

Strategic Professional – Essentials

# Strategic Business Leader (SBL)

Tuesday 3 March 2020



**Time allowed:**

4 hours including reading, planning and reflective time.

This question paper is an integrated case study with one section containing a total of 100 marks and ALL tasks must be completed.

All tasks contain Professional Skills marks which are included in the marks shown above.

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

**You must NOT write in your answer booklet until instructed by the supervisor.**

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

SBL

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

## Overview

Techthere4U Co (TT4U) is a firm of information technology consultants founded 20 years ago. Initially offering advice on computer efficiency and security, the company has expanded to offer a range of services, including technology support and data hosting. It currently employs 75 staff members which have grown from six since its establishment.

TT4U has based its success in the past on its good knowledge of clients' businesses and its ability to match the solutions it provides with business requirements. TT4U has had a diverse client base, operating in a wide variety of industry sectors.

The four consultants who initially founded the company remain on the board in key executive roles. The board is constituted as follows:

Board role	Comments
Chairman and non-executive director	Appointed two years ago, partner in a large law firm
Chief executive officer (CEO)	Original founder
Services director (SD)	Original founder, leads TT4U's team for smaller businesses
Marketing director (MD)	Original founder, leads TT4U's team for larger businesses
Information technology director (ITD)	Original founder, leads TT4U's public sector team
Finance director (FD)	Appointed four years ago
Non-executive director	Appointed two years ago, former partner of a large accountancy firm

Below board level, operational staff are allocated to one of the three teams serving particular types of client. Teams are led by the relevant founder-director for that team.

Two years ago, the company achieved a listing on its national stock exchange for smaller companies. TT4U is compliant with the corporate governance code enforced by this stock exchange. The founder-directors continue to own a majority of shares, but the company now also has external shareholders. Some of these external shareholders have indicated that they would like to see the company achieve a full listing on the main national stock exchange within three years.

TT4U's CEO believes that TT4U needs to undergo an internal transformation in order to be able to retain current clients and deliver the expansion required to obtain a full listing. She believes that the company's current structures are now insufficient to respond quickly enough to changes in the external environment and meet clients' evolving demands.

TT4U's board has decided to engage an external consultancy firm, Stubfield, to help in evaluating various strategic options and advising on decisions. You are the leader of the team from Stubfield, responsible for producing sections of a report and various other documents.

The following exhibits provide information relevant to the case study.

- Exhibit 1: Transcript of directors' meeting about issues to be discussed with Stubfield consultants.
- Exhibit 2: Summary of Mieobed client approach devised by *Business Tomorrow* magazine.
- Exhibit 3: Blog on IT consultancy sector on *Business Tomorrow* magazine website.
- Exhibit 4: Extract of results of client survey.
- Exhibit 5: Discussion of threatening letter about TT4U's largest client, Rex Investments.
- Exhibit 6: Appraisal of cloud services investment prepared by the recently appointed assistant to the finance director.

**The case requirements are included in the tasks below:**

- 1 TT4U's chief executive officer is concerned about the possibility that major contracts will not be won or renewed and would like your views on what the main risks are for TT4U.

**Required:**

- (a) **Prepare briefing notes for the board which analyse the main risks which threaten TT4U being awarded new contracts and retaining current contracts.** (8 marks)

Professional skills marks are available for demonstrating *analysis* skills in establishing the risks relating to TT4U. (2 marks)

At the recent directors' meeting, the information technology director proposed that TT4U should develop new services in relation to the Internet-of-things. The services director proposed that TT4U should focus on winning more government sector work. The chief executive officer wants your report to include consideration of these two strategic options.

**Required:**

- (b) **Prepare a section of your report which evaluates the two strategic options proposed by the directors.** (12 marks)

Professional skills marks are available for demonstrating *evaluation* skills in using professional judgement to objectively appraise the two strategic options proposed by the directors. (4 marks)

TT4U's chief executive officer would like to have an independent external view on what was discussed at the meeting about the threatening letter. In particular, she doubts the views of the marketing director that TT4U can simply rely on its data controls. She is also uncertain whether TT4U should disclose nothing to Rex Investments, as the marketing director suggested.

**Required:**

- (c) **Prepare a confidential email for the chief executive officer which:**

- **advises on the actions which TT4U can take to ensure that the controls on the confidentiality of data operate effectively; and**
- **discusses the risks and ethical issues relating to communicating the threat to the client, Rex Investments.**

(12 marks)

Professional skills marks are available for demonstrating *scepticism* skills in challenging the views of the marketing director. (3 marks)

**(41 marks)**

- 2 The assistant to the finance director has prepared a summary of the investment appraisal of the planned development of TT4U's cloud-based services. The chief executive officer has given you a summary of the analysis which has been prepared, as she is unsure whether it is satisfactory. She also wants you to brief the board on how the new services should be e-marketed.

**Required:**

- (a) **Prepare a section of your report which critically evaluates the investment appraisal produced by the finance director's assistant.** (8 marks)

Professional skills marks are available for demonstrating *scepticism* skills in questioning the investment appraisal prepared by the finance director's assistant. (2 marks)

- (b) **Prepare briefing notes for the next board meeting which recommend how e-marketing can be used to attract and retain clients for TT4U's new cloud-based services.** (10 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills by showing awareness of effective methods for e-marketing the new cloud-based services. (3 marks)

**(23 marks)**

- 3 The chief executive officer believes that TT4U's current structure will have to change if TT4U is to introduce the new Mieobed approach to client relationships successfully. The chief executive officer knows that she must take ownership of the transformation. She feels, however, that she needs guidance on the transformation process and how she should lead this process, including communicating the need for change to employees.

**Required:**

- (a) **Prepare an email for the chief executive officer which advises her on the responsibilities and activities involved in preparing for and implementing the transformation of TT4U effectively.** (10 marks)

- (b) **Prepare a letter to all employees, which will be signed by the chief executive officer, explaining:**

- the benefits of implementing the new Mieobed approach for TT4U and its employees; and
- the main changes to team structures and behaviours below board level which the new Mieobed approach will require. (10 marks)

Professional skills marks are available for demonstrating *communication* skills in persuading employees of the benefits of TT4U adopting the new approach in its working practices. (3 marks)

The chairman wants the board to be briefed on aspects of corporate governance which need to change if the new Mieobed approach to client relationships is to be introduced successfully.

**Required:**

- (c) **Prepare briefing notes which advise the board on the changes required to:**

- the membership of the board; and
- the information supplied to the board

**to reflect TT4U's developing business needs and to make TT4U more responsive to its clients' needs.**

(10 marks)

Professional skills marks are available for demonstrating *commercial acumen* skills in identifying changes to the membership of the board and information supplied which are realistic for TT4U and will generate better relationships with clients. (3 marks)

**(36 marks)**

## Exhibit 1: Transcript of directors' meeting about issues to be discussed with Stubfield consultants

- Chief executive officer (CEO) I've called this meeting to discuss the areas that we want Stubfield consultants to consider. I know that some of you feel that Stubfield will be looking at areas of our business where we shouldn't need advice and that they may exceed their remit.
- Nevertheless, some of our investors have communicated the view that we need external advice about our business. They feel that we're too reliant on existing business from our long-term clients. We should be providing more new services and winning new clients.
- We've advanced discussions on developing our new cloud-based services. This will enable us to extend the cloud-based services we provide. You'll recall these include provision of private clouds for specific clients and cloud integration services, enabling clients to connect their data and applications and give them more flexible access to their data resources. We have available an appraisal of our planned investment.
- Finance director (FD) As you're aware, I've been on sick leave so didn't prepare the appraisal myself. Johan, who recently joined the department to assist me, carried out the appraisal. I haven't reviewed the appraisal in detail yet. However, I see at a glance that the payback period is just outside the three-year limit that we set.
- Marketing director (MD) I had hoped to come today with some proposals for marketing the cloud-based services. However, I've been spending a lot of time dealing with Rex Investments, which, as you know, is a very difficult client. I think our launch of these services must make a big impact as a means of attracting the new business we need for expansion.
- CEO As you remember, I asked for suggestions from yourselves about areas where we can expand further. I've received two proposals, one relating to the Internet-of-things and the other to government sector work.
- IT director (ITD) We need to look beyond cloud-based services and expand in an area where we can show we can provide fresh solutions. I'd be very excited about us developing more expertise and services relating to the Internet-of-things. There is massive potential for extending internet connectivity beyond standard devices to everyday objects, such as household appliances, and making the most of the data they can generate. There are so many possible sectors – health, construction, transport, agriculture – where there are opportunities that we can explore.
- Services director (SD) I think we should focus on winning more government sector work. A lot more is available now and we already have some work on which we can build. We have the size and range of services to be looking at winning much larger contracts. I believe we are in a position to become a trusted partner for government. The government sector is less demanding of innovation than the private sector. It is therefore a lower risk option for us, as we can secure the contracts by strong service performance without the risks attached to market leadership in new services.
- CEO Now I would like us to consider the issues raised by the recent client survey. I very much regret that we haven't carried out a survey like this for some years. For me, it highlights the need to transform our business to bring our clients much closer to us.
- I intend that we should move forward by adopting the Mieobed approach to engaging with client stakeholders in our sector, which *Business Tomorrow* magazine devised. The approach is based on building open and sharing relationships with clients that help them create new sources of value for their business.
- SD I assume you'll be considering how staff should be persuaded to buy into the transformation before the new approach is implemented.
- CEO I shall, and I shall also be looking at how we operate as a board. Three directors currently combine board responsibilities with operational line management of teams. This is a model which we've had since we started, but it may not be appropriate any more. I also want to look at the way TT4U is structured as a whole. I think we ought to be much more of a matrix organisation, which should result in better communication and mutual learning.

- SD I certainly agree internal communication could be improved. I know staff are told not to sit at the same desks each day, but to sit at different desks next to different people. However, we all know the three teams sit in the same areas each day, separate from each other. We have our intranet, but the lack of contributions from staff on it is embarrassing.
- MD I think we need to go much further than having one-off client surveys. We need to be considering the current state of relationships with clients as an agenda item at every board meeting. We have to develop key performance indicators beyond clients gained and lost each period, so that we have a better idea of how we are performing in the areas that most affect client satisfaction.
- We must also consider how we are perceived in relation to our competitors. Although we do have a regular report on competitors' new product offerings, that doesn't tell us how satisfied our clients are with our services in comparison with the services our competitors offer.
- CEO Thank you for your contributions. I shall ask Stubfield for their views on the risks that we face and the strategic options that we've discussed, as well as how we can introduce the Mieobed approach successfully.

**Exhibit 2: Summary of Mieobed client approach devised by *Business Tomorrow* magazine**

<b>M</b>	ission-driven	Driving strategy and attracting client stakeholders by a strong mission
<b>I</b>	nteractive	Participation of client stakeholders enhancing our organisation and theirs
<b>E</b>	mpowering	Enabling client stakeholders to realise personal and organisational potential
<b>O</b>	pen	Building on the knowledge and experience of client stakeholders by sharing and collaborating
<b>B</b>	oundaryless	Taking client stakeholders on a journey beyond existing boundaries, to transform their operations and unlock value in new areas
<b>E</b>	thical	Founding client stakeholder relationships on responsiveness, fairness, honesty, responsibility and transparency
<b>D</b>	ata-focused	Maintaining tight security of client stakeholder data whilst enhancing its accessibility

## *Business Tomorrow*

### **Not just services, but service** By Abby Urquhart

#### **How can IT consultants stand out?**

IT consultants are struggling to come to terms with what their clients take for granted. The days when they can sell themselves on the basis of being practical business advisers rather than IT experts are long over. Consultants need not bother tendering for work unless they can combine strong client and business sector knowledge with awareness of the latest applications.

#### **Is leading innovation in cloud-based services the way forward?**

Anyone who is marketing themselves as having distinctive capabilities in helping clients set up on the cloud has clearly been left well behind. Clients are now expecting the full package of cloud maximisation services.

#### **Is the Internet-of-things an area firms can develop?**

The Internet-of-things, extending connectivity and networks to traditionally non-internet connected objects such as cars and household lights, has been the next big development for some time. However, a number of sectors have clear needs for enhanced communication and monitoring. The medical sector has been eager for applications which enable remote health monitoring and notifications if emergencies arise. The building sector has been keen to develop devices which oversee electronic systems within homes and offices to detect fire risk or wasteful energy usage.



Involvement though remains risky. Development is driven more by technology than its usefulness for business transformation. There are also the security and surveillance concerns, the dislike of being watched by inanimate objects.

#### **Is client service still important?**

*Business Tomorrow's* recent survey suggests that client service remains a problem for many consultants. Our survey shows that the consultants who are responsive, who use business approaches of client participation and mutual development like *Business Tomorrow's* Mieobed approach, are making the largest profits.

#### **What business is available for firms providing top-class service?**

Lots of work. There are more longer-term government sector contracts available than ever before. These contracts won't be won or retained if firms don't meet government's ever-stricter service requirements. Ultimately firms cannot take for granted any of their clients' continued business. Many firms have seen long-term relationships with clients end recently. The loyal client, previously prepared to put up with less than excellent service, no longer exists.

 Like 85  Dislike 9

#### **Comments (2)**

**Ken Yardley:** Firms I've dealt with often don't seem to get the basics of communication right. They don't answer their phones. They don't respond to emails within 24 hours. They don't listen to what I'm asking or telling them.

**Xin Chan:** The reason why Internet-of-things hasn't developed as quickly as expected is that many applications don't survive the pilot stage, since many businesses' systems are not able to cope.



Exhibit 4: Extract of results of client survey

TT4U		%	Comments
Service provision flexibility	Excellent	17	‘Service provision was exceptionally good when they first started advising us. But now we just seem to be getting the basic service.’
	Good	56	
	Average	16	
	Poor	11	
Innovation	Excellent	9	‘TT4U seems good at, and comfortable with, providing the same services that it has always provided. If I wanted new services, I’d certainly go elsewhere.’
	Good	57	
	Average	22	
	Poor	12	
Information provision	Excellent	20	‘For an IT consultancy, its website is really poor – it lacks detailed information about services, difficult to navigate.’  ‘Its website does look old-fashioned and hasn’t changed much for ages. It’s noticeable that other consultants’ websites are interactive and appear to evolve in response to what users want.’  ‘They don’t make enough use of messaging and social media.’  ‘How much you’re told about what they’re doing seems to depend on the staff involved.’
	Good	53	
	Average	20	
	Poor	7	
<b>Staff</b>			
Knowledge	Excellent	41	‘They appear to know our business well and how to make best use of the technologies we have.’  ‘I’ve marked them down because they don’t appear to know about their own services. I’ve asked staff on various occasions about other services I know TT4U provides and they have had to ring round the office for an answer.’
	Good	38	
	Average	15	
	Poor	6	
Responsiveness	Excellent	20	‘Emails are never answered the same day.’  ‘They often answer the question they wished you’d asked rather than the question you did ask.’  ‘You know you can always talk to the services director when you need to. I like how he’s always kept in touch with us.’
	Good	30	
	Average	28	
	Poor	22	
Proactiveness	Excellent	16	‘We call them, they never call us.’  ‘I would have liked them to have told us that we needed to invest in new systems before our old systems became too slow and unreliable.’  ‘Some staff members really make you feel you’re working with them as a team. It’s not consistent across the whole company, sadly.’
	Good	47	
	Average	22	
	Poor	15	

**Exhibit 5: Discussion of threatening letter about TT4U's largest client, Rex Investments**

IT director (ITD)	We've had an anonymous threat to reveal confidential data on Rex Investments unless we pay \$20,000.
Marketing director (MD)	Surely we've received threats like this before and nothing has come of them?
ITD	We have, but this is a much more specific threat. It is quite detailed about the data. We do hold the data and it is confidential.
MD	We must have all the necessary controls in place – anti-virus software, passwords, etc.
ITD	I'm confident that the controls we need are there.
MD	Then we don't need to pursue this further. Whoever's making the threats didn't get the information from us. We're computer consultants. Of course we have complete and fully-functioning controls. The one thing I'd say is that we shouldn't tell Rex Investments about this. As you know, they are our largest client. Relations with them are difficult enough at the present. If we tell them, it shows we don't believe our own systems are secure. It will give them a very good reason to terminate our contract.
Chief executive officer (CEO)	I nevertheless believe that this could be a serious risk for us. I don't think we can just say that we have controls. We need to have strong assurance they are operating as they should be. If our controls haven't been working, we have to try to detect who's accessed the information. I'll ask Stubfield for views on these issues.

**Exhibit 6: Appraisal of cloud services investment prepared by recently appointed assistant to the finance director****Net present value calculation**

Year		0	1	2	3	4
	Note	\$000	\$000	\$000	\$000	\$000
Sales	1		8,000	10,250	13,250	15,500
Contribution	2		4,400	5,638	7,288	8,525
Marketing costs	3		(600)	(769)	(994)	(994)
Other fixed costs			(900)	(900)	(900)	(900)
Pre-tax cash flows		0	2,900	3,969	5,394	6,631
Taxation paid	4		(725)	(992)	(1,349)	(1,658)
Post-tax cash flows			2,175	2,977	4,045	4,973
Investment		(10,000)				
Terminal value	5					1,500
Cash flows		(10,000)	2,175	2,977	4,045	6,473
Discount factor	6	1.000	0.943	0.890	0.840	0.792
Discounted cash flows		(10,000)	2,051	2,650	3,398	5,127
Net present value years 1–4		3,226				
Net present value years 5–10	7	23,632				

**Notes:**

1. Sales are based on expected increases in markets, clients served and prices.
2. Contribution is assumed to be 55% of revenue each year in line with current margins.
3. Marketing costs are assumed to increase in line with sales up to year 3.
4. Tax rate is 25% of pre-tax cash flows.
5. Terminal value represents assumed realisable value if services are no longer viable after four years.
6. Discount factor of 6% is after-tax interest rate on current long-term loans, as this project is to be financed by a long-term loan.
7. Year 5–10 figure is post-tax discounted cash flow for year 4 multiplied by six.

**Payback calculation**

Year	0	1	2	3	4
	\$000	\$000	\$000	\$000	\$000
Cash flow	(10,000)	2,175	2,977	4,045	6,473
Cumulative	(10,000)	(7,825)	(4,848)	(803)	5,670

Payback = 3 years + (803/(803 + 5,670)) x 12 months = 3 years 1 month

**Comments:**

1. Project shows a positive present value after four years and a much greater present value if the services can be offered in their current form beyond four years.
2. The payback period is slightly greater than the target set by the directors, which suggests the project should be rejected.
3. Nevertheless, sensitivity analysis should be carried out to determine the probability of loss and hence whether the project should be undertaken in its current form.

**End of Question Paper**