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# **Answers**

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**1 (a) BRIEFING PAPER**

To: MAS management team

From: External consultant

Subject: Balanced Scorecard (BSC): proposed indicators and potential problems of implementation

**(i) Assessment of proposed BSC indicators**

For MAS's new period of growth – internally branded as AI-X - the revised mission statement is “to be a trusted and strategic partner for clients globally, helping them to use the potential of AI to unlock new opportunities and optimise their operations, and thereby help MAS to achieve sustainable, long-term success”. There are also four supporting objectives:

1. To develop innovative AI products
2. To expand market reach
3. To foster strategic partnerships
4. To attract and retain talent

Alisha has proposed a set of indicators and below is an assessment of how the indicators could be used to measure MAS's progress against the revision mission and objectives.

**Revenue growth**

This indicator would track MAS's ability to generate new sales each year, which supports its wish to embark on a period of significant growth. If MAS is successful in expanding its market reach (objective 2) to additional industries, this would be captured within this indicator, as it will demonstrate the percentage growth in revenue. It would be useful for this objective to separately track MAS's revenue progress in each of the key industries which have been identified, such as healthcare, finance, and retail. Revenue growth could also help track its success in developing innovative products (objective 1).

**Return on investment (ROI)**

MAS plan on securing debt investment to fund the delivery of AI-X, and this indicator would therefore help the management team to track the ROI at a company level and at a project level for AI-X. This could also include the development of new AI products (objective 1), as MAS will be required to research and develop products that can help solve business challenges for its clients, but this will need to be delivered in a way that generates a return for MAS in the both the short and long-term. Using this indicator at a more detailed level (product ROI) could also be beneficial.

**Customer satisfaction**

This indicator helps MAS to gauge the quality of its products from the clients' perspective, as satisfied clients are more likely to continue using its solutions. The recent customer feedback regarding the increase in bureaucracy faced by clients will therefore need to be addressed. The new mission statement is very customer focused with an aspiration for MAS to unlock new opportunities and optimise operations and this indicator would help MAS to assess whether this is being achieved from a client perspective. The mission also states that MAS wish to be a trusted and strategic partner for its clients, so an annual survey tracking satisfaction levels would provide a good indication as to MAS's progress.

**Customer retention rate**

A high customer retention rate demonstrates MAS's ability to provide ongoing value and maintain long-term relationships with clients. This fits with the mission statement of continuing to achieve sustainable, long-term success. Conversely if MAS did not develop innovative new AI products (objective 1) then clients would move elsewhere, and retention rates would decline, so this indicator will help to track progress.

**Product development cycle time**

This indicator monitors the time taken to develop new AI products and therefore provides insights into MAS's agility and efficiency in innovation. It will be important for MAS to manage the time it takes from idea to launch, in order that it can continue to design and develop AI solutions to meet the needs of its clients. Given the evolving nature of the AI market, it is important that MAS can identify opportunities quickly and build suitable solutions for its clients, and this may provide MAS with a competitive advantage. This may also require the support of MAS's strategic partners (objective 3) to utilise their expertise and knowledge, to help minimise the development cycle.

**Quality control**

Ensuring high-quality solutions is crucial for MAS's reputation and customer satisfaction. MAS will not become a trusted partner with clients if quality of solutions becomes an issue. A quality control indicator should therefore help minimise defects and errors through the innovation process, leading to improved customer experiences, and thereby ensuring that MAS continue to be a partner for both clients and other technology companies.

**Employee satisfaction and engagement**

This indicator helps to track progress against MAS's ability to attract and retain talent (objective 4). Satisfied and engaged employees are more likely to be

productive and innovative and therefore monitoring employee satisfaction will help MAS retain its top talent and foster a positive work environment that supports its growth and success. The employee survey, however, may not provide reliable information on MAS's ability to attract talent, which may still be required to assemble a world-class team.

### **Innovation and research**

Tracking the number of patents filed reflects MAS's commitment to continuous innovation and growth. This indicator links with the strategic objective of developing innovative new AI products but is a lag indicator and therefore does not provide any indication of the progress in innovation before a patent is obtained. Therefore, a lead indicator such as new product ideas or client solutions may also be beneficial.

### **Summary**

The draft indicators provide a good overview to track progress against the revised MAS mission statement and its four strategic objectives. The noticeable omission is the objective to "foster strategic partnerships" as there is no clear indicator that covers this in the draft BSC. This may fit under learning and growth, or internal process and an indicator may be the number of strategic partnerships or alliance partners established.

### **Marking scheme**

- *Up to 2 marks for an appropriate and relevant comment for each of the 8 draft indicators*
- *Generic comments on BSC indicators (not applied to MAS) should receive zero marks.*

*Maximum of 16 marks in total for 1ai.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Commercial acumen skills in assessing the value of the proposed indicators when monitoring progress against MAS's mission and objectives.	The candidate has failed to adequately assess the proposed indicators and how well the indicators may measure progress against MAS's revised mission and objectives.	The candidate has assessed the indicators but has not sufficiently addressed whether they may indicate progress against the revised mission and objectives.	The candidate has provided a reasonable assessment of each of the indicators and how they may help MAS to understand its progress against the revised mission and objectives.	The candidate has provided a clear assessment of the extent to which the proposed indicators measure MAS's performance against its revised mission and objectives, including suggesting additional or amended measures.
	<b>0</b>	<b>1.5</b>	<b>3</b>	<b>4</b>

**(ii) Potential problems in MAS implementing a balanced scorecard**

Implementing the balanced scorecard (BSC) may come with certain problems for MAS.

**Lack of leadership support**

Successful implementation of the BSC requires leadership support and commitment. If senior management does not actively champion the BSC, the implementation may face difficulties in gaining traction and achieving organisational alignment. Although Alisha has proposed the BSC it will also require the support of the other two members of the management team, Xander and Omar, who are not familiar with the concept of the BSC and are sceptical of Alisha's motivation for introducing the BSC. They feel that Alisha merely wishes to develop a case study for her MBA studies. Xander and Omar are therefore unlikely to support the BSC and its application to MAS without further understanding and knowledge and Alisha would not be able to implement this alone. The six departmental heads will also be crucial as if this group of senior people within MAS do not engage with the BSC, then it is less likely that all other employees will do so. The departments are not currently working effectively, with department heads rarely communicating with each other and reluctant to work and share with other departments, so this could negatively impact the implementation of a BSC.

**Resistance to change**

Introducing a BSC may disrupt existing systems, practices, and reporting, and Xander believes that this may confuse employees, especially given the recent launch of AI-X. It may be perceived that there is too much change occurring within MAS, which may lead employees to resist and not engage with the adoption of the BSC and possibly AI-X. As noted above, departments across MAS are already working more independently and unwilling to work with others, and therefore a continued lack of engagement may seriously affect MAS's ability to deliver AI-X. In addition, the finance team have already demonstrated resistance, as they have expressed concerns regarding the reporting of the BSC, rather than engaging with it to try to address their concerns.

**Inadequate strategy alignment**

One of the primary objectives of the BSC is to align organisational performance measures with the new AI-X strategic objectives. However, if the BSC is not properly aligned with the organisation's overall strategy, it may fail to drive the desired outcomes and value. Ensuring a strong alignment between the scorecard and the strategic objectives is therefore crucial. As identified in the first part of this briefing paper the indicators proposed by Alisha could provide appropriate information on how MAS is progressing against its revised mission

and objectives, but some additions and omissions were recognised, and this would need to be monitored and possible adjustments made to indicators in future to reflect progress more accurately.

**Lack of data availability**

Reliable, accurate and timely data is essential for tracking performance when using a BSC approach. The finance team have already expressed concern regarding the possible challenges related to data availability, from existing systems within MAS. Several of the proposed indicators may require new methods of data capture, which have previously not been tracked by MAS. This would be new to MAS and therefore a new system of collection and reporting would need to be established, probably by the finance team in liaison with several departments, including AIPD, DS&A, Customer Support, R&D, HR, and Sales & Marketing. This may therefore be a further challenge to the implementation.

**Marking scheme**

- *Up to 2 marks for discussion of potential problems of implementing a BSC for MAS. Maximum of 1 mark if the problem is relevant but not applied to MAS. Up to a maximum of 3 marks for generic points.*

*Maximum of 8 marks in total for 1aii.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Scepticism skills in identifying and explaining the problems MAS may face when implementing a balanced scorecard.	<p>The candidate has failed to identify suitable problems that MAS may encounter when implementing the BSC.</p> <p>The candidate has not applied their points to the scenario.</p>	The candidate has provided several problems regarding the implementation of the BSC but has not sufficiently applied their answer to MAS.	The candidate has clearly identified and explained the possible problems that MAS may encounter when implementing its BSC.
	<b>0</b>	<b>1</b>	<b>2</b>



**(b) REPORT**

To: MAS management team

From: External consultant

Date: XXXX

Subject: Benefits and problems of a matrix structure for MAS

**Introduction**

This report will identify and discuss the advantages and disadvantages of MAS moving from its current functional structure to a matrix structure, to support its next stage of development, referred to as AI-X.

**Current structure**

MAS's current organisational structure is based upon a functional division of work, but is not providing the necessary integration of activities, nor is it responding sufficiently to client needs.

It is likely that a matrix structure might work better, as the basis of such a structure are multi-functional project teams. Within such a structure teams can often be small, flexible, and temporary, and is often used when management do not wish to set up separate departments but are looking for increased cooperation among all their staff. Therefore, this form of structure may be suitable for MAS given that many projects require cross-department resources to work together on client AI solutions.

**Advantages of a matrix structure for MAS**

- There is generally more integration between functional specialists as they will work together, which for MAS would have the effect of employees working in an inter-disciplinary way across AIPD, DS&A and R&D. This could result in greater co-operation and a better understanding of differing or alternative opinions.
- A matrix structure is more responsive and flexible to environmental and technical changes, which is important for MAS and its clients. Project teams are less bureaucratic and more focused, and outcomes are achieved much quicker, which would address the current client feedback received by Xander.
- No one single functional area is likely to dominate in a matrix structure, as resources, information and responsibilities are shared, which may reduce the domination of the AI PD department in MAS, where there is a danger that the organisation may become too product-orientated, rather than providing bespoke solutions for its clients.

- Junior, technical staff at MAS would experience a wider range of learning from a broad spectrum of areas/projects. They would lose their specialised departmental focus and become more valuable employees for MAS – like the original employees in 2018. This will also provide a good training platform for future MAS managers.

### **Disadvantages of a matrix structure for MAS**

- Within a matrix structure there are dual reporting lines (to a head of department and a project manager) within the project teams, which may create a potential for conflict between project managers and functional heads of department. This may still require the participation of the MAS management team to resolve issues, which does not improve upon the current situation.
- A matrix structure brings an increase in the complexity of reporting, which may make such a structure for MAS costly to administer. As a technology-led company, MAS would wish to avoid inefficiencies in its operations and matrix structure can often be complex.
- Decision making may be slower and be less responsive if every decision requires all party approval – i.e. departmental and project representatives. Clients have already highlighted project delays under the current organisational structure, but this may be exacerbated within a matrix structure.
- For members of staff, especially junior members, they may find it difficult to manage the expectations of two reporting lines, i.e. a functional department head and a project manager. This could create unnecessary confusion for an employee, in terms of which manager to satisfy first if there was a possible conflict.

**Marking scheme**

- *Up to 2 marks for each relevant advantage of a matrix structure identified and applied directly to MAS, up to a maximum of 4 marks. Marks capped at 1 mark per point where advantages are generic and not applied to MAS, up to a maximum of 2 marks.*
- *Up to 2 marks for each relevant disadvantage of a matrix structure identified and applied directly to MAS, up to a maximum of 4 marks. Marks capped at 1 mark per point where disadvantages are generic and not applied to MAS, up to a maximum of 2 marks.*

*Maximum of 8 marks in total for 1b.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Evaluation skills in assessing the suitability of a matrix structure to support AI-X.	The candidate has failed to assess the suitability of a matrix structure for MAS.  The candidate has not applied their points to the scenario.	The candidate has provided a good overall evaluation of the suitability of a matrix structure for MAS.	The candidate has provided an excellent evaluation of a matrix structure and how it may or may not support the AI-X phase for MAS.
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) EMAIL**

To: Xander Millican  
 From: External consultant  
 Date: XXXX  
 Subject: Manufacturing the CP-M for an external market

Hi Xander,

I know that you are considering whether MAS can manufacture the CP-M for an external market. I have therefore used a target costing approach below to calculate the target cost gap for the manufacture of the CP-M by MAS. Please refer to the calculations and explanation below.

I have used the information provided in Exhibit 2 to demonstrate the target cost that MAS would need to achieve to be competitive in selling CPUs to the external market.

**Target cost working (per unit):**

	\$
Market price	99.00
Target profit (20%)	<u>19.80</u>
Target cost	<u>79.20</u>

Given the current market price and the margin expected for CPUs, the above calculation shows that MAS needs to achieve a total cost per unit of \$79.20 or lower.

**MAS manufacturing cost:**

		\$
Materials	(\$54 pu)	54.00
Labour	(0.3h X \$40ph)	12.00
Machine costs	(0.1h X \$70ph)	7.00
Packaging	(£8.50pu)	8.50
Inspection	(0.05h X \$60ph)	3.00
Reworking	((3% x 2,000) x \$40) / 2,000)	<u>1.20</u>
Total costs		<u>85.70</u>
Cost gap		<u><b>6.50</b></u>

The illustrative calculation above shows that the current estimated cost of MAS manufacturing the CP-M is \$85.70, which is \$6.50 per unit higher than the target cost of \$79.20. This assumes a current market price of \$99 and an expected

profit margin of 20%. The figures above are based on the 2,000 units produced by MAS in the previous 12 months.

### **Reason supporting MAS's manufacture of the CP-M for the external market**

#### **Additional contribution**

MAS currently has the capacity to produce 10,000 units of the CP-M annually, and the requirement internally is only for 2,000 units (based on the previous 12 months). Therefore, MAS could manufacture and sell externally 8,000 units to use up this spare capacity. At the current market price of \$99, and a current cost price of \$85.70, this would generate additional contribution of \$106,400.

#### **New revenue stream**

As Xander has identified, the manufacture of the CP-M could create a new additional revenue source for MAS. Based on the existing additional capacity, this would generate revenue of \$792k (8,000 units x \$99), but if MAS could increase capacity, then this additional revenue source could significantly increase. Given MAS's growth strategy, growing their manufacturing capacity for the CP-M, may also be complementary, for example, a 50,000-manufacturing capacity could generate just under £5m in additional revenue for MAS.

#### **Economies of scale**

The manufacture of the CP-M has currently been confined to MAS's internal requirements, but if MAS started to produce the CP-M in significantly higher volumes – at least to 10,000 and possibly more – then the unit cost should reduce as MAS would take advantage of economies of scale in the manufacturing process. Supplying an external market may also focus MAS on refining the process of CPM manufacture, which may provide additional cost and quality benefits.

#### **A new market?**

Given the AI-X growth strategy, which involves longer term relations with clients and collaborating with other technology companies, there may be an opportunity within MAS's network to identify further opportunities for the CP-M and other similar products that may require the manufacturing skills and expertise that MAS may develop. The AI industry currently use various hardware devices, and MAS uses a range of specialist manufacturers to supply them for internal client projects. Given that these devices are more specialist and therefore high value, this may be a future opportunity for MAS to consider if a successful external launch of the CP-M can be achieved.

Although MAS is not able to currently take advantage of the external margins available for the CP-M product, there are several reasons why manufacturing the CP-M for an external market may still be beneficial for MAS in the longer term.

If you have any further questions or queries regarding the information in this email, then please do not hesitate to contact me.

Regards  
External consultant

### **Marking scheme**

*Up to 4 marks for the calculations*

*Up to 2 marks for each reason supporting MAS's manufacture of the CP-M for an external market. To a maximum of 6 marks.*

*Maximum of 8 marks in total for 1c.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Analysis skills in using the available information to advise Xander regarding the manufacture of the CP-M.	The candidate has failed to clearly calculate the target cost gap and provide reasons supporting the CP-M manufacture.	The candidate has made a reasonable attempt at calculating the target cost gap, although there are some errors. The candidate has provided limited justification to support the manufacture of the CP-M.	The candidate has provided a clear and accurate calculation of the target cost gap and provided clear reasons to support the manufacture of the CP-M.
	<b>0</b>	<b>1</b>	<b>2</b>

**2 (a) REPORT**

To: Tingle Automotive (TA) senior management team

From: External consultant

Date: XXXX

Subject: The transition plan – leaderships styles and stakeholder engagement.

**Introduction**

Following my recent meeting with James, I have been asked to advise the management team in relation to TA's proposed transition plan. The first part of the report will focus on the strategic change and advise on what may be the most appropriate leadership styles for managing this change. The second part of the report will focus on three of your key stakeholders, by understanding their power and interest and what would be the best way to engage with them in relation to the transition plan.

**(i) Leadership style when managing strategic change**

Strategic change refers to changes in the long-term direction of the company. Most changes are incremental and based on existing strategies. However, sometimes more extensive change is necessary and strategic change may meet resistance from within the organisation, so leadership is required to drive the change and persuade those within the organisation to accept it. For TA, the proposed transition plan would be considered a strategic change as it will affect the long-term direction of the company. TA exclusively supply the automotive industry, and this industry is undergoing its own significant, strategic change, as it moves to a new focus on EV production. To align with its customer demands, TA will therefore need to change its own product and manufacturing process.

Johnson, Scholes and Whittington (JS&W) identify five possible leadership styles that can be used in managing strategic change.

**Education and communication**

This style will involve TA, and particularly the SMT, clearly explaining to employees the reasons and benefits of the transition plan, and the gradual move away from combustion engines to supplying components for the evolving EV market (education). The SMT should continue to communicate with employees throughout the transition plan, in an open and transparent manner covering progress, plans and timescales (communication). TA has four manufacturing sites, and 4.200 staff, so SMT will need to plan a roadshow of



events in order that all employees can see and hear from them regularly, regarding the transition plan.

### **Collaboration or participation**

This style will attempt to involve employees in the design and implementation of the transition plan. TA state that it values employees as a key asset and wish to recognise the importance of employees engaging in the transition plan, and therefore this would be a great opportunity for TA to create several employee steering groups to provide input to the detailed planning process - for example, an employee group could help TA with the design and layout of the new factory planned for 2024. Annabel would also like to create an environment that encourages employees to contribute their ideas, and therefore this style of leadership would be appropriate to support that environment.

### **Intervention**

This style would coordinate and provide more authority over the process of change, and therefore have less involvement from employees. This would normally be initiated by a change agent, who would delegate responsibilities for the change process. For TA the change agent may be Annabel Powell, who has recently been appointed as the transition director of operations. This is a very focused role, where Annabel has responsibility for the delivery of the transition plan, so it is also in her interests to become the agent of change to ensure that plans are implemented according to the agreed timescales contained within the transition plan. The appointment of this new role, with this style of leadership, may then allow the SMT to continue in their education and communication leadership style.

### **Direction**

This style uses top-down authority to establish a clear future strategy and how change will occur. Arguably, the SMT have already adopted this style, as they have recognised the need to adapt TA's business model to stay competitive and have launched the transition plan as a new strategic priority for TA. There is no evidence that employees have been involved in the creation of this new strategy, which may create some tension, especially if redundancies are to occur in future. However, by following a directed style of leadership, it enables SMT to clearly articulate the new strategy and its justification, which is driven by industry and environmental changes, and possibly makes the message easier to understand from an employee perspective.

### **Coercion**

This style would impose change on employees and is the explicit use of power and sometimes necessary if an organisation is facing a crisis. Although TA does not currently appear to be in crisis, the SMT are possibly looking to avoid a

future crisis by making decisions early. Although the transition to EVs will not be immediate, the automotive industry is heading in that direction and therefore TA, as a component manufacturer, will no doubt be expected to change. There may be some employees who will be reluctant to change, especially those employees who fear for the long-term future of their jobs, and therefore in certain situations the SMT, and Annabel, will need to demonstrate this leadership style to ensure continued progress against the plan.

### **Summary**

The transition plan will create a significant change to the strategy of TA, and TA's leadership team will be crucial to determining the success of the transition plan. All the leadership styles identified above could be relevant for TA, as one style only is not typically sufficient when managing major strategic change. It would be hoped that the first two styles will be appropriate for most TA employees to engage in the change process, but the final three styles may also be required at certain points in the journey and possibly for certain TA staff.

### **Marking scheme**

- *Up to 2 marks per well explained point that advises on possible leadership styles that may be effective when managing the strategic change expected from TA's transition plan.*
- *The leadership styles proposed in the JS&W model would be suitable, but candidate answers should not be restricted to this model. Any styles proposed must be clearly applied to the scenario.*
- *1 mark per point if a leadership style is explained but does not relate back to the scenario, with a maximum of 3 such generic points. Candidates should not be awarded credit for listing leadership styles without explanation or application.*
- *Up to 2 marks for an overall summary and commentary on the styles of leadership for TA to consider for its transition plan.*

*Maximum of 10 marks in total for 2ai.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Commercial acumen skills in providing appropriate leadership styles that may assist TA through the proposed strategic change.	The candidate has demonstrated no commercial acumen skills and has demonstrated a poor awareness of leadership styles for managing strategic change. The answer was wholly generic with no direct application to TA.	The candidate has some knowledge in relation to leadership style but has not sufficiently applied the points to the strategic change facing TA.	The candidate has demonstrated sound judgement in identifying several suitable leadership styles for managing the proposed strategic change at TA.	The candidate has shown strong commercial awareness in identifying a range of leadership styles that would be suitable and related to TA's transition plan.
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(ii) Power and interest of stakeholders**

The SMT has identified three key stakeholder groups who require consultation and engagement with the transition plan. Mendelow's matrix is a model used to manage and prioritise stakeholders for an organisation by assessing the relative power and interest of each stakeholder group either generally or in relation to a proposed strategy, i.e. TA's transition plan. This assessment should help TA to determine the best approach for engaging with each of the stakeholder groups.

**(a) Customers****Power**

Customers hold a variable level of power as they can choose to continue or discontinue their business with TA based on their satisfaction and the value they receive from the company. However, the top 10 customers account for 72% of TA's annual revenues, and therefore these customers will hold more power with TA and may wish to use this power to either support the transition plan, as it will also support their own EV direction, or oppose the plan if the customer is planning on using combustion engines for the foreseeable future and therefore will require the continuation of components for these engines. Customers could exert their influence by threatening to move their business to other suppliers, which could then affect TA, at least, in the short term. Gallen Cars (GC), with 16% of TA's current revenue, will hold even more power with TA due to the impact on TA sales if Gallen were to move supply.

**Interest**

TA customers may have a high interest in the strategic change as they rely on TA to provide high-quality components that meet their own changing needs, especially in the EV market. These customers will have a high interest in the transition plan and how TA adapts its business to the demands of the EV market to ensure the same high-quality components in future. Gallen has demonstrated their interest in suppliers recently with the request for more information and an integrated report.

**Engagement**

TA should proactively arrange to meet with its customers, especially the top ten customers, to seek feedback on the transition plan, and, if required, adapt to align its plan with customer feedback. A meeting with Gallen would be a priority, given their level of business with TA and as they appear to no longer view TA as one of their key suppliers.

**(b) Raw material suppliers****Power**

The RM suppliers have developed a partnership relationship with TA which has enhanced their power in terms of the reliance that TA places on them to support its supply chain. TA has selected RM suppliers based on factors such as quality, reliability, capacity, financial stability, and an alignment with TA's own values, and therefore once a supplier has been accepted against these criteria it has created a strong commitment and therefore the suppliers will have a reasonable degree of power in relation to TA's transition plan. In addition, RM suppliers are integrated into the TA supply chain through the sharing of information, forecasts, and product development plans.

**Interest**

The suppliers will have a high interest in TA's transition plan as they will be concerned about their future sales volumes. There will be a degree of uncertainty for them in terms of a shifting pattern within the industry which may require the suppliers to review their existing materials and process to ensure that they are fit for TA and other customers they supply. This would also create a potential opportunity for the existing suppliers as there may be more scope to grow the business with increasing volumes if TA is to be successful in the EV market.

**Engagement**

TA should establish preferential supplier arrangements with a small number of existing suppliers. This would help to engage key suppliers in the transition plan and thereby ensure that TA has access to the materials required for EV component manufacture. This would also provide reassurance and a future business commitment for those suppliers selected. If suppliers can plan with a degree of certainty, they too will be more willing to invest in their processes and capacity to help support TA's transition plan.

**(c) Shareholders****Power**

The Tingle family own most shares as James, Steven and Clare currently hold 70% of all shares. This therefore gives the family a degree of power as they can implement a majority vote if required on the transition plan. Individually James, Steven and Clare have smaller shareholdings and more limited power when acting alone. James has more power because of his CEO role in addition to being a shareholder, so he can have a more direct influence on TA and its transition plan. Danny and Carmen have a low shareholding in comparison to the other shareholders but are involved in the senior management team of TA

and therefore have a degree of power to influence the transition plan. A&D hold 15% of TA shares and are a large investment company who have a degree of power to influence TA and its transition plan. Although there is no formal board structure at TA, James does meet with A&D each quarter to discuss TA's performance and plans, and therefore this is an opportunity for A&D to provide input and feedback in relation to the transition plan.

### **Interest**

James, Danny, and Carmen have a high interest in TA's transition plan as they are the senior management team, executive directors of the business, and shareholders in TA. Their interest will therefore be high as the plan may affect their career, performance, and future financial stability. Steven and Clare are not involved in TA in any executive capacity, but may need reassurance on the benefits of the transition plan and how it may affect their investment. . As A&D have a global portfolio, which means that TA is probably only one of many investments, their level of interest may be assumed to be low.

### **Engagement**

TA should provide regular updates on the progress of the transition plan. It would be advisable for James, and possibly the SMT, to arrange a meeting with A&D to outline the transition plan and ask for their guidance and feedback. Given A&D's global role, they may have some valuable insights for the SMT to consider, and the process of seeking their views, should hopefully keep A&D engaged, as TA would not wish to lose their investment at such a crucial point in their strategy.

### **Marking scheme**

- *Up to 2 marks for providing a relevant and applied assessment of the power of the stakeholder in relation to TA's transition plan (for each of the three stakeholders). Maximum 6 marks in total.*
- *Up to 2 marks for providing a relevant and applied assessment of the interest of the stakeholder in relation to TA's transition plan (for each of the three stakeholders). Maximum 6 marks in total.*
- *Up to 1 mark for providing an appropriate recommendation on how TA may engage with the stakeholder group (for each of the three stakeholders). Maximum of 3 marks in total.*

*Maximum of 12 marks in total for 2aii*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Not so well</b>	<b>Quite well</b>	<b>Very well</b>
Evaluation skills in assessing the relative power and interest of the stakeholders and how best to engage with them.	<p>The candidate was unable to effectively evaluate the three stakeholder groups.</p> <p>The candidate has not applied their points to the scenario.</p>	<p>The candidate has attempted to evaluate the power and interest of each stakeholder group, but the assessment is limited.</p> <p>There are limited recommendations on how best to engage with the stakeholders.</p>	<p>The candidate demonstrated good evaluation skills by applying the scenario and assessing power and interest of each stakeholder. However, they did not use this to determine the most appropriate way to engage with the three stakeholder groups.</p>	<p>The candidate comprehensively assessed the power and interest of each of the three stakeholder groups and as a result was able to explain how best TA could engage with each of them.</p>
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>

**(b) BRIEFING PAPER**

To: James Tingle  
From: External consultant  
Subject: TA draft integrated report

Integrated reporting is a reporting framework that provides a more comprehensive view of an organisation's value creation over time. Integrated reporting suggests that all organisations depend on various forms of capital for their success and these 'capitals' store value which eventually become the inputs to the company's business model. The capitals will increase, decrease, or transform through the various activities undertaken by the organisation and it is important that a company, like TA, can measure and monitor the use of its capitals. Gallen Cars' (Gallen) suppliers have adopted four capitals as a reporting framework for Gallen, which Gallen have welcomed, and have now requested that TA provide a similar report.

The typical content to be included within an integrated report for TA is outlined below.

**Intellectual capital**

TA are an established company with a history in producing components for combustion engines to the automotive industry, and its global car manufacturers. It has therefore developed a reputation and brand within the industry, which is part of TA's intellectual capital. Its reputation is built on the production of high-quality products, reliability, and innovation, and this is expected to continue with the transition plan as TA moves to a new product range. New capital will be developed through the transition plan as there will be the creation of a new manufacturing process for EV components and the development of workforce expertise in EV. This needs to be captured for the Gallen report as TA embark on the next stage of development for this capital.

**Human capital**

Although the transition plan may require a reduction of up to 25% of TA's current workforce, it is envisaged that TA will create new expertise and skills within the business, and especially to support the EV industry, which is particularly of interest to Gallen. TA plans on developing a new technology-led manufacturing process, which will require employees that are trained and developed on both the manufacturing processes, the car industry, and the EV components. Gallen will want to know that TA will continue to develop their human capital in EV expertise, which aligns with TA's ambition to position itself as a leading provider of EV components.



**Social capital**

TA creates social capital by building strong relationships with its stakeholders, its employees, customers and suppliers. TA values its employees and through the proposed transition plan it will attempt to create an environment that encourages employees to engage and contribute, which over time will help in developing a loyal and committed workforce. TA has established very effective partnerships with its raw material suppliers, and this needs to be demonstrated in the integrated report for Gallen. TA also has an established customer base, with its top 10 customers accounting for 72% of current revenue. This profile may change as TA embark on its transition to EV, but the current customer base reflects TA's relationships in the industry, generated over several decades.

**Natural capital**

TA can create natural capital by adopting more sustainable practices that minimise its environmental impact. Its new technology-led manufacturing process will produce more environmental benefits, and this would need to be documented within the integrated report, which should also incorporate the environmental improvements that RM suppliers have made to meet TA's production demands. Similarly, the design and operation of the new factory may include the implementation of more energy-efficient measures and the reduction of waste and emissions, which can all be included in the IR to demonstrate TA's natural capital development.

**Marking scheme**

- *Up to 3 marks per capital for identifying typical contents and applying the point to TA. Award up to 1 mark where points are generic and not applied to TA, up to a maximum of 4 generic points.*

*Maximum of 10 marks in total for 2b*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Analysis skills in using the available information to advise on suitable content for an integrated report for TA.	<p>The candidate has not identified relevant content for an integrated report for TA.</p> <p>The candidate has not applied their points to the scenario.</p>	The candidate has used the requested framework to identify suitable content for TA but lacks a good understanding of integrated reporting.	The candidate has identified and discussed relevant content for an integrated report for TA and demonstrates a thorough understanding of integrated reporting.
	<b>0</b>	<b>1</b>	<b>2</b>

**(c) CONFIDENTIAL EMAIL**

To: James Tingle  
From: External consultant  
Date: XXXX  
Subject: New factory and proposed depreciation treatment

Hi James,

Following our recent meeting where you shared with me your conversation with Carmen regarding the new factory, I have outlined below the potential financial implications of using the depreciation treatment proposed by Carmen. I have then provided a discussion on the possible ethical implications if the factory is depreciated as proposed.

**Financial reporting**

IAS 16 property, plant, and equipment states that each part of an item with a cost that is significant in relation to the total cost should be depreciated separately. The factory roof has a cost that is significant in relation to the total factory costs (16%) and therefore TA cannot treat the roof and the building as a single asset.

The correct treatment should therefore be:

Roof cost: \$7m - to be depreciated over its useful life of 5 year.

$\$7m / 5 = \underline{\$1.4m \text{ per annum}}$

Factory cost: \$45m less \$7m = \$38m to be depreciated over its useful life of 25 years.

$\$38m / 25 = \underline{\$1.52m \text{ per annum}}$

Total depreciation: \$1.4m + \$1.52m = **\$2.92m**

FD's suggested treatment: \$45m / 25 = **\$1.8m**

The above calculations demonstrate that if Carmen's suggestion is adopted, it would result in the factory's profits being overstated by over **\$1.12m** per annum.

The roof is expected to need replacement in five years and therefore this treatment would continue for five years.

Total depreciation for first 5 years:

Correct treatment:  $(\$1.4\text{m} + \$1.52\text{m}) \times 5 \text{ years} = \mathbf{\$14.6\text{m}}$

FD's suggested treatment:  $\$45\text{m} / 25 = \$1.8\text{m per annum} \times 5 \text{ years} = \mathbf{\$9\text{m}}$

Overstated profits:  $\$14.6\text{m} - \$9\text{m} = \mathbf{\$5.6\text{m}}$

### **Ethical implications**

Carmen's proposed depreciation treatment is clearly contrary to accounting standards and appears to be motivated by the need to maximise profit for the transition plan, especially in the early years of the new factory.

The purpose of financial statements is to present a fair representation of the company's position and if the financial statements are deliberately falsified, then this could be deemed unethical. Accountants, like Carmen, have a social and ethical responsibility to issue financial statements which do not mislead the public. Any manipulation of the accounts will harm the credibility of the profession since the public assume that professional accountants will act in an ethical capacity. Carmen's proposed treatment will overstate the profits by over \$1 million which is a manipulation of the accounts that will present a more favourable financial performance for the first five years of the transition plan.

Carmen should be aware that professional ethics are an integral part of the profession and that they must adhere to ethical guidelines such as the ACCA's Code of Ethics and Conduct. Deliberate falsification of the financial statements would contravene the guiding principles of integrity, objectivity, and professional behaviour. Carmen's intended actions appear to be in direct conflict with the code by deliberately overstating profits and thereby being dishonest.

Professional accountants can make judgements, apply their skills, and reach informed decisions in situations where the public cannot. The judgements made by professional accountants should be independent and not affected by business pressures. It appears that Carmen's judgement may be influenced by the desire for TA to record early year profits for the new EV business.

If you have any further questions or queries regarding the information in this email, then please do not hesitate to contact me.

Regards  
External consultant

**Marking scheme**

- *Up to 4 marks available for calculations relating to the financial implications of the FD's suggestion on depreciation.*
- *Up to 2 marks for relevant points discussing the implications for the FD, up to a maximum of 5 marks.*

*Maximum of 8 marks in total for 2c.*

**Professional skills may be additionally rewarded as in the following rubric:**

How well has the candidate demonstrated professional skills as follows:	<b>Not at all</b>	<b>Quite well</b>	<b>Very well</b>
Communication skills in clearly presenting the financial reporting and ethical implications of the proposed depreciation treatment for the new factory.	The candidate has failed to calculate either the proposed depreciation of TD's factory or the ethical implications for the FD.	The candidate made a reasonable attempt at the calculations but does not demonstrate an understanding of the ethical implications for the FD.	The candidate has clearly presented the financial reporting of the proposed depreciation treatment and identified the ethical implications for the FD.
	<b>0</b>	<b>1</b>	<b>2</b>