (and the standing) to surface sensitive information proactively - most urgently, the undisclosed personal ownership of the 3D-glasses patents - before it is discovered independently and damages trust across the whole programme.
- Governance/compliance literacy: sufficient understanding of UGC's listing-rule obligations to sequence integration correctly, meeting mandatory requirements without defaulting to full, immediate imposition of UGC's bureaucracy on BTL.
- Paradox/ambidexterity management: the ability to run a differentiated integration - formalising what must legally be formalised (payroll, purchasing, accounting controls) while deliberately protecting BTL's product-development culture, rather than treating “integration” as a single uniform process.

- Resilience and expectation-management under time pressure: the skill to negotiate a realistic phased timetable with the institutional shareholders, given that the 12-month demand for “full integration” is unlikely to be compatible with preserving the cultural asset UGC is actually buying.

Recommended leadership structure

- Resolve the reporting-line dispute directly: establish a joint steering group (drawing members from both boards, including a Northfield representative given its veto right) to which the project manager reports, rather than embedding the role solely within UGC's PMO or leaving it informally dual-reporting to both CEOs.
- Issue a written change mandate/charter for the project manager, explicitly defining decision rights, escalation routes and the boundary between mandatory compliance integration and areas where BTL retains autonomy - removing the ambiguity that currently exists.
- Appoint two named workstream co-leads under the project manager: one senior BTL founder (to protect trust with developers and safeguard product culture) and one UGC compliance/PMO lead (to satisfy institutional shareholders and listing-rule obligations) - an explicit ambidextrous structure rather than a single unified reporting line.
- Require immediate, voluntary disclosure and resolution of the patent-ownership arrangement as a precondition of the working group's mandate, so that leadership credibility is not undermined later in the process.

b) Nature of the Change - Balogun and Hope Hailey's Contextual Features

Step 1: What “nature of the change” means in this model

Balogun and Hope Hailey distinguish the diagnostic tool (the eight contextual features, sometimes called the “change kaleidoscope”) from the output it is used to determine: the type, or nature, of the change itself. That type is defined on two axes - the Nature of the change (Big Bang, implemented rapidly through a single, one-off initiative, versus Incremental, implemented through a series of smaller, sequential steps) and the Scale/end-result of the change (Realignment, adjusting existing ways of working, versus Transformation, a fundamental change to culture, values and ways of operating). Together these produce four types: Adaptation (incremental realignment), Reconstruction (big bang realignment), Evolution (incremental transformation), and Revolution (big bang transformation). “Describing the nature of the change” therefore means using the eight contextual features as evidence to classify BTL/UGC's change against these two axes - not merely listing the features.

Step 2: Applying the eight contextual features as evidence

Balogun and Hope Hailey's model assesses the context for change against eight features: time, scope, preservation, diversity, capability, capacity, readiness and power. Applying these to the

BTL/UGC merger reveals a context that is unusually demanding, because the features point in conflicting directions - and it is this conflict that defines the nature of the change, as explained in Step 3 below.

Feature	Application to BTL / UGC	Implication
Time	The institutional shareholders have publicly demanded "full integration… within twelve months." This implies a fast, "big bang" pace is being externally imposed.	Mismatch risk: transformational, identity-level change (see Scope/Preservation below) typically needs a longer, more incremental timeframe than 12 months to avoid destroying the culture being acquired.
Scope	For BTL, the change is transformational: governance, HR, payroll, purchasing, accounting and potentially product development processes are all affected simultaneously. For UGC, the change is closer to a realignment: absorbing one new, much smaller business unit into an already-established structure.	The scope is highly asymmetric between the two organisations - a single integration plan applied uniformly would overwhelm BTL while barely registering at UGC.
Preservation	BTL's value lies almost entirely in its technology, patents and the creative, informal culture that produces new features. This is precisely what risks being lost if UGC's controls are imposed wholesale.	What must be preserved (developer autonomy, pace of innovation) is in direct tension with what UGC's compliance team says must change (formal payroll, purchasing, recruitment, accounting).
Diversity	The two workforces differ enormously in size (roughly 40:1), tenure, decision norms and culture (casual/self-set hours vs seven layers of hierarchy and stage-gate processes).	A single, one-size-fits-all change programme is unlikely to work; the diversity of the two populations calls for differentiated approaches within the same overall integration.
Capability	BTL has almost no formal change-management or HR/finance infrastructure (accounts prepared twice yearly by an external bookkeeper; HR handled informally by a founder). UGC has a mature PMO with a track record of successful acquisitions.	There is a real risk that UGC's superior capability is used to simply impose its own systems on BTL, rather than building BTL's own capability to sustain new processes independently.
Capacity	BTL is a small team already stretched across product and informal administrative duties, with limited spare capacity to run an integration programme alongside its normal work. UGC likely has dedicated resource via its PMO.	UGC's compliance-driven timetable could easily exceed BTL's capacity to resource its side of the integration, risking burnout or disengagement among key staff.
Readiness	BTL's senior developers are already questioning, informally, whether they will "still be able to just build things" - an early resistance signal. UGC's institutional shareholders are highly ready (impatient,	Readiness is uneven and, in places, actively negative among the group whose engagement (BTL's

	in fact) for change; Northfield's readiness will depend on how the merger protects its investment value.	developers) the deal's value most depends on.
Power	Formally, power sits with UGC (majority board seats, size, compliance mandate). Informally, however, significant power is distributed elsewhere: Northfield's veto over transactions above FRW15 billion, and the two founders' personal (and undisclosed) ownership of the core patents, which gives them leverage UGC does not yet know it needs to negotiate around.	The change cannot be driven solely through UGC's formal hierarchy; the fragmented and partly hidden power structure must be surfaced and actively managed, not assumed away.

Step 3: Classifying the nature of the change

On the Scale axis, this is Transformational, not mere Realignment - particularly for BTL. The features of Scope and Preservation show that BTL's entire way of operating (governance, HR, finance, purchasing, and potentially its product-development culture and identity) is at stake, not simply an adjustment to existing procedures. This is not a case of tweaking BTL's processes; it is a case of BTL's whole operating paradigm shifting from founder-led informality to a formally governed subsidiary of a listed company.

On the Nature axis, the change is being driven, externally, as Big Bang rather than Incremental: the institutional shareholders' demand for "full integration… within twelve months" (Time) imposes a rapid, single-initiative timetable rather than a series of smaller phased steps.

Combining these two axes, the change being imposed on BTL is best classified as a Revolution - rapid, fundamental, transformational change - which is the type of change Balogun and Hope Hailey associate with the highest risk of failure, precisely because it combines the greatest degree of cultural disruption with the least time to manage it. This classification is reinforced by the Capability, Capacity and Readiness features: BTL has low capability and capacity to absorb transformational change quickly, and readiness among its key developers is already weak, all of which point to a Revolution being poorly matched to BTL's ability to cope, however much the institutional shareholders may be demanding it.

It is also important to recognise that the nature of the change is asymmetric between the two organisations. From UGC's perspective, absorbing one small business unit into its existing, well-resourced PMO and governance structure is much closer to an Adaptation (incremental realignment) - UGC's own systems, culture and paradigm are not expected to change materially. The single merger therefore represents two genuinely different types of change happening at once, depending on which organisation's perspective is taken - a Revolution for BTL, an Adaptation for UGC - and this asymmetry is itself a central feature of the change's nature that any integration plan must recognise.

Aspects of each organisation impacted by the merger

BTL

- Governance: loss of majority independent control, new minority board representation on UGC's enlarged board.
- People/HR: informal, founder-led HR practices will need to be formalised into structured recruitment, contracts and payroll.
- Finance/purchasing: the twice-yearly bookkeeping arrangement and ad hoc purchasing will need to meet UGC's documented internal control requirements.
- Product development: the haphazard, developer-momentum-driven release process may come under pressure to adopt elements of UGC's formal stage-gate process.
- Culture and retention: the casual, autonomous culture that BTL's own staff cite as their reason for staying is the aspect most directly threatened, with an associated risk of losing the key technical talent that constitutes much of BTL's real value.

UGC

- R&D pipeline: expected to benefit directly from BTL's VR/3D technology, closing the strategic gap versus listed competitors identified in UGC's own annual report.
- Governance and risk exposure: UGC inherits governance and disclosure risk it does not yet know about (the personally held patents), and reputational/compliance risk if integration is handled clumsily and publicised (e.g. via developer departures).
- Management structure/PMO: UGC's PMO gains a new, atypical integration challenge (a small, creative, informally-run acquisition) that differs from the more conventional acquisitions its track record is based on.
- Board composition: the enlarged board must now accommodate a new minority representative and manage the expectations of both institutional shareholders and Northfield simultaneously.

c) **Barriers to Change and Recommended Approach**

Likely barriers to change

- **Structural/process barriers**: BTL simply does not have the administrative infrastructure (formal HR, purchasing, accounting systems) required to "plug into" UGC's control framework; conversely, UGC's seven layers of hierarchy and stage-gate process could slow down decisions and stifle the fast, informal innovation style that gives BTL its value.
- **Cultural barriers**: the clash between BTL's casual, autonomous, playful culture and UGC's bureaucratic, hierarchical culture is likely to generate resistance and disengagement, particularly among BTL's developers, who have already begun questioning their future freedom - a direct threat to staff retention and, therefore, to the value UGC is acquiring.

- Political/power barriers: authority for the change is fragmented and partly unresolved - the disputed project manager reporting line, Northfield's veto right, and the institutional shareholders' public demand for a fixed integration timetable together mean there is no single, legitimate driver of the change that all parties currently accept.
- **Trust/information barriers:** the undisclosed personal ownership of the core patents is a hidden barrier that has not yet surfaced but could severely damage trust and derail the programme if it emerges independently during integration rather than being disclosed proactively.
- **Capacity barriers:** BTL's small team, already stretched across product and informal administrative duties, may lack the bandwidth to engage with UGC's compliance-driven integration timetable at the pace institutional shareholders are demanding.

Recommended approach to change management

Given the combination of a fast externally-imposed timetable (Time) with deep cultural and structural differences that need protecting (Preservation, Diversity), a purely "big bang", uniform integration approach is likely to fail by destroying the culture that makes BTL valuable. A phased, differentiated approach is recommended:

- **Sequence mandatory compliance elements first:** bring only the legally required controls (payroll, purchasing authorisation, basic accounting controls) under UGC's framework within the early part of the timetable, satisfying listing-rule obligations without requiring cultural change on day one - directly addressing the structural/process barrier.
- **Protect a defined "BTL zone" of continued autonomy** (e.g. product development and working practices) for a longer transitional period, explicitly communicated to staff to address the cultural barrier and retention risk directly, rather than leaving it to informal reassurance.
- **Resolve the political barrier explicitly:** establish the joint steering group recommended in part (a), with Northfield representation, before further integration steps proceed, so that the change has one recognised, legitimate authority rather than three competing ones.
- **Require proactive disclosure of the patent**-ownership arrangement and its resolution (e.g. transfer of the patents into BTL, with appropriate compensation to the founders) as an early, non-negotiable step - removing the trust barrier before it can detonate mid-programme.
- **Use a participative, Kotter-style communication** effort (building a shared sense of urgency and involving BTL staff in shaping how compliance requirements are implemented) specifically targeted at the developers who feel most threatened, rather than a top-down mandate imposed solely through UGC's PMO.
- **Renegotiate the pace with the institutional shareholders**: present them with a credible phased plan that protects the value of their investment (BTL's innovation capacity) rather

than accepting the 12-month "full integration" demand unmodified, since destroying BTL's culture would undermine the very value the merger was intended to capture.

QUESTION THREE

Model Answer

Qn	Indicative marking point	Marks
	a. Correctly identifies the chronological stages of ownership change (sole trader → partnership → private limited company → plc → acquisitive conglomerate) (Any 4@0,5 mark for each)	2
	Explains how funding sources evolved and enabled each transition (own capital → partner capital → debt/retained earnings → public equity → acquisition financing)	2
	Explains how control shifted at each stage, correctly identifying the separation of ownership and control at flotation as the key turning point	2
	Critical element: evaluates trade-offs (what was gained/lost) at each stage rather than simply describing the stages	2
	Explicitly links the current inconsistent central control over SBUs to the ownership/control history, connecting to the scenario's stated confusion and duplication	
	Maximum for part (a)	**8**
	Correctly defines brand identity (and, ideally, distinguishes it from brand image)	1
	Explains at least three reasons brand identity specifically matters to QGC, using scenario evidence (diversified portfolio, acquisition integration, investor confidence, cultural cohesion, etc.)	3
	Explains the role of mission in providing a unifying purpose across QGC's disparate businesses	1.5
	Explains the role of vision in guiding future strategic/brand decisions	1
	Explains the role of core values in embedding a consistent culture/identity across centrally-managed and autonomous SBUs alike	1.5
	Maximum for part (b)	**8**
	Correctly explains the concept of corporate parenting, including the idea of parenting advantage/value added by the parent	2
	Describes at least three recognised parenting style options (e.g. Strategic Planning, Financial Control, Strategic Control) and its relationship with its strategic Business Units (3 elements well explained @2mark each)	6
	Conclusion	1
	Maximum for part (c)	**9**
	Total	**25**

Marking Guide'

a) Changes in QGC's Ownership, Funding and Control

Sole trader - one owner provides capital and takes 100% of profits as well as responsible for 100% of losses - personal assets may be at risk. Advantages are control, ownership of profits. Disadvantages are no additional sources of capital, lonely, responsible for losses.

Partners - multiple owners, all provide capital, share profits and losses according to capital share. Shared control and decision making. Additional expertise. Can be more complicated - need to reach consensus or agree to disagree. Can be complicate when a partner wishes to leave.

Private limited company - shareholders own the company. Boss is now subject to the oversight of a board. Can be contentious, conflicts of interest. More legal requirements, administration, expenses. Big benefit: limited personal liability. Can be hard to find investors. Principal-agent problem.

Public limited company - listed on the stock exchange. Investors have easy access to buy shares. Limited personal liability. Even more complex rules and legal requirements than private limited company. Principal-agent problem.

b) The Importance of Brand Identity and the Role of Mission, Vision and Core Values

For QGC, brand identity has become increasingly important because the Group has expanded from a single business into a diversified organisation operating several Strategic Business Units (SBUs). As organisations grow through acquisitions and diversification, there is a greater risk of inconsistent customer experiences and fragmented corporate cultures. A clearly defined brand identity helps maintain consistency across all business units while allowing customers and investors to associate every subsidiary with the quality and reputation of the parent organisation.

A vision statement communicates the organisation's desired future position by providing an ambitious long-term direction that inspires employees and guides strategic decision-making.

The mission is an expression of purpose, of what an organisation does and what it is for, expressed in memorable terms.

Values express what the organisation stands for, the standards of behaviour it sets for itself and its staff, and by implication those the organisation is prepared to work closely with.

c) Corporate parents, SBUs

Corporate parents, SBUs

As part of their strategic thinking, organisations must decide which operations and business units they should own and maintain direct control over, and what structure of the organisation will optimise success. A classic structure for a company is to have a head office that maintains overall

strategic control and direction plus multiple **strategic business units** (SBUs) that may be divisions, departments, branches, subsidiaries or other sub-elements of the organisation. An SBU may be defined as a sub-component of an organisation with its own business level strategy supported by its own strategic plan and marketing strategy. It is commonly a profit centre (i.e., a part of the organisation expected to generate surplus revenue above its expenses), although the term can be applied to a public sector entity. The role of the **corporate parent** is for the head office in its relationship with the SBUs.

Three main styles:

- Strategic planning
    - Organisation maintains a focus on a relatively small number of SBUs with significant synergies.
    - Head office plays a major role in setting SBU strategies.
    - Strategic planning and decision-making are highly formalised.
    - Activities (and sometimes resources) across SBUs are well integrated.
    - Possible disadvantages:
        - Lines of communication may be stretched, and decision-making may be slow.
        - SBU managers may feel less ownership of the strategy.
        - With heavy involvement by head office, there can be a tendency to try to sustain SBUs even when they are failing.
- Financial control
    - Head office is less hands-on with SBU strategy but sets short term financial targets.
    - SBUs respond to financial targets by developing business level strategies (aligned with corporate strategy).
    - Continued under-performance is likely to lead to changes in BU leadership or divestment (wherein the company sells or closes the SBU).
    - Company may maintain a broader diversity of activities.
    - Growth strategy likely to be led by acquisitions.
    - Possible disadvantages:
        - Company more likely to be risk averse and over-stretch itself in terms of targets.
        - Decentralisation may lead to a failure to exploit synergies.
        - Head office may constrain flexibility by imposing stringent operational controls (to mitigate risks associated with delegated managerial control).
- Strategic control
    - A more balanced approach between control by head office and autonomy for the SBUs.
    - SBUs have greater say over strategic planning.

- Performance is measured by more than short term financial targets to include market share and growth, and technological innovation.
- Possible disadvantages:

There may be greater ambiguity in what is expected of SBUs and less cohesion of company as a whole.

QUESTION FOUR

Marking Guide

Qn	Indicative marking point	Marks
	Ownership - correctly explains state/public ownership vs private shareholding, applied to NP	0.75
	Governance - explains political/ministerial oversight and accountability structures, applied to NP	0.75
	Control - explains external scrutiny (e.g. national audit body) and public policy/service objectives, applied to NP	0.75
	Funding - explains mixed government/commercial funding and absence of private equity capital, applied to NP	0.75
a	**Maximum for part (a)**	**3**
	Value for Money / 3 Es - correctly explained and applied to NP with specific example	2
	Financial performance measures - correctly explained and applied to NP with specific example	2
	Non-financial/service-quality/public interest measures - correctly explained and applied to NP with specific example	2
b	**Maximum for part (b)**	**6**
	Correctly explains **Harmon's Process-Strategy Matrix** (strategic importance and complexity/dynamism as the two dimensions, with the logic of the resulting recommendations)	2
	Payroll - correct classification and recommendation with justification	1.5
	Motor vehicle maintenance - correct classification and recommendation with justification	1.5
	Driving licence renewals - correct classification and recommendation with justification	1.5
	Postage stamps - correct classification and recommendation with justification	1.5
c	Maximum for part (c)	8
	Correctly explains Harmon's Process-Strategy Matrix (strategic importance and complexity/dynamism as the two dimensions, with the logic of the resulting recommendations)	2
d	Payroll - correct classification and recommendation with justification	1.5

	Motor vehicle maintenance - correct classification and recommendation with justification	1.5
	Driving licence renewals - correct classification and recommendation with justification	1.5
	Postage stamps - correct classification and recommendation with justification	1.5
	Any 4 strategic alternatives to direct competition (Collaboration and strategic alliances,differentiation strategy, focus on core competencies and Cooperation Maximum Marks (4points @2marks each)	8
	Total	**25**

Model Answer

a) Characteristics of public sector entities

- The public sector comprises activities and assets partially or wholly funded by public money on behalf of the public. Public sector is where public funding and assets are used to provide goods and services for the benefit of society.
- Value is not primarily profit but social and economic benefits.
- Ownership - the public (principal)
- Control - elected, appointed and hire officials (politicians, civil servants, third party contractors)
- Funding - public money (taxes, licenses, tariffs, fines, service fees which may be subsidised, revenues from operations, investments, bonds, grants, aid)
- Governance - approximates to private sector with a board exercising oversight and being accountable to parliament and the public, but varies considerably
- While public sector entities may not compete commercially, they also possess characteristics that may be described as organisational advantages by placing the entity in a favourable position to fulfil a particular purpose for the economy or society. NP is a state-owned enterprise and does compete with private sector bodies. Its ownership, funding and control can create tensions. Potentially mixed messages about profitability and public service. Public sector governance may blur the lines between executive and nonexecutive leadership.

Performance can be seen as a process up to **5 marks**

- Policies, mission, vision, goals, values, strategy
- Inputs
- Activities and processes
- Outputs
- Outcomes
- Impacts

Performance is often measured in terms of

- economy (focus on quality, cost, timing, quantity of inputs)
- efficiency (converting inputs to outputs, minimising waste, maximising output of desired quality at right time in right place)
- effectiveness (delivering intended outcomes and impacts)

Apply to NP - financial and nonfinancial goals

c) Harmon's process-strategy matrix
Two dimensions:

- Process complexity dynamics.
- Strategic importance.

Process complexity	Strategic importance	Description and examples	Action
Low	Low	Simple, stable, repetitive, no competitive advantage. e.g., payroll, security, maintenance, mailroom, data entry.	Outsource or automate
Low	High	Simple, stable, strategically important e.g., production.	Automate
High	Low	Complex, dynamic, specialised, not a core competence. e.g., tax, internal auditing, finance and accounting, customer support.	Outsource
High	High	Complex, dynamic, knowledge-intensive core competence, source of competitive advantage. e.g., new product design, contract negotiation.	Improve, redesign, reengineer

applying to NP and making recommendations: on that basis

- Payroll. Outsource, automate
- Motor vehicle maintenance. Outsource
- Driving license renewals. Automate

Creating and printing postage stamps. Improve, redesign, reengineer

d) benefits of cooperation

Can choose to compete. Organisations often collaborate even with rivals for mutual benefit. Benefits may include:

- Increasing organisational reach and access to new markets.
- Achieving efficiencies and economies of scale by sharing costs and services.
- Building competitive advantage by pooling resources and expertise for a unique market offering.

How to manage cooperation up to **3 marks**

Conditions need to be right for this to be a viable option. The following expectations are important:

- Consistent display of fair and ethical practices.
- Mutual respect for each other's strengths and contributions.
- Clear communication and openness to feedback and collaboration.
- Shared goals and interests that align with each other's values.
- Willingness to support and promote each other's successes and growth.
- Understanding and acknowledgment of each other's differences and limitations.
- Willingness to adapt and adjust to changing circumstances and challenges together.
- Consistent demonstration of trustworthiness and dependability.
- Willingness to invest time and resources into the partnership for mutual benefit.
- Common enemy or threat that unites them towards a common cause or mission.

Up to **2 marks** for risks in cooperation

There are also potential risks in partnering with a competitor. These include:

- The possibility of loss of confidential information and trade secrets.
- Increased competition in the marketplace.
- Conflict of interest.
- Dependence on the competitor for success.
- Difficulties in maintaining brand differentiation.
- Decreased bargaining power.
- Trust issues among customers and stakeholders.
- Damage to brand reputation.
- Legal complications.
- Challenges in sharing resources and responsibilities.

Options:

- Communicate, cooperate
- Consortium
- Strategic alliance

Public-Private Partnership (PPP)

(d) What are the options NP and its stores have as an alternative to competition with its commercial rivals and What are the relative benefits and potential pitfalls of these different approaches?

NP operates in an increasingly competitive environment. Although it retains a monopoly over regular mail services, it faces strong competition from private companies in areas such as parcel delivery, financial services, telecommunications and other commercial activities. Rather than relying entirely on direct competition, NP and its local stores can pursue alternative strategic approaches, including collaboration, differentiation, strategic focus and co-opetition.

1. Collaboration and Strategic Alliances

NP can partner with courier companies, banks, telecom firms and government agencies to deliver additional services through its national network. This can increase revenue, share costs and improve the use of infrastructure. It also provides access to new technologies and expertise. However, conflicts, dependence on partners and loss of control over service quality may occur.

2. Differentiation Strategy

NP can differentiate itself through its nationwide presence, trusted public identity, rural accessibility and secure document handling. This reduces direct price competition and can strengthen customer loyalty. It allows NP to exploit its unique existing strengths. However, differentiation may be costly and difficult to maintain consistently across all locations.

3. Focus on Core Competencies

NP can concentrate on areas where it has strong capabilities, such as postal logistics, national distribution and access to remote communities. This improves resource utilisation and creates a clearer strategic direction. It can strengthen NP's long-term competitive advantage. However, over-specialisation may cause the loss of customers and increase vulnerability to market changes.

4. Co-opetition

NP can cooperate with competitors in selected areas while continuing to compete in others, such as sharing its network for parcel or financial services. This can generate additional revenue and improve infrastructure utilisation. It also expands customer choice and encourages resource sharing. However, competitors may gain strategic advantages, creating conflicts over information sharing, pricing and control.

End of Marking Guide and Model Answers.