Professional Level – Essentials Module

Business Analysis

September/December 2015

Paper P3

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This question paper is divided into two sections:

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Do NOT open this question paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

ACCA

Section A – This ONE question is compulsory and MUST be attempted

1 Introduction

A business architecture training market has developed in the last two decades in the continent of Eastaria to train business analysts in this important subject area. QTSBA and Aspire to Knowledge (A2K) are both specialist providers of business architecture training and compete in this market. QTSBA is part of the Quality Training Synergies (QTS) Group and it is the market leader in this niche market. QTS Group is currently considering the possible acquisition of A2K with the intention to merge it with QTSBA after acquisition.

QTS Group

QTS Group is a significant, publicly quoted, training and education provider in Eastaria. QTS Group controls a number of independent trading companies which serve niche training markets across Eastaria. Every day, companies across QTS Group deliver more than a thousand courses. To help establish a common delegate experience, QTS Group insists on a standard, centrally defined approach to training in an attempt to ensure that courses are delivered in a consistent way. Revenue and net profit for the group is shown in Table One.

	2009	2010	2011	2012	2013	2014
Revenue ($m)	600	605	610	710	800	875
Net profit ($m)	70	65	70	85	100	110

Table One: Revenue and net profit for QTS Group (2009–2014)

Much of the recent growth of QTS Group has been achieved through acquiring niche information technology training companies. QTS Group has a good reputation for managing such companies post acquisition. In the three companies acquired in the last two years, profitability (as measured by the ROCE and the net profit margin) has increased in all three companies post acquisition. QTS Group believes that it has core competencies in acquisition and strategic change implementation, and that these core competencies are demonstrated by the improved performance of these recently acquired companies.

However, shareholders of QTS Group remain concerned about the group's current high level of retained earnings. They perceive that recent acquisitions by QTS Group have delivered value to shareholders because there has been an increase in both the dividend payout ratio and in earnings per share. A vociferous minority of shareholders are lobbying the board to continue this policy of acquisitions, using the retained profit of the group to drive further growth, particularly in terms of revenue and profit. In acknowledgment of this, the QTS Group board has announced an 'acquisition fund' of $30m to further acquire companies and finance post-acquisition change. A2K is the first of a number of companies which QTS Group is looking to evaluate for possible acquisition.

Business strategy is decided at group level and then implemented by the individual companies. There is a formal reporting system from these companies to the group.

Although growth in the business architecture training market has slowed, QTS Group is committed to remaining in this market. It forecasts future world-wide growth in this market and it intends to look for opportunities outside of Eastaria in the future. Revenues and other relevant information from the business architecture training market in Eastaria are shown in Table Two.

	2009	2010	2011	2012	2013	2014
A2K revenue ($m)	12·0	14·0	16·0	17·0	17·0	16·5
QTSBA revenue ($m)	39·0	40·0	42·0	45·0	46·0	48·0
Total market revenue ($m)	175·0	190·0	196·0	200·0	202·0	202·0

Other information:

(1) QTSBA is the market leader in this market sector
(2) The second largest training provider, CompTrain, recorded revenue of $31·31m in 2014
(3) Independent research shows that companies operating in this market have an average return on capital employed (ROCE) of 25% and an average net profit margin of 10%

Table Two: Sales revenue and other relevant information in the business architecture training market in Eastaria (2009–2014)

QTSBA

In 2011, QTSBA appointed an experienced senior management team to improve the company's performance in the business architecture training market. To attract capable managers, QTSBA offered remuneration packages which were linked directly to achieving sales revenue performance targets.

It is acknowledged within QTS Group that QTSBA has strong sales and marketing competencies and it has recently won two major government business architecture training contracts. However, it is having difficulties finding experienced trainers and it needs to quickly recruit these trainers as a number of training programmes it has successfully bid for are about to commence. It is also acknowledged in QTSBA that the sales and marketing department of QTSBA has spare capacity, 'we could sell more if we had more to sell' is a common complaint of the sales and marketing team.

QTSBA has attempted to produce e-learning products in the past. However, the project to develop these products was unsuccessful. A team of software developers was recruited and an e-learning development platform selected. However, the company found it difficult to control the programmers' work. As one senior manager commented, 'we are training course providers, not a software house.' It transpired that the purchased e-learning platform was slow and inflexible and the learning solutions produced by the team were not what customers wanted. After two years, the project was abandoned, the programming team disbanded and the investment written off.

Aspire to Knowledge (A2K)

A2K was established in 1986 by Lee Wan and Kim Cross. In 2002, up and coming business architecture guru Kath Goff joined the company. These three people are still the primary shareholders of the company. Lee owns 25% of the shares, Kim owns 35% of the shares and Kath owns 35% of the shares. The current marketing director and sales director of the company each own 2·5% of the shares. Lee and Kim are now retired and the board consists of Kath Goff (as chief executive officer – CEO), the marketing director and the sales director.

A2K's organisational structure is shown in Figure One. This chart only shows full-time business architecture trainers. The company also employs a number of sub-contracted trainers who are self-employed and who undertake training for A2K on an ad hoc basis.

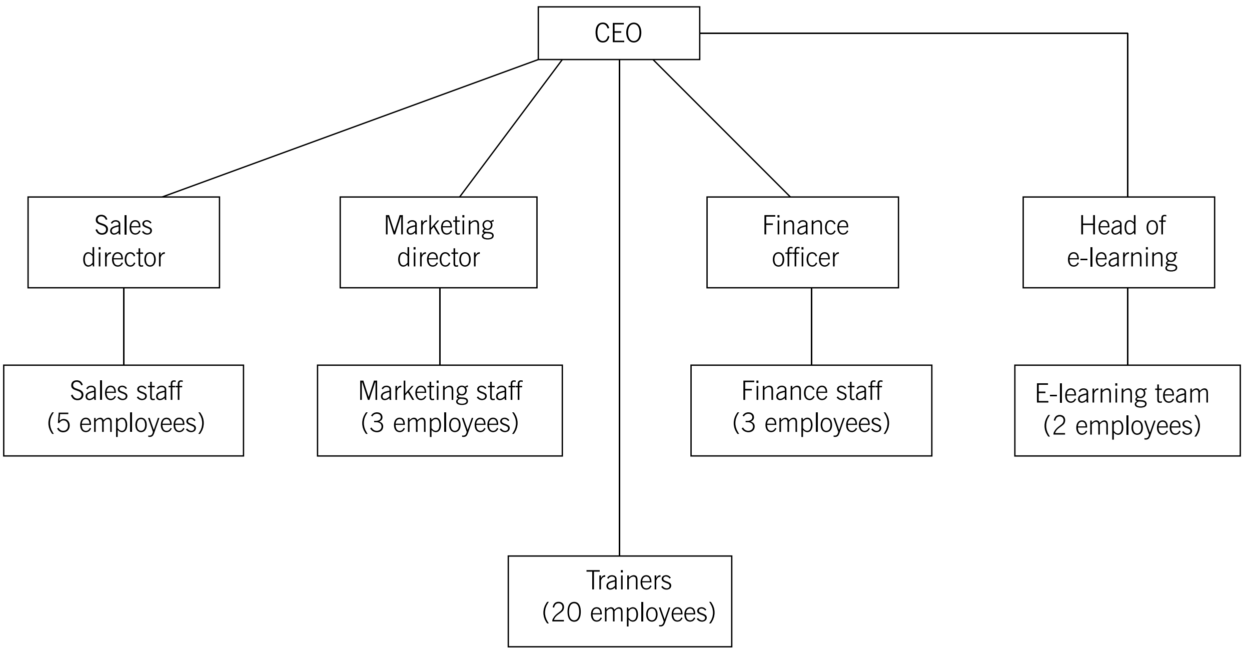

Figure One: A2K's organisational structure – 2014

Kath Goff is an intelligent, charismatic individual with an in-depth knowledge of the business architecture training market. Although strategy is nominally the responsibility of the board, in practice the strategy reflects her vision. Indeed, she makes most of the significant decisions in the company. The marketing director has attempted to question her judgement in the past and has put forward alternative strategies. However, these have been quickly dismissed by Kath, claiming that he 'just doesn't understand the business architecture market'. Kath has also issued a number of public rebukes to other members of staff and employees who have found her direct approach unacceptable have quickly resigned and moved to other companies.

The early success of A2K was largely based on Lee and Kim's distinctive and innovative approach to training. The company soon became known as a company which did things slightly differently, with courses which were both challenging and humorous. To try and maintain this spirit, Kath still arranges regular company events, trying to recreate what she now considers to be the golden age of business architecture training. Indeed, Lee and Kim are always invited back to the annual 'celebration event' where Kath, Lee and Kim sit together all evening recounting tales from the old days. The current full-time trainers find such events tiresome and demotivating. They feel that customers now expect more professional, standard courses and that delegates' expectations have changed and are now more exacting. The full-time trainers employed by A2K are continually rated as 'excellent' by customers. However, these trainers are frustrated by their lack of input into company strategy and training decisions, as well as by the continued presence of Lee and Kim at company events. They find it hard to reconcile exciting tales of the past with the increasingly aging, fragile men sitting next to the CEO.

A2K has a small, but experienced e-learning software development team. A number of e-learning products have been produced over the last few years and are available for immediate purchase on the company's website. Sales are relatively strong and the unit profit margin, like all e-learning products, is significant as there is virtually no variable cost in delivering an e-learning course to a customer. However, the e-learning team is demotivated. It is concerned at the company's apparent lack of commitment to e-learning (as against conventional face-to-face training) and the young head of e-learning, Ash Tag, is particularly angry at the company's reluctance to give him (and hence e-learning) a place on the board.

A2K was particularly successful in 2010, 2011 and 2012 when it successfully competed against QTSBA for a number of major business architecture training contracts (see Table Three).

Although A2K has traded relatively successfully since its inception, the CEO has been increasingly concerned that costs are not properly under control. She has evidence that costs per training day have risen whilst revenue per training day has fallen, due to increased competition in the business architecture training market. This has led the CEO to become increasingly involved in the day-to-day operations of the company, particularly in monitoring the financial situation, because she has little confidence in her finance staff.

All figures in $m	2009	2010	2011	2012	2013	2014
Share capital	3·00	3·00	3·00	3·00	3·00	3·00
Other reserves	0·40	0·40	0·40	0·40	0·40	0·40
Retained earnings	0·80	0·90	0·80	0·80	0·70	0·60
Revenue	12·00	14·00	16·00	17·00	17·00	16·50
Net profit	1·75	1·65	1·65	1·60	1·45	1·40

Table Three: A2K – Figures extracted from financial statements: 2009 to 2014

Preparing for acquisition of A2K

The board of QTS Group is now preparing to approach A2K with an acquisition offer. Representatives of QTS Group have already met informally and independently with Lee and Kim (who both indicated their willingness to sell at the right price) and with the board of A2K (the CEO, sales director and marketing director). The latter meeting was quite strained, but the impression was formed that the acquisition would be considered favourably if the CEO, sales director and marketing director were employed, post-acquisition, in an autonomous company within QTS Group. This was put on the agenda, but no promises were made. Privately, the QTS Group board are sceptical whether these three senior managers could work in a more formal organisation or indeed, whether they are needed at all. They have no plans to make A2K an autonomous company within the group and indeed their intention is to merge the company with QTSBA.

Required:

The managing director of QTS Group has approached you as a business analyst and asked you to produce a briefing paper which addresses a number of key issues:

(a) **Identify and discuss the benefits and advantages to QTS Group and QTSBA of acquiring A2K. The managing director stresses that he just wants the benefits and advantages considered. He wants you to focus on the positive factors which would emerge from this acquisition.** (19 marks)

(b) QTS Group policy mandates that a strategic change evaluation should be undertaken before any possible acquisition is made. This looks at strategic change in terms of time, preservation, diversity, capability and readiness. These are five selected elements from the Balogun and Hope-Hailey model which considers the contextual features of strategic change.

Evaluate the strategic change required at A2K if the company is acquired and subsequently integrated with QTSBA. This evaluation should use the contextual features of time, preservation, diversity, capability and readiness. (15 marks)

(c) Finally, the managing director is interested in the organisational culture of A2K. He is concerned that it 'is just such a different company to us'. So, the final part of your briefing paper is to explain the principles of organisational culture and the concept and application of the 'cultural web' and Mintzberg's organisational configurations.

Explain the concepts of organisational culture, the cultural web and organisational configurations in the context of the possible acquisition of A2K and its post-acquisition integration with QTSBA. (12 marks)

Professional marks are available in question 1 for the tone, clarity, vocabulary and approach of your answer. (4 marks)

(50 marks)

Section B – TWO questions ONLY to be attempted

2 Introduction

The Institute of Certified Operations Managers (ICOM) has a professional scheme of examinations, available to its student members, which leads to certified operations manager status when completed and supported by an acceptable portfolio of practical experience. ICOM also supports full members (those who have achieved certification, or have completed examinations and are in the process of gaining relevant experience) by offering a range of member services, including professional development courses. Similar services are offered by their close rival, the Operational Management Institute (OMI).

ICOM has experienced a decline in both full membership and student membership in the last five years, despite there being an increased demand for operations managers in organisations. In contrast, OMI has published data showing that it has increased student membership by 27% and full membership by 12% in the same time period. The revenue and profitability of ICOM, a company limited by guarantee, have also declined over the last five years.

There are opposing views within ICOM about the reason for the decline. Some directors, including John Turvey, believe that the absence of a formal strategic plan, identifying critical areas for success, has meant a lack of direction and focus. However, another member of the senior management team has suggested that the main reason for ICOM's problems is the inefficiency of the student recruitment process. He feels that the company needs to understand how other organisations (such as OMI) do this and to put changes in place to improve the process at ICOM.

Strategic planning

To support his viewpoint, John Turvey was asked to write a strategic plan to address how to regain lost membership and to grow market share, to compete with OMI. A mission statement, critical success factors (CSFs) and key performance indicators (KPIs) were to be included within the plan. As he had not completed a strategic plan before, John has asked for your views on the draft plan, part of which is shown below, which he intends to share with senior management.

Mission statement

I suggest that we replace our current mission statement 'Simply the best in operations management' with a more focused statement which states that 'Our mission is to satisfy the needs of our members, to inspire our student members and to motivate our staff to provide the best possible service'.

CSFs

These are the things we are going to focus on in the long term to help us to achieve growth and fulfil our mission statement. Altogether I have identified 35 critical success factors. The full list is available on our staff intranet, but the most important ones are shown below:

1. To satisfy our members
2. To grow membership by 5% year on year for the next five years
3. To maximise profits within acceptable risk
4. To ensure that the syllabus is in line with the current operations management environment

KPIs

Here are the KPIs which we should measure to help us assess the CSFs listed above:

1. 95% of members rate us as excellent in an externally administered customer satisfaction survey
2. To implement a vigorous marketing campaign
3. Return on capital employed (ROCE) and margin of safety
4. To recruit an examinations manager to rewrite the syllabus

We should also adopt an integrated reporting approach so that stakeholders understand our mission, our strategy and all aspects of our business performance.

Required:

(a) Critically evaluate the mission statement, critical success factors and key performance indicators suggested by John Turvey. (15 marks)

(b) Discuss how benchmarking could be used at ICOM, identifying any limitations in its application. (5 marks)

(c) Discuss the role of integrated reporting in relation to communicating strategy and business performance at ICOM. (5 marks)

(25 marks)

3 Introduction

Mantis & Gear (M&G) was formed over 50 years ago to manufacture branded electrical and electronic goods for other companies. These goods are made to the specification required by these companies, whose own brand logos are attached to the products during the production process. M&G currently manufactures hundreds of products, although some are very similar in specification, with slight differences due to the requirements of each customer. M&G does not sell its own products to individual domestic consumers. Sales teams therefore focus on high volume sales to large companies.

The electrical and electronic goods market is increasingly competitive, with overseas companies entering the market. M&G's customers have responded to this by demanding lower prices and better quality products from M&G. As the electrical and electronic goods market is technologically innovative, there is also a requirement to continually develop new products or enhance existing ones.

The sales manager, James Slater, has revealed his sales team figures for the year 2014 and is excited to announce that the team has exceeded sales volume targets. However, his enthusiasm is not shared by the business controller, Furzana Khan, who has written a report to the chief executive officer (CEO) suggesting that there are fundamental performance problems in the company. An extract of her report is given below:

Business performance

'In a period of increased competition and growing product ranges, we are failing to keep control of the profitability of our business. Table 1 presents a summary of our performance for 2014, showing problems with our pricing and/or our cost control. This has affected profitability.

	Budget units	Actual units
Sales volume	243,000	270,000
	Budget $'000s	**Actual $'000s**
Sales revenue	36,450	36,450
Direct materials	(15,795)	(18,630)
Direct labour	(3,402)	(4,725)
Fixed overheads	(8,250)	(11,450)
Operating profit	9,003	1,645

Table 1 – Budgeted versus actual performance for 2014

I recommend that we move from our traditional absorption costing system to that of activity based costing (ABC) in order to better understand our costs and to introduce an appropriate strategy to turn around our business performance. Specifically, we should ensure that we incorporate both product and customer costing into our ABC analysis to determine our profitable and unprofitable products and customers.'

James Slater has seen the report and has angrily confronted Furzana. 'We are in a period of increased competition and have successfully managed to grow our sales in difficult times. We even managed to fulfil some special orders with very short lead times. We should be celebrating these successes, not treating them as poor performance. We should expect some fall in profitability as our customers are able to shop around, so we have to make our products and our prices more attractive to them. The new costing system that you are proposing will just be a paper exercise for you to criticise the efforts of the sales and production teams. I will do everything I can to stop the introduction of this costing system.'

(a) It is clear that the business controller and the sales manager have different opinions about the current performance of the company.

Required:

Analyse the data shown in Table 1, suggesting possible reasons why performance may not be as positive as that portrayed by the sales manager. (15 marks)

(b) The sales manager, James Slater, described activity based costing as 'a paper exercise for you to criticise the efforts of the sales and production teams'.

Required:

Briefly explain the principles of activity based costing and the reasons for its development. Evaluate whether it may be beneficial to M&G, making reference to any benefits and limitations of activity based costing and any problems associated with its implementation. (10 marks)

(25 marks)

4 Introduction

Cooper University is situated in the country of Mowria, which has over 300 universities. University tuition fees have increased in the last few years and students are expecting a better level of service as a consequence of this. Results of student satisfaction surveys are published by the Mowrian government, and can greatly influence the students' choice of university.

At Cooper University, students are assessed in two ways: by examinations and coursework. Both types of assessment contribute towards the degree classification awarded to students. In a recent, internally commissioned, student experience report, Cooper University received some negative feedback from students on the coursework organisation, submission and feedback process. Consequently, the university is keen to rectify problems in this process.

Details of the coursework organisation, submission and feedback process are described in the next section and summarised in Figure One.

Coursework organisation, submission and feedback process

At the start of a new semester, an administrator distributes term dates and coursework guidance to lecturers. There are many different subjects within a course and each subject is managed by a different lecturer. The guidance includes a stipulation that coursework should be marked and returned to students within two teaching weeks of the submitted coursework being collected from the course administration office by the lecturer. Lecturers write their own coursework requirements and set their own deadlines, informing the head of department so that a consolidated course schedule can be produced.

Coursework requirements are uploaded by lecturers onto a virtual learning environment (VLE) system, which is accessed by students. Lecturers release these requirements at the beginning of the course, in accordance with the administrative guidelines. Students download the requirements and then complete and submit their work.

Students are required to submit two copies of their completed coursework: a hard copy to the administration office and a soft copy uploaded into the VLE system. The VLE system produces an automatic receipt showing the date and time coursework was submitted, as proof of the upload. An administrator periodically sorts the submitted hard copies by subject, ready for lecturers to collect. Lecturers collect the coursework when they have some free time in their schedule for marking.

Once collected, lecturers mark the coursework and type their feedback into a new word processed document, and then upload that document against the student profile on the VLE. The VLE issues an automatic email to students informing them that feedback is available. The lecturer also collates total marks onto a spreadsheet and emails this to the administrators. The administrators input these marks manually into a computerised administration system and then send a report to the head of department, who records the marks against the individual student's assessment profile.

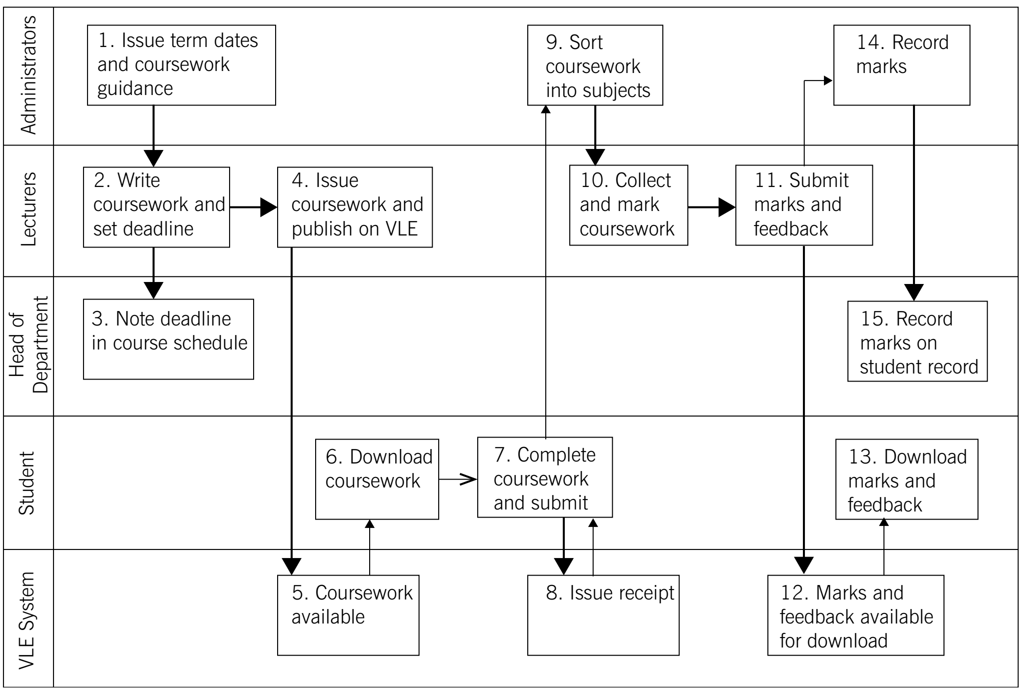

Figure One – Coursework organisation, submission and feedback process

Student feedback

The following extracts from the student experience report are representative of the feedback received from students:

'I received one mark from the VLE system, but when my end-of-year results were released the mark was different'

'My feedback was on a separate document so I found it difficult to relate to the coursework submitted'

'I accidentally submitted an unfinished piece of coursework to the administration office but submitted the correct one to the system. The lecturer marked the unfinished piece'

'It takes weeks to receive my marks, by which time I've forgotten what the coursework was about. When I asked the lecturer she said she had marked it within the time allowed'

'We always have about four pieces of coursework to submit at the same time, and then weeks where nothing is required. I wish the university would manage our programme better'

'The lecturer said he did not receive the hard copy of my coursework but I know I handed it in. This was counted as a non-submission'

'There were errors in the initial coursework requirements, which were subsequently significantly changed. I had already started the assignment so this time was wasted'

'I completed and submitted my coursework early in order to manage my workload better, but then the lecturer gave an additional lecture to help us with our coursework. This contained very useful information, which we had not previously covered. I was not allowed to resubmit my work and so suffered from being efficient'

'My lecturer wasn't very supportive when I had personal problems.'

'My course didn't seem well coordinated. Some topics were repeated and others failed to cover the syllabus, making it difficult to move up from one year to the next'

With increases in student tuition fees and therefore student expectations, the role of university lecturers is changing. They are expected to play a more proactive role in the development of students and in monitoring students' well-being. There is a need for lecturers to assist in the development of new courses and subjects and to work closely with each other to ensure that the link between subjects is rational and appropriate.

Currently, there is an extensive guidance document for lecturers, mapping out the way in which all activities should be carried out within their role; the coursework organisation, submission and feedback process is just one of many process maps. There is a high turnover of lecturing staff, some of whom have stated that they are getting little job satisfaction from what should be a rewarding and challenging job.

Required:

(a) Identify, and explain, four problems in the current coursework organisation, submission and feedback process and suggest appropriate solutions to address each of these problems. (16 marks)

(b) Changes in organisational processes often require the redesign of jobs.

Discuss how the jobs of lecturers at Cooper University could be redesigned, using relevant approaches to job design, so that they better meet the needs of their students and the university. (9 marks)

(25 marks)

End of Question Paper