

# 2019 ACCA Job Hunting Competition National Final

## Marking guide and example suggested solutions

### Utopia

#### Synopsis

This case concerns a company which operates several large theme park complexes around the world.

Candidates are required to;

- Analyse the company's strategic position based on a report prepared by an external management consultancy
- Evaluate the strategic issues associated with launching an innovative new ride
- Analyse the strategic implications of diversifying into hotels
- Consider the components of a balanced director remuneration package

#### Case objectives

The main objectives of this case are:

1. To identify and analyse key strategic issues for the company.
2. To identify and analyse the main issues in relation to a proposal to develop a new innovative ride.
3. To identify and analyse the strategic implications of diversifying into hotels.
4. To demonstrate an understanding of effective director remuneration.

#### Using the marking guide and suggested solutions

The marking guide and example suggested solutions are NOT intended to cover all valid points that could be made by candidates.

The suggested solutions provide an example of an appropriate approach and answer, but are not intended to include all valid points that could be made and would earn marks.

Markers should award marks for points made by candidates which are relevant to the Task requirements, regardless of whether the points made are included in the marking guide or suggested solutions.

## TASK 1: MARKING GUIDE AND SUGGESTED SOLUTION

### Marking guide Task 1

The Task suits the use of the SWOT model. The marking guide and suggested solution below uses SWOT. However, answers are not required to use SWOT. Candidates may use any model or approach.

Up to 2 marks for each relevant strategic issue identified in the slide and explained in the notes.

*[Four slides, maximum 8 marks per slide with the overall maximum marks for Task 1 capped at 28]*

Examples of points that could be included:

#### Strengths

- Experienced and respected CEO
- Established, proven, business model
- Brand recognition and effective marketing
- Well-trained and professional permanent workforce
- High employee satisfaction and morale

#### Weaknesses

- Responsibilities are unclear
- Ineffective attempts to manage fluctuations in demand
- Unsatisfactory performance of temporary staff
- A culture that discourages open discussion at board level

#### Opportunities

- The market in the Middle East
- Further expansion, for example in South America
- Possible diversification into hotels
- The use of Virtual Reality

#### Threats

- Uncertain market-size for the new Middle East park
- Changing attitudes towards animals held in captivity
- Aging population
- Falling average revenue per visitor
- An economic downturn

**Note:** Identifying the aging population and falling average revenue per visitor as threats requires candidates to identify key insights from the numeric data included in Exhibit 1.

### Task 1 professional skills marks

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<p>Task 1</p> <p>Analysis skills, commercial acumen and communication skills when identifying and explaining strengths, weaknesses, opportunities and threats.</p>	<p>The candidate has demonstrated very limited analysis skills and commercial acumen. The candidate has failed to classify each option appropriately and have failed to explain each item identified.</p>	<p>The candidate has demonstrated some analysis skills and commercial acumen by including some important items. However, there is only limited evidence of meaningful explanation of each item identified.</p>	<p>The candidate has demonstrated analysis skills and commercial acumen in including a significant proportion of important items. The candidate has made a good attempt to explain each item identified.</p>	<p>The candidate has demonstrated analysis skills and commercial acumen in identifying important items in each classifying each option correctly. The candidate has provided a full justification for each classification.</p>
	0	0.5	1	2

## Suggested solution: Task 1

### 1. Presentation slides

#### Slide 1

<b>Strengths</b>
<ul style="list-style-type: none"><li>• An experienced and respected CEO</li><li>• Established and proven business model</li><li>• Good brand recognition and effective marketing</li><li>• Permanent staff are well-trained and professional</li><li>• High employee satisfaction and morale</li></ul>

Slide 1 notes:

Strengths are internal factors that Utopia does well. They are internal attributes and resources that help the Utopia achieve its aims.

*Our CEO, Moeen Hasan, is knowledgeable and experienced*

Moeen Hasan has ten years' worth of experience at Utopia Company, including five years as Chief Executive Officer (CEO). This experience, and the respect Moeen commands, indicates he is a 'safe pair of hands' to lead the company.

*The Utopia business model is established and proven*

Utopia's approach to finding appropriate sites for parks and subsequently encouraging the development of a supporting infrastructure has proved successful. The three existing parks are profitable and the company is outperforming the competition.

Utopia's position on the market provides some in-built resilience to economic conditions. For example, reduced overseas visitor numbers in times of economic downturn tend to be offset by an increased number of local visitors.

Revenue and operating profit are growing slowly but steadily.

*The Utopia brand and marketing*

The Utopia brand is well-known and is associated with quality in the mind of customers and potential customers. This awareness and perception will help the company attract visitors at relatively high prices compared to competitors.

The company also attracts significant media coverage when new rides are developed. This builds the company's reputation and helps create a barrier to entry to the market for potential competitors.

*Permanent Utopia staff are well trained and professional*

Customer feedback indicates that permanent Utopia staff are perceived by customers as being well trained and professional. This helps ensure visitors receive high-quality customer service resulting in customer satisfaction which encourages repeat visits.

*High employee satisfaction and morale*

Utopia staff are generally satisfied and morale is high. This is particularly important for front-line staff who interact with park visitors. These staff must portray a positive, 'can-do' attitude to maintain visitor satisfaction and encourage repeat visits.

## Slide 2

### Weaknesses

- Responsibilities are unclear
- Ineffective attempts to manage fluctuations in demand
- Unsatisfactory performance of temporary staff
- A culture that discourages open discussion at board level

Slide 2 notes:

Weaknesses are internal factors that cause Utopia harm or prevent Utopia from achieving its aims.

#### *Responsibilities are unclear*

The matrix structure used by Utopia means responsibilities are sometimes unclear. For example, it is unclear whether the marketing director or regional operating directors have the final say on marketing expenditure for each specific region.

#### *Ineffective attempts to manage fluctuations in demand*

Utopia's attempts to smooth demand across the year, including trying to increase week-day demand in winter, have not been successful. There may not be too much more that is able to be done in this area, as parks will naturally tend to be busier during periods when people are free from work and school commitments.

There may also be ethical issues to consider, as attempting to smooth demand by heavily discounting prices outside school holiday weeks could be seen as encouraging families to take holidays when children should be at school.

#### *Unsatisfactory performance of temporary staff*

Customer feedback indicates that temporary staff used at Utopia park complexes during the busiest periods fall short of the high standards Utopia visitors expect. To protect its reputation as a quality brand, Utopia must provide a consistent high-quality visitor experience at all times.

To improve this situation, the way in which temporary staff are trained and deployed should be reviewed.

#### *A culture that discourages open discussion at board level*

The consultant reported that a fear of appearing 'negative' had resulted in two board members being reluctant to raise concerns in board meetings for fear of appearing negative. This culture has resulted in the decision to proceed with the park in the Middle East being taken without relevant concerns being given proper consideration.

## Slide 3

### Opportunities

- The market in the Middle East
- Further expansion, for example in South America
- Possible diversification into hotels
- The use of Virtual Reality

Slide 3 notes:

Opportunities are external factors that Utopia could capitalise on or use to its advantage.

#### *The market in the Middle East*

The new Utopia park complex in the Middle East opens up a new market and new source of revenue for the company. The size of the market needs clarifying, but the new park still represents an opportunity for significant revenue growth.

#### *Further expansion in South America*

The growing 'middle-class' in South America may provide an opportunity to build a fifth park in the region. Middle-class families based in the South America may also provide a source of overseas visitors for other parks.

#### *Possible diversification into hotels*

The idea of developing a Utopia hotel at each park complex has been raised. This presents an opportunity for diversification and possible synergies between hotel and park operation. This could provide a significant new revenue stream, although care would need to be taken to maintain the support of other hotel operators at the parks.

#### *The use of Virtual Reality*

Utopia's success is due to its ability to constantly evolve and produce new experiences for park visitors. The innovative use of Virtual Reality provides an opportunity that should be investigated.

### **Slide 4**

<b>Threats</b>
<ul style="list-style-type: none"><li>• Uncertain market-size for the new Middle East park</li><li>• Changing attitudes towards animals held in captivity</li><li>• Aging population</li><li>• Falling average revenue per visitor</li><li>• A severe economic downturn</li></ul>

Slide 4 notes:

Threats are external factors that could hinder or prevent Utopia from achieving its aims.

#### *Uncertain market size for the Middle East park*

There is some concern that the market research carried out in the Middle East was flawed, failing to take into account cultural differences. Further work should be done in this area, with the aim of establishing a realistic split between local and overseas visitors. Marketing efforts can then be designed accordingly.

#### *Changing attitudes towards animals held in captivity*

The attitude towards keeping animals in captivity and training animals to perform tricks for entertainment has changed for a significant proportion of the population in Europe and North America. In the long-term, to maintain the support of the public it may be necessary to phase for this aspect of Utopia's operations out.

### *Aging population*

The population in Utopia's target markets has aged, meaning a higher proportion of the population are older. This trend is reflected in the age of visitors to Utopia parks. The number of visitors aged 9 and under has reduced for each of the past two years, with the number of visitors in older age groups increasing.

### *Falling average revenue per visitor*

The higher proportion of older visitors is highly likely to have contributed to the reduction in the average revenue per visitor experienced over the past two years. Although the reduction has been small, the trend appears downwards and reflects the higher age profile of park visitors.

### *A severe economic downturn*

Although the Utopia board believe the company is protected from economic ups and downs, the nature of the theme park business means the company's revenue is comprised wholly of discretionary expenditure. A severe global economic recession would likely have a significant impact on revenue.

## TASK 2: MARKING GUIDE AND SUGGESTED SOLUTION

### Marking guide Task 2

- (a) Up to two marks for each fully explained advantage and disadvantage. Maximum four marks for each category. (Up to a maximum of 8 marks in total)

Examples of points that could be included:

#### Advantages

- The Galaxy Warrior ride is consistent with Utopia's existing strategy
- The use of Virtual Reality (VR) is innovative
- Significant media coverage is expected
- The knowledge and experience of VR gained may be useful in other future projects
- The ride will attract new visitors
- The ride will encourage previous visitors to return

#### Disadvantages

- The way in which the ride will use VR is unproven
- The use of VR adds cost and risk
- Technological hurdles may prevent delivery of the intended experience
- The number of additional visitors generated specifically by the ride will be difficult to establish
- The health and safety risk associated with wearing headsets on a high speed ride needs to be considered and eliminated

- (b) Up to two marks for each fully explained impact. Maximum six marks for internal stakeholders and six marks for external stakeholders. (Up to a maximum of 12 marks in total)

#### Implications for employees

- Training requirements for ride operatives
- Engineers and maintenance staff will require new skills to maintain the ride
- Hardware and software will need to be maintained either by employees or a third-party

#### Implications for shareholders

- The financial commitment is significant and will impact financial results
- How successful the ride is will impact revenue, share price and dividends

#### Implications for customers

- Health and safety considerations
- Customer expectations are likely to be high

#### Implications for governments

- The popularity of the parks will impact the economy and revenue from taxation
- Government agencies will ensure compliance with health and safety
- Governments need to strike an appropriate balance between ensuring compliance and encouraging innovation



- (c) Up to three marks for each fully explained factor. Up to one mark for a justified recommendation.  
(Up to a maximum of 6 marks in total)

Examples of factors to consider

- Maximising the benefits from publicity
- Building a global brand
- Minimising the overall cost
- Maximising the increase in revenue

**Task 2 professional skills marks**

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Task 2 parts (a) and (b) Analytical and commercial acumen skills in evaluating how the ride fits with the company's strategy and the impact on stakeholders.	The candidate demonstrated very limited analysis skills and commercial acumen. They have failed to recognise relevant issues raised by the ride and the impact on stakeholders.	The candidate has demonstrated limited analysis skills and commercial acumen by identifying some relevant issues. However, there is limited evidence of the candidate's abilities in evaluating the implications of proceeding with the ride and the implications for stakeholders.	The candidate has demonstrated some sound analysis skills and commercial acumen by identifying significant relevant issues. The candidate has demonstrated some ability to evaluate the implications of proceeding with the ride and the implications for stakeholders.	The candidate has demonstrated excellent analysis skills and commercial acumen by identifying significant relevant issues and effectively evaluating the implications of proceeding with the ride and the implications for stakeholders.
	0	0.5	1	2
Task 2 part (c) Commercial acumen and scepticism skills in identifying and explaining relevant factors to considering which park the first ride should be built in.	The candidate demonstrated no commercial acumen and scepticism skills in that they have failed to identify any factors relevant to the decision regarding which park the first ride should be built in.	The candidate demonstrated only limited commercial acumen and scepticism skills in identifying factors relevant to the decision regarding which park the first ride should be built in.	The candidate demonstrated some commercial acumen and scepticism skills in identifying factors relevant to the decision regarding which park the first ride should be built in.	The candidate demonstrated excellent commercial acumen and scepticism skills identifying factors relevant to the decision regarding which park the first ride should be built in.
	0	0.5	1	2

## Suggested solution: Task 2

2.

(a)

### *Advantages of proceeding with the Galaxy Warrior ride*

The company's strategic direction is based on providing innovative and enjoyable experiences to visitors. The proposed Galaxy Warrior (GW) ride, which would enable visitors to 'fly across the Galaxy' and 'engage in battle with other craft and alien creatures', fits with this strategic direction.

The GW ride will utilise developments in technology to offer a new experience. Although the new ride would include Virtual Reality (VR), the basic premise of the ride, offering a fantasy experience, is consistent with Utopia's current offering and strategy, it is only the VR technology which is new.

The Galaxy Warrior (GW) ride is innovative and dramatic and is therefore likely to attract visitors who wish to experience a theme park ride that incorporates cutting edge technology.

By being the first park to combine Virtual Reality with a physical ride, Utopia will enhance its reputation as a provider of memorable experiences and an escape from routine day-to-day life.

The ride is also likely to generate significant media coverage, building on the Utopia story and further enhance the brand.

In addition to media coverage, it is likely that host governments will incorporate the GW ride in official tourism marketing material.

The new ride is a significant attraction that will also give individuals who have previously visited the parks a reason to return, to experience something new.

The factors described above will ensure good awareness of the new ride, exciting potential visitors and resulting in increased visitor numbers.

### *Disadvantages of proceeding with the Galaxy Warrior ride*

One disadvantage or risk of proceeding with the GW ride is that the technology itself appears to be unproven. It may be difficult to translate the engineers' intentions into a ride that actually delivers the intended experience. Any disappointment is likely to result in negative publicity in the mainstream media, and on social media, which would discourage visitors.

Another disadvantage or risk is that it will be extremely difficult to quantify the returns from the significant investment required to develop and build the GW ride.

The number of additional visitors generated by the new ride will need to be estimated. Estimating a realistic figure will be difficult, as many factors are involved in a decision to visit a park.

Utopia's management should evaluate the investment using financial analysis, for example a net present value appraisal. However, it will be extremely difficult to isolate cash inflows associated with this project. For example, if following the launch of the ride economic conditions improved and visitor numbers increased by 5%, it would be very difficult to know how much of the 5% increase was due to the new ride and how much was down to improved economic conditions.

The cost of developing a ride that incorporates Virtual Reality will be more expensive than one that does not. It may be possible to 'refresh' Utopia's appeal and unique selling proposition in other, less expensive ways, such as a new traditional roller coaster without the use of Virtual Reality.

There is also a health and safety risk associated with wearing VR headsets on a high-speed ride. The safety of this must be established beyond any doubt if development of the ride is to proceed.

(b)

Proceeding with the Galaxy Warrior ride would have implications for Utopia stakeholders including employees and shareholders (examples of internal stakeholders), and customers and governments (examples of external shareholders).

#### *Implications for employees*

Utopia front-line employees would need to be trained to operate the GW ride safely and efficiently.

Engineers and other staff would need to be able to perform routine maintenance and mechanical repairs, including maintaining ride hardware and software.

Employees' job security may be affected by the success or failure of this investment. If, in the long-term the GW ride attracts significant numbers of visitors to Utopia parks, the growth in visitor numbers is likely to benefit existing employees by providing opportunities to widen their experience operating the new ride. The ride may also lead to higher earnings if additional overtime is made available.

On the other hand, if the investment was made and the ride proved unpopular and / or had significant operating difficulties the costs associated with this could be so significant to lead to restructuring and job losses.

#### *Implications for shareholders*

Shareholders will be affected by the financial implications of developing, installing and operating the ride. The share price and level of dividends are linked to the financial health and prospects of the business.

As mentioned earlier, it will be difficult to isolate the cash inflows directly attributable to the project. The share price will move in line with market expectations of the impact the ride will have on Utopia Company revenues. If the long-term impact on Utopia is perceived as favourable, it would be appropriate for the board to proceed - even if the share price is likely to fall in the short-term due to the initial investment required.

#### *Implications for customers*

The interests of Utopia customers will be protected by laws and regulations including health and safety regulations and consumer protection law. For example, the Galaxy Warrior rides will need to be certified as complying with local regulations and be subject to safety inspections.

The Utopia board also has a duty of care to all stakeholders including visitors to Utopia parks.

Utopia also has a responsibility to ensure that it delivers the experience that it promises in its promotional materials and on its website. If riders of the Galaxy Warrior feel the ride did not meet their expectations, customer disappointment will be significant - a trip to a Utopia park is something special, something to look forward to undertaken during limited leisure time.

This expectation puts pressure on Utopia Company to deliver a Galaxy Warrior experience that matches the claims made in marketing material. Disappointed customers are likely to protect their own interests by limiting expenditure (for example avoiding expenditure on merchandise) and avoiding return visits.

#### *Implications for governments*

Utopia parks are significant tourist attractions and as such generate revenue for the government of the host country. Utopia Company provides a boost to local economies, as an employer and customer for goods and services.

Government agencies will also be responsible for inspecting the new ride and ensuring it meets health and safety requirements. The wearing of headsets on a rollercoaster is likely to raise safety concerns that will require significant testing.

If Utopia feels the new ride is being subjected to an unfair level of scrutiny, the company may attempt to put the host government under pressure by threatening to cancel the Galaxy Warrior launch, 'due to government bureaucracy'. However, this would be a risky strategy as the general public would likely support a 'safety first' approach.

Utopia Company must comply with all laws and regulations relating to the Galaxy Warrior ride, and also comply in all areas of operation. For example, this would include paying tax in line with profits earned in the host country rather than manipulating the tax burden by moving profits around between different locations.

(c)

When deciding which park the first Galaxy Warrior ride should be built in the board must consider how to maximise the benefit received by the company as a whole.

Maximising the benefits of publicity and minimising the overall cost are two key factors to consider.

#### *Maximising the benefit from publicity*

The first Galactic Warrior ride is likely to receive more publicity (unpaid) than subsequent rides. The board need to consider how this benefit can be maximised for the company as a whole.

The opening of the new park in the Middle East will already be a major news event in itself. Although adding the first Galaxy Warrior ride to the Middle East park may increase the publicity, the additional impact is likely to be lower than in the first Galaxy Warrior ride is opened in the European park or the North American park.

The North American park faces intense competition and appears to have the most potential to increase visitor numbers.

The European park is has been established longest and attracts the highest number of visitors. At the 'flagship' park, it could be considered the natural home for the first Galaxy Warrior ride.

Given Utopia's aim to develop a global brand and to be seen as 'less European', the North American park seems the best option from the point of view of maximising the benefits from publicity.

#### *Minimising overall cost*

Adding a Galaxy Warrior ride to the Middle East park which is currently under construction is likely to be the cheapest option. Disrupting operations at an existing park is likely to be more costly than adding an additional structure to an existing building site.

However, building in the Middle East might be complicated by high temperatures and sandy soil. It may be beneficial to build elsewhere first, in a less challenging environment. The knowledge gained building the Galaxy Warrior ride in Europe or North America may help when facing the problems of building in the Middle East.

#### *Conclusion*

Overall, the benefits from additional publicity, the wish to build a global brand and the potential for increased revenue to offset costs, make the Utopia park in North America the most attractive choice for the first Galaxy Warrior ride.

## **TASK 3: MARKING GUIDE AND SUGGESTED SOLUTION**

### **Marking guide Task 3**

- (a) Up to two marks for each fully explained point relating to the strategic fit to a maximum of six marks. One mark for each key risk, to a maximum of three marks. (Up to an overall maximum of 8 marks in total)

Examples of points that could be included:

#### Strategic fit

- Diversifying into hotels would fit with Utopia's aim to become a major global brand
- Hotels also fit with the company's aim to become a holiday destination
- Breaks including Utopia branded accommodation could be sold as a package holiday

#### Risks

- Damage relationships with existing hotel partner companies
- Divert resources including cash (investment) away from the parks
- Distract management attention away from the core business
- Reduce opportunity for park expansion due to the land required for hotel construction

- (b) Up to two marks for each fully explained point relating to incorporating the hotel operation into the company structure. (Up to a maximum of 8 marks)

Examples of issues to consider include:

- A clear strategy is required for the enlarged entity, including hotels
- The revised structure should help deliver the company's revised strategic objectives
- Building and operating hotels will present different challenges from those presented by parks
- The hotel operation will require representation at board level
- An individual with experience of board level responsibility for hotels should be recruited
- New information systems and performance measures will be required

### Task 3 professional skills marks

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Task 3 part (a) Evaluation skills and commercial acumen identifying and communicating the key risks.	The candidate demonstrated no evaluation skills and commercial acumen and failed to identify factors relevant to whether the move into hotel development and operation would be a good strategic fit.	The candidate demonstrated only limited evaluation skills and commercial acumen in identifying a very limited number of relevant factors with limited explanation.	The candidate demonstrated some evaluation skills and commercial acumen in identifying relevant factors with reasonable explanation.	The candidate demonstrated excellent evaluation skills and commercial acumen in identifying relevant factors and providing full, meaningful explanation.
	0	0.5	1	2
Task 3 part (b) Analysis skills and commercial acumen when identifying and considering issues relevant to how the new area of operation could be incorporated in the company structure.	The candidate demonstrated no analysis skills and commercial acumen and failed to identify issues relevant to how the new area of operation could be incorporated into the company structure.	The candidate demonstrated only limited analysis skills and commercial acumen in identifying and considering issues relevant to how the new area of operation could be incorporated into the company structure. Limited explanation provided.	The candidate demonstrated some analysis skills and commercial acumen in identifying and considering issues relevant to how the new area of operation could be incorporated into the company structure. Reasonable explanation provided.	The candidate demonstrated excellent analysis skills and commercial acumen in identifying and considering issues relevant to how the new area of operation could be incorporated into the company structure. Full, meaningful explanation provided.
	0	0.5	1	2

### Suggested solution: Task 3

3.

(a)

From a strategic point of view, Utopia Company aim to be a major global brand and holiday destination. Currently, the company operate a small number of large park complexes. Visitors travel significant distances in order to spend time at a Utopia park. Many visitors require hotel accommodation.

A move into hotels appears to be a good fit with the strategic aim to establish Utopia as a major holiday destination. There could be synergies associated with operating hotels. For example, the availability of a package holiday at a Utopia park, staying in a Utopia hotel adjacent to the park, is likely to make a visit to a Utopia complex more attractive to some.

Package holidays could be sold which include accommodation and park entry. Economies of scale should be available on marketing spend, enabling us to integrate the promotion of our on-site hotel with that of the park. Hotel guests are likely to rely on either the park catering or the hotel catering for meals and drinks.

However, operating our own hotels brings some risks. From a strategic point of view, we may damage relationships with other stakeholders. Hotel operators who are already established in Utopia parks are likely to feel let down by our decision to compete with them, and to feel threatened by the presence of a Utopia hotel in close proximity.

The hotel business would divert resources and attention away from the parks. Utopia know and understand the theme park business but have no experience of building and managing hotels.

Adding hotels is likely to reduce opportunities to expand parks. The amount of land available to extend a park would be reduced by the construction of a Utopia hotel, reducing the potential for future expansion.

The factors above would need to be considered and balanced against the other main option, which would be to continue to offer accommodation close to our parks through hotels operated by other parties.

(b)

Building and operating hotels will present different challenges from those posed by theme parks. For example, an important factor in the financial viability of hotels is the room occupancy rate.

Filling a Utopia hotel during periods when the park is traditionally quiet is an example of a different challenge which hotel operation will present. Therefore, the hotel operation will require a dedicated management team, and specific representation at board level.

If the board operated without hotel expertise and without a board member being accountable for the hotel division, it is unlikely that the hotel division would receive the attention required at board level. Other risks include the board may set targets that are unrealistic, or apply performance measures more suited to theme parks than to hotels.

The move into hotel development and management will require major investment and knowledgeable leadership. It will be easier to recruit someone of the necessary calibre to head this venture if a seat on the board is on offer.

This person selected to head-up the hotel operation should oversee the construction and development of the hotels, leaving the rest of the board free to focus on the parks. A board member will have greater credibility in dealing with contractors and government agencies when negotiating matters relating to the hotels. The appointment of a new director is likely to be reported by the business media, which is likely to be seen as a positive sign by the stock market.

The matrix structure currently used at board level could be adapted to accommodate the addition of a director for hotels. The existing board has functional directors, for example a director of marketing, and regional directors.

The logical way to add a director of hotels in this structure would be to treat 'hotels' in the same way as currently geographical regions are treated, by adding a *Director of Operations, Hotels*, alongside the regional directors..

Having a director for hotels would emphasise that each hotel is intended to be profitable in its own right, rather than 'piggy-backing' on the results of the parks.

However, care needs to be taken to ensure that the goals of the new division are aligned with the goals of the company as a whole.

Issues such as the split of revenue from bookings that cover both accommodation and park entry might cause friction within the board.



## **TASK 4: MARKING GUIDE AND SUGGESTED SOLUTION**

### **Marking guide Task 4**

- (a) Up to two marks for each fully explained point relating to the performance of the remuneration committee. (Up to a maximum of 6 marks in total)

Examples of points that could be included:

- No performance-related reward
- The pension contribution is excessive
- The package is not in the best interests of shareholders
- There is a lack of independence (Joe Ball)
- There is an inappropriate mix of members on the committee, including an executive director

- (b) Up to two marks for each fully explained point relating to an appropriate remuneration package for the director. (Up to a maximum of 10 marks in total)

Example points which could be made include:

- Basic salary
- Performance-related bonus
- The need for balance between basic and performance-related elements
- Shares and share options (to help align remuneration with shareholder interests)
- Benefits, for example health insurance, gym membership
- A penalty or incentive to discourage a relatively early exit
- The need for balance between rewarding short-term and long-term performance

#### Task 4 professional skills marks

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

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
Task 4 part (a) Evaluation skills and commercial acumen in criticising the performance of the remuneration committee.	The candidate has demonstrated no commercial acumen skills in criticising the performance of the remuneration committee.	The candidate has demonstrated only limited commercial acumen in identifying a limited number of valid criticisms with limited explanation.	The candidate demonstrated some commercial acumen in identifying valid criticisms with reasonable explanation of each factor.	The candidate demonstrated excellent commercial acumen in identifying valid criticisms and provided full, meaningful explanation.
	0	0.5	1	2
Task 4 part (b) Commercial acumen skills in making sound judgements regarding the reward package.	The candidate has demonstrated no commercial acumen skills in designing a balanced reward package.	The candidate has demonstrated only limited commercial acumen in identifying a limited number of factors relevant to a balanced reward package.	The candidate demonstrated some commercial acumen in that they recognised relevant factors to consider when designing the reward package with reasonable explanation of each factor.	The candidate demonstrated excellent commercial acumen recognising relevant factors to consider when designing the reward package and provided full, meaningful explanation.
	0	0.5	1	2

## Suggested solution: Task 4

4.

### Briefing paper: CONFIDENTIAL: FAO Tara Adenowo

#### (a) Performance of the remuneration committee

Utopia's remuneration committee failed in a number of areas when agreeing Dipa Malik's reward package.

##### *No additional incentive to perform*

The committee agreed a package that did not provide an additional incentive or reward for a high level of performance. Dipa's package should have included a performance-related element linked to the park being developed and opened within the agreed timescale and budget.

##### *No attempt to align Dipa's interests and the interests of Utopia shareholders*

The pension contribution element of Dipa's package, worth three times his basic salary, seems excessive. Such a large contribution, unrelated to performance, is not in the best interests of Utopia's shareholders'. The committee should have negotiated a reduction in the level of the contribution and / or linked the payment to achievement of financial targets related to park development costs and later, following the park's opening, to revenue.

##### *Lack of independence*

Joe Ball lacked independence, being a past colleague of Dipa Malik's. Joe lacked the independence to judge the package to be offered to Dipa. The committee allowed itself to be influenced by Joe's lobbying. Joe should not have been involved in discussions relating to the offer to be made to Dipa.

##### *Inappropriate mix of members*

Corporate governance best practice recommends that the remuneration committee is made up of non-executive directors. Executive directors should be excluded from the remuneration committee. Therefore, Greg Bradley (Director of Operations for North America) should not have been a member of the remuneration committee.

Greg would face a conflict of interest in setting the remuneration of another executive director. For example, it may be in Greg's director's interests for a new executive director to be paid a significantly higher level of remuneration than he was receiving, as he could use this as a bargaining point when negotiating his own remuneration in future.

#### (b) An appropriate and well designed reward package

An appropriately designed and balanced reward package for Utopia's new 'Director, Rest of the world', should include the following elements.

##### *Basic salary*

The director's basic salary should be paid in return for the director performing the duties outlined in their employment contract. Basic salary is not related to the performance of the company or the director. The level of basic salary should be determined by the experience of the director and the market rate that other companies are prepared to pay for similar positions.

##### *Short and long-term performance related bonuses*

The director's remuneration should include an element that rewards performance, for example a cash bonus for meeting performance targets. In this situation, the bonus could initially be

linked to the park opening on-time and within budget. After opening, targets could be linked to the achievement of revenue and operating cost targets.

#### *Shares and share options*

The director's package should include shares in the company, or, alternatively, share options which provide the right to purchase shares at a specific price over a specified period of time. If the price of the shares exceeds the exercise price when the options can be exercised, the director is able to buy shares at lower than market value. This aligns the interests of the director with the interests of shareholders.

#### *Benefits-in-kind*

Benefits-in-kind that a director at this level may reasonably expect to negotiate include health insurance, life assurance and, if applicable, a relocation allowance.

#### *Pension contributions*

Utopia may include pension contributions in the package, perhaps paid at a higher rate than other employees. A pre-arranged pension benefit paid after a certain number of years' service would provide an incentive for the director to remain with the company for a reasonable period of time.

#### *Balanced*

When designing the package, the remuneration committee should aim for a package that is sufficient to attract suitably qualified and experienced applicants. The package must also be balanced between performance-related and non-performance related elements.

Although there is no single correct percentage of overall remuneration that should be performance related, I would suggest having 30% - 40% of remuneration linked to performance would provide sufficient incentive and an appropriate balance.

#### *Aligned with shareholder interests*

The package should be linked to results, both short-term and long-term, to help align the director's interests with the interests of shareholders, reducing the likelihood of shareholder concern.

#### *Consider an appropriate 'exit strategy'*

All appointments come to an end at some point in time. The remuneration package should be structured in a way that avoids rewarding any director for resigning relatively early in their tenure. The agreement should provide for some loss of entitlement (eg reduced pension contributions on departure) if the director resigns before specified results have been achieved, or if the director is forced from office as the result of a shareholders' vote.