CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

SM3.2: STRATEGIC MANAGEMENT

DATE: FRIDAY 29, MAY 2026

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **one Compulsory Question** while section **B** has **three optional questions** to choose any **two.**
4. In summary attempt **three questions.**
5. Marks allocated to each question are shown at the end of the question.
6. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

SFC is a leading retailer of discount fashionwear for women. It is a private limited company that owns a chain of outlet stores through which it sells its own branded clothing. The company works with a small number of suppliers who produce items based on customised orders.

The profit margin on the clothes is very low. SFC's differentiation strategy is based mainly on its brand. The brand is well known and targets women aged between 30 and 50 who want a designer look but cannot afford designer prices. However, SFC faces challenges in maintaining the right balance between price and quality in line with customer expectations.

Following the retirement of the Chief Executive Officer (CEO), who had held the position for 25 years, a new CEO is appointed by the board. The new CEO quickly introduces major changes to the senior leadership team. The Chief Operating Officer (COO) and Chief Financial Officer (CFO), both long-serving members of the company, are immediately dismissed and replaced with directors who previously worked with the new CEO. In addition, the responsibilities of the COO are expanded to include the Human Resources (HR) function.

The new CEO is known for adopting a transformational leadership style, in contrast to the former CEO who followed a transactional approach. The new CEO makes it clear that changing the organisational culture is a key strategic priority. A major training programme will be introduced for all middle and senior managers to improve their people management skills. At the same time, a new performance management system will be implemented to ensure that all employees have clear goals linked to divisional and corporate objectives. Employee performance will be closely monitored, rewarded where appropriate, and poor performance will not be tolerated.

SFC operates from a large and impressive building located in a prime area of the capital city. Employees commute daily, often travelling long distances despite unreliable transport systems and difficult driving conditions. The COO has been instructed by the new CEO to develop a plan to move most employees to remote working. The current building is to be sold or repurposed, and cheaper alternative office space will be secured for functions that still require a physical presence.

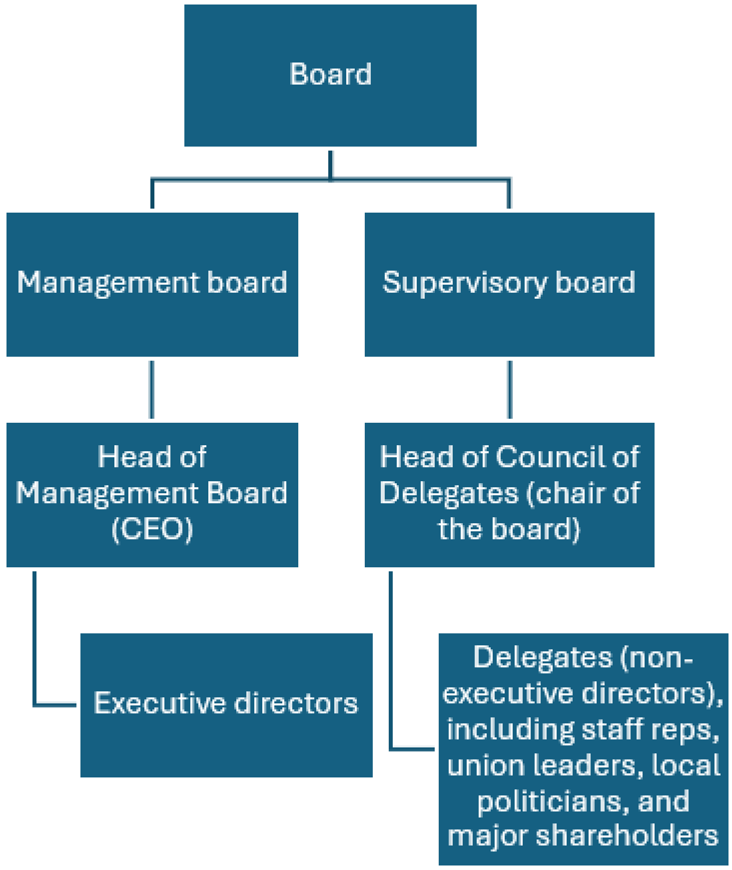
The new CEO also plans to expand SFC's customer base by introducing new product lines targeting younger women, children, and men. This expansion aims to achieve lower costs through higher sales volumes. The CEO believes that the company's strong brand identity can be successfully extended into these new market segments.

However, to support these plans, the CEO has indicated that overhead costs must be reduced in the short to medium term. This will involve workforce reductions, with approximately 12% of positions to be eliminated across all departments immediately. Instructions have been issued to all heads of functions and business units to implement these cuts.

The new CEO strongly supports the idea of improving efficiency across the organisation. All systems and processes will be reviewed and redesigned with the aim of increasing operational efficiency.

The board of directors is also actively involved in the changes taking place. It plans to carry out a full review of corporate governance. Currently, the company operates a dual-tier board structure, but there is consideration of moving to a unitary board structure. Any such change will require approval from shareholders and the support of key stakeholders.

The current structure of the board is presented as follows:



The chair of the board has asked the head of the internal audit function to carry out a comprehensive evaluation of all aspects of corporate governance, including an assessment of the performance of the board and its individual members. To support this process, the chair has also requested that the auditors evaluate the organisation's key stakeholders.

The current membership of the supervisory board includes several of the company's largest investors, senior representatives of regional government, the executive director of SFC's bank, a representative of one of its major suppliers, and the head of the two trade unions representing office workers and managers.

Required:

a) The new CEO is described as a transformational leader. **Evaluate this leadership style in comparison with the approach taken by the former CEO.** (6 Marks)

b) The new CEO has placed great emphasis on organizational culture. **Explain why culture is important to organizations, particularly in the development, implementation, and achievement of strategy.** (6 Marks)

c) i) Bringing about lasting organizational change can be a very difficult challenge. With reference to Lewin's three stage model, **explain why "unfreeze" is so important as a first step with FOUR valid points.** (4 Marks)

ii) **How does the McKinsey 7S model support the approach taken by the new CEO to achieve the desired changes?** W*ith FOUR valid points.* (10 Marks)

d) With reference to agency theory or an appropriate model or framework, such as ISO 37000, **discuss EIGHT importance of corporate governance.** (8 Marks)

e) **Explain Mendelow's Matrix and describe how it could be used to help bring the intended switch in the structure of the board and other organizational changes proposed by the new CEO.** (8 Marks)

f) i) The internal auditors are set to undertake a review of the effectiveness of the board. **Discuss TWO fiduciary responsibilities of a board and its various committees?** (4 Marks)

ii) **Compare and contrast a unitary board with a dual tier board.** (4 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Senior Health Care (SHC)

SHC is a family-run, family-owned business. It was established by the grandfather of the current Chief Executive Officer (CEO) 35 years ago. All senior management positions are held by members of the same extended family. SHC owns and operates a network of 12 residential healthcare facilities for senior citizens. Wages in the sector are below the national average. A large percentage of SHC's employees are immigrants who are more willing to accept the terms and conditions.

The environment is competitive, and price and quality of the service user's experience are key factors. There are a relatively small number of providers offering very similar services. Businesses comprising just one residential care centre can compete with larger providers like SHC. There are high set up costs and these are rising, mostly due to regulation. Such services are labour intensive and so there is a major pressure on wages. Senior staff members are required to be highly skilled and there are requirements for the ratio of qualified medical practitioners to residents.

The suppliers of care have much greater power in the market than individual customers to set prices and determine the quality and nature of services provided. However, insurance companies and government are major customers. Providers are often incentivised to work with specific insurance companies, but this can limit the size of their market. All care providers are obliged to accept government-funded clients from the most vulnerable groups.

This year will see major elections take place for local and national government. Healthcare is always an important factor in how voters vote. However, some voters would like to see a reduction in publicly funded services to save costs and lower taxes while others would like to see an increase by raising taxes on the rich and company profits. Immigration is also another major issue voters care very much about.

Monthly charges are billed to service users (or authorised friend or family member) covering accommodation, meals and basic care. Specialised care, treatments and medications are paid separately. Payments are usually made from a combination of personal resources, insurance, government subsidies and charitable donations.

SHC operates in a complex and dynamic external environment. The general population is both expanding and living longer. The cost of providing care is increasing because of the general increase in the cost of living (i.e., inflation) and as regulatory requirements become more burdensome. Further increases will continue to squeeze SHC's margins. Senior healthcare facilities are required to install monitoring and surveillance inside and around the perimeter for security purposes and to protect residents as well as care workers. However, advances in technology (hardware and software) make this easier, better and cheaper.

The CEO of SHC is a strong advocate for sustainability, recognising ethical responsibilities and financial benefits related to greener policies. SHC has introduced voluntary nonfinancial disclosures in statutory financial reports including bold targets for reducing the business's carbon footprint over the next five years.

Required:

a) **Critically evaluate operating as a family-run and family-owned business compared with other organisational forms.** (8 Marks)

b) **Use the PESTEL model to evaluate SHC's macro environment and risks.** (10 Marks)

c) **Evaluate rivalry in the market for senior healthcare using Porter's Five Forces model.** (7 Marks)

(Total: 25 Marks)

QUESTION THREE

Sports Unlimited (SU)

SU is a retailer of sports equipment and clothing covering all popular activities, including golf, football, tennis, basketball and running. Its vision is having everything under one roof, a one-stop shop for all your sporting needs. This also provides economies of scale.

It operates from a single store where it has a reputation for having a wide range of items in stock and a unique in-store experience. It is ideally situated for easy access and parking and for its indoor and outdoor facilities. It prides itself on having the best informed and most helpful staff who are carefully selected, highly trained and dressed in a smart uniform to be easily identifiable. They are required to be knowledgeable about all products in all departments.

Going to the SU store is designed to be fun and relaxing. Customers can try the sports equipment in a combination of real and computer simulated environments. The sports-themed video games utilise the latest in virtual reality technology. The store has a miniature golf course, a gym, a spa, a museum of sports memorabilia and a café specialising in healthy drinks and food which the customers can also buy to take home and prepare for themselves. Coaching and classes are held. Large TV screens display live and recorded sports matches and instructional videos on topics such as how to improve your golf swing or increase your metabolism. Each of the separate business streams (spa, café, museum, café, etc.) are manged as profit centres.

Relaxing music is played over a sound system and there is a fountain and small stream running between the indoor and outdoor sections containing a selection of fish. Individuals, couples and families often spend hours in the store. When it comes to checking out, customers can wait in a lounge area as sales assistants come to them with mobile card readers to take payment. Large items can be delivered.

The store was purchased in a prime location when property prices were low. This is now the highest rated business zone in the city. Recently, the cost of utilities and ancillary services (water, electricity, waste disposal, etc.) have increased significantly and the city council has imposed major hikes to its business rates in this zone.

SU has two special events each year supported by extensive marketing. In Spring it launches its latest collection of goods for the Summer aimed at outdoor and beach sports. In the Autumn it launches its Winter range with more of an indoor theme as well as skiing, snowboarding and tobogganing. These are advertised in-store and online. Word of mouth also contributes to other people hearing about the forthcoming events and product launches.

Given its success, other companies have tried to mimic the SU experience. A fitness club, sports retailer and a fast-food company have entered into a strategic agreement to wok together to offer a similar range of services in one place. SU's retail prices are already at or above those of its nearest rivals. Customers have been prepared to pay more because of the choice available and the experience. However, an increasing trend that SU's Chief Marketing Officer (CMO) has noticed is customers leaving the store without making a purchase. Research shows they typically seek lower priced alternatives, often online. SU has a web store where the prices are the same as in the physical store.

SU also trades with sports clubs, schools and gyms, providing trade discounts on large orders. Other than this, SU has made no attempt to segment the market nor target any particular niche.

Required:

a) **Evaluate SU's competitive advantages in reference to the scenario.** (9 Marks)

b) **Explain how SU could take advantage of a focus strategy in achieving a sustainable competitive advantage.** (8 Marks)

c) **Critically analyse SU's marketing mix using the 7Ps model.** (8 Marks)

(Total: 25 Marks)

QUESTION FOUR

Live and Learn (LAL)

LAL is a small privately owned training provider in the form of a sole trader specialising in life coaching. The business was established 12 years ago and delivers a series of programmes designed to help people manage problems, trauma and disappointment and to take control of their own destiny. The LAL brand is well known and has a good reputation for quality training. Classroom space is rented from the local community college where the facilities for students are generally excellent. Unfortunately, there is growing demand for the classrooms and the college is increasing its prices. The courses vary in length from a single session to a series of 20 delivered over six months. Some are designed for the beginner while others require earlier courses to be completed first. There are three certificate programmes offered at levels 1, 2 and 3. The average class size across all groups is 15 people.

In the town in which LAL operates, life coaching is a growing business. Other providers are springing up and are in direct competition for students. LAL courses occupy a large market share.

From the catalogue of courses offered, some are very popular and frequently all spaces are sold out. Others struggle to recruit the minimum numbers need to make them viable. Some of these are considered old-fashioned and the demand for this kind of course has declined in recent years. If a class has fewer than 10 enrolments, it is cancelled and refunds are issued. This often happens shortly before the course is due to start and is a source of frustration among those who signed up.

Customer satisfaction surveys are collected at the end of every course. These - like course bookings - are processed manually and have limited usefulness. Five new courses have recently been introduced. The performance and reviews have been mixed.

LAL has a core group of committed instructors who are highly respected in their areas of expertise. However, rival training providers have attempted to lure them away with the offer of higher rates of pay.

The owner of LAL has plenty of ambition of growing the business but lacks the necessary capital.

Required:

a) **Examine LAL's key strengths, weaknesses, opportunities and threats by completing a SWOT analysis.** (8 Marks)

b) **Using the Boston Group Consulting Matrix (often referred to simply as the Boston Matrix) analyse the portfolio of courses offered by LAL. How effective is the Boston Matrix for evaluating a range of products or services?** (9 Marks)

c) **What opportunities are available for LA to support ambitions to grow the business? What are the relative merits of the different approaches?** (8 Marks)

(Total: 25 Marks)

End of Question Paper