Fearties

1.

Exhibit 1 - Company background

Fearties Security (Fearties) is a business, owned and run by the Feartie family, which provides security personnel for other businesses (e.g. factory guards and security staff at large public events, for example, music concerts). The business has grown along with the market for outsourcing of security personnel roles and Fearties is one of the largest of such service providers in Beeland.

The Feartie family has always managed the business to increase profits without excessive risk-taking. Most of the family are financially dependent on the business through their pay and dividends. The founder of the business was an accountant and it has become a family tradition that the chief executive officer (CEO) would always have an accounting background. As a result, the performance reporting has always focused on financial results.

Exhibit 2 - Recent events

A new generation of the family has risen to power with a goal of increasing growth by expanding Fearties' operations into different countries, using its existing reputation for reliability. The newly appointed CEO has recognised that the choice of key performance indicators (KPIs) may not be suited to the current business environment, where the company is facing various issues:

– changing government regulation with most customer-facing Fearties staff now required to hold a certificate showing they are aware of the relevant laws and health and safety procedures regarding their duties. Indeed, this factor is a reason for the growth of outsourcing to Fearties;

– difficulty in recruitment and retention as the pay for customer-facing staff is low by Beeland's standards (even though Fearties provides full training for them);

– legal difficulties arising from claims of Fearties staff being too aggressive in the pursuit of their duties.

The CEO has asked you to prepare a report to the board on several performance management matters for Fearties.

Exhibit 3 – KPIs and balanced scorecard

The CEO is considering the introduction of a balanced scorecard approach and wants you to perform an evaluation of whether the existing key performance indicators cover the financial perspective for the board. She has provided you with a draft copy of the most recent board report to illustrate current reporting (Appendix 1) and other financial information (Appendix 2). This draft has been prepared quickly by a junior accountant and the CEO believes that there is an error in the return on capital employed calculation which you should correct.

She then requires reasoned recommendations for two indicators within each of the remaining three perspectives (customer, internal business process and innovation and learning). These indicators should address the issues facing the business.

Exhibit 4 - Non-financial performance indicators

In the past, the board has resisted the introduction of customer surveys due to worries about the ability to measure performance using this method. The CEO is aware that many of the new indicators from the introduction of the balanced scorecard are likely to be non-financial. Therefore, she has asked that you evaluate for the board the problems associated with measuring and managing performance using non-financial performance indicators (NFPIs) at Fearties, using customer surveys as an illustration.

Exhibit 5 - Management style

Given these changes, there may have to be changes to the management style at Fearties. Therefore, the CEO also wants your assessment of the existing management style at Fearties and provide a justified recommendation for an appropriate approach. She has been taught about Hopwood's styles of using budget information (budget-constrained, profit-conscious, non-accounting) and so wants a brief definition of these prior to your assessment and recommendation.

Exhibit 6 - Appendix 1

Key performance indicators

	20X5	20X4
	$m	$m
Revenue	686	659
Operating profit	36	34

Cash flow from operating activities	64	64
Dividends paid	14	13
Return on capital employed	21·1%	20·4%

Exhibit 7 - Appendix 2
Other information:

Fearties Security
Year ended 30 June 20X5

Profit information

	20X5	**20X4**
	$m	**$m**
Revenue	686	659
Operating profit	36	34
Profit after tax	20	19
Assets and liabilities		
Non-current assets	54	51
Current assets	213	211
Current liabilities	151	148
Non-current liabilities	21	21
Net assets	95	93
Equity	95	93

Dividend history

	$m
20X5	14
20X6	13
20X4	13
20X3	13
20X2	11
20X1	10

Required:

It is now 1 September 20X5.

Write a report to the CEO of Fearties to respond to her instructions for work in the following areas:

(i) **key performance indicators (KPIs) and the balanced scorecard**

(22 marks)

(ii) **non-financial performance indicators (NFPIs)**

(8 marks)

(iii) **the management style at Fearties**

(10 marks)

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism and commercial acumen in your answer. (10 marks)

(50 marks)

Clonyard

2.

Exhibit 1 - Company information

Clonyard is a private company which sells shoes to adults and children. Clonyard has several retail shops. The mission of Clonyard is 'to satisfy customers by providing footwear of excellent quality for the modern world.' Clonyard has built its reputation on providing footwear to those who have specialist needs in footwear, such as minor medical issues, and Clonyard's staff excel at spending time with customers to determine customers' correct requirements. Clonyard has achieved modest growth over the past five years.

Twelve months ago, Clonyard was the subject of a successful but hostile take-over bid by Elrig, a listed company. Elrig's mission is 'to return value consistently to our shareholders by growing our market share and by offering unrivalled value for money for our customers.'

Elrig's primary motivation for the takeover was to enhance its market share by acquiring a niche operator. In addition, Elrig's directors also believe that there is likely to be consolidation in the industry in the near future and the purchase of Clonyard by Elrig is a reaction to that belief. Having acquired Clonyard, Elrig is keen to retain the Clonyard brand and is also keen to ensure that all aspects of Clonyard's business operations are integrated into those of Elrig.

Exhibit 2 – Business alignment

Elrig has taken a decision at board level that a similar range of inventory is maintained throughout all Elrig and Clonyard shops. Managers of Clonyard's individual shops are unhappy with this as this is contrary to the individual specialisms which shop managers were encouraged to develop previously. As a result, several managers have left the business.

In order to help with the integration of Clonyard into Elrig's business, Elrig has ensured that each Clonyard shop will have at least one of Elrig's employees working there. Clonyard's staff have complained that the Elrig members of staff are more focused on ensuring a sale is made than spending the required time with customers. Clonyard staff have also expressed concern about the lack of technical product knowledge of Elrig's staff.

Elrig has retained most of Clonyard's directors. These directors have found it challenging to adjust to Elrig's focus on pursuing market share and recently said, 'It's as though they don't measure anything else. Every report we get is about market share and the message is always that we need more of it, as quickly as possible.'

The chief executive officer (CEO) of Elrig was recently told by a management consultant that Elrig should consider using the McKinsey 7S model to help with the integration of Clonyard into Elrig's operation. The management consultant indicated that she felt that Elrig should only focus on the soft elements in this model for now.

The CEO would like you to evaluate whether Elrig is properly aligned with Clonyard using **only** the skills, staff and style components of the soft elements.

Exhibit 3 – Introduction of an ERPS

Introduction of an ERPS Elrig and Clonyard are currently utilising different computer systems. It is therefore difficult for staff at all levels of Elrig's operations to obtain access to Clonyard's performance data. The board of Elrig has complained that any information it receives on Clonyard's operations or performance is too late to enable the board to make decisions. The director of operations for the group, for example, has indicated that she does not see any reports on inventory levels at each Clonyard shop until at least three months into the financial year. She has also indicated that Clonyard shops appear to wait too long for goods to be delivered to them from their suppliers.

The group sales director indicated that the data he receives on Clonyard's monthly financial performance is at least three weeks late. This offers no opportunity to introduce discounted products at an appropriate time, which is a very common sales approach for Elrig.

Elrig's employees in general have expressed concern that Clonyard's computerised information systems are outdated and that Clonyard's employees do not use the computer system as much as they should. For example, it was reported that it is common practice for a Clonyard employee to place an order for inventory over the telephone and not enter the order onto the computer system until after the order has been delivered.

The board of Elrig has decided that it needs real time access to Elrig's overall business operations, including Clonyard, and is considering the purchase of an enterprise resource planning system (ERPS). Further, a director of Elrig has indicated: 'the use of a shared up-to-date information system such as an ERPS will ensure that the Clonyard operation is completely integrated within the Elrig one. The Clonyard employees will also be delighted with the brand-new system.'

The CEO wants you to evaluate the introduction of an ERPS into Elrig's overall business, including Clonyard

Required:

It is now 1 September 20X5.

Respond to the CEO of Elrig's request for work on the following areas:

(a) alignment between Elrig and Clonyard.

(10 marks)

(b) the introduction of an ERPS

(10 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, scepticism and commercial acumen in your answer.

(5 marks)

(25 marks)

Roan

3.

Question Three

Exhibit 1 – Background

Roan University (Roan) is based in Teeland, which is a developed country. The government of Teeland has stated that it will cut part of the funding for the university and has made it clear that Roan must develop new replacement income streams. Roan will remain state owned.

Saugh University (Saugh) is based in Deeland, which has a developing economy, and which is culturally different to Teeland. Saugh's funding is from the government of Deeland and this funding is secure for the foreseeable future. The government of Deeland has indicated that it wants the university to develop joint ventures and alliances with universities in developed countries.

Roan and Saugh have recently entered into a joint venture to set up a new university in Deeland. The new university is called RS University (RSU). Roan and Saugh each own 50% of the joint venture and a new purpose-built campus has been constructed. RSU will welcome students within three months.

Exhibit 2 - Details of the joint venture

Roan and Saugh have established a joint management board (MB) to manage the long-term and short-term operations of RSU. The MB's membership is 50% from each university, plus at least one government representative from Deeland. The MB meets at least three times per annum and the position of chairman on the MB rotates between Roan and Saugh on a meeting-by-meeting basis. The MB have asked you, as a performance management expert, to assist them with some tasks.

Roan has stated that its aim for the joint venture RSU is ‘to internationally expand our provision and lead educational developments in the global arena by enhancing our revenue streams from innovative sources.’ Saugh, however, has made it clear that it will view the success of RSU by the quality of the graduates who are produced and by the contribution these graduates make to society.

Saugh is keen that Roan sends as many home-based staff from Teeland to teach at RSU in Deeland as is possible, but Roan would prefer to recruit local staff in Deeland to undertake its teaching obligations at RSU. Roan’s teaching staff have voiced concerns about the extensive travel involved to teach at RSU and have also indicated that their work at Roan is likely to suffer if they teach at RSU. Specifically, they feel that they would not be able to effectively undertake their teaching duties, research activities or supervision of students at Roan. Negotiations are currently taking place between the teachers’ trade union, which Roan’s staff belong to, and management at Roan which could result in all Roan’s teaching staff refusing to teach at RSU.

The management board would like you to discuss the problems that will be encountered when managing and measuring the performance in the RSU joint venture.

Exhibit 3 - Stakeholder views

There has been some criticism of the joint venture within the local community in Teeland. A parent of one of the students studying at Roan has written, on behalf of a newly-formed public pressure group, to the local newspaper saying, ‘All the attention at Roan is on this inappropriate joint venture. My son was told that he could not receive any help or guidance as the staff who could help him were all overseas helping with the development of RSU. His exam results were three weeks late as there was no one there to mark the exams. This is not acceptable. Roan should exist to educate Teeland students primarily. Everything else is secondary.’ Membership of the public pressure group is growing.

Roan has undertaken an analysis of its stakeholders using Mendelow’s matrix. Part of this work is supplied in Appendix 1, along with the justifications for the categorisation of the three stakeholder groups.

For each of the three stakeholder groups, the management board would like you to justify an appropriate performance measure which could be used by Roan.

Exhibit 4 - Appendix 1

Stakeholder analysis

		Level of interest	
		Low	**High**
Power	**Low**	A	B
	High	C	D

Government of Teeland – the government would be keen to know of any financial problems or difficulties with the joint venture but, generally, it would belong in segment A so minimal effort should be expended.

Roan teachers' trade union – the teachers' trade union's power could be high if it has the backing to recommend to the management of Roan that Roan employees will not travel to or teach at RSU. If Roan can recruit local staff for RSU, the power and interest of the trade union will both be low as there will be little or no need for its involvement. If Roan cannot recruit local staff, then the power and interest of the trade union will both be high and it will fall into category D of being a key player.

Public pressure group in Teeland – the group has a very high level of interest in the joint venture and its power may be determined by its size. If it grows significantly, then its power may become high also. For the present, its power is likely to be low so the group will fall into category B – kept informed.

Required:

It is now 1 September 20X5.

Respond to the RSU management board's request for work on the following areas:

(a) managing and measuring performance in the RSU joint venture

(14 marks)

(b) performance measures for stakeholder groups

(6 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer.

(5 marks)

(25 marks)

Answers

Suggested solution:

Fearties

1.

To: The board of Fearties Security (Fearties)
From: An Accountant
Date: 1 September 20X5
Subject: Performance reporting and management issues

This report evaluates the current choice of indicators within the financial perspective of the balanced scorecard and recommends new indicators to cover the additional perspectives of the scorecard. Additionally, the problems of measuring non-financial indicators are discussed. Finally, current management style is evaluated, and a new approach is recommended to match the strategy of the business.

(i) Key performance indicators

The balanced scorecard has four perspectives: financial, customer, internal business process and innovation and growth. Indicators are needed for each perspective. The indicators suggested here are for the use of the board at a strategic level and not detailed operational management.

Financial perspective

The overall business objective is to grow profit without taking excessive risks. This is focused on the financial aspects of the business and so it is consistent that the current key performance indicators (KPIs) are all financial, being taken or calculated from the accounting information supplied with them. However, they are open to criticism.

The figures provided are the absolute values where it may be more useful to provide the year on year change in order to show growth.

	20X5 $m	20X4 $m	Growth
Revenue	686	659	4·1%
Operating profit	36	34	5·9%
Cash flow from operating activities	64	64	0·0%
Dividends paid	14	13	7·7%

The operating profit figure is less helpful for control purposes than the operating margin which allows for the effect of increased sales activity. The figures above show operating profit improving but, in fact, this just reflects the increased sales, as the operating margin is constant at 5·2%.

The ability to generate cash from operations is one which should indicate if the company is at risk of failure and so it is a valuable measure of risk to the owners.

The dividend growth figure is only for one year and, given the family's long-term involvement in the business, it might be more helpful to have a five-year average of growth, which can be calculated as 7·0%. This smooths out the fact that dividends are often only changed every few years once an increase appears sustainable.

The return on capital employed (ROCE) ratio is incorrectly calculated. The ratio calculated in the draft report is the return on equity (profit after tax/equity). This may be useful to a family owned business where share values are critical, but it does not reflect the efficiency of the use of capital overall. The correct value is 31·3% (operating profit/average capital employed = 36/(21 + 94)). However, this ratio is not of much value to Fearties as it does not have a significant capital base. It requires relatively little capital investment as its activities are mainly about the hiring out of its employees' time.

The existing KPIs do not adequately reflect the new plan to grow more rapidly by developing new markets. Figures for revenue growth and operating margin should be broken down as they are unlikely to be similar in the different markets.

Customer perspective
The customer's views are important for growth and so the scores of a customer survey may be used to indicate their satisfaction. However, as discussed later, there are difficulties in measuring customer satisfaction and so customer retention (through percentage of revenue generated from existing customers) may be a better objective measure.

Reliability is listed as a key selling point and some investigation may be required to identify on what aspects of the service the customers are basing this view. Possible measures could be the percentage of times that a security team of adequate size and experience are sent to each job or number of times when police have to be called to the customer's location (indicating a problem which the Fearties' team could not handle).

Internal business process
The operating margin indicator suggested in the financial perspective will supply useful information about the overall efficiency of internal processes.

Based on the issues facing the company, KPIs for this perspective should reflect employee recruitment and retention, so the average number of unfilled vacancies at the company over the year would be a relevant measure.

The success of the company's training process could be measured by the number and average size of the legal claims against its staff.

Innovation and learning
Training is a key issue for Fearties, so the percentage of staff who are qualified is an appropriate indicator. The time taken for this training and its costs may also be measures of the organisation's ability to learn and improve this process.

The operating margin changes over time which are generated in the new markets entered by Fearties would show the organisation's improvements in these new markets.

Revenue generated from new services offered would also measure innovation at Fearties. However, there appears to be little appetite for this at present as growth is to be driven from selling existing services in new markets.

[**Tutor note:** *There are many possible KPIs which can be suggested for this scenario and these would be given credit based on the justification offered.*]

(ii) Problems of non-financial performance indicators
Problems of non-financial indicators can stem from the lack of familiarity of management with them. This is a particular problem for Fearties given its history of using financial indicators. Such non-financial indicators can have issues in the different areas of recording/processing and then interpreting the information.

Customer satisfaction is a good example of an indicator with such difficulties. Customer satisfaction is often surveyed, and the results are expressed in language. It can be difficult to tell if a complaint which describes service as 'poor' is more or less serious than one which describes service as 'unacceptable'.

The most common way to try to overcome this problem is to turn the data into quantitative data. For example, surveys often use scoring systems to capture data on service. A scoring system will often ask the customer to rank their satisfaction at the service provided on a scale of 1 to 5 with ‘1’ representing ‘completely satisfied’ and ‘5’ representing ‘totally dissatisfied’.

However, the problem remains that such scoring systems are still subjective, and it has often been found that there is a tendency to score toward the middle as people tend to feel uncomfortable using the extreme scores of 5 or 1. However, Fearties may suffer from an over-reaction response as the events it deals with are dramatic. For example, if there was a burglary at a factory, then the loss is all blamed on Fearties’ failure and a bad score given.

Also, there is the difficulty in interpreting qualitative data, such as customer satisfaction. It is essentially subjective since it is based on people’s opinions. For example, in assessing quality of service, people have different expectations and priorities and so are unlikely to be consistent in their judgements. At Fearties, customer complaints will be driven by such opinions. Some customers may expect there will never be a security incident, but this is out of Fearties’ control since it is criminal actions which will generate some of these cases.

One way to reduce the effect of subjectivity is to look at trends in performance since the biases in opinion will be present in each individual time period but the trend will show relative changes in satisfaction.

(iii) Management style

The current style at Fearties would appear to be budget constrained. The targets set are all financial and are short term in that they are only for the next financial year. This style of management leads to a focus on cost control and often staff are not rewarded if they take actions which will require investment or the foregoing of short-term profit, such as marketing to build a reputation for reliability as an outsourcing partner.

The profit-conscious style evaluates managers on their ability to build long-term profits for the business. This style would appear to suit Fearties’ strategic goals but it does not emphasise non-financial issues such as recruitment and retention. It would not fit with the increased importance of these non-financial factors under the balanced scorecard approach to management.

In the non-accounting style, budgetary information plays a less important part of staff’s performance evaluation. It suits an emphasis on quality and on operational factors. It would fit with many of the new non-financial indicators being proposed from the balanced scorecard. However, it may not be strategically suitable for Fearties due to the importance to the family of the financial returns from the business.

Overall, a profit-conscious approach is recommended but one which uses both financial and non-financial indicators from the balanced scorecard to support the long-term financial goals of the company. The profit-conscious style will suit the financial needs of the family and its long-term goal of growth while a supporting non-accounting approach will suit some of the operational arms of the business, for example, dealing with legal compliance and employee issues.

Marking guide (for publication)

(i)
No marks for naming the perspectives (done in question)

Current KPIs focus on financial aspects only; absolute figures less useful than relative figures; not covering the long-term perspective; not referencing external data – up to 3 marks
Financial indicators: Revenue growth, operating margin, cash flows generated, dividend growth (long and short term) – up to 8 marks
ROCE – 1 mark for calculation, 2 marks for discussion
New indicators – up to 4 marks for each of the customer, internal and innovation perspectives. Marks are for justification and discussion of two new indicators

Maximum 22 marks

(ii)
Problems of NFPIs – 1 mark per point

Maximum 8 marks

(iii)
Up to 4 marks for each heading (budget-constrained, profit-conscious, non-accounting):

- 1 mark for identifying current style
- 1 mark for definition of each style
- Up to 2 marks for discussion of relevance of each style for Fearties

Up to 2 marks for a reasoned recommendation

Maximum 10 marks

Professional marks

Communication:

General report format and structure (use of headings, sub-headings and an introduction)

Style, language and clarity (appropriate tone of report response, presentation of calculations, appropriate use of the tools, easy to follow and more than a negligible amount of content)

Adherence to the CEO's specific request to provide only two indicators and only for the three balanced scorecard (BSC) elements

Analysis and Evaluation:
Appropriate use of data to perform suitable calculations for the financial perspective of the BSC
Problems of NFPIs are clearly supported with examples from the use of customer surveys
Demonstration of explanation of all three management styles at Fearties

Scepticism:
Recognition of the need for both absolute and % growth figures in reporting
Recognition that ROCE is not that useful for Fearties
Recognition that although the KPIs reflect Fearties' focus on financial results, the KPIs do not reflect the new goal of growth

Commercial Acumen:
Recommendations of performance indicators for the BSC are practical and plausible in the context of the company situation
Recommendation of the management style for Fearties is practical and plausible in the context of the company situation

Maximum 10 marks

Total 50 marks

Clonyard

2.

(a) Skills

It is clear that Clonyard and Elrig train and develop their staff in different ways. Clonyard has placed an emphasis on detailed product knowledge and on ensuring that the individual's needs are met. Such training and development is very much aligned with a company that has a specialist niche. It is also clear that Elrig's focus is less on meeting individual requirements than in pursuing a sale and it is likely that Elrig's staff have been trained and developed more in terms of sales techniques than with regard to product knowledge. This means that the staff from Clonyard have a different skill set and it is clear, from their reaction to the Elrig staff working in Clonyard shops that no attempt has been made to develop the skill set of either group of employees in order to align them with each other.

Staff

It is clear, especially given the point above, that staff are treated in a different way in both organisations. It is also evident from the scenario that Clonyard staff are leaving the organisation. It is likely that staff have been given responsibility for inventory and shop management in Clonyard and that the focus in the company has been on developing the individual to enhance their range of specialist knowledge. Elrig's singular focus on market share would suggest that Elrig's staff are more likely to be trained and developed in the areas of financial performance measures and be aware of costs, margins and the financial implications of the decisions being made. Indeed, the fact that Elrig's staff are seeking to make a sale quickly suggests that they are aware of the cost of the time they spend with each customer and it is likely that there is an ideal time per sale that they will work towards.

Style

Style usually represents the corporate culture of the organisation and it is clear that the cultures are very different within Elrig and Clonyard. The issue of the takeover being hostile in the first instance is perhaps an indicator that the styles of the organisations are very different. Style is also indicative of how an organisation presents itself to the outside world and again it is clear, through the interactions with customers, which Clonyard would seek to satisfy the customer's specific requirements whereas Elrig would try to sell a product to the customer with the minimum time spent on the transaction. Such a contrast in styles would inevitably be reflected in the customer experience and it may prove to be very damaging for Clonyard if its style is aligned with that of Elrig. Customers may feel that there is no longer any reason to visit Elrig if its main differentiators of individual service, product specialism and time spent with the customer are removed.

Conclusion

It is clear that there is overlap and interconnectivity between each soft element of the 7S model. Elrig appears to have made no attempt to align these differing elements and as a result there are different styles of operation and different skill sets in the respective staff.

The 7S model has been useful in addressing this lack of alignment and provides evidence to Elrig that it must revert to the mission of Clonyard and decide if this now needs to change in the light of the takeover. If not, and as the 7S model has shown, Elrig might be best advised to allow Clonyard to operate as it was doing quite successfully beforehand and consider integration and alignment as a long term rather than a short-term goal.

(b) Advantages

An ERPS would help alleviate the problems detailed with regard to inventory control in that the current inventory levels would be very clear on the ERPS and any sale would register immediately, thereby showing the effect on the inventory overall. Minimum inventory levels may be set within the ERPS and an order to the supplier automatically triggered when inventory reaches that level. An ERPS will also allow details of the delivery to be tracked and the ERPS will enable staff at the appropriate level to discover how long deliveries are taking and to manage the supplier relationship accordingly.

The discounting of product lines in certain areas is clearly a key part of Elrig's strategy to enhance its market share and the sales manager is correct in that it is impossible to impose this strategy on Clonyard with such old data. An ERPS would ensure that the sales manager has access to immediate sales of each product and could compare this with both planned sales of the product and past sales of the product. The ERPS may also permit the inclusion of some external data which could inform the company of any changes in the market for particular products or distinct product lines. This would certainly enable the sales manager to take real time decisions with regard to which products might be discounted and to what level. The ERPS would be of great benefit to him in this endeavour.

The ERPS, as highlighted above, has the ability to remove the responsibility for the ordering of inventory from the employee and undertake this function based on the minimum inventory levels that have been input. This would certainly solve the problem of Clonyard employees not entering the purchase order into the computer system and would ensure that the relevant people in the organisation are fully aware of the inventory both on order and in store.

Disadvantages

However, the view of the director of Elrig appears to be that he can use the introduction of an ERPS to impose Elrig’s strategy on Clonyard and this is something which should be avoided. The strategies of the two companies should be aligned initially and any shared computer system, and the information that it might generate, should be agreed thereafter.

There are other significant potential negative effects of introducing the ERPS based on the director’s view. For example, it may further enhance the feeling of alienation that many Clonyard employees appear to be feeling if another system is imposed on them without discussion and agreement. Their motivation would suffer and Clonyard’s ability to maintain its position in the market may be affected. This market position is, after all, the main reason for Elrig’s purchase of Clonyard in the first place.

There is evidence from the scenario that Clonyard is delaying the information that it offers Elrig as even manual systems could offer more up to date data than that detailed by the operations manager and the sales manager. This sub optimal behaviour has perhaps been a reaction by Clonyard staff to the imposition of Elrig’s systems. Much as the removal of any sub optimal behaviour should be encouraged, the introduction of the ERPS without discussion and agreement may enhance those feelings of Elrig imposing its operations upon Clonyard. This stresses again the dangers of introducing a computer system to integrate one company’s operations into another and further highlights the need to come to a common approach with regard to the future strategic direction of Clonyard.

It is also naïve of the Elrig director to assume that Clonyard employees will be enthusiastic about the introduction of a new computer system. Aside from the potential negative aspects associated with control that are highlighted above, there is evidence from the scenario that Clonyard employees are not engaging fully with their own computer system. This may be because they have not been properly trained and the prospect of the introduction of a new and much more complex system may be very threatening for them.

Alongside the difficulties associated with the introduction of the ERPS into the Elrig/Clonyard operation, an ERPS has other well established and more generic disadvantages such as its cost, its difficulty in adapting to the specifics of some individual business operations and the time taken to implement the system.

Overall, the introduction of an ERPS would certainly help with regard to some operational aspects detailed in the scenario. The overall benefits are likely to be much wider than this with, for example, the access to real time information being very useful to Elrig/Clonyard in their current environment. However, the introduction of the ERPS should not be used as a way of integrating Clonyard within Elrig's operation. This needs to be done at a much more fundamental level where strategic direction is agreed. Using an ERPS to integrate without this agreement first is likely to lead to more problems with regard to integration than it will solve

Mark scheme

(a) Skills – up to 3 marks
Staff – up to 3 marks
Style – up to 3 marks
Conclusion – up to 2 marks

Maximum 10 marks

(b) Advantages of ERPS – up to 6 marks
Disadvantages of ERPS – up to 6 marks

Maximum 10 marks

Professional marks

Analysis and Evaluation:
Reasoned assessment of the three soft elements of the McKinsey 7S model in relation to the alignment of Elrig and Clonyard
Balanced and reasoned appraisal of the ERPS proposal

Scepticism:
Recognition that the McKinsey 7S model has overlap between the elements and the company has not attempted to align them
Recognition that the ERPS won't integrate the two companies beyond initial operational benefits

Commercial Acumen:
Recommendation on the introduction of an ERPS clearly demonstrates an understanding of the issues facing Clonyard and Elrig and is commercially sound

Maximum 5 marks

Total 25 marks

Roan
3.

(a) Managing performance

Establishing common objectives
The initial problem with regard to managing performance in any joint venture is establishing its objectives and goals and the aims of each university for the joint venture of RSU are different.

Roan's main purpose for undertaking the joint venture is to find a new revenue stream. The word profit is not that Roan is seeking to make a financial return from this and that its focus will be on maximising that return rather than maximising revenue to the disregard of cost. In terms of performance management, therefore, the focus of Roan is likely to be on ensuring that these main goals are met and therefore areas of finance and resource utilisation and consumption are likely to form the core of the management system.

Saugh's main purpose for undertaking the joint venture is to enhance its status within its own country, and perhaps globally, as a renowned institution of learning. The focus for Saugh in terms of how performance of RSU is managed is likely to be on the reputation of Saugh, staff development and the destinations of its graduates.

Developing a joint venture in terms of its financial return and in terms of the contribution that it makes to society may be possible within a performance management framework but it is clear that these aims are contradictory. At a simple level, focusing on the financial aspects can lead to a lack of investment which may damage the quality of the joint venture's provision and, ultimately, the contribution that the graduates of RSU can make to society.

Lack of stable leadership

It is clear from the scenario that the rotational nature of the chairman of the management board (MB) will almost ensure that there is a lack of stable leadership. Unless the universities can agree on a common and mutually acceptable aim, the chairman is likely to be acting more in the interests of their own university than in the interests of the joint venture.

The inclusion of at least one government official from Deeland on the MB may also present problems from the perspective of Roan with regard to performance management. As the current balance of the MB membership is 50:50, the inclusion of representatives from Deeland would clearly tip the balance in favour of Saugh. This is likely to lead to a loss of control for Roan which would clearly have an effect on the manner in which the joint venture is managed in terms of its performance.

Measuring performance

Given the challenging funding environment in Teeland, reflected in the overall view of Roan with regards to what the aim of the joint venture should be, Roan will be focused on the financial return of RSU. This means that Roan would seek to measure traditional financial measures such as return on investment and operating surplus. Roan's focus is likely to be specifically on the fees charged, student numbers, costs incurred and on return on investment overall. The measures that Roan would like to see would therefore relate to fee growth, student numbers and cost reduction. It is not clear how quickly Roan is seeking to achieve a return on the investment but from the scenario it can be assumed, given the cuts to governmental funding, that it would prefer a return to be achieved in the short term as well as over the long term. Roan may therefore be keen to spend a significant amount on advertising, to boost student numbers in the short term, rather than wait for the reputation of RSU to grow by word of mouth.

Saugh appears to be free from any financial constraints, at least in the short term. Its funding is secure and this means that Saugh is unlikely to be interested in assessing the performance of RSU with any traditional financial metrics. As a result, this may place Saugh in direct conflict with Roan with regard to many decisions. For example, Saugh may feel that enhancing 18 classroom technology in RSU is necessary and should be undertaken immediately without understanding that this would represent a significant further investment for Roan.

Saugh will be more focused on the quality of the students that are admitted to RSU, their performance whilst at university and their occupation and perhaps salary level on leaving the university. There is likely to be conflict with Roan with regard to students that are admitted to RSU as Roan will be more focused on recruiting as many students as possible whereas Saugh will be more focused on the grades that these students have achieved either at school or in previous study.

Both universities will be interested in how the students perform at RSU. Roan's reputation would suffer significantly, for example, if it were to accept students who failed its programmes in large numbers. However, Roan will be less focused on the level of excellence achieved by students of RSU than Saugh. Again, this is likely to lead to conflict as Saugh will be motivated to undertake additional investment, be it in terms of staff time in the form of extra classes or through extra resources that are likely to help students achieve higher grades.

Roan is also likely to be interested in how graduates of RSU perform after graduation, but it is not as important to them as it is to Saugh. Saugh may therefore be keen to devote significant resource to developing strong links with local industry to ensure that RSU graduates are equipped with the correct skills. Saugh will also want to devote significant resource to monitoring and measuring how the graduates perform after graduation. Saugh may, for example, initiate surveys at various points following graduation at intervals of perhaps one, five and ten years. Given the focus of Roan, it is unlikely to want to devote much by way of resources to such measurement.

As a measure of commitment to the joint venture, Saugh will definitely be motivated to measure how many of Roan's staff will teach at RSU. Saugh may try to impose specific measures here, such as percentage of Roan staff from Teeland teaching on each programme, as it is clear that the involvement of Roan is a critical success factor for Saugh in achieving its aims.

(b) Government of Teeland

The government of Teeland is only likely to be interested in the performance of RSU if there is a significant failing. The most obvious examples relate to a financial default through overspend or, potentially, a scandal involving staff of Roan in Deeland whilst working at RSU. It would be impossible to either plan for or meaningfully measure this latter scenario and hence the most likely aspect to be of interest to the government of Teeland is the liquidity of Roan.

A simple measure of this, even something as straightforward as the cash surplus of Roan, would confirm to the government of Teeland that Roan is unlikely to go into liquidation. This measure should be considered alongside the long term liquidity of Roan and the government would be interested in knowing if Roan had taken on any long term debt to fund the joint venture and, if so, its overall proportion in Roan's capital structure.

Teachers' trade union

The teachers' trade union would be interested in the number of programmes or courses that are being offered in RSU. The more programmes that are offered, the more likely it is that Roan staff will be required by their employer to teach in Deeland. Fewer courses would increase the possibility that local provision for teaching could be found. However, the more courses that are offered, the less likely it is that the necessary specialism could be found through local provision in a developing country.

Public pressure group

The public pressure group would be interested in how much time is being spent by staff of Roan, perhaps teaching staff in particular rather than those of a higher level of management, in Deeland. The pressure group would like to see this figure probably presented in absolute terms and measured month by month to allow for comparison and trend analysis. The higher this figure becomes the more active the pressure group is likely to become and the more the membership of the pressure group is likely to grow.

Mark scheme

(a) 1 mark per point
Discussion of issues in relation to performance management – up to 8 marks

Discussion of issues in relation to performance measurement – up to 8 marks

Maximum 14 marks

(b) For each stakeholder group: justification of the measure – up to 2 marks
Maximum 6 marks

Professional marks

Analysis and Evaluation:
Comprehensive evaluation of the problems of managing and measuring performance in the joint venture

Commercial Acumen:
Demonstrate an understanding of the incompatibility of the objectives of the two organisations
Performance measures recommended for the three stakeholder groups are practical and plausible in the context of the organisation situation

Maximum 5 marks

Total 25 marks