CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

SM3.2: STRATEGIC MANAGMENT

DATE: MONDAY 23, FEBRUARY 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

#	**Model Answers and Marking Guide**	
(a)	Transformational leaders: up to **three marks** • Strong vision • Strong drive • Ambition to make big changes • Focus on future, change and people • Ability to inspire others, take them on the journey. Transactional leaders: up to **three marks** • System of explicit agreements and rewards or punishments • Effective in stable, highly structured environments, clear roles, string system of bonuses, merits, promotions etc.	6
(b)	Culture: up to **six marks** • Is "how we do things" • Is tied with attitudes and behaviours (ABC model) • Affects everything an organisation does • Rewards and reinforces certain ways of doing things, certain kinds of people, certain kinds of behaviour and minimises others • "Eats strategy for breakfast" • Affects how strategy is developed, who is involved, what inputs are used, what vision is set • Elements of the cultural web (stories, symbols, rituals, formal structures, power structures, control systems)	6
(c)	i) Up to **four marks** • Unfreeze is the first step of unfreeze, change refreeze • It is vital to prepare the right conditions under which change can occur • The organisation has been set in it sways for a long time, same CEO for 25 years, transformation may be difficult • May be better to anticipate resistance, move in bite-sized chunks, find early adopters, use them as champions ii) **Two marks** for good explanation of the model and its purpose • McKinsey 7S model demonstrates the need to consider multiple sympathetic changes o ensure the organisation dos not slide back to its former practices Up to **eight marks** for discussing different aspects of the 7S model and illustrating with examples from the case • Shared values (culture) - CEO's priority, focus on efficiency • Systems - e.g., new HR performance management model • Structure - e.g., COO responsible for HR	4 2 8

	• Style - e.g., no longer transactional but transformational, vision/people/change led • Staff - e.g., loss of 12% of personnel • Competencies - e.g., training in people management skill • Strategy - e.g., expand brand to include menswear, younger women and children	
(d)	Referring to agency theory: up to **three marks** • Describe separation of principal and agent • Identify principal (shareholders) and agent (board, CEO, executive in this case • Identify imbalance of power (information, control) • Identify measures to redress imbalance (cost of agency - e.g., remuneration) Referring to ISO, Three Lines, CIPFA, or other governance model discuss: up to **five marks** • Role of the board (structures and processes to ensure organisation achieves its goals while maintaining the interests of stakeholders) • Oversight • Transparency • Stakeholder engagement • Risk management and internal control • Independent assurance (internal, external) • Legal/regulatory requirements for governance	3 5
(e)	Up to **four marks** to explain Mendelow's matrix Purpose: to prioritise and manage stakeholders according to their power and interest (two axes of the matrix) Stakeholders may be: up to **four marks** • low interest, high power (keep satisfied) • high interest, high power (key players) • low interest, low power (low priority) • high interest, low power (keep informed) • examples from the case study: shareholders/investors, legislators, employees, local community, suppliers, loyal customers	4 4
(f)	Role and purpose of the board and its members **two marks** • Duty of care • Duty of loyalty • Duty of obedience • Explanation of a unitary board and a dual tier board (supervisory and management) Pros and cons many include: **two marks**	2 2

	Unitary board	Dual board
Pros	• All major decisions are taken in one forum - reduces the potential for lack of clarity.	• Clearer separation of roles between executive and non-executive duties.

	• Flexible and relatively inexpensive to operate single body. • Connects executive and non-executive directors, strengthening dialogue, understanding, responsiveness and oversight. • Efficient information flow.	• Greater representation of shareholders' interests. • Better balance of power between CEO and chairman (when positions are separated). • Greater consultation and broader inputs to strategy.
Cons	• May blur the distinction between executive and non-executive roles. • Combined chairman/CEO role can be far too powerful. • Board may be less independent. • Non-executive directors may be too remote from operations to fully grasp circumstances.	• Can be unwieldy and bureaucratic. • May lead to stagnation as consensus is hard with broader representation. • May reduce risk appetite and stifle growth. • Independent directors have a stronger role but potentially one that over-emphasises stock market performance.

Four marks:
Importance of diversity
Role of committees to support board, free up agenda, bring in additional talent, supply of future full board members, common committees:

- Audit
- Finance
- Compensation
- Nominating
- Risk

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SECTION B

QUESTION TWO

#	Model Answers and Marking Guide	
(a)	Advantages and disadvantages of operating as a family-run, family-owned business: Advantages up to **4 marks**: • Stability in leadership and strategy. • Commitment by family members in terms of effort and due diligence. • Flexibility of working practices. • Long-term perspective. • Reduced costs where family members may be prepared to loan money and/or take a reduced salary to keep the business afloat. Disadvantages up to **4 marks**: • Disgruntled family members feeling under pressure to work in the business. • Nepotism whereby family members are favoured for positions and promotions leading to dissatisfaction among other employees. • Conflicts between family members. • Lack of formalised structure. • Lack of succession planning as leaders assume there will be family members to take their place in due course.	8
(b)	Use the PESTEL model to evaluate SHC's macro environment and risks up to **10 marks**. • Political - promises about healthcare influence voters - those who want better healthcare and have the rich or corporations pay for it or those who want tax cuts with the expectation that the burden of paying for healthcare should fall more on individuals. With an election coming there is a risk that the new administration will reduce public funding. There are also potential risks to immigration policies and SHC's workforce. • Economic - the cost of living is rising and inflation is pushing costs higher. SHC's profits will be reduced and become a threat to liquidity and even solvency (survival). It may be necessary to cut staff wages (although they are already low). • Social - there is a growing and aging population. This increases the demand for SHC's services. • Technological - advances in technology enable cheaper, better, easier solutions for monitoring and surveillance as required by regulation. There are increased risks with such technology - from hackers for example. But it brings better protection for residents and staff. • Environmental - sustainability is a topic of major public interest. It is likely requirements will be introduced and so voluntary actions are not a bad thing. However, making promises introduces reputational risk if they are not achieved or if results are misreported. • Legal - laws related to health, safety, immigration, ESG, data privacy and protection, can all impact SHC.	10

(c)	Porter's model up to **7 marks**: Is used to evaluate the level of rivalry • Bargaining power of suppliers - the bargaining power of producers like SHC is high with individuals but much less so when working with insurance companies and the government. • Ther is a relatively small number of providers. • Threat of substitutes - services are largely undifferentiated, and customers can switch easily. Reputation is important to protect the brand. • Bargaining power of buyers - is low for individuals but high for insurance companies and government. • Threat of new entrants - there are large set up costs and these are rising, mostly due to regulation. Such services are labour intensive and so there is a major pressure of wages. Senior staff members are required to be highly skilled and there are requirements for the ratio of qualified medical practitioners to residents. • Rivalry - o relatively small number of providers reduces rivalry o there is potential for continued growth as people live longer, reducing potential rivalry o services are undifferentiated increasing rivalry o there are only moderate barriers to exiting the industry, sell off assets, and this is likely to reduce rivalry	7

QUESTION THREE

#	**Model Answers and Marking Guide**	
(a)	**1 mark** for a definition of competitive advantage Competitive advantage refers to relative advantages an organisation has compared with its rivals. Sustainable competitive advantage needs to be based on something not easily mimicked. Up to **4 marks** for describing how competitive advantage can be achieved and **4 marks** for linking this to the case study. It may be achieved by differentiation in: • Product - SU has a unique product - the in-store experience. • Image - SU has an image as a one-off in the market, although this is being eroded. • Services - SU has well trained and attentive staff and an easy check out service as well as home delivery. However, others can imitate this. • Personnel - SU has a great team who represent the brand. However, this can be imitated. • Resource - The location is hard to beat and the most important and sustainable part of SU's competitive advantage. However, it is becoming more costly.	9

	• Operational - SU enjoys economies of scale by having everything under one roof. • Price - SU's prices are higher than the average. This is not part of the competitive advantage. SU has a unique value proposition - everything under one roof. There is increasing competition. In the case of the three organisations joining together, it is unlikely they will have ethe cohesion of the SU experience. Staff won't know about each other's products. Fast food is not healthy food.	
(b)	Up to **2 marks** for defining a focus (segmentation) strategy. A focus strategy involves segmentation of the market and targeting a particular niche. Segmentation can be made on the basis of: • Homogeneity - the target audience have something in common • Distinction - the target audience have distinctly different needs from the rest of the market • Reaction - the target audience will respond differently to the market. Up to **6 marks** for describing a segmentation strategy relevant to SU. Typical bases for segmentation are: • Demographic - age, ethnicity, gender, education, etc. SU has great opportunity to focus on different segments. Gender specific sportswear and equipment. Classes for the older customer. Sporty play group for little children. National sports from different countries. Top of the range and budget-priced equipment to cater for different incomes. • Firmographic - SU makes B2B sales to gyms, school, sports clubs. It may choose to target particular segment of this market. • Geographic - The physical store is likely to appeal to an audience within a given radius. The online store, however, expands the reach for SU. • Behavioural - within the market are those who are more serious about sports, competitors, maybe even professional. SU could tailor products and services to this elite group. Their buying behaviour is likely to be different from the more casual consumer interested in a nice day at the store. They are more likely to want high end items and shop mor regularly. SU could have a boke club, a golf club, etc. with a database and magazine and emails with latest goods and special promotions. • Psychographic - similar to behavioural. The purpose of segmentation is to dominate in a smaller subsection of the market, develop specific expertise, reputation, contacts, tailored services, etc.	8
(c)	Up to 4 **marks** for defining the 7Ps and **4 marks** for relevant examples from the case study The 7Ps:	8

	Place - place refers to the channel of distribution, how goods get from SU to the customer. Primarily this is from the store. Online sales allow customers to buy from the comfort of their home. In-store purchases can also be delivered. Price - SU charges a premium price knowing customers are happy to enjoy the experience and are prepared to pay more for it. At its special Spring and Autumn events, it may also be able to use price skimming (high prices for new products) as interest is high and supply is low initially. Product - in addition to the features of the physical products, SU specialises in the related experiences and services. These are part of the product in the marketing mix. People - SU is careful in the people selected who interact with the customer and contribute to the experience. Promotion - SU advertises online and holds two major events each year launching new products. These bring people into the store who may become repeat customers. Word of mouth promotion is also important. Process - SU makes check out an easy process. Generally shopping in the store is a relaxing and pleasant experience. Physical environment (presence) - the store and its location are central to the marketing mix. Visitors experience SU through the design and style and layout of the building.	

QUESTION FOUR

#	**Model Answers and Marking Guide**	
(a)	Up to **8 marks** for appropriately identified aspects of the case study: Strengths • Core of instructors • Classrooms in excellent facilities • Brand recognition • Wide portfolio of courses Weaknesses • Run courses that are frequently cancelled at short notice • Manual processes • Ineffective customer satisfaction survey • Does not have own classrooms • Shortage of capital Opportunities • Streamline course booking procedures (including adoption of technology) • Review and improve surveys • Eliminate dogs and question marks from the portfolio • Classes could be taught online • Growth - partnership, shares, franchise, strategic alliance	8

	Threats • May lose instructors to rivals • May lose classrooms to rivals	
(b)	Up to **5 marks** describing Boston Matrix and reflecting examples from the case study The Boston Matrix has two axes - market growth rate and relative market share There are four quadrants: Low growth, low share - dogs Low growth high share - cash cows High growth, low share - question marks High growth, high share - stars LAL can use this to determine appropriate strategies for products in its catalogue Up to **4 marks** highlighting criticisms of the Boston Matrix • It uses only two measures (growth and market share). • It encourages companies with Cash Cows to adopt holding strategies rather than trying to increase demand which may make them vulnerable to a disruptive competitor. • It implies only those with a large market share should remain whereas many organisations succeed in maintaining a small niche. Large market share does not guarantee high profits and low market share does not always mean the product is unprofitable. • It implies the most profitable markets are those with high growth but barriers to entry and high price competition may mean this is not the case. • Not all Dogs are bad as they may support organisational economies of scale and protect market share.	9
(c)	Up to **3 marks** for describing internal growth options and advantages/disadvantages Internal growth through the accumulation of profits • Increase own capabilities through knowledge acquisition rather than being reliant on someone else. • Spread investments over time as funds become available. • There are no availability constraints (i.e., not dependent on the availability of acquisition targets or suitable strategic partners). • Maintain control. • Manage cultural evolution (rather than needing to make sudden adjustments as a result of alliances, mergers and acquisitions). But: slow, expensive and risky Up to **5 marks** for describing external growth options and advantages/disadvantages Alternatively external growth options include: • Borrowing • Forming partnership • Become a company - sell shares • Mergers and acquisitions	8

	• Franchise • Strategic alliances Benefits: • Injection of capital. • Potential for rapid growth. • Access to additional resources and capabilities. • Economies of scale. • Access to new channels of distribution. • Decreased competition. • Share the risk However: • More complex operations and administration. • Loss of control. • Cost of legal processes. • Profits are shared or interest must be paid. • Risk to reputation. • Potential for conflict.	

End of Marking Guide and Model Answers