cpa IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2019

NOTES:

Section A: Answer Question 1.

Section B: Answer **two** Questions **only**. Should you provide answers to all of Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.

Time Allowed
3.5 hours plus **20 minutes** to read the paper.

Examination Format
This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute's website.

Reading Time
During the reading time you may write notes on the examination paper but you may not commence writing in your answer booklet.

Marks
Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Answers
Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

Answer Booklets
List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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SECTION A - ANSWER QUESTION 1

1. Case Study

Local Inn (Ireland) Ltd. (LIIL) operates a chain of hotels around Ireland. The head office is in Naas, Co. Kildare. LIIL is a subsidiary of a British-based hotel group, Wildwood Hotel Group Plc. In Britain, Wildwood Hotel Group manages three hotel brands:

1. The 'Empire' brand has seven prestige hotels, including two in London.
2. The 'Irving' brand operates 19 four star hotels, mostly in the South-East of England.
3. The 'Local Inn' brand which has 147 hotels located all around Britain.

Local Inn (Ireland) Ltd. has operated since 1998. Initially, the company developed five hotels in towns close to Dublin. However, over the following ten years it expanded rapidly, increasing to 23 hotels. The last hotel developed by LIIL was in Carlow, in 2008. At the end of each financial year, LIIL pays its parent firm, Wildwood Hotel Group, dividends on its profits, as well as management fees. These fees are for use of the Local Inn brand name and the use of Wildwood Hotel Group's reservation call centre, I.T. resources, and marketing support.

LIIL's hotels are located on the outskirts of towns, usually adjacent to an important access road. In seven towns, the hotels are located in retail parks. LIIL has always used the same approach when developing a new hotel. Once LIIL has identified a suitable town and location, it would source the necessary finance for the project from local investors. LIIL would plan, build and operate the hotel, while the investors would own the building and receive a fixed annual rent. Wildwood Hotel Group's 'Hotel Development Team' from Britain would manage this process, as LIIL did not have the expertise in-house. This significantly reduced LIIL's capital investment requirements and financial risk. LIIL is responsible for the maintenance and refurbishment of the hotel buildings.

All of LIIL's hotels are built to a standard design, apart from minor changes required by local planning authorities. There are 64 bedrooms in each hotel, including double rooms, twin rooms and family rooms. The facilities are designed to minimise operating costs. LIIL hotels were built to exacting specifications and LIIL spent significantly on hotels fit-outs to reduce the lifetime costs of maintenance, repair and replacement. For example, the hotels have excellent insulation, bedrooms have expensive laminate flooring, and all lighting is LED. The hotel guest rooms have a range of amenities, including: TV with free-to-air channels, 'Wi-Fi', which is free for the first 30 minutes per day, tea/coffee facilities, and a well-appointed bathroom.

LIIL hotels provide a 'room only' service. The hotels do not have restaurants, bars or cafes and do not offer food, not even breakfast. Instead the hotels have vending machines in the lobby stocked with water, juices, soft drinks, sandwiches and confectioneries. LIIL has a contract with a nationwide food wholesaler to restock the vending machines daily. The hotels also have a seating area in the lobby, where guests can relax and eat.

The managing director of LIIL for the past four years is Ms. Niamh Travers. She originally joined the company in 2004 as finance manager. The head office provides central services to all of its hotels in Ireland. Head office services include accounting, marketing and human resources, including payroll processing. LIIL head office is the link between the hotels and the parent firm, Wildwood Hotel Group. Niamh and LIIL head office management closely monitor activity and performance at each hotel. For example, if occupancy rates in a hotel are unexpectedly low for three nights in a row, Niamh will expect an explanation from the hotel manager. In addition to weekly reporting of several performance metrics, Niamh and other head office managers frequently visit each hotel – she spends an average of three days per week out of the office.

Information Technology is key to LIIL's management systems and processes. The company uses its parent firm's proprietary hotel management system to manage reservations, balance room occupancy, schedule room cleaning, and so on. The hotel management system interfaces seamlessly with LIIL's website, which has a '.ie' address but is managed by the parent firm and is a mirror of Local Inn's British website. LIIL's website is its main marketing tool, and is how the majority of room reservations are made. On average, 75% of guests use the website to book a reservation, around 15% use the reservation call centre which is shared with Local Inn, Britain. The remaining guests are 'walk-ins' who just turn up at the hotel looking for a room or phone the Local Inn's local telephone number. LIIL charges a standard rate of €65 per room. Unlike many hotel chains, the company does not subscribe to metasearch hotel search engines. LIIL is active on the popular social media platforms such as Twitter, Instagram and Facebook. These are managed from the Irish head office. In spite of its lack of 'old media' marketing, Local Inn is a very well-recognised brand.

Almost 60% of revenue comes from business guests. If a business registers as a client of LIIL, it obtains a range of benefits. For example, it receives a discounted price, based on recurring loyalty bookings. It can also use a dedicated support team, based in Britain, to manage its account with LIIL. Lastly, business clients receive a single invoice per month, with up to four weeks credit, allowing them to more easily manage their employees' travel costs. Although LIIL does not have figures, Niamh Travers suspects that a reasonable proportion of non-business guests are employees of business clients travelling in a private capacity.

LIIL employs around 300 people, the majority of whom are frontline staff in the hotels, including house-keeping staff, receptionists, and administrators. The company expects all staff to be flexible and adaptable, and hotel staff are paid hourly, apart from the hotel manager and assistant managers. There are 17 people, including Niamh, employed in the head office. Employee turnover is high among frontline staff, especially housekeeping staff. Of more concern to Niamh is the fact that hotel managers only stay with LIIL an average of three years. Exit interviews with hotel managers indicate that the main issues include LIIL's flat organisational structure which hinders career progression and the very strict policies and procedures which result in hotel management only being 'implementors' of head office decisions. Overall, the hotel managers had the perception that LIIL was a good training ground and providing valuable experience, but not a firm where they could hope to build a career.

	2016	**2017**	**2018**
	€	**€**	**€**
Total revenue	25.7m	25.3m	24.8m
EBIT 2.8m	2.7m	2.3m	
Revenue Per Available Room	48.16	47.39	46.33
Average Room Rate	58.03	57.79	57.20
Occupancy Rate	83.2%	82.1%	81.3%

LIIL is Wildwood Hotel Group's best performing unit by some distance. The hotels were competitively positioned to benefit from the reduction in business travel expenditure during the economic crisis, as businesses began to use economy hotels such as LIIL, rather than more expensive ones. LIIL's results have deteriorated over the past three years, as illustrated in the table above, but it is still performing better than it did prior to the economic crisis. Despite LIIL's performance in Ireland, Niamh is still concerned about its long term survival.

For example, she is keenly aware that LIIL's hotels need considerable refurbishment, with guests frequently commenting on the 'clean but neglected' nature of the rooms and public areas. However, the Wildwood Hotel Group is losing money in Britain, and all of LIIL's surplus cash is remitted to the parent firm. Niamh fears that the Wildwood Hotel Group only sees LIIL as a 'cash cow', and has little interest in its strategic development. At the same time, she and the other Irish managers have been unable to develop meaningful relationships with any key decision-maker in the corporate head office.

REQUIREMENT:
Niamh has asked you, as LIIL's accountant, to critically evaluate the company's strategic position by preparing a report in which you:

(a) Critically analyse the strategic position of LIIL, drawing on your assessment of the key drivers of change prevailing in the environment and applying the relevant theories and models;

(b) Assess the key issues facing LIIL and evaluate the options in dealing with such issues; and

(c) Recommend a strategy to ensure the best way forward for LIIL.

(Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about (LIIL) and its environment that will give you sufficient scope to demonstrate a high level of critical thinking, analytical skills, and strategic vision, as over 50% of available marks will be allocated to these areas).

(Total: 50 Marks)

SECTION B - ANSWER TWO QUESTIONS ONLY.

2. Dr. Andrea Hennessey is the co-founder and CEO of MedOrtic Ltd. (MDL). MDL manufactures medical devices used for knee and hip replacements. The devices are constructed from proprietary composite materials that last significantly longer than rivals' products. The firm employs around 80 staff, the majority in manufacturing. The manufacturing process is complex, requiring very high levels of process quality management, and most staff have a third-level qualification.

Andrea, a bio-chemist, led the university research team that developed the composite materials used by MDL to manufacture its products. There were eight members on the research team, and they worked closely together for almost three years on the research project. Although reserved by nature, Andrea felt comfortable with the team members and managed everyone on a one-to-one basis. The team was cohesive, dynamic and successful.

Andrea left her research role in the university to establish MDL in 2017. Two other members of the research team came with her to MDL and they are senior managers in the firm. In total, six people report directly to Andrea, as CEO. MDL is performing beyond expectations and there are discussions with the original investors about further expansion. However, Andrea does not always feel comfortable in the role of CEO, and can find it difficult, especially compared to when she led the small research team. She feels that she can do better in her role, and has asked you for advice.

REQUIREMENT:

Critically contrast using relevant leadership theory, Andrea's current role of CEO with her previous role as the leader of a research team in a university. Advise Andrea on the key strategic leadership activities she needs to prioritise to be effective as CEO of MedOrtic Ltd.

(Total: 25 Marks)

3. Pat Murphy, Cormac Ryan and Ray Kelly have all taken early retirement from a large technology firm in Limerick. They are engineers with a lot of experience, while Ray was also the firm's warehouse manager for several years. Following their retirement, they would still meet regularly for coffee. About six months ago they started to discuss the idea of setting up their own business. After several tentative ideas, they have focused on designing and manufacturing forklift trucks, as the forklift trucks currently available are 'just too expensive'. Initially the discussions were casual, but they have now become serious about the idea, and they have formed MRK Forklift Ltd. They have undertaken some research and are convinced that there is a market for 'safe, reliable, inexpensive' forklifts not just in Ireland but also in Europe.

Their discussions have led to an initial outline plan. They expect the firm to compete on the basis of the cost of its forklifts, while at least meeting minimum industry standards, as well as safety, environmental and other regulations. Other key elements of their strategy include:

(i) Developing a range of four to six forklift trucks based on current standard designs and technologies. The designs would be based on their experience, publicly available blueprints, and the reverse engineering of competitors' forklifts.
(ii) Marketing and selling directly to customers, initially only in Ireland.
(iii) Pricing the forklifts between 10% and 20% below competitors' price points.
(iv) Establishing a small assembly plant near Limerick.
(v) Sourcing the majority of components and materials from Asia.
(vi) Outsourcing the provision of maintenance and breakdown services.

Before MRK Forklift Ltd. seeks out investors to back the firm, the co-founders have asked you to evaluate their competitive strategy.

REQUIREMENT:

Prepare a report for MRK Forklift Ltd. that critically evaluates their proposed competitive strategy as outlined above. Recommend to MRK Forklift Ltd. the steps it should take to create a sustainable competitive advantage.
(You should use Michael Porter's 'Generic Competitive Strategies Model', or another relevant model, as a framework for your analysis.)

(Total: 25 Marks)

4. United Bank Plc (UB) is one of Ireland's oldest and largest banks. In 2009, during the banking crisis, the Irish government had to take a 95% stake in UB to prevent its collapse. In 2018, the government sold 65% of its investment to a private equity firm, Vulturius. The government retains a 30% interest in the bank. In January 2019, Vulturius appointed a new CEO to UB, Dr. Jurgen Trueller who is Dutch and a very experienced banker. He was previously the CEO of a successful regional bank in the Netherlands. Unfortunately, across the European banking sector the perception of UB is quite negative and it took some time for Vulturius to persuade Dr. Trueller to take the role of CEO of the bank.

Dr. Trueller has spent the first four months of his tenure trying to understand, first hand, UB's processes, culture and politics. He commissioned research by outside consultants to evaluate UB's marketing, human resources and IT systems. He has also spent a lot of time talking to UB's managers, staff and clients. Dr. Trueller's initial conclusions are:

- Staff morale and attitudes are poor.
- Organisational culture is weak and staff are strongly unionised.
- There are too many branches and the bank is overstaffed by at least 20%.
- There are excessive layers of management and too many 'middle managers'.
- Most staff and management believe that since the bank survived the economic crisis, "it's back to business as usual".
- The bank's IT systems and online banking presence are relatively underdeveloped.

REQUIREMENT:

Prepare a report for United Bank Plc that critically evaluates the steps that Dr. Trueller needs to take to transform United Bank Plc into a modern, competitive bank. The report should also recommend to Dr. Trueller how he should gain the support of the Irish government, still a major shareholder, for his transformation strategy.

[Note: You should use Kotter's Eight Stage Model as a framework for the report.]

(Total: 25 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

To: Ms. Niamh Travers
Local Inn (Ireland) Ltd.
Naas
Co Kildare
Ireland

From: CPA Consultants
Dublin
Ireland

29 April 2019

Re Strategic Review of Local Inn (Ireland) Ltd.

Dear Ms. Travers

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Direction and Options open to Local Inn (Ireland) Ltd. at this time. The enclosed report has three parts:

(a) Analysis of the strategic position of the business.
(b) Assessment of the key issues facing the business and evaluation of the business's strategic options.
(c) Strategic proposals to develop Local Inn (Ireland) Ltd. going forward.

I am available to discuss the report and to provide any additional information or explanations if you should require them.

Yours sincerely,
A. Student
CPA Consultants

(a) Strategic Analysis of Local Inn (Ireland) Ltd.

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Local Inn (Ireland) Ltd.:

- PESTEL
- Five Forces Model
- Resource analysis
- Value Chain
- SWOT

The General Environment (PESTEL)

1. Political and Legal Factors

There are a few political issues and decisions that impact directly on the performance and future of the hotel sector. Obviously, the issue with the greatest potential influence is the ongoing process of 'Brexit'. Brexit has affected the hotel and tourist sector in a number of ways. For example, its impact on the value of Sterling has made it more expensive to visit Ireland from the UK. Related, Brexit has dramatically increased uncertainly in the UK and people have been dissuaded to holiday in Ireland, or anywhere, to retain savings for the post-Brexit environment. The full extent of the implications of Brexit are still unknown, but without doubt, they are a potential significant problem facing the hotel sector, although according to Fáilte Ireland it is more of a concern for restaurants and in the northern counties.

From the narrower perspective of the influence of the Irish Government on the hotel sector, there are two relevant issues. In Budget 2019, the Government re-introduced a VAT rate of 13.5% for the tourism and hospitality sectors, despite intensive lobbying by the sector, increasing it from 9%. The sector's reaction to the VAT increase was disappointment and even some despondency, especially by those in the sector operating in more rural locations and smaller towns. The consequences of the VAT increase for the sector have yet to become fully apparent. On the other hand, the Government operate Fáilte Ireland, whose role is to support the tourism industry. Fáilte Ireland provides business supports to help tourism businesses better manage and market their services as well as promoting Ireland abroad, for example with marketing strategies such as the Wild Atlantic Way and Ireland's Ancient East. This government funded organisation provides significant direct and indirect support to the hotel sector.

2. Economic Factors

The performance of the Irish hotel sector has been extremely positive for the past few years. For example, the latest Crowe Consulting report shows that even outside of Dublin, which is performing incredibly, profit per room rose by almost 20% to €12,064 per room, while the same measure rose by 17% on the western seaboard and by 14% in the midlands and east, excluding Dublin. A key driver of the hotel sector is general economic conditions and growth. As average disposable income increases, due to pay increases and finding or changing employment, people spend more on travel and tourism. According to the CSO, estimates for the third quarter of 2018 indicate an increase of 4.9% in GDP, while employment was up 2.3% to 2,281,300 by December 2018. This is the largest number ever employed in the history of the State. A drawback for the hotel sector of these economic trends is the push they provide for wage and other cost increases in the sector. As the demand for workers increases and the available pool reduces, even unskilled or semi-skilled workers can command higher wages. Overall however, general economic trends and sentiment remains positive for the sector.

3. Social and Cultural

The hotel sector is people focussed and there are several social and cultural influences on the sector. The Irish diaspora are a key target market for Irish tourism and hotels. In particular, the families of Irish emigrants who left Ireland in the 1950s-1980s represent an important proportion of foreign leisure visitors to Ireland. These come from the USA and the UK in particular. While the numbers coming to Ireland from the UK are down, presumably as a result of Brexit, Fáilte Ireland has recorded increased numbers of tourists from the USA.

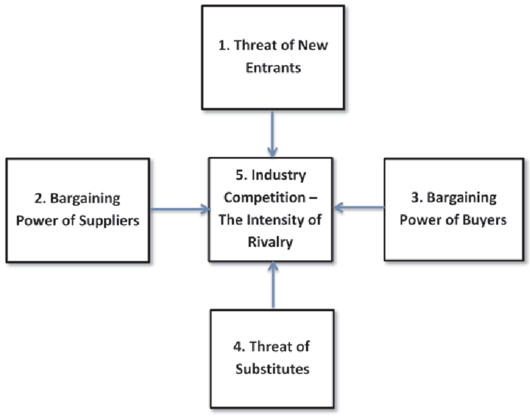
There are significant numbers of Irish tourists who holiday on a 'staycation'. The volume of these depends on a number of factors, but in particular, the performance of the economy and the level of local attractions in a location. The expectations of Irish tourists has risen considerably over the years as they holidayed abroad and learned the standard of service and accommodation that is available there.

The hotel sector needs to be aware of the demographic and cultural changes among its workforce as well. The sector is increasingly staffed by people who were not born in Ireland who potentially do not speak English as a first language. There are two important implications of this trend. Firstly, there are the managerial challenges that arise from having a multicultural workforce, and secondly the loss of the perception of 'the Irish welcome', an important selling point for tourism in Ireland.

4. Technology

In the past, hotels were a relatively simple business, but the role of technology in the hotel business has expanded significantly. Today, most hotel activity relies directly or indirectly on technology, making it more important to hotel operations than ever before. Hotels need to be aware of and respond to several technology trends. For example, hotels need to invest in in-room technology such as Smart TVs and Wi-Fi. More importantly, technology allows hotels to automate and speed up operations: websites to book a room, chatbots to provide basic customer support, check in kiosks to speed up guest check-ins and outs. Technology also enables hotels to reduce costs. For example, smart thermostats, motion sensor lighting systems and energy efficient kitchen appliances all help to cut the cost of energy consumption. Hotels need to invest in new technology, especially technology that enhances the guest experience, otherwise they will fall behind competitors. Evolving technologies that Irish hotels will likely need to embrace include the mobile door key, guest self service using hotel app and social listening tools which allow hotels to find out about guests' wants, complaints and feedback through social media.

Competitive Environment (Porter's Five Forces Model)



Porter's Five Forces Model provides an insight into the nature and dynamics of competition in the hotel sector in Ireland.

1. **The Intensity of Rivalry**

The hotel sector has fully recovered from the economic crisis, when it came under significant pressure. The market is now growing, and approximately 10m tourists are expected to visit Ireland in 2019. The nature of rivalry in the hotel industry in inevitably local: only hotels in the same location are actual competitors, thus limiting the competitor pool. There are a number of ways to differentiate an hotel offering: location, for example near the town centre; the size and décor of rooms, the level of service; or amenities available, for example, gyms and spas. While these factors tend to suggest reduced levels of rivalry, there are also a number of factors that will tend to increase rivalry at the local level. Firstly, the hotel sector is a high fixed cost industry where capacity utilisation is critical to profitability. An empty room creates no revenue and so high occupancy rates are critical. In addition, there are no real switching costs in the sector and a guest can easily return to the same location but stay at a different hotel. Overall the level of rivalry is low to medium.

2. **The Threat of New Entry**

The capital requirements, and the time necessary in build a hotel, make it relatively difficult to enter the hotel industry. That said, the hotel industry is quite cyclical and when it is performing well, as it currently is, it becomes an attractive sector to enter. However, those businesses that wish to enter the sector will frequently enter it through the acquisition of existing hotel properties rather than developing their own. Thus it takes time for the capacity of the sector to increase. For example, a report by Fáilte Ireland states that after several years of stagnation, 5,435 new bedrooms will come on stream between 2018 and 2020 in Dublin. However, the sector in Dublin is an outlier compared to the rest of the country where capacity expansion is much lower. Overall, most locations have a relatively low risk of significant new entry.

3. **The Bargaining Power of Buyers**

It is difficult for hotels to create and maintain a level of loyalty. The vast majority of guests interact with an hotel on a transactional basis, and the amount of repeat business is limited. In addition, as identified above, there are little or no switching costs for guests, and a potential guest may easily choose among the different hotels depending on which suits their needs on that occasion. (Although larger hotel chains can create an effective loyalty programme.) The power of the buyer is also enhanced through the availability of the Internet and metasearch engines such as Trivago. These allow potential guests to review hotels and search hotel rates quickly and easily, and this transparency enables them to better identify the offers available. In response, hotels try to differentiate their offering, outside of price, as much as possible. However, the extent to which differentiation is effective will depend on the profile of any particular guest. Overall therefore, although individual guests cannot negotiate an individual deal, in general guests must be happy with a hotel's offering and service or they will not return and have the means to disseminate their dissatisfaction.

4. **The Threat of Substitutes**

The threat from substitutes in the hotel sector is significant. Most hotels provide a range of services in addition to accommodation, and there are alternatives to each of them, including the accommodation service itself. While hotels generally provide food, bars and even sometimes gyms and spas, all of these services are available locally outside of the hotel. For example, in the vast majority of locations, pubs and restaurants are in close proximity to hotels, and guests who are dissatisfied with the hotel offering can easily visit the other alternatives. Critically, the core service of hotels, accommodation, also has a range of credible and popular alternatives. These include self-catering houses and apartments and Airbnb, while in the economy hotel sector, alternatives include B&Bs and hostels.

5. The Bargaining Power of Suppliers

Suppliers do not have a significant influence in the hotel sector, although only larger hotel chains have any significant power to shape their terms with suppliers. For example, there are a limited number of suppliers of some of the key inputs to the hotel sector such as drinks distributors or energy providers. These firms also tend to be much larger than most hotel businesses. In terms of drinks for example, the hotel must have the recognised and popular brands, and the suppliers know this. That said, these large suppliers are only going to require that the hotel accept their standard pricing and terms and are not likely to require less favourable conditions. A supplier that may have an inferior position to an hotel, especially a chain of hotels, is laundry services. Hotels purchase a significant amount of this service and many hotels even do this work in-house. This enhances hotels' relative position in terms of this supplier group although overall it can be argued that suppliers have, at most, a medium impact on the sector.

In general, the underlying determinants of intensity of competition in the hotel sector are at most medium. The two most influential forces are likely to be buyers and substitutes while the level of rivalry is reduced through differentiation. Neither suppliers nor the potential for new entrants play a critical role, at least over the short to medium term. Therefore success and performance of hotels is probably more influenced by macro factors such as the economic environment, than by issues in the sector itself.

Resources and Competences of Local Inn (Ireland) Ltd.

Resources may be assessed from a number of perspectives

1. Physical resources, human resources, financial resources, intangible resources
2. Strategic capabilities: threshold and unique resources and competencies

1. Physical Resources

LIIL operate 23 hotels around Ireland, each with 60 bedrooms. LIIL effectively run a build and operate system where local investors provide the financing and own the hotel buildings in return for an annual rent, but where LIIL are responsible for every aspect of the buildings, including upkeep. While LIIL has kept up essential maintenance, the hotels require a full refurbishment at this point.

2. Human Resources

LIIL employs around 280 people in its hotels, with 17 people working in its head office. The majority of staff are hourly paid frontline staff, including house-keeping staff, receptionists, and administrators. All staff are expected to be flexible and adaptable. In common with competitors in the sector, staff turnover is high among frontline staff, especially house-keeping staff. Worryingly, turnover is also relatively high for hotel management staff, who do not perceive LIIL as a suitable long-term career choice, in particular due to the lack of progression opportunities in the firm. LIIL has a very experienced CEO, Ms. Travers.

3. Financial Resources

LIIL is performing well financially. In 2018 it made a profit of €2.3m, from revenues of €24.8m, although these are slightly lower than previous years. It is also generating significant free cash flow. In theory, a significant financial resource for LIIL should be its parent firm, Wildwood Hotel Group plc. In general, a benefit of having a large parent firm is the resources, including financial, that the parent firm may provide. Unfortunately, because Wildwood Hotel Group plc is itself performing poorly in the UK, it has in fact become a drain on LIIL. Effectively all of the surplus cash generated by LIIL is repatriated to Wildwood Hotel Group, which severely limits LIIL's opportunities for investment and expansion, and even refurbishment. A key financial liability for LIIL is the annual rents it must pay local investors. Before commenting further, these would need to be reviewed, although they would be a prime facie financial concern in the current climate.

4. Intangible Resources

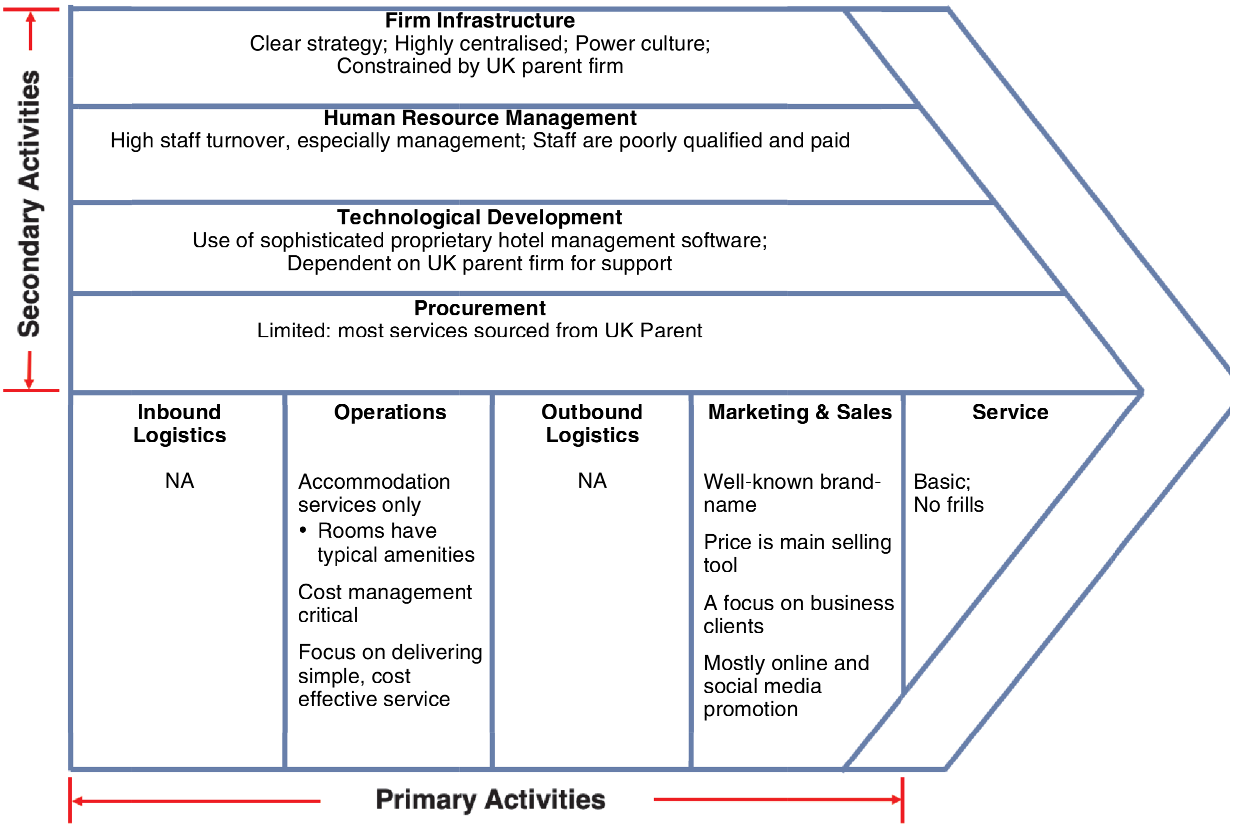
The LIIL 'Brand' is widely recognised. In a recent survey, 92% of Irish businesses and 84% of Irish people were aware of it. The hotel chain has been operating in Ireland for just over 20 years and has accumulated a lot of experience, particularly in its head office. LIIL Ireland is provided with considerable organisational and operational support from its UK parent firm. The last, but perhaps LIIL's most important intangible resource is its business model. The firm has used basically the same business model for the past 20 years in Ireland. LIIL fully understands the model and its implications and it works well for the firm.

5. Unique Resources and Competencies

The resource based view of the firm, popularised by theorists such as Prahalad and Hamel, and Jay Barney, proposes that firms should identify the resources and capabilities it possesses, particularly those that are superior to rivals, and base their competitive strategy around them. In that context, the relevant unique resources and competencies that LIIL may leverage include:

- Successful business model
- Effective cost management
- Very recognised brand
- Good reputation
- Multiple locations
- Experience of Ms. Travers
- Staff flexibility

Value Chain of Local Inn (Ireland) Ltd.



SWOT Analysis of Local Inn (Ireland) Ltd.

A useful analytical summary and decision-making tool is a SWOT Analysis. However, the analyses need to be based on research and evidence, not just the opinions of management.

	Strengths	**Weaknesses**
Internal	• Currently very profitable (Over 2m) - Although profitability has reduced over the past three years • Clear and effective competitive strategy • High occupancy rates • Well-known brand, including spill-over recognition from the UK • Long standing (over 20 years) reputation in the market • Resources and support from the UK parent firm • Excellent cost management • Staff are flexible and the organisation is agile • The experience of the CEO, Ms. Travers	• High level of staff turnover, especially hotel managers • Lack of career progression opportunities in the firm • Over-reliance on resources and support from the UK parent firm • The requirement to effectively repatriate all free cash flow to the parent firm • Provides a narrow range of service (eg, no breakfasts) • The deteriorating hotel assets and fixtures and the inability to invest in refurbishment

	Opportunities	**Threats**
External	• Broaden range of services, for example, to include food services and business meeting facilities • Open Inns in new locations around the country • Continued economic growth in Ireland leading to positive consumer sentiment • Increased levels of tourism, especially from mainland Europe • Divest (separate) from the UK parent firm - Providing more strategic independence to the Irish operations	• The increasing cost base - In particular, wages to staff and VAT rate changes • Performance and potential collapse of the UK parent firm • Brexit, leading to reduced numbers of business people and tourists in Ireland from the UK • Brexit may also complicate the legal relationship between LIIL and the UK parent firm • The demands of local investors for increased rental payments for the hotel premises • The competitive nature of the sector - More hotel chains opening in the economy hotel sector - The range of substitute service providers • The potential for customers to migrate towards more expensive hotels with better service

(b) Issues and Challenges facing Local Inn (Ireland) Ltd.

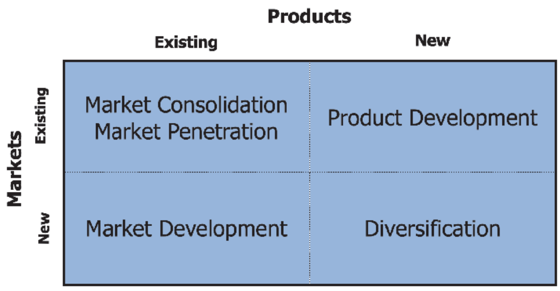
Market Target	Type of Advantage Sought: Lower Cost	Type of Advantage Sought: Differentiation
Broad Range of Buyers	Overall Low-Cost Leadership Strategy	Broad Differentiation Strategy
Narrow Buyer Segment or 'Niche'	Focused Low-Cost Strategy	Focused Differentiation Strategy

Porter's Generic Strategies

Porter's 'Generic Strategies' is a model that describes the different competitive approaches that firms may use to compete against their rivals. The model contrasts firms' strategies based on two characteristics. Firstly, the nature the firm's target market, and whether this is relatively broad or narrow. Secondly, the basis for the firm's competitive advantage and whether this is based on cost or differentiation. As the diagram above illustrates, this leads to the categorisation of essentially four competitive strategies.

LIIL seems to be using a low-cost strategy. LIIL operates in the economy sector of the hotel industry. It has a chain of 23 hotels located around Ireland all providing the same basic accommodation service, effectively a room only, with no restaurants, bars, etc. LIIL's target market are value conscious business customers and tourists who want a safe, clean, place to stay, typically for a few days at most. LIIL charges an average price much lower than non-economy hotels for this: usually only around €65 per room per night. It does this however while providing a level of service and accommodation acceptable to guests.

The low cost competitive strategy seems to be working effectively for LIIL. It is successfully operating 23 hotels around Ireland and in 2018 made profits of €2.3m, from revenues of €24.8m. Albeit, these results are down from 2016, when profits were €2.8m, from revenues of €25.7m. LIIL has successfully positioned itself in a market segment where there are fewer competitors, the economy hotel accommodation. The firm does not have to compete directly against much larger hotel chains which have greater resources and which generate higher margins. In fact, LIIL is as likely to face competitive pressure from non-hotels, such as bed and breakfasts and hostels, as it is from rival hotels. Although LIIL has not increased its number of hotels in Ireland, this is likely to be more a consequence of the economic crisis and its aftermath than a problem intrinsic to LIIL, and the firm now has the opportunity to develop more hotels in Ireland using its economy business model.



Ansoff's Matrix

Ansoff's matrix describes the different directions a firm may strategically grow. The model combines existing and new products and existing and new markets to arrive at four possible product-market growth options. Depending on the firm's objectives, resources and competences, each of these alternatives, or a combination of them, represent possible growth directions for the firm.

One of the main objectives of any business is that it at least maintains its market share over time, or market consolidation using Ansoff's terminology. While there no figures available in relation to the overall market, LIIL average occupancy has fallen from 83% to 81% since 2016. This rate is still higher than the national average for hotels, but it is trending in the wrong direction. Similarly, LIIL's average rate per room has fallen from €48.16 to €46.33 over the same period. This indicates that LIIL is having to charge slightly lower rates on average to attract guests into the hotels. LIIL need to reverse these two trends, for example, by refurbishing the hotels or investing in an advertising campaign.

LIIL also have the potential to develop new geographic markets in towns around Ireland that do not currently have a LIIL hotel, or a rival economy hotel. The development model that LIIL originally used, obtaining financing from local investors, and then renting the hotel from them once built, is again certainly viable. There are likely to be a number of interested Irish investors in this model. The benefit remains the same for LIIL: hotel development with low company capital investment. The problem with this option is whether LIIL's UK parent firm, Wildwood Hotel Group plc, have the funding or the interest to support any expansion.

LIIL is using a low cost competitive strategy. An important principle in such a cost focussed strategy is that complexity and variety create pressures on the cost base. Ms. Travers and LIIL should keep this in mind before considering the introduction of any new services to guests. That being said, there are two obvious service development opportunities for LIIL. Firstly, the development of breakfast and café facilities in each of its hotels, and secondly, and linked to the first, the development of business meeting facilities in the hotels.

In the context of the above analysis and the ongoing difficulties facing LIIL's parent firm, Wildwood Hotel Group plc, the following are the key issues facing the LIIL.

1. LIIL is the best performing unit of Wildwood Hotel Group plc. While there are obvious benefits to this, the performance and financial weakness of the parent firm is now undermining LIIL. If LIIL is to consolidate its performance, and especially if it is to develop further in the Irish market, it needs more strategic independence. Even more critically, LIIL will also need to retain most of its free cash flow to reinvest in its current portfolio of hotels rather than repatriating the cash to the UK.
2. LIIL is still performing relatively well financially and operationally. However its performance trends are all declining. LIIL need to consider how to reverse negative trends in cost base, occupancy rates and average rate per room.
3. The hotels in the LIIL chain are all in need of considerable refurbishment. Any building (or asset) that has a significant throughput of people will deteriorate over time and will need ongoing maintenance and updating. Over the past decade, LIIL has been unable to invest to the necessary level in maintenance and refurbishment.
4. There is a high level of staff turnover. This increases LIIL's cost base and reduces its efficiency as new staff must be trained and will take time to reach the necessary level of productivity. In particular, LIIL is suffering from high levels of turnover among the hotel managers, which in addition to the points above, also leads to a loss of inhouse experience.

(c) Recommendations for Local Inn (Ireland) Ltd.

The following are recommendations that Local Inn (Ireland) Ltd. may use to address its current concerns and to develop into the future.

1. LIIL should continue to employ a low-cost strategy, and to target the same niche: value conscious businesses and tourists. This competitive strategy has been successful to date and although performance has declined, the strategy is still delivering considerable profits.
2. Ms. Travers needs to discuss the future position of LIIL within the senior management of Wildwood Hotel Group Plc. At the moment, LIIL is in the unusual position of being a subsidiary partially financing its parent firm. The requirement to repatriate its surplus cash flow to the parent firm is limiting LIIL's strategic development. In fact, it is undermining its future competitiveness as it prevents LIIL from investing in its own hotels and their necessary refurbishment.
3. It is unlikely, but if senior management in Wildwood Hotel Group plc insist on continuing with draining LIIL's cash resources, Ms. Travers might consider the possibility of leading a management buyout of LIIL. LIIL is a successful business and a once-off cash injection might be attractive to senior management in Wildwood Hotel Group plc. As an alternative, a trade sale to an hotel group that can support LIIL's development might be agreed by the parent firm.
4. LIIL need to closely monitor and manage its cost base. The firm's margins have reduced over the past few years and so too has the average rate per room it has achieved. LIIL's business model is built on careful management of costs and Ms. Travers now needs to refocus on this. As a consequence of the Irish economy performing so well, there is an inevitable upward pressure on costs, but LIIL cannot allow these to get out of control. This problem has been exacerbated by the Budget 2019 decision to increase the VAT applicable to the hospitality sector. LIIL seems to have had to absorb this cost increase into its cost base rather than pass it on.
5. The LIIL chain of hotels has become somewhat run down over time. This is simply the natural consequence of wear and tear. It is likely that this is one of the reasons that its performance is declining and therefore LIIL need to find the funds to invest in its hotels. The source of this funding may depend on the outcome of Ms. Travers discussions with the senior management in the Wildwood Hotel Group. However, if the parent firm is not able to provide the funding, Ms. Travers needs to push for an agreement to obtain funding from another source; for example, a bank loan in Ireland.
6. Again, depending on the availability of funding, LIIL is in an excellent position to expand its geographic footprint in Ireland. It has a proven business model and a well-known brand, which would be an attractive investment opportunity for some local investors, assuming the parent firm would agree to the expansion.
7. Many of the above recommendations are contingent on, or at least influenced by, the final outcome of the Brexit process. The 'harder' the Brexit, the more likely that the Irish economy and trade and tourism from the UK, will be damaged. It is not clear what proportion of LIIL's guests are business client employees, or tourists, from the UK. Ms Travers and the LIIL management team need to prepare a contingency plan to maintain occupancy rates and guest numbers in the event of a negative Brexit outcome. For example, LIIL will need to increase the number of guests who are Irish or from mainland Europe.

Solution 1: Indicative Marking Scheme

			Marks
(a)	Application of PESTEL		
	• PESTEL implications should be related to the case scenario		
	• 6 elements x 2 marks; maximum of 10 marks		10
	Application of Five Forces Model		
	• Drivers identified by Porter must be used to reach a conclusion for each force		
	• 5 forces x 2 marks		10
	Analysis of Resources and Competences		
	• Explain main resources, should indicate relative importance to competitiveness	3	
	• Explain main competences, should indicate relative importance to competitiveness	3	
	• Use of Value Chain analysis	3	9
	Preparation of a SWOT Analysis		
	• Should relate and link strengths to weaknesses, opportunities and threats		
	• Issues in the SWOT should be prioritised, not just listed		5
			34
(b)	Assessment of issues and options		
	• Must be logical and clearly relate to previous analysis		
	• Should refer to relevant models (Bowman or Porter, Ansoff...)		
	• Issues and options should be prioritised, not just listed		8
(c)	Strategy / Proposals		
	• Must be logical and clearly relate to previous analysis		
	• Recommendation(s) should be prioritised, not just listed and justified		8
	Total Marks		50

SOLUTION 2

Introduction

The nature and impact of leadership is one of the most researched and discussed topics in business. However, the complexity of the process and the contexts in which it manifests make leadership impossible to really 'codify'. What is agreed however, is the importance of effective leadership, and particularly effective strategic leadership to organisational performance. There are numerous definitions of leadership, however in general, as defined by Richard Daft, 'leadership is the ability to influence people toward the attainment of organisational goals.'

Dr. Hennessey was previously the team leader of a university research group and she has now become the CEO of MedOrtic Ltd. (MDL). Both of these roles require an ability to lead, albeit in very different contexts. The role of team leader of a university research group involves leading a group of work colleagues, several of whom are likely to be as experienced and qualified as Dr. Hennessey, and it is likely that Dr. Hennessey has authority only within the narrow parameters of the research project. She is likely therefore to have to manage quite politically. On the other hand, as CEO of MDL, Dr. Hennessey enjoys considerably more authority, but she also has a number of additional responsibilities in shaping the performance of an entire firm.

Critical Comparison

Two leadership theories will be used to contrast the comparative leadership roles of Dr. Hennessey as the CEO of MDL and team leader on the university research team.

1. The [managerial] leadership grid
2. Path-goal theory

<u>1. The [Managerial] Leadership Grid</u>

The [Managerial] Leadership Grid was developed by Blake and Mouton (1964). It tries to identify the categories of behaviour of people in leadership situations, and according to the model, managers can emphasise a combination of two basic behaviours:

1. Concern for people (accommodating people's needs, supporting and praising people, etc).
2. Concern for production (defining group tasks, planning the work schedules, etc).

Dr. Hennessey obviously invested time and energy into both aspects of the team. The [Managerial] Leadership Grid identifies five categories of leadership style. For example, the 'task management' style is more concerned with outcomes than staff. The other leadership styles include: 'impoverished management', 'middle of the road management' and 'country club management'. The leadership style most appropriate in the context of the university research group would seem to have been 'team management'. The style is most effective when the leader believes that empowerment and respect are the key elements in creating a team atmosphere. This in turn will result in great team member satisfaction and productivity.

Dr. Hennessey was leading a research group of university colleagues who were themselves relatively highly qualified and motivated. While Dr. Hennessey would have spent time planning and assigning teammembers' tasks and reviewing progress, it is likely that she spent the majority of her time developing the cohesiveness and trust needed in the research environment. It helped also that there were only eight group members and Dr. Hennessey was able to manage everyone on a one to one basis, suiting her personality.

In the context of the senior management team in MDL, Dr. Hennessey in fact faces quite a similar team profile. There are six people reporting directly to Dr. Hennessey, and again this group of people are likely to be experienced, qualified and motivated, similar to the university research team. The small team size and their profile would suggest that at least in this aspect of managing MDL, Dr. Hennessey might replicate the leadership style and approach that seems to have worked so well in the university, the 'team management' approach. Dr. Hennessey needs to invest time into creating a cohesive and dynamic top management team culture in MDL. At the same time, she needs to plan and review the activities and performance of the top management team.

<u>2. Path-Goal Theory</u>

Path-Goal Theory was developed by House (1971). This theory is a contingency theory of leadership and therefore suggests that organisational circumstances affect the most effective form of leadership. Path-Goal Theory states that the effectiveness of a leader depends of the extent to which they address the expectations of subordinates. House described four styles of leadership. 'Supportive leadership' emphasises relationships and sensitivity to individual team members' needs. 'Directive leadership' emphasises clear goals and expectations, and works best when projects are unstructured. 'Achievement-oriented leadership' emphasises team members' abilities and the importance of setting challenging goals. Lastly, 'participative leadership' focuses on mutual participation of the team members.

Dr. Hennessey would have probably used a combination of supportive leadership and participative leadership when she managed the university research team. As mentioned, these are highly qualified and motivated colleagues. A supportive leadership style should create the atmosphere where each of the team members felt valued and this would likely have led to the cohesive team that evolved. At the same time, the team members would certainly have wanted, and enjoyed, the opportunity to contribute to the structure and planning of the team's research. Dr. Hennessey would need to have used a more participative leadership style to facilitate this response.

The similarity of the team profile between the university research group and the top management group would indicate that a supportive leadership style and a more participative leadership style would also reap the same benefits for the effectiveness of the top management team of MDL as they did for the university research group.

Overall, therefore Dr. Hennessey does not need to reinvent her leadership style when managing the top management team of MDL. In the context of the similarities between the teams, a combination of a team management leadership style, a supportive leadership style and a participative leadership is likely to provide the basis for a top management team that is cohesive and dynamic, similar to that of the university research group. That said, while are considerable similarities between Dr. Hennessey's roles there are two important differences. In particular, Dr. Hennessey has significantly more authority in her role as CEO of MDL than the level of authority she possessed as a university research group leader. This differential should allow Dr. Hennessey to utilise differing leadership styles as and when the situation demands it. For example, if necessary, Dr. Hennessey has the authority to be more directive in her role of CEO compared to her previous role.

The second important difference between Dr. Hennessey's roles is that as CEO of MDL, Dr. Hennessey has several other key responsibilities and is responsible for leading an entire organisation, not a small team. Therefore, while it is critical that Dr. Hennessey manages the top management team effectively, she also needs to invest time and energy into her wider role of leading the overall firm. The additional key activities that she needs to perform are outlined below.

Potential Strategic Leadership Activities

In addition to leading the top management team that reports to her directly, Dr. Hennessey is also the 'strategic leader' for the firm. According to Hoskisson et al, 'Strategic Leadership' (2004), there are a number of activities which Dr. Hennessey needs to spend time supporting MDL's development. These activities are necessarily interlinked.

1. Determining Strategic Direction

Dr. Hennessey and the top management team of MDL need to have a positive and motivating vision of the future of the firm. The firm produces products that are innovative and help people's quality of life. These observations should probably form the basis of MDL's vision. Dr. Hennessey already probably has an idea of where she wants to bring MDL, but she needs to articulate this so that everyone in the firm can understand where the firm is going. If it is to have any impact, the vision must to communicated and reinforced throughout the organisation and over time. For example, Dr. Hennessey should ensure that the vision is the focal point for the strategic, financial and operational objectives developed by the firm's management.

2. Exploiting Core Competencies

Dr. Hennessey and the top management team must ensure that the firm's core competences are invested in and developed over time to ensure they remain relevant. This is particularly the case in the 'high-tech' medical devices sector where MDL competes. A firm like MDL can quickly lose its competitive position in such a fast evolving sector unless it intentionally and deliberately manages its core competencies. Dr. Hennessey needs to continue investment in R&D, maintain research links with the university and push a results-oriented work climate in MDL.

3. Developing Human Capital

In a sense, people are perhaps the only truly sustainable source of competitive advantage in a firm. Building human capital requires investment in staff training and development. Dr. Hennessey and the top management team need provide the support and budget necessary for the HRM activities that will deliver this. This is not always easy as the payoff for staff training and development is not usually short term nor always obvious and measurable.

4. Building Organisational Culture

Organisational culture describes a firm's core values, traditions and work practices. If an organisation can build a strong, healthy culture it can be a powerful competitive tool and can facilitate strategy implementation. Dr. Hennessey needs to positively influence MDL's organisational culture. She can help shape it through the organisational values she emphasises, the behaviours she rewards and through communicating the type of culture she wants to evolve in the firm. Dr. Hennessey can also ensure that HRM selection and promotional criteria attract the type of employees who will be able to adapt to MDL's organisational culture.

5. Emphasising Ethical Practices
Dr. Hennessey, along with the top management team, need to try to build organisational processes and an organisational culture that promotes ethical behaviours. Any shortcomings in ethical practices in MDL will reflect badly on the firm and could damage its competitive position. This is particularly the case as MDL is in the medical devices sector, which is an ethically aware and sensitive industry. Dr. Hennessey needs to ensure a strong ethical ethos in the organisation, and build a compliance and enforcement process around ethical behaviour. For example, these might include a code of ethics, ethics training for staff, and encouraging staff to report possible ethical breaches.

6. Establishing Organisational Controls
Organisational controls are a key element of effective management processes and strategy implementation. Organisational controls allow senior management to determine when adjustments are needed and to intervene to align activities and behaviour with strategy. Dr. Hennessey and the top management team need to build a framework of performance metrics, that allow them to effectively evaluate firm performance on an ongoing basis. These metrics should include financial metrics but should also include strategic performance metrics that measure how MDL is performing from customer, business process and innovation points of view.

Conclusion:
Although Dr. Hennessey is described as 'reserved by nature', this has not stopped from leading a university research group and becoming the CEO of a successful firm. In leadership, there is no one approach or no one personality type that indicates success. Although the leadership contexts are very different, there are similarities in the types of people with whom Dr. Hennessey is working with. The members of the university research group and the top management team of MDL are all likely to have been qualified, experienced and motivated people. This has allowed Dr. Hennessey to lead both groups in similar ways. Although as CEO, she has considerably more authority. If Dr. Hennessey is to build on the initial success of MDL however, she needs to ensure that she, the rest of the top management team of the firm, invest considerable time and effort in effectively address the strategic leadership activities outlined above.

Solution 2: Indicative Marking Scheme

		Marks
Outline the importance of effective strategic leadership		
• Relate explanation to context of MedArtic Ltd.		3
Critically contrast Dr. Hennessey's two leadership roles. Possible leadership theories:		
• [Managerial] Leadership Grid		
• Situational theory		
• Path goal theory…		
Set out the main elements of the leadership theory	3	
Discuss insight from theory relating it to Dr. Hennessey's roles of CEO and team leader	6	9
Discuss key strategic leadership activities:		
1. Determining Strategic Direction		
2. Exploiting Core Competencies		
3. Developing Human Capital		
4. Building Organisational Culture		
5. Emphasising Ethical Practices		
6. Establishing Organisational Controls		
5 activities x 2.5 marks; maximum 12 marks		12
Conclusion		1
Total Marks		**25**

SOLUTION 3

To: Mr. Murphy, Mr. Ryan and Mr. Kelly
MRK Forklift Ltd
Limerick
Ireland

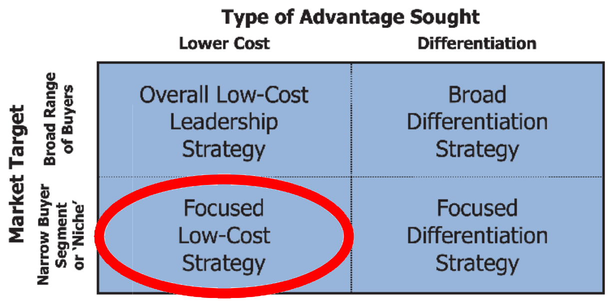
From: A Student
CPA Consultants
Dublin
Ireland

Date 29 April 2019

Introduction
The most important strategic choice that a firm must make is how it will compete in the marketplace. In effect, all other operational decisions are derived from this initial choice; as is the likelihood of the firm being successful. The objective of competitive strategy is to create a competitive advantage for the firm, that is, a distinct and different proposition that gives the firm some advantage over its competitors. There are numerous opportunities for firms to build a competitive advantage, including the firm's product features, cost structure, customer service, and so on. There are two popular models to generically describe the nature of competitive strategy: Porter's 'Generic Strategies' and Bowman's 'Strategy Clock'. This report will use Porter's 'Generic Strategies' as an analytical framework.

MRK Forklift Ltd. (MRKF) is in the process of being established and will be based in Limerick. The firm's co-founders are retired engineers with many years of experience. They have discussed a number of business opportunities and have decided to focus on forklifts. They have completed market research and believe that there is a market for 'safe, reliable, inexpensive' forklifts. They have set up MRKF to seek to exploit this potential market. They have developed a tentative competitive strategy for the business. This report will critically evaluate the proposed competitive strategy and then make recommendations to MRKF on how to create a sustainable competitive advantage.

Observations on MRK Forklift Ltd.'s Competitive Strategy
Using the terminology of Porter's 'Generic Strategies', a firm may employ one of four competitive strategies. As illustrated in the diagram below, a firm's competitive advantage can be based on cost or differentiation, while the market can be described as either broad or narrow. Based on the main elements of its competitive strategy. It is clear MRKF will attempt to compete using a focused, low cost strategy. This is similar to Point 1 on Bowman's Strategy Clock, or a 'no frills strategy'.



As an initial observation, this choice of competitive strategy seems reasonable in the context of MRKF. A firm employing a focused, low cost strategy will pursue a specific market niche. The market niche will be one sensitive to costs and pricing and where the firm's specialised ability to service this narrow market but at a low cost will potentially give the firm an advantage. Initially at least, MRKF will compete in the market for 'safe, reliable, inexpensive' forklifts in Ireland. If MRKF is to have any chance of success it needs to ensure that while inexpensive, the forklifts meet customers' expectations as well as regulatory standards. MRKF's plan is to become the supplier of choice for price-conscious customers for forklifts. Further observations on MRK Forklift Ltd.'s proposed competitive strategy include:

<u>1. Minimum expectations</u>
MRKF's forklifts need to at least meet all legal and regulatory requirements. Otherwise, firms will not acquire them, irrespective of their price. It is important that MRKF does not allow the market to perceive its forklifts as 'cheap'. There is a significant perceptual difference between a product perceived as cheap and a product perceived as economical. MRKF needs to reinforce through their marketing that its forklifts meet all safety, environmental and other regulations, and that despite its lower price it will 'get the job done'.

<u>2. Product range</u>
In general, if a firm offers a wider product range and a greater number of options, it creates an increased cost base. As a rule, increasing product, or organisational complexity, increases costs. MRKF's initial competitive strategy suggests

producing four to six types of forklift. It is unclear whether MRKF's target market of smaller firms need this number of options in the first place. However, to manufacture this range, at least initially, will inevitably increase MRKF's cost base and reduce its competitiveness. Therefore, MRKF should produce only one, or at most two, designs of forklift, at least for the first several years.

3. Sales Channels
In general, a producer will incur higher costs to develop and maintain a channel when it contains a higher number of intermediaries. MRKF have decided to sell direct to the customer and this should reduce its sales and distribution costs. However, MRKF also needs to create market visibility. The firm needs to develop a marketing strategy that will be effective in the absence of a network of showrooms, etc, for its forklifts. The firm will need a salesperson to actually visit prospective customers, once the sales prospect has been identified. A website with a section requesting a sales visit and a sales line are the minimum requirement for a sales infrastructure. In addition, social media, product brochures and visits to tradeshows would be important.

4. Pricing
When a firm decides to use a focused low-cost competitive strategy, it is effectively deciding that price will be its main competitive weapon. In doing this, and as referred to earlier, the firm needs to ensure that the product meets minimum legal and industry standards, as well as customer expectations. MRKF's customers will be businesses and professional buyers; in other words, informed customers. Price is an important signal of quality, and while businesses are price sensitive, they may still confuse a low price with an inferior product. MRKF is anticipating selling at a 10% to 20% discount to the market. The firm should review this level of proposed discount as it will undermine its market position if it sells at a price that customers perceive is suspiciously low. That said, while such a price differential is ambitious, but may be necessary to motivate sales, at least initially.

5. Outsourcing Support Services
Forklifts, requires the availability of post-sale maintenance and repair services. A firm is not going to buy a forklift from MRKF if the firm cannot reassure the potential customer that MRKF can provide an effective repair services and parts, if anything goes wrong. Similarly, it is equally important to a potential customer for MRKF to be able to provide ongoing maintenance services. It makes sense for MRKF to outsource these services, initially at least. It would take MRKF time and considerable capital to develop a network of maintenance and repair garages. It currently makes more sense for MRKF to work with an existing service provider.

Creating a Sustainable Competitive Advantage
A firm can create a sustainable competitive advantage when it possesses assets or capabilities that are superior to those of competitors and are difficult to duplicate or exceed. This is difficult to achieve and in general the level of competitive advantage enjoyed by a firm will change over time. If a firm wants to sustain its advantage, it will need to be innovative and flexible. In the context of MRKF, it is even less probable that it can achieve a fully 'sustainable' competitive advantage as it does not have significant resources to invest.

Bearing this in mind, and building on the observations above, there are a number of decisions that MRKF can take that, should improve its long-term competitive position.

1. Price Sensitive Market Segments
MRKF has decided to use a focused low-cost competitive strategy. It needs therefore to identify its target markets and potential customers very carefully. MRKF need to recognise that there are some market segments that will not become potential customers. The firm needs to focus on price sensitive market segments, where the key selling point is price. The more time and concentration that MRKF invests in this sector the better it will understand it and be able to respond to changes in it. It will also allow MRKF to become associated with the segment and hopefully become the vendor of choice: not just because of its pricing strategy but also because of its knowledge of the sector and its requirements.

2. Simplicity Reduces Costs
There is an adage that 'complexity causes cost'. MRKF should bear that in mind as it matures and as it puts systems and processes into place. In particular as it intends to compete on cost and price, MRKF needs to keep organisational systems and processes as straightforward as possible. MRKF should avoid any unnecessary bureaucracy and minimise the numbers of non-operational staff. Simplicity and flexibility will allow MRKF to respond to the market more quickly and at lower costs.

3. Accept Relatively Low Margins
As discussed above, MRKF plan to price its range of forklifts at a substantial discount compared to other competitors. In order to sustain this, the firm needs to manage costs to achieve a low overall cost base. In addition, it will likely need to accept relatively low profit margins. The combination of a low overall cost base and a relatively low profit margin may be sufficient for MRKF to maintain pricing at a significant discount and sustain a long-term price advantage. In fact, if MRKF can reduce its cost base over time, it may be able to maintain its strategy while also increasing its profit margin.

Conclusion:
The most important strategic choice that a firm must make is how it will compete and position itself in the marketplace. The objective of competitive strategy is to create a competitive advantage, something that distinguishes the firm from rivals, and makes its products more attractive. A useful model to describe the alternative competitive strategies available to a firm is Porter's 'Generic Strategies'. It uses a combination of the nature of the market and the basis for competing to identify four competitive strategies.

MRKF has decided to utilise a 'focused low-cost strategy' to achieve competitive advantage. The firm will market forklifts that are safe, reliable and inexpensive. It will sell direct to customers and outsource the related maintenance and repair services. The centre point of its competitive strategy will be pricing at a steep discount to current competitors. For MRKF's competitive strategy to succeed, it needs to maintain a focus on price-sensitive market segments and be ruthless and innovative in managing its cost base.

Solution 3: Indicative Marking Scheme

		Marks
Outline the nature and importance of competitive strategy		
• Especially in the context of MRK Forklift Ltd.		3
The critical evaluation of MRK Forklift Ltd.'s competitive strategy may include:		
• Critical to at least meet minimum expectations	3	
• Product range is too wide	3	
• May be difficult to obtain all materials and inputs from Asia.	3	
• Direct selling is suitable but MRK Forklift Ltd. needs to ensure effective marketing strategy and sales techniques	3	
• Price differential is ambitious, but may be necessary to motivate sales, at least initially	3	
• Using an outsourced maintenance service makes sense, if suitable providers can be found	3	
• Any other relevant issue	3	
5 points x 3 marks; maximum 15 marks		15
Recommendations to gain sustainable competitive advantage		
• Focus on price-sensitive segments	2	
• Keep organisational processes and systems as simple as possible	2	
• Minimise overall costs/overheads, not just manufacturing	2	
• Accept relatively low margins	2	
• Any other relevant issue	2	
Any 3 recommendations x 2 marks; maximum 6 marks		6
Conclusion		1
Total Marks		**25**

SOLUTION 4

To:	Dr. Jurgen Trueller United Bank plc Dublin Ireland	From:	A Student CPA Consultants Dublin Ireland

Date 29 April 2019

Introduction

Modern organisations need to constantly evolve. Technology, competition, globalisation are just some of the trends that drive industries and organisations to change. Paradoxically, in general organisations are relatively poor at effectively managing change. This difficulty is particularly the case for transformational change, where the organisation will evolve significantly.

United Bank plc (UB) is still recovering from the financial and economic crisis faced by Ireland from 2008 and 2009. It was rescued from collapse by the Irish Government and remains 30% owned by it. UB has a new majority stakeholder, Vulturius, which understandably wishes to maximise the return on its investment, and has appointed a new CEO, Dr. Jurgen Trueller. Dr. Trueller's initial research and judgment brings him to the conclusion that UB needs to completely transform how it operates. There are significant issues facing the bank, including poor staff morale, a weak organisational culture, overstaffing and poor IT systems.

This report will discuss the steps UB must take to transform the performance of the bank. The report uses a well-known change management model, 'Kotter's 8-Step Model' as a framework. The report will end by providing recommendations to UB on how it should gain the support of the Irish Government for the transformation strategy.

Transforming United Bank Plc

Kotter describes how successful transformation programmes seem to go through a recognisable pattern of stages. The stages have a clear order and cannot be either skipped or compressed. If an organisation moves on without effectively implementing a previous stage, the transformation process will almost inevitably fail.

The report below will critically evaluate the issues that arise at each stage of the transformation process, as framed by Kotter. If Dr. Trueller and UB can use these stages as a framework to structure and guide the bank's transformation process, then it is more likely to succeed. However, they need to be aware that organisations tend by their nature to resist change, and UB is unlikely to be different. The eight stages are:

<u>1. Create Urgency</u>

The first step in transforming an organisation such as UB is to persuade management, staff and other stakeholders that significant change is necessary for the long-term viability of the bank. Dr. Trueller needs to convince all stakeholders that the consequences of not changing are in fact worse than the consequences of changing. Kotter suggests that for change to be successful, 75% of a company's management needs to buy into the change. Organisations, especially large organisations such as UB, tend to have an inherent inertia, and Dr. Trueller will find it difficult to overcome this.

The objective of this first stage is to create the initial impetus and energy that will shift UB from its current lethargy. If UB is to transform itself, the whole firm, or at least the majority, must support the transformation process. Dr. Trueller will need to be persuasive, and use facts and figures, not opinions, to change colleagues' minds. He must create an open and honest dialogue in the bank, and ultimately bring staff with him on the transformation journey.

<u>2. Form a Powerful Guiding Coalition</u>

It is not possible for one person to individually transform an organisation, in particular one as large as UB. Dr. Trueller will need to build a team of colleagues from around the bank to steer and drive the planned transformation. This will not be easy. Dr. Trueller was reluctant to take the appointment as UB CEO and he will find it difficult to attract outside talent, at least in the shorter term. The guiding coalition will necessarily therefore be made up of UB insiders.

An effective guiding coalition will need to consist of influential people from all areas of the bank. The coalition members will need to work as a team and use their organisational status, expertise, and political importance to continue to build momentum around the need for change. Dr. Trueller will have to find UB insiders who are willing to invest their status and power in the transformation strategy. He will need to convince potential 'change agents' that UB needs to evolve and that they have a key role in driving that evolution.

3. Create a Vision

It is difficult for anyone to accept that what they are currently doing is not enough, or even wrong. If people are to commit to changing how they work, they need to believe that doing so will lead to a better future for the organisation – and for them. An attractive and memorable 'vision' for the future of an organisation is critical if people are to 'buy into' an organisational transformation.

Dr. Trueller, along with colleagues, needs to develop a vision for UB which creates an emotional resonance with UB staff. Again, this will not be an easy task. The majority of staff in UB presently seem uncommitted and unmotivated, and Dr. Trueller will find it difficult, but necessary, to build an image of a future UB where the current problems facing the bank have been resolved. A future where staff as well as clients and shareholders are 'better off'.

4. Communicate the Vision

It is not sufficient to create a vision of the future. If a vision is to have the desired impact, the CEO and the guiding coalition need to effectively and repeated articulate the vision: in various fora and though various media. If it is to persuade people to commit to the transformation strategy, the vision driving the transformation strategy needs be constantly at the centre of all organisational communication.

Dr. Trueller, along with colleagues, needs to develop a narrative that captures where he wants to lead the bank. The narrative needs to be positive and powerful. Dr. Trueller and the members of the guiding coalition need to discuss the vision with UB staff at every opportunity; not just a big once-off announcement. Dr. Trueller and the members of the guiding coalition need to lead by example, and the appointment of Dr. Trueller itself may be a very powerful message: 'UB needs an outsider to lead it, because the future will be different'.

5. Remove Obstacles

Organisational transformations will never be completely smooth. There will always be obstacles that the organisation and the guiding coalition must overcome. In particular, while not everyone will fully commit to the transformation process, some staff will implicitly or actively work against it. Without exception, there will be resistance to such significant changes to 'the way we do things'.

Dr. Trueller and the guiding coalition need to be able to identify the main obstacles that will challenge the successful implementation of UB's transformation process. It is clear that staff and the extant organisational culture are likely to resent and resist his proposals. This will especially be the case if the rationale for transformation has not been persuasive. UB's bureaucratic management structure and poor IT systems will also make it more difficult to effectively implement transformation. Lastly, a key stakeholder in the transformation process is the Irish Government. See later in the report on how to address its concerns. Once Dr. Trueller identifies these obstacles, they need to be removed, or at least side-lined, as soon as possible.

6. Create Short-Term Wins

The transformation of an organisation such as UB will take several years. In large organisational transformations it may take a few years before visible progress in made. In general people do not have the patience, or inclination, to wait years to have their work situation improve. In addition, significant delays to the realisation of any improvement provide an opportunity for critics to undermine the process.

Dr. Trueller and the guiding coalition need to identify short-term targets that UB can achieve – and that has little chance of failure. These 'wins' can be used as evidence that the transformation process is working and UB is heading in the right direction. They can further motivate UB's staff, increasing their commitment to the transformation process. UB will need to visibly reward the staff involved in reaching these short-term targets: nothing succeeds like success!

7. Build on the Changes Made

If changes are to become embedded in the organisation, the planned short-term wins need to be systematically built on. There is a danger that once the bank begins to improve its performance, the senior management and guiding coalition become complacent. However, this early in the transformation process changes can easily unwind and the improvements made dissipate. Those who still resist the transformation process are likely to take the opportunity to try to persuade the organisation that it can relax the implementation, as it has already succeeded.

Once UB reaches this stage of the transformation process, it needs to redouble its efforts to ensure that the process remains on target. Instead of 'declaring victory', Dr. Trueller and the guiding coalition should use the credibility provided by the short-term wins to address UB's more difficult problems, such as its organisational culture or bureaucratic structures.

8. Anchor Changes in Corporate Culture

As Kotter states, change only becomes embedded when it becomes 'the way we do things around here'. The vision that started the transformation process and the consequent changes to organisational processes and behaviours needs to become institutionalised. If staff still relate to these processes and behaviours as 'new' there remains the danger that they will still erode over time.

Dr. Trueller will need to continue reinforcing the successes of UB's transformation process, even after it seems that the firm has turned around. Ultimately, he will need to ensure that over time new processes, policies and people are introduced to the firm, and that these are all mutually reinforced the transformation vision. In particular, as Kotter suggests, Dr. Trueller should ensure that the next generation of senior management in UB embodies the new vision and approach.

Recommendation:

As already mentioned in the report above, the Irish Government is a major shareholder in UB: it still owns 30% of the bank. The Irish Government originally stepped in to prevent the bank from collapsing, but the strategic objective for its investment in the bank is to maximise the amount of money it can obtain from the ultimate disposal of its remaining shareholding. However, as with most politically related situations, there are competing objectives. The Government is unlikely to invest more funding to aid the transformation of the bank, even if it is beneficial in the longer term. Similarly, and more problematically, several of the potential elements of UB's turnaround will be politically difficult for the Government, including likely branch closures and redundancies, albeit voluntary ones. As alluded to in the report, the Irish Government are therefore one of the likely obstacles to UB's transformation process.

From the point of view of UB's transformation process, the most straightforward outcome would be if the Government were to dispose of its share in the bank. If Dr. Trueller can persuade the Government do that, it would make the bank's transformation process easier to manage. This is because the shareholder(s) that replace the Government are not likely to have inherent competing objectives and will only seek to maximise their investment. There are two likely options for such a disposal: an institutional sale, to Vulturius, or a similar firm, or disposing of the shares through selling them back onto the Irish stock market.

If Dr. Trueller cannot persuade the Government to dispose of its share in UB, then he must at least get reassurances that it will not interfere in the transformation process, even under political pressure. Dr. Trueller can argue that UB's successful turnaround will increase the competitiveness of UB and of the Irish banking sector in general. Dr. Trueller can argue that this is a 'political win' for the Government, as the Government can argue that it didn't give into sectoral or local pressures and drove the turnaround in the Irish banking sector. Another argument that Dr. Trueller can use to persuade the Government will not interfere in the transformation process is that the process will lead to the recovery of the bank and thus to an increase in the value of the Government's investment: which it can then sell.

Conclusion:

Trends in areas such as technology, competition and globalisation are driving industries and therefore firms to change, sometimes radically. The business maxim is change is the only constant. Despite its importance and prevalence, firms do not generally manage transformation processes effectively. In the majority of cases, organisational performance improves, but not to the expected extent or the hoped for timeframe.

United Bank Plc (UB) has not been able to recover from the Irish financial and economic crisis. The crisis probably concealed but exacerbated other underlying issues in UB, for example its weak organisational culture and poor management processes. If Dr. Trueller and UB can follow the stages of transformation described by Kotter, and translate these into practicable actions, then the problems facing UB should decline and UB should be a successful and modern bank. But transformation will not be easy: Dr. Trueller and UB will need to remain fully committed and focussed if they are to succeed.

Solution 4: Indicative Marking Scheme

		Marks
Ouline the nature and importance of organisational transformation		
• Especially in the context of United Bank plc		2
Critically evaluate the steps necessary to transform UB		
Kotter's Eight Stage Model		
1. Create a sense of urgency		
2. Form a powerful coalition		
3. Create a vision		
4. Communicate the vision		
5. Remove obstacles		
6. Create short-term wins		
7. Build on the change		
8. Anchor the changes in corporate culture		
8 steps x 2 marks		16
[If a student uses another model, the same issues should be discussed.]		
Recommendations to gain the support of the Irish Government		
• Persuade the Irish Government to dispose of its interest, otherwise argue the transformation process would:	3	
==> Increase the competitiveness of UB: the bank might otherwise fail	2	
==> Improve the competitiveness of the Irish banking sector	2	
==> Maximise value of Irish Government investment for sale	2	
• Any other useful recommendation	2	
Recommendation 1 = 3 marks; Any 2 or 3 points from recommendations 2, 2 marks each; maximum 6 marks		6
Conclusion		1
Total Marks		**25**