

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 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.

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SECTION A - ANSWER QUESTION 1

1. Case Study

Woodsgale House is an old country house and estate that dates from the early 19th Century. In 2003, the estate was bought by a property developer and €45m was invested to turn it into a hotel and resort. In 2011, Woodsgale House Hotel Ltd. (WHH), along with the developer's other assets, was sold by the developer's banks. WHH was acquired by Bayern RE Investments GmbH, a German investment firm.

WHH is a five star rated hotel set on 90 hectares of land in Co. Wicklow. In addition to the beautiful gardens around the house, the estate includes woodlands, walks, and even a private beach. It is less than 40 minutes' drive from Dublin, fifteen minutes from a motorway, and ten minutes from the nearest train station.

The original country house has four accommodation suites, as well as the hotel's reception area, a café, a bar, a casual dining room and a fine dining room. The house also has a library and a large games room. The main accommodation is in a modern and architecturally striking building of glass and stone, connected to the main house by a glass passageway. This was finished in 2006 and includes 90 bedrooms over three floors.

The hotel was originally envisaged as a 'destination spa' which included a state-of-the-art sauna, steam room, outdoor Finnish sauna, and hydrotherapy pool. There are also twelve treatment rooms offering an array of spa treatments. The spa has been voted among the top five destination spas in Ireland and the UK for the past seven years and it is only open to guests staying in the hotel.

In a separate building, again connected by a glass passageway, the hotel runs a modern, well-equipped gym with a 30m swimming pool. The gym includes a sauna, jacuzzi and steam room. These facilities are open to hotel guests but there is also an annual gym membership available to non-guests. The hotel also boasts a championship-level golf course. The golf course is open to both hotel guests and members of the WHH Golf Club.

Bayern RE Investments GmbH has decided to dispose of WHH, and would like to conclude a deal within the next two years. In order to maximise the value from the disposal, it has brought in Mr. Geoffrey Oliver as the hotel's General Manager, to improve the hotel's operational and financial performance. Geoffrey has over thirty years' experience in the hotel sector and was the general manager of a well-known five star London hotel before he was appointed to WHH. Since he arrived on 1 June, Geoffrey has spent most of his time getting a deeper understanding of the hotel's day-to-day operations. He is keenly aware of his remit to improve the hotel's performance, but he also wants to make decisions based on evidence and data. As well as consulting with management and staff, Geoffrey has spoken at length with guests, golf club members and gym members. He has even contacted previous guests who put negative feedback on the WHH website or on other travel websites.

WHH is marketed as a luxury and exclusive destination. In its marketing, the hotel emphasises its ambience, facilities and service. The hotel has a policy of not allowing children under the age of eighteen to stay, while it has another policy prohibiting the use of mobile phones in public areas. The hotel is expensive, 'to reflect exclusivity'. For example, a typical package for a two nights stay for two people, including dinner in the fine dining room on one evening and a half day in the spa, would cost €995 during peak season. As another example, a single night for two people in one of the hotel suites costs €750 during peak season. This price includes breakfast, but nothing else. The average length of stay in the hotel is three nights, although there are many guests that stay for one night just to use the spa facilities. It is unusual for guests to stay more than five nights. Since 2015, occupancy rates have increased from 51% to 62% in 2018. However, occupancy rates remain below 40% during off-peak times of the year.

WHH invests significantly in marketing. There is an inhouse marketing department and the hotel also regularly retains advertising agencies for particular marketing campaigns. WHH uses both traditional media in Ireland (newspapers, magazines and radio) as well as social media and hotel metasearch websites. It has also built relationships with travel agents who organise holidays in Ireland for visitors from North America and Asia. However, as Table 1: Origin of Guests shows, the majority of guests come from either Ireland or the UK.

Table 1: Origin of Guests

Origin of Guests	Ireland 49%	UK 29%	Europe 15%	USA 6%	Asia and Other 1%
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WHH has never made a profit. However, revenues have improved year on year and losses are reducing, as shown in Table 2: Financial Performance. WHH does not have any debt, apart from an overdraft facility for working capital. Geoffrey also asked WHH's accountant to put together a report on the relative performance of the hotel's main services. The report, using reasonable allocations of overhead to activities, concluded that the spa and bar are profitable but that the fine dining restaurant, the golf course and the gym are losing money. The accommodation itself is only breaking even. The breakdown of WHH's revenues is shown in Table 3: Sources of Revenue. While the golf course and gym are losing money, Geoffrey is also aware that WHH's target markets expect these facilities to be available.

Table 2: Financial Performance

	2014	2015	2016	2017	2018
Revenue	€9.9m	€10.1m	€11.3m	€11.6m	€12.2m
Operating Losses	€2.3m	€2.9m	€2.1m	€1.5m	€0.6m

Table 3: Sources of Revenue

Proportion of Revenues	Accommodation 54%	Spa 23%	Bar and Food 13%	Golf 6%	Gym and Other 4%
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Geoffrey has closely reviewed staffing, especially staff levels and staff turnover. The level of staff turnover is higher than he would expect for a status hotel and, in particular, as staff are paid above sectoral averages and enjoy benefits including free meals and discounts on accommodation. For example, there are currently sixteen vacancies across the hotel, in a variety of roles. The current vacancies include a reservations manager, a housekeeping manager, two chefs, as well as waiting, bar, and housekeeping staff. Reviews of exit interviews and feedback from former staff on job websites suggest that staff feel underappreciated, with supervisors and managers described as rude, with suggestions of bullying behaviour. Geoffrey has not come across these issues in his time at the hotel so far, and the HR Manager is adamant that the hotel has the policies and processes to address such issues, if they arise.

WHH asks for feedback from all guests. Should they wish to provide comments, guests may use either a comment card (when checking out, they are always asked for this), or a dedicated section of the hotel's website. The majority of feedback provided by guests, either directly to WHH or on travel websites, is very positive. However, Geoffrey knows that it is the occasional poor comment that will attract the negative attention of possible future guests. For example, three poor comments submitted recently are of particular concern to Geoffrey:

1. Not value for money – no 'wow factor'.
2. Packages booked but not recorded correctly by the hotel. For example, spa treatments or dinner in the restaurant omitted from the reservation and consequently guests being left without access.
3. Staff not as cooperative and accommodating as one would expect for a five star hotel.

Geoffrey believes that WHH is doing a lot of things well. But there are certainly weaknesses and opportunities to improve. He has asked you, a management consultant with expertise in the hotel sector, to critically evaluate WHH's strategic position and to help him plan a way forward for the hotel.

REQUIREMENT:

Prepare a report for Woodsgale House Hotel Ltd. in which you:

- (a) Critically analyse the strategic position of WHH, drawing on your assessment of the key drivers of change prevailing in the environment and applying relevant theories and models;
- (b) Assess the key issues facing WHH and evaluate the business's options in dealing with such issues; and
- (c) Recommend a strategy to ensure the best way forward for WHH.

Note: The scenario presented above is not intended to be comprehensive. You will be expected to make whatever additional logical assumptions about WHH 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. Advanced Plastics Ltd. (APL) has five manufacturing facilities in Ireland. The company has decided to introduce a new inventory and production management software system across all sites. Until now, each site had its own inventory and production management software system. Ms. Aoife White is head of IT for APL, and is in charge of implementing the new system. She estimates that the implementation project will take two years.

The firm has decided to create a 'Project Implementation Team'. The team will be led by Ms. White, and will include two representatives from each manufacturing site. Ms. White expects that the team members will be either experienced production or IT engineers. However, each facility is free to choose their own project team members. There has been some resistance to the new system at site level. For example, one comment made was 'if it isn't broke, why change it'? Staff also fear that the new software system will centralise the firm and lead to more control from head office.

In addition to being on the project team, each member will continue in their existing role. Therefore, while the team will meet monthly, much of their project implementation work and interactions will be done virtually. APL has acquired virtual team communication and collaboration software to facilitate the team's work.

REQUIREMENT:

Prepare a report in which you:

- (a) Critically assess how Ms. White, as team leader, can facilitate the effective evolution of the Project Implementation Team to ensure it can implement the new software system on schedule. **Note:** *You should use Tuckman's group evolution model to frame your answer.* (15 Marks)
- (b) Advise Ms. White on how she may effectively manage any possible resistance to the new inventory and production management software system. (10 Marks)

(Total: 25 Marks)

3. Cosy Café Ltd. (CCL) is a chain of 45 cafes around Ireland, employing over 350 staff. The cafes open 8am-8pm to cater for people's busy lifestyles. They sell sandwiches, soups and salads, as well as the usual beverages and confectionery. Mr. Martin Crowe has recently been appointed CEO of the business and has worked in the sector for over twenty years, with a number of different firms. He would describe himself as serious, but 'good with people'.

The coffee shop sector is very competitive and CCL does not compare well to many of its rivals. For example, feedback from customers suggests that the quality of food and hot drinks is perceived as either average or below average. Customers also comment on the dated furnishings and fittings. However, what concerns Mr. Crowe most is the attitude of staff: many lack sufficient drive, and seem to be disinterested, or even bored sometimes. This has a significant impact on the customer experience. Mr. Crowe also realises that the tight labour market makes it difficult to remove large numbers of staff, although he does not think this would solve the problem in any case.

REQUIREMENT:

Prepare a report in which you:

- (a) Drawing on Path-Goal Theory, critically assess the most appropriate leadership style(s) that Mr. Crowe may use as the new CEO of Cosy Café Ltd. **Note:** *You may use an alternative leadership theory to frame your answer if you wish.* (15 Marks)
- (b) Advise Mr. Crowe on the steps he can take to improve the work culture in the firm. (10 Marks)

(Total: 25 Marks)

4. Swartz AG (SAG) is a German firm that has grown from a small engineering firm into a multinational corporation employing over 100,000 people around the world. It has been in business for over 100 years and currently has four divisions. The table below provides further information:

Further Information	Divisions			
	Motor Vehicle Engine Components	Power Generators / Transmission	Engineering Consultancy Services	Medical Devices
Business Started	1903	1927	1997	2011
% of SAG Revenue	37%	28%	14%	21%
% of SAG Operating Profits	13%	27%	24%	36%
Rank in its Industry (Based on Revenue)	7th	5th	4th	2nd
Industry Lifecycle Stage	Very Mature	Mature	Growing	Growing Rapidly

The senior management of SAG consider the motor vehicle engine components division and power generators/transmission division to have considerable strategic fit. They also believe that the engineering consultancy services division benefits from the reputation and brand built up by SAG. The medical devices division has become very successful, but senior management do not consider that it has core competencies that can readily fit with the other divisions.

The senior management of SAG have come under pressure from investors to review the firm's corporate strategy, and to potentially divest one or more of its divisions.

REQUIREMENT:

Prepare a report in which you:

- (a) Critically assess SAG's current diversification strategy. Recommend and justify if the firm should change its corporate strategy to concentrate on a reduced range of businesses. (15 Marks)
- (b) SAG's senior management have decided that it has two options if it were to decide to divest one or more divisions:
- (1) Sell the division to one of its current competitors.
 - (2) 'Spin-off' the division by making it independent of SAG and then distributing its shares to SAG's existing shareholders.

Recommend and justify to SAG's senior management which of these two divestment options SAG should use.

(10 Marks)

(Total: 25 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - AUGUST 2019

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

SOLUTION 1

To: Mr. Geoffery Oliver
Woodsgale House Hotel Ltd.
Co Wicklow
Ireland

From: CPA Consultants
Dublin
Ireland

26 August 2019

Re Strategic Review of Woodsgale House Hotel Ltd.

Dear Mr. Oliver

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Direction and Options open to Woodsgale House Hotel 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 Woodsgale House Hotel 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 Woodsgale House Hotel Ltd.

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Woodsgale House Hotel Ltd.:

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

The General Environment (PESTEL)

1. Political and Legal Factors

The hotel sector in Ireland is clearly not politically influenced nor sensitive. Along with many sectors of the economy, the hotel sector has to operate within current regulations, for example, in terms of employee management, health and safety, sale of alcohol, and so on. By far the most important political issue that faces the hotel sector in Ireland is 'Brexit'. Although Brexit is not targeted at the hotel sector, it may potentially have a significant and negative impact. Brexit has affected the hotel - and tourist sector - in a number of ways. For example, Brexit has led to a reduction in the value of Sterling over the past three years. This has made it more expensive for people from the UK to holiday in Ireland and has consequently reduced sectoral demand. In addition, the uncertainty created by Brexit in the UK has led to reduced expenditure as people feel they need to

have extra funds to deal with the possible negative outcome of the Brexit process. While these concerns affect the entire sector, Fáilte Ireland conclude that it is of more concern for hotels in the northern counties.

The Irish Government does have some direct influence and impact on the hotel sector. For example, the Government operate Fáilte Ireland, which provides significant direct and indirect support to the hotel sector. 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. In contrast to the positive impact of Fáilte Ireland, the Government re-introduced a VAT rate of 13.5% for the tourism and hospitality sectors in Budget 2019. This was despite intensive lobbying by the sector. The implications of the VAT increase for the sector have yet to become fully apparent, but it is more likely to create difficulties for hotels in rural and, less tourist intensive, areas of the country.

2. Economic Factors

According to the ESRI, the Irish economy looks set to perform strongly in 2019 and even 2020. It forecasts a GDP increase of 4.9% for 2019 and 3.1% for 2020. In addition, the ESRI has forecast that employment will reach an historical high of 2.34m in 2020. These forecasts are subject to negative change, in particular as a consequence of the impact of Brexit and to a lesser extent, the influence of ongoing 'trade wars'. For example, Crowe Consulting concluded that a no-deal Brexit could result in €52m worth of lost revenue to the Irish hotel sector in 2020 alone. The country's general economic conditions are an important driver of the hotel sector: as average disposable income increases, people spend more on travel and tourism, increasing sectoral demand. The Irish hotel sector has performed extremely well for the past few years, particularly in Dublin, but also outside of the main urban areas. The latest Crowe Consulting report shows that profit per room averaged €17,519 and even outside of Dublin, profit per room increased to €12,064. That said, Crowe Consulting did conclude that 2018 marked a decline in the growth rate increases that the sector had been enjoying for several years.

3. Social and Cultural

There are several ways in which the hotel sector in Ireland is influenced by socio-cultural factors. For example, the volume of tourism is impacted by demographic factors, and as the population of Ireland increases, due to both natural increase and immigration, the potential demand in the sector also increases. Related, there is an increasing demand for short-break holidays and staycations in Ireland, and the quality and nature of local attractions in a location will influence people's choices.

Ireland has had long history of emigration, and this has led to significant numbers of people in countries such as the UK and the USA, having an Irish heritage. These people, the 'Irish diaspora', are an important target market for Irish tourism and hotels. In particular, the descendants of Irish emigrants who left Ireland in the 1950s-1980s represent an important proportion of foreign leisure visitors to Ireland. It is important for the sector to provide an 'authentic' Irish experience for these guests, as this is a key marketing point.

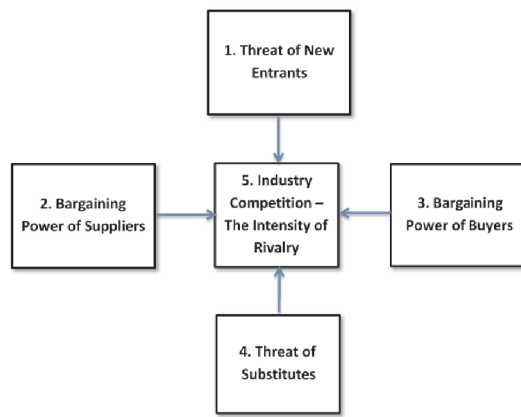
Related, hotel sector needs to respond to demographic and cultural changes among its workforce. As the Irish economy continues to grow and unemployment decline, the hotel sector increasingly employs staff who were not born in Ireland, many of whom do not speak English as a first language. This trend has two key consequences. Firstly, hotel management must be able to effectively manage a multicultural workforce, and secondly the loss of the perception of 'the Irish welcome', which as mentioned previously, is an important selling point for tourism in Ireland.

4. Technology

The role of technology in the hotel business has increased considerably in the past decade. In modern hotels, most activities are directly or indirectly impacted by technology, making it more important to hotel operations than ever before. If hotels are to remain attractive and competitive, they must invest in technology and deploy it effectively.

Even before a person even books a stay in an hotel, technology allows hotels to automate and speed up reservations, using websites to book a room and chatbots to provide basic customer interaction. The hotel rooms themselves must now have in-room technology such as Smart TVs and Wi-Fi to enhance the guest experience. Technology also enables hotels to manage and cut operating costs; for example, smart thermostats, motion sensor lighting systems and energy efficient kitchen appliances all help to cut the cost of energy consumption. Going forward, as technology continues to evolve, hotels will need to maintain investment in technology or risk falling behind competitors. These relatively new applications include mobile door keys, guest self-service using the hotel's 'app' and social media listening and analysis tools.

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 market growth rate for the hotel sector is relatively high. The sector has now fully recovered from the economic crisis, especially in Ireland's cities and larger towns. It is expected that approximately 10m tourists are expected to visit Ireland in 2019. While the market is growing, the impact of competition tends to be local; only hotels in the same location are actual competitors, thus limiting the competitor pool. As a result, in smaller towns and more isolated locations, competition may be exacerbated through local rivalry and lower demand. To mitigate rivalry, hotels try to differentiate in a number of ways, including location, the size and décor of rooms, and the level of service or amenities available. However, the hotel sector is a high fixed cost industry where capacity utilisation is critical to profitability. In addition, the sector seems to have no real switching costs. Overall, the level of rivalry tends to be lower, although in particular locations, the level of competition may be intense.

2. The Threat of New Entry

When a new entrant enters a market, it creates increased capacity and therefore intensifies competition in the marketplace. Incumbents therefore attempt to build barriers to entry to discourage additional competition. For example, due to the nature of the sector, capital requirements, and the time necessary to build a hotel, it is relatively difficult to enter the sector. However, when the sector is performing really well, as it is in 2019, it does attract new investment and therefore new capacity. This is particularly the case in cities. 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

The hotel sector is predominantly a business to consumer model. In general, individual customers - guests - do not have significant power and take the terms and conditions on offer. However, the overwhelming majority of guests interact with an hotel on a transactional basis, the amount of repeat business is limited, and it is difficult for hotels to create and maintain a level of loyalty. In addition, as already mentioned, there are no real switching costs for guests, and a potential guest may easily choose among the different hotels in a location, depending on which suits their needs on that occasion. Only larger hotel chains have the opportunity to create an effective loyalty programme. The popularity of the Internet and metasearch engines such as Booking.com have also increased the relative power of buyers. Potential guests have more information about hotels and may make more informed decisions before booking one hotel over another. For example, potential guests are able to read reviews of hotels and search hotel room rates quickly and easily, and this transparency enables them to better identify the offers available. Overall, guests must be happy with an hotel's service or they will not return and even more importantly they may potentially disseminate their dissatisfaction on the various metasearch platforms.

4. The Threat of Substitutes

Hotels provide a range of services to guests, in addition to the provision of the hotel room. However, the hotel sector faces a considerable range of potential substitute services. In fact, effectively every service provided by a hotel, even the bedroom, has a potential alternative available. For example, the various substitutes for accommodation include self-catering houses and apartments, Airbnb, B&Bs and hostels. In addition to the hotel room, hotels provide food, drink and frequently 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. Overall, the threat from credible substitutes in the hotel sector is significant.

5. The Bargaining Power of Suppliers

There are few key inputs into the hotel sector, and it is only labour and perhaps drinks distributors that theoretically possess meaningful influence. In terms of drinks firms for example, they tend to be much larger than most hotel businesses and they recognise that the hotel must sell the popular brands. 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. The supply of labour depends on the general state of the economy and the output of relevant hotel and catering training courses. In general, when the economy and the hotel sector is doing well, the demand for trained and experienced staff pushes up the wages and working conditions such staff command. With the exception of these groups, suppliers do not seem to have a significant influence in the hotel sector, while only larger hotel chains have any significant power to shape their terms with suppliers.

Conclusion

Overall, the underlying determinants of intensity of competition in the hotel sector are at most medium. The influence of buyers and substitutes is likely to be the greatest in the sector, while the influence of rivalry is ameliorated through differentiation tactics. Neither suppliers nor the potential for new entrants seem to play a critical role, at least over the short to medium term.

Resources and Competences of Woodsgale House Hotel 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

WHH is a five-star hotel and has all the amenities that are associated with that status. WHH's facilities include 90 bedrooms in a specially constructed building and the original country house has four accommodation suites, the hotel's reception area, a café, a bar, a casual dining room and a fine dining room. There is also a spa, a gym and a championship golf course. The hotel grounds include beautiful gardens, woodlands, walks, and a private beach. The hotel is less than 40 minutes' drive from Dublin.

2. Human Resources

As a consequence of its wide variety of services, WHH has to employ a wide range of staff with different skills. For example, WHH employs beauticians, greenkeepers and exercise and leisure instructors, in addition to the staff usually employed by an hotel: receptionists, housekeeping, bar and restaurant staff, etc. WHH staff are paid above sectoral average wages and enjoy good benefits including free meals. However, the level of staff turnover is relatively high and there are suggestions of poor people management, even bullying. Mr. Oliver, the new general manager is very experienced and widely respected. He was the general manager of a five-star London hotel until he was appointed to manage WHH.

3. Financial Resources

Since it was established, WHH has never made a profit, although losses have narrowed from €2.9m in 2015 to €0.6m in 2018. This is as a result of revenues increasing from €10.1m to €12.2m over the same period. An accounting exercise has concluded that the spa and bar are profitable, and that the accommodation is breaking even. However, the fine dining restaurant, the golf course and the gym are all losing money. As a consequence of Bayern RE Investments GmbH owning the hotel, WHH does not carry any long-term debt.

4. Intangible Resources

WHH is marketed as a luxury and exclusive destination and has developed a very good reputation over the past 10 years. In particular, its variety of services, and especially its destination spa, add considerably to its appeal. It is not 'just an hotel', and the spa has been voted among the top five destination spas in Ireland and the UK for the past seven years. Enhancing its exclusive image is the decision to make the hotel 'adults only', and thus ensuring that the hotel is viewed as a relaxing haven, away from work or family concerns.

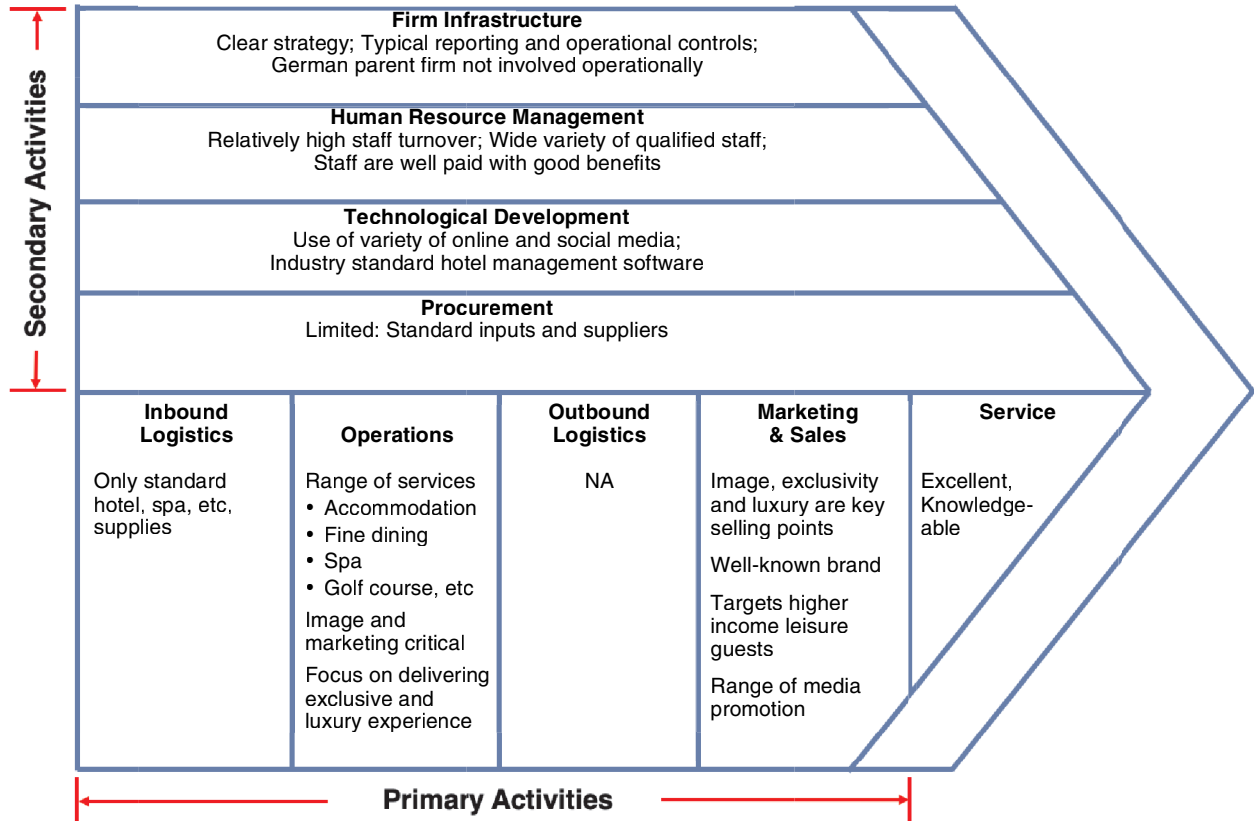
5. Unique resources and competencies

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 WHH may leverage include:

- Luxurious hotel image
- Reputation of the spa
- Variety of amenities

- Convenience to Dublin and transport network
- Experience of Mr. Oliver and staff in general
- Quality of accommodation, food, etc

Value Chain of Woodsgale House Hotel Ltd.



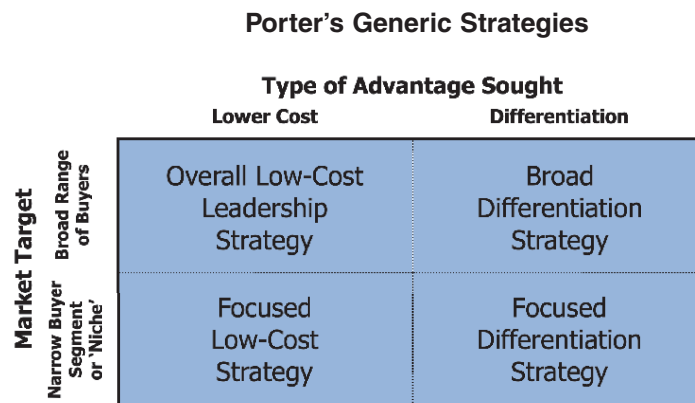
SWOT Analysis of Woodsgale House Hotel Ltd.

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

	Strengths	Weaknesses
Internal	<ul style="list-style-type: none"> • Clear and effective competitive strategy • In general, an excellent reputation <ul style="list-style-type: none"> - Luxurious hotel image • Well-known brand, even in the UK • Excellent facilities and amenities <ul style="list-style-type: none"> - Award winning destination spa • Convenient to Dublin and public transport • Potential financial support from Bayern RE Investments GmbH • Staff are well qualified and well trained • The expertise and experience of Mr. Oliver 	<ul style="list-style-type: none"> • Currently loss making <ul style="list-style-type: none"> - Lost 0.6m in 2018 - Losses have reduced over the past three years • Occupancy rates lower than industry average, especially during low season <ul style="list-style-type: none"> - Below 40% • Relatively high level of staff turnover • Possibility of poor supervision and even bullying • Cost base is high

External	Opportunities <ul style="list-style-type: none"> Increasing interest in 'wellness' breaks Continuing economic growth in Ireland leading to positive consumer sentiment Acquisition of WHH by an hotel chain with similar properties <ul style="list-style-type: none"> Facilitate cost and competence sharing Increase use of golf course and gym to non-guests Increase occupancy rates, especially during low season <ul style="list-style-type: none"> For example, by attracting more retired guests Attracting more European or US guests 	Threats <ul style="list-style-type: none"> Brexit, leading to reduced numbers of tourists in Ireland from the UK An economic slowdown <ul style="list-style-type: none"> WHH is clearly a luxury experience The competitive nature of the sector <ul style="list-style-type: none"> More hotels opening with similar amenities, especially close to Dublin The Irish economy continuing to grow rapidly and driving up input costs, especially wages, as a result

(b) **Issues and Challenges facing Woodsgale House Hotel Ltd.**



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.

WHH is currently using a 'classic' focused differentiation strategy. It competes in the luxury hotel market segment, providing high quality accommodation and food. Another key element of its differentiation strategy however, is the hotel's destination spa, which is likely to be the main attraction for a large proportion of guests. The hotel's large and attractive grounds and its adult only policy also distinguish it from other hotels. These differentiating factors are used to create the image of WHH as a luxury and exclusive destination. WHH's marketing is built around the hotel's ambience, facilities and service and its pricing strategy reflects this. WHH has made the decision to charge high prices for the services and amenities it provides.

The focused differentiation competitive strategy seems to be starting to work for WHH. Although the hotel has yet to make a profit, its revenues have been steadily increasing and its losses narrowing. In 2018, its losses were down to €0.6m based on revenues of €12.2m. It can take time for firms to establish themselves, especially if they are competing in the more expensive, luxury side of a market. It will take time for them to build brand awareness and importantly, credibility. This is likely the process that WHH has been going through over the past several years. A visit to WHH is to some extent an ostentatious purchase. The target market for WHH's services, especially its destination spa, will not pay the demanded high prices unless there is a 'cachet' associated with the hotel, and this takes time to evolve. WHH seems to be now reaching the point where its reputation and image can be more successfully monetarised.

Ansoff's Matrix

		Products	
		Existing	New
Markets	Existing	Market Consolidation Market Penetration	Product Development
	New	Market Development	Diversification

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.

WHH has improved its relative performance over the past several years, however occupancy rates are still only 62% in 2018 and only 40% during low season. The hotel has a considerable volume of spare accommodation capacity and needs to increase occupancy rates to increase its market penetration, especially in the low season. It may be able to improve this through better and more targeted marketing. Although pricing is an important signal of the status and exclusivity the hotel is seeking to communicate, some price promotions carefully timed for the low season may attract more guests. This may in particular be the case for the 'grey market', where, for example, the hotel might offer free spa treatments or an extra night's stay, while maintaining the headline price. Related, the fine dining restaurant, the golf course and the gym are losing money. These are all hotel amenities that may be used by non-guests and WHH should also look at promoting these services to people in the catchment area.

The vast majority of WHH's guests come from Ireland or the UK; only 15% come from Europe and 6% from North America. WHH need to review its marketing strategy for outside of Ireland and the UK. This is particularly important now in the context of the consequences of Brexit. WHH does make use of some specialist travel agents, however this does not seem to be all that effective, at least up until now. It is very unlikely that tourists will come from outside of Ireland or the UK just to visit WHH. Therefore, the hotel needs to find a way to influence non-UK foreign guests to make a stay in WHH part of their overall visit to Ireland. WHH might make some use of the services of Fáilte Ireland to support this strategy.

WHH already provides a comprehensive and very attractive package of services: accommodation, food, spa, golf, gym, as well as the hotel's grounds. There is little reason to consider any new services at this stage, and the WHH's management should concentrate on improving the performance and profitability of what the hotel is currently providing. Similarly, WHH is not in a position to diversify its business.

In the context of the above analysis and the decision by Bayern RE Investments GmbH to dispose of the hotel, the following are the key issues facing the WHH.

1. Although the financial performance of WHH has improved steadily, the hotel has never made a profit. The support of Bayern RE Investments GmbH has enabled it to remain debt free. However, it will have to start making a profit in the next few years as a loss making business cannot stay in operation in the long term. In addition, Bayern RE Investments GmbH will be able to attract a higher price for the hotel if it is profitable.
2. Related to the above, the fine dining restaurant, the golf course and the gym are all losing money. These hotel amenities are easily made accessible to non-guests and WHH needs to review how it manages these services to drive their improved performance. For example, the hotel might invest more to promote these services to people in the catchment area.
3. The hotel suffers from relatively low occupancy rates, particularly in the low season. Hotels in general, and especially hotels such as WHH with its investment in physical amenities, need to manage capacity, or occupancy rates, carefully.
4. There is a relatively high level of staff turnover right across the hotel. As Mr. Oliver has remarked, this is unusual in the context of the status of the hotel and the wages and benefits available to staff. It is worrying that there are suggestions of poor supervision and even bullying. In addition to being ethically and legally wrong, bullying accusations may leave WHH open to claims for compensation.

(c) Recommendations for Woodsgale House Hotel Ltd.

The following are recommendations that Woodsgale House Hotel Ltd. may use to address its current concerns and to develop into the future.

1. WHH should continue to employ a focussed differentiation strategy. Although the hotel has yet to make a profit, the focussed differentiation strategy is really the only realistic option open to it. WHH has been slowly building market recognition, revenue and 'cachet' and the current strategy should begin to deliver profits in the short to medium term.
2. Related, WHH should review the operation of its fine dining restaurant, its golf course and its gym. These services are all losing money, and while they are part of the expected amenities at a five star hotel and resort, hotel management cannot allow them to continue to lose money without assessing how their performance could be improved. For example, it may be possible to make these services more attractive to non-hotel guests and to people who live in the locality.
3. Again relatedly, WHH has below average occupancy rates. It needs to address the low occupancy rates, particularly the occupancy rates in low season. WHH should consider targeted marketing of retired people and using carefully constructed price promotions to attract more guests when the hotel is traditionally not busy.
4. WHH is very reliant on the Irish and UK markets. This is problematic especially in the context of the likely impact of Brexit. The hotel needs to market itself more effectively to target markets in Europe, as well as North America and Asia. The objective would be to have people stay at the hotel as part of their overall visit to Ireland.
5. There is a relatively high level of staff turnover in the hotel. WHH should investigate the reasons for the high level of staff turnover. Anecdotally, there are concerns about poor supervision and even bullying. WHH needs to determine the extent to which these rumours are true and immediately seek to rectify and eliminate any improper behaviour. WHH already provides good wages and benefits, so WHH needs some other measures to reduce excessive staff turnover.
6. WHH senior management may find it useful to try to identify a suitable acquiring firm that shares the same strategy and ethos as WHH. If they can do this, they may be able to persuade Bayern RE Investments GmbH to sell. This would give WHH senior management more influence in the acquisition process and perhaps better secure the future of WHH.
7. WHH needs to review and manage its cost base. While it has managed to reduce costs from €13.4m in 2016 to €12.8m in 2018, the fact remains that the hotel is still losing money. There is a general upward pressure on costs as a result of the Irish economy performing so well, and in tandem with the Budget 2019 decision to increase the VAT rate in the hospitality sector, there is a danger that WHH's cost base could increase considerably.

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	<u>3</u>
	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
	<u>34</u>
(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	<u>8</u>
Total Marks	<u>50</u>

SOLUTION 2

To: Ms. Aoife White
Advanced Plastics Ltd.
Dublin
Ireland

From: A Student
CPA Consultants
Dublin
Ireland

Date: 26 August 2019

Introduction

Organisations frequently need to implement new processes and systems as their requirements change, and as technology evolves. Among the issues that impact on the success of these project implementations are the organisation's ability to effectively manage implementation teams and resistance to the changes these new processes and systems necessitate. This report will initially discuss how Ms. White can facilitate the effective evolution of the Project Implementation Team, using Tuckman's Group Evolution Model. The report will then discuss the potential strategies available to Ms. White and Advanced Plastics Ltd. (APL) to reduce the possibility of resistance to the implementation of the new inventory and production management software system.

Teams and teamwork have become common in organisations, although the term 'team' is sometimes used somewhat loosely. According to Daft, a team consists of 'two or more people who interact and coordinate their work to accomplish a specific goal.' Daft contrasts teams with groups and concludes that teams imply a sense of shared mission and collective responsibility. There are many examples of teams in organisations, for example, the senior management team, a product development team, and ad hoc teams. APL has decided to use a project implementation team to facilitate the introduction of a new inventory and production management software system across its sites.

According to Tuckman (1965), a group (or team) must evolve through a number of necessary stages if it is to effectively work as a team and deliver results. These stages are:

1. Forming
2. Storming
3. Norming
4. Performing

A fifth stage, 'Adjourning', was subsequently added to the model, but is not relevant for this report given the current early stage of development of the implementation plan.

Forming

In the forming stage, team members meet for the first time, at least as a formal organisational grouping. The team members may know each other from other organisational roles but not in this organisational context. In general, in this early stage most team members are unsure and frequently anxious. They may not know the other team members well, if at all, and the potential roles and responsibilities of team members are unclear. The team members tend to be polite and positive, but cautious. Team members do not want to create a negative impression or 'give anything away' about themselves.

Ideally, Ms. White would be in the position to choose the members of the Project Implementation Team (PIT) herself. In this instance however, each site has the opportunity to decide on who it wishes to include on the PIT. While Ms. White cannot directly choose the team members, she will need to provide guidance to the five sites on the technical, organisational and personality requirements of potential team members. Ms. White will need to ensure that the team members proposed have both the necessary technical and organisational experience, but also the ability to work effectively within the team environment.

As the PIT will predominantly operate virtually, the forming stage is critical to develop trust and a shared identity. Ms. White will need to ensure that the team meet face to face sufficiently at this stage to allow the opportunity for team cohesiveness to evolve. The team members will need training to ensure that they can use the virtual team communication and collaboration software to facilitate their work. Ms. White will also need to be able to answer lots of questions about the team's objectives, processes and relationships. It is likely that she will need to be relatively directive in her team leadership style at this stage.

Storming

The storming stage is frequently the most difficult period in a team's evolution and is likely to be the stage where the risk of failure is greatest. In this stage, team members may position themselves to compete against other team members, and the team leader. In addition, team members may start to confront and push against the boundaries established in the forming stage. There is generally an amount of conflict between team members at this stage.

The Project Implementation Team has an organisationally imposed remit. The team's formal objectives should provide a framework to support Ms. White and the team through the storming stage of its evolution. If she has already successfully enabled the team to form a shared identity, then the storming stage is likely to be less difficult. Ms. White needs to ensure that the team focuses on its formal objectives to minimise any distractions from interpersonal and emotional issues. She will also need to be able to create compromises and manage team conflict in a constructive manner. This stage is likely to be quite stressful for team members and Ms. White may need to use a coaching team leadership style at this stage, to help individuals through the process.

Norming

Over time, as the confrontation and confusion that pervades the storming stage dissipates, the team evolves into the more stable norming stage of evolution. However, there is often an overlap between the storming and norming stages. As new tasks arise, the team may revert back to the conflictual behaviour associated with the storming stage. By the norming stage, the team should have developed clear roles and responsibilities. A level of team trust and team identity will have evolved, leading to more agreement on how the team will work together to achieve its formal objectives.

Ms. White will need to develop shared expectations among the PIT team members. She will need to ensure that differences are addressed in a constructive, professional and non-personal manner. Ms. White will need to facilitate trust building among the team members where colleagues recognise others' strengths and have the confidence to ask for advice or help. Virtual teams may find this stage more difficult, due to the reduced personal interaction. Ms. White will need to organise regular face-to-face meetings, and perhaps even non-work events to facilitate the norming process. Ms. White may need to use an enabling and participate team leadership style at this stage, to help individuals internalise the team's norms.

Performing

Once a team has worked through the forming, storming and norming stages, the team actually starts 'to perform'. This stage is obviously where the organisation wants the team to reach. At this stage, the team has a strong and shared identity. The team members trust one another and everyone feels part of the team. The team knows what it is doing and works collectively toward fulfilling its objectives. The culture, structures and processes that have been put in place over the preceding stages support the team's performance.

At this stage, Ms. White should be able to step back a little and allow the team to work together and in sub-groups to implement the new inventory and production management software system. Where there are issues or where the team confronts problems, Ms. White can be an important resource for the team. Ms. White and the team will still discuss issues and how to best progress the implementation, and she will remain the manager responsible and main decision-maker. However, Ms. White should use a more delegating style of leadership, enabling the team members to take more ownership of the implementation process. This style will likely be both more effective and motivating given the professional profile of the team members.

Conclusion

Teams and teamwork have become common in organisations, and projects to implement new processes and systems in organisations are usually based on team based implementation. APL have decided to use a multi-locational project team to implement its new inventory and production management software system. Ms. White has been given the responsibility of implementing the new system and of managing the implementation team. As part of this, she will need to effectively manage the team's evolution. The implementation team will evolve through a series of four stages, and Ms. White will play a key role in ensuring that the team successfully moves from one stage to the next. In a sense, as well as managing the implementation process, Ms. White must equally manage the implementation project team, to ensure it works cohesively and delivers the new system.

Strategies to Reduce Resistance

Advanced Plastics Ltd. (APL) has decided to introduce a new inventory and production management software system across all of its sites. A key concern in the effective implementation of the new system will be how APL identify and manage resistance to the changes the new system will inevitably require. Employees may resist a new process or system, even if they understand the logical need for the change. For example, employees may have a sense of loss or fear the uncertainty and turmoil change may bring. The manifestations of resistance may take a variety of forms. These may include staff becoming withdrawn or demotivated, or oppositely, responding aggressively and even trying to secretly or overtly undermine the change.

If APL is to effectively manage any resistance that may arise to the new system, it will need to correctly diagnose the potential reasons why staff in the different production sites around Ireland might oppose its implementation. Kotter and Schlesinger (1979) provide six practical strategies to overcome resistance to change, however in the context of APL, Ms. White should focus on the following:

1. Communication
2. Participation
3. Negotiation and agreement
4. Facilitation and support

Communication

Initially, and most importantly, Ms. White needs to develop a communication and education strategy that clearly explains the rationale for the new inventory and production management software system. The communication strategy should start in advance of any other implementation step. The communication strategy needs to clearly provide information about the rationale, process and likely implications of the new system for the firm as a whole and for the individual sites. Ms. White and local members of the implementation team should hold 'Q&A sessions' and make presentations at each site. Additionally, documentation should be disseminated, for example using email or an intra-net site. Throughout the implementation period, Ms. White and the implementation team need to remind staff about the project's rationale, etc. and update them on its progress. There is an investment of time and money into this strategy, but effective ongoing communication is the most effective means of reducing opposition to a change programme.

Participation

While the implementation of the new inventory and production management software system is being driven by Ms. White centrally, APL has wisely decided to include management from each of the affected production sites in the implementation process. The participation and involvement of site management should reduce the potential for resistance. That said, Ms. White should try to ensure that the members of the implementation team also involve colleagues in the process at their respective sites. If the staff likely to be affected by the new system are involved in its design and implementation, they have more ownership of it and should be more committed to its success. That said, while staff should be involved in the system's design and implementation, Ms. White does need to ensure that the system is effectively implemented and that key elements are not diluted through the shared participative process.

Negotiation and Agreement

It is rarely a good idea for an organisation's management to impose decisions. There is already some mention of opposition to the new inventory and production management software system. While the use of communication and participation should alleviate an amount of this, APL are likely to have to sit down with the various groups impacted by the implementation. The extent to which APL have employed negotiation and agreement in the past, will likely set a precedent to be followed in this instance also. Ms. White should be aware that negotiation and agreement does not necessarily mean that staff will seek, or should be given, compensation for the implementation of the new system. The discussions are also a means for management to listen to the concerns that staff may have, and even an opportunity to assuage them. That said, a financial incentive to change work practices is sometimes a pragmatic way to avoid significant resistance.

Facilitation and Support

In general, people have an innate fear of change. They worry that they will be unable to cope or be as effective in the new situation. The new inventory and production management software system is likely to create just such an unease among many of APL's staff. In order to mitigate this potential concern for staff, Ms. White needs to reassure them that the necessary support, coaching and training will be available to them during the transition, and even afterwards. In particular, as the change facing staff is primarily technical – a new software system – APL will need to ensure that adequate user training will be provided to the staff using the new system. It is a stereotype, but in addition to training, some staff may also need personal reassurance and to have 'someone to listen to their concerns'. It is unlikely that Ms. White will have the time to do this for the staff on the various sites who may want this type of support. Therefore, she will need to ensure that a local manager will be able to provide this level of personal support. The managers assigned to do this will need to have the personality and relationship management style to create the necessary trusting environment for staff. It would therefore be important for these managers to themselves be given training in this process, and not just rely on their previous experiences.

Conclusion

Advanced Plastics Ltd. (APL) has decided to introduce a new inventory and production management software system across all of its sites. Staff are likely to have concerns about the new system for a while variety of reasons. Ms. White will need to identify and acknowledge these concerns and then construct a series of responses that enable APL deal with them in a reasonable and constructive manner. It is likely that Ms. White and APL will need to use a combination of effective and ongoing communication, staff participation in the implementation process, negotiation and compromise and staff support, especially training. If APL do this, the new inventory and production management software system should be successfully implemented across all of its sites within the suggested two year timeframe.

Solution 2: Indicative Marking Scheme

		Marks
(a)	Explain the nature and importance of organisational teams	
	• Relate explanation to APL	2
	Tuckman's Four stages Framework	
	• Forming, storming, norming, performing	
	For each stage:	
	• Explain nature of stage	1
	• Discuss possible actions by Ms. White	2
		<u>3</u>
	Four stages x 3 marks	12
	Conclusion	<u>1</u>
		15
(b)	Explain the nature of resistance to change	
	• Management must understand the reasons for resistance	1
	To effectively manage the possible resistance	
	• Communication	2
	• Participation, which APL seem to be doing	2
	• Negotiation, if necessary	2
	• Facilitation and support, especially training	<u>2</u>
		8
	Conclusion	<u>1</u>
		10
	Total Marks	<u>25</u>

SOLUTION 3

To: Mr. Martin Crowe
Cosy Café Ltd.
Dublin
Ireland

From: A Student
CPA Consultants
Dublin
Ireland

Date: 26 August 2019

Introduction

There is a lot of discussion and research on the nature and impact of leadership in organisations. Unfortunately, the process of leadership is very complex and is contingent on multiple individual, group and organisational factors, as well as fluidity over time. Generally, as defined by Richard Daft, 'leadership is the ability to influence people toward the attainment of organisational goals.' There is no one theory or approach that captures the multifaceted nature of organisational leadership. However, the extant theories do provide some insight into the nature of leadership and at least create a basis for informed discussion. For example, trait theories of leadership suggest that an individual's personal characteristics will influence their leadership style and even ability. Behavioural theories of leadership on the other hand, emphasise the impact of a leader's behaviours, rather than any innate personality trait. This report will focus on Path-Goal Theory by House (1971), which is an example of situational or contingency leadership, where the organisational context and the nature of employees impact on the effectiveness of leadership styles.

Mr. Martin Crowe has recently been appointed CEO of Cosy Café Ltd. (CCL). He has lots of experience in various firms and describes himself as serious, but 'good with people'. The situation in CCL is worrying. Customers do not have a positive perception of the chain. The problems confronting the chain include perceived average quality food, dated premises and most worryingly, poor staff morale and service. For various reasons, a negative work culture has evolved in CCL and is now threatening the chain's competitiveness. A key element of Mr. Crowe's new tenure as CEO of CCL will be to address these issues and in particular, the problematic work culture.



Path-Goal Theory

Path-Goal Theory, although only one of several leadership theories, provides a useful framework to understand the organisational situation facing Mr. Crowe and the leadership choices available to him. The model can provide a basis for discussion and insight into Mr. Crowe's necessary leadership style and actions. The diagram below illustrates the main elements of Path-Goal Theory. The theory suggests that leaders may use one, or a combination, of 'leadership styles' to influence subordinates to achieve their personal, and as a consequence, organisational outcomes. The appropriate leadership style however depends on the situation facing the leader, and in particular, the characteristics of subordinates and the organisational situation.

Path-Goal Theory emphasises the leader's responsibility to increase motivation to attain personal and organisational goals. The theory states that the leader needs to help staff identify their goals and then clarify how staff might achieve those goals. The leader needs to also reduce the obstacles and difficulties confronting staff, and thereby improve performance. Lastly, to motivate and encourage staff, the leader needs to provide appropriate rewards through the process. It should be noted that these rewards may not necessarily be financial, but also things like praise, listening to staff opinions, or opportunities for staff development.

These leadership activities are all available to Mr. Crowe as CEO of CCL. Mr. Crowe needs to identify what staff want from their work (apart from their wages, obviously). For example, this might include work rosters that are more flexible or completed further in advance so that staff can better plan their spare time. Mr. Crowe will also need to review the

structures, processes and working arrangements in CCL. He needs to identify how the internal organisational environment can be adjusted to better reflect staff needs, without undermining the actual operations of the business. He also needs to reward workers for their work and importantly for supporting the improvements and changes that he and CCL are introducing.

Path-Goal Theory identifies four styles of leadership. Mr. Crowe should be able to use a combination of these styles, and the insights they provide, to manage CCL and make the changes necessary to improve its performance.

1. **Directive leadership.** The directive leadership style is task oriented. This leadership style focuses on communicating goals and expectations and assigning clear tasks. This style works best when work is unstructured, or when team members are inexperienced. The employees will typically also receive close supervision. Mr. Crowe may make use of this leadership style in particular when dealing with front-line staff in the cafés themselves. While the physical tasks they perform are not complex, their interactions with customers are critical to customer experience and at present, front line staff are providing a poor experience. It will be referred to again when discussing organisational culture below, but Mr. Crowe will need to be directive and provide very clear guidelines on expected staff behaviour, in particular when dealing with customers. Mr. Crowe will also need to ensure that these guidelines are closely supervised, at least until staff attitudes and behaviour markedly improve. Mr. Crowe will also need to create a transparent reward system recognising staff's improvement, particularly as it relates to interactions with customers.
2. **Supportive leadership.** The supportive leadership style is more people oriented. This leadership style focuses on relationships, and the needs and well-being of staff. This leader is friendly and empathetic toward staff. He treats his employees with respect and supports them when necessary. This leadership style works best when work is repetitive or stressful. Mr. Crowe may combine the more directive leadership style with the supportive leadership style when dealing with front-line staff. Dealing with the general public, and sometimes people who are not always as polite as they should, can be quite difficult and stressful. In addition, the culture and work environment in CCL has clearly been problematic for some time. In these circumstances, staff in the cafés may respond very positively to Mr. Crowe's empathy and respect. Mr. Crowe describes himself as 'serious, but good with people', so he should be able to build rapport and relationships with staff.
3. **Participative leadership.** The participative leadership style gives staff an opportunity to be involved in the decision-making process and to influence their work environment. The leader consults with staff and considers their ideas and expertise before making a decision and identifying possible solutions to problems. This approach works best when staff are experienced, and when the task is complex and challenging. Mr. Crowe and CCL are facing a very difficult challenge in improving the performance of the cafés and in particular changing the work culture and staff attitudes. Mr. Crowe may use a participative style when dealing with the managers of the cafés. These people have the experience and immediate understanding of many of the problems facing both CCL and the frontline staff. Mr. Crowe will likely get a better response if he involves café management in the discussions about how to improve CCL's performance and work culture. He will be able to frame and influence discussions to ensure that those issues and solutions he personally favours are agreed with by café management. Therefore, rather than imposing decisions, this will give café management some ownership of the changes that need to be implemented.
4. **Achievement oriented leadership.** The achievement oriented leadership style is based on the belief that staff are responsible and should be able to accomplish challenging goals. The leader has high expectations of staff and pushes them to perform and to constantly improve. This approach works best when staff are unchallenged in their work and are capable of more than the work or organisation currently requires. Mr. Crowe may be able to use this leadership style with the managers of the cafés, in conjunction with the participative style discussed above. Mr. Crowe could demonstrate his belief and confidence in the ability of the café managers by giving them targets, for example, sales targets, and allowing them to decide how best to meet these targets. If Mr. Crowe illustrates this level of trust, the café managers will obtain a considerable confidence boost and should respond positively. That stated, Mr. Crowe may find it better to address the current concerns initially using participative leadership. Then, as performance and work culture improve, Mr. Crowe can begin to allow café management more independence and use a more achievement-oriented leadership style.

Conclusion

Leadership is a very complex process and its effectiveness or otherwise is contingent on a variety of dynamic organisational and personal factors. Path-Goal Theory assumes that leaders are flexible and that they can change their leadership style as the situation requires it. In his role of CEO of CCL, Mr. Crowe may be able to use each of the leadership styles proposed by the theory. When working with front line staff, Mr. Crowe may be able to use a combination of directive and supportive leadership styles to improve performance and attitude. At the same time, when dealing with café managers, Mr Crowe is likely to find a participative leadership style more effective. Then, as café managers respond and as performance and attitudes improve, Mr. Crowe might also start to use some level of achievement-oriented leadership.

Changing Organisational Culture

Every organisation is unique, with its own dynamic and way of working. This internal environment of organisations is usually called organisational culture. According to Daft, culture is 'the set of key values, beliefs, understandings, and norms shared by members of an organisation.' In some ways, organisational culture is analogous to an individual's personality. Although a 'soft' element of an organisation, organisational culture can be a very powerful. It can help shape staff members' attitudes, behaviours and performance. Where an organisation has a healthy and strong organisational culture, staff have positive feelings toward the organisation, and work to high expectations.

Unfortunately, rather than a healthy organisational culture, CCL seems to have evolved an unhealthy and negative one. According to the brief, front line CCL staff manifest a poor attitude and are perceived as disinterested in their work. Obviously, given the service nature of the organisation, poor staff engagement with customers inevitably creates a negative customer experience. While CCL confront other problems, the very nature of organisational culture makes it difficult to manage and to effectively change. Organisational culture is normally something that evolves over time, and managerial interventions may take a considerable time to have an impact.

This is the situation facing CCL and Mr. Crowe. However, while it may be difficult and time consuming to alter CCL's organisational culture, and while there is no one solution to CCL's organisational culture problems, there is a range of interventions that Mr. Crowe may use.

1. Mr. Crowe and CCL need to communicate senior management's expectations to café management and front-line staff. Over time, it is easy for organisations to drift and for staff to become complacent. Mr. Crowe, and perhaps other senior management, need to visit each café and to present the required new behaviours and attitudes to staff. Rather than being something arbitrary, Mr. Crowe and CCL must contextualise the changes in terms of customer feedback and the current negative perceptions of the chain.
2. In parallel with the communication strategy, Mr. Crowe needs to work with CCL's HR Department, and other CCL managers, to develop policies and procedures that address the company's concern about staff attitudes and behaviour. Over time, the procedures should evolve from a 'rule on a page' into 'just how things are done'. Although the policies and procedures should not 'script' staff and customer interactions, they should identify and reinforce, in writing, the expected behaviours of café management and front-line staff.
3. Mr. Crowe and CCL should organise training sessions for café management and staff. The company's policies and procedures would be an obvious framework document on which to structure this training. The training will be expensive, especially as it will have to be done after hours or on staffs' off days, but it will eliminate uncertainty about expectations and behaviours. It will also illustrate the seriousness with which Mr. Crowe and CCL are taking the situation. This of itself, might even create an impetus for cultural change in CCL.
4. It is identified in the briefing that CCL are not going to be able to finance, and nor does it want, high levels of redundancies. Apart from the bad publicity, the company will find it difficult to replace staff in the current tight labour market. That said, if CCL were to fire some café management and front-line staff, especially those that have responded poorly to the already identified management interventions, it would reinforce the importance of CCL's cultural change programme. The new employees recruited would also bring a fresh energy to the firm.

Conclusion

Every organisation has its own, unique, organisational culture. Unfortunately, for whatever reasons, CCL seems to have evolved an unhealthy and negative organisational culture over time. This has led to front line CCL staff being disinterested in their work and having a poor work attitude. It is difficult and takes time to change an organisation's culture. If Mr. Crowe is to successfully change the work culture in CCL, he will need to do things such as implement new targeted policies and procedures, communicate continually the new expected behaviours and attitudes and train staff in these. In addition, CCL need to improve its food and beverage offerings, and invest in refurbishing its outlets. While these changes are critical of themselves, they may also encourage staff to change attitudes, as they would illustrate that CCL is changing, and improving, in general.

Solution 3: Indicative Marking Scheme

		Marks
(a)	Explain the nature of organisational leadership	
	• Relate explanation to Cosy Café Ltd.	3
	Use Path goal theory to critically assess the most appropriate leadership style [Or a suitable alternative theory]	
	• Explain the main elements of Path goal theory	4
	• Discuss insight from theory relating it to Mr. Crowe and CCL	<u>8</u>
	Conclusion	<u>1</u>
		<u>15</u>
(b)	Explain the nature of organisational culture	
	• Relate explanation to Cosy Café Ltd.	2
	Possible actions to influence CCL's work culture	
	• Communicate the desired new behaviours and attitudes to staff	2
	• Organise a 'cultural retraining programme'	2
	• Provide rewards for improved behaviours and attitudes	2
	• Prepare and apply relevant policies and procedures	<u>2</u>
	3 actions x 2 marks; maximum 6 marks	6
	Conclusion	<u>2</u>
	Total Marks	<u>10</u> <u>25</u>

SOLUTION 4

To: Senior Management of Swartz AG
Swartz AG
Berlin
Germany

From: A Student
CPA Consultants
Dublin
Ireland

Date 26 August 2019

Introduction

The vast majority of firms are small and by their nature concentrate on one business, whatever that might be. On the other hand, some firms, in particular as they become larger, decide to invest in new businesses. 'Diversification' refers to the decision of a company to enter other businesses that are distinct and different from a company's core or original business. The rationale of the diversified company is that it creates added value by building a multi-business company where the whole is greater than the sum of its parts.

Swartz AG (SAG) was established in 1903 and was originally a manufacturer of components for car engines. It has been very successful and over time it has diversified. Initially it diversified into manufacturing power generators and transmission equipment and then it used its expertise and reputation to develop an engineering services consultancy business. Its most recent diversification was into the fast growing medical devices sector in 2011. This strategy has allowed SAG to grow significantly over the years by leveraging its resources and competencies into new businesses.

SAG's Current Diversification Strategy

SAG currently has four strategic business units (SBUs). These SBUs have evolved at different times and in different industries.

There are a number of important benefits to SAG's current diversification strategy. SAG's strategy has enabled it to leverage the resources and competences it has developed over its years of operation and to use them to compete in new, attractive, industries. For example, the engine components division and power generators division seem to have considerable strategic fits. These synergies may include shared technical competencies, production abilities and facilities as well as history and reputation. SAG's reputation and brand have also enabled the company to diversify into engineering consultancy services, where it is ranked fourth in the industry. This has led to increased revenue and profit for the company.

Related to increased revenue resulting from diversification, SAG's development has given it size and scale. Each of SAG's SBUs are ranked in the top ten in their respective industries, and three are ranked in the top five. This gives SAG considerable financial resources and market power, and enables it to influence the evolution, technical standards and dynamics of these industries. In addition, its scale provides it with considerable negotiating influence with both buyers and suppliers in these industries. This has increased the competitiveness of the company.

A third benefit that SAG has derived from its current diversification strategy is the reduced level of business and economic risk that the company faces. The overall level of risk faced by the combined company is less than the cumulative risk faced by the company's SBUs when measured on an independent and individual basis. There is a debate about the efficacy of corporate diversification as a means of reducing business and economic risk, when shareholders may do this themselves by diversifying their share portfolio. Nevertheless, it remains a frequently cited rationale for diversification, and SAG have used diversification effectively to reduce the risks it faces.

However, corporate diversification is not without its drawbacks. In particular, diversification dilutes the amount of time and focus that SAG's senior management can devote to each of its businesses. As a consequence, it is likely that SAG's senior management are not really in a position to effectively support and lead the company's SBUs' strategies. As their time is spread over four SBUs, SAG's senior management does not have adequate time to develop industry specific insight useful to SBU management. While senior management time and focus may be the key resource diluted, other resources available to SAG are also spread too thinly across the four SBUs. For example, almost by definition, there is obviously a limited amount of financial resources to be budgeted across SAG, and therefore it is likely that no one SBU will receive the investment it requires, and instead it will be spread across the company.

Lastly, as the senior management of SAG now realise, there is frequent misunderstanding and scepticism of corporate diversification. As alluded to in the brief, SAG's senior management have come under pressure from investors to review the firm's corporate strategy. Investors and stock markets frequently undervalue diversified firms, in particular for the reasons identified above. In order to reduce pressure from the activist shareholders, SAG's senior management need to have, a narrative that explains the current corporate diversification strategy. This narrative needs to illustrate the coherency of SAG's current strategy and how each of its SBUs benefits from being part of the SAG organisation.

Recommendation on Direction of Corporate Strategy

As noted, SAG have derived considerable benefits from its decision to diversify into new industries. The diversification strategy provided SAG with greater scale and influence and allowed it to leverage its resources and competencies, while reducing its business and economic risk. The senior management of SAG consider the engine components SBU and power generators SBU to have considerable strategic fits. They also believe that the engineering consultancy SBU benefits from the reputation and brand built up by SAG. Combined, these three SBUs generate 79% of SAG's revenues and 64% of its operating profits. The engine components and power generators SBUs represent the traditional core of SAG, while the engineering consultancy SBU has been built on these SBU's reputations and expertise. The medical devices SBU is the most recent business developed by SAG and is in fact the best performing. It generates 21% of SAG's revenues, but 36% of its operating profits. Moreover, it is ranked second in a very rapidly growing industry. At the same time, senior management in SAG do not consider that it has core competences that can readily fit with the other SBUs. This may illustrate a lack of understanding of the medical devices SBU and sector by SAG's senior management.

Further investigation would be useful to more accurately determine the level of strategic fits between the medical devices SBU and the other three SBUs. For example, there may be marketing, reputational or even some technological benefits that the medical devices SBU gain from being part of SAG. However, in the absence of such strategic fits, and because the medical devices SBU profile and performance is quite different to the other SBUs, it would make strategic sense to split SAG into two firms. One of these companies would run SAG's engine components, power generators and engineering consultancy SBUs. The second company would take over the running of the medical devices division and become an independent business.

Disposal to Competitor or Spin Off?

If SAG were to decide to split the company, as suggested above, there are a number of options available to the company, but the two most likely are:

1. A 'trade sale' of the medical devices SBU to a competitor
2. A 'spinoff' of the medical devices SBU to existing shareholders

The 'trade sale'

The first option is where SAG identify a suitable firm in the medical devices industry to acquire SAG's medical devices business. This is sometimes referred to as a 'trade sale'. There should be a number of interested parties, especially as the SBU is ranked second in the industry.

The benefits to SAG of using a trade sale to dispose of the medical devices SBU include first, and probably most importantly, the disposal should generate a significant amount of cash for SAG. SAG can then decide to use the cash to reinvest in its remaining businesses or to distribute it to its shareholders by means of a special dividend. It is likely that a combination of reinvestment and distribution would be the best option for the use of the cash inflow.

Another benefit of using a trade sale to dispose of the medical devices SBU is that it may provide the opportunity to 'auction up' the value of the SBU and acquisition price. If SAG can interest two or more possible acquiring firms, it can use the auction process to increase the value of the deal. However, this has the possibility of lengthening the disposal process substantially.

The 'spinoff'

A spinoff describes where a company issues new shares to its existing shareholders to create a new company independent of the parent firm. The spun off company owns one or more SBUs of the parent firm. The spunoff companies are expected to be worth more as independent entities than as parts of the combined parent firm.

The rationale for the spinoff includes that it provides SAG's shareholders with the opportunity to hold shares in separate firms, which focus on different industries and have different growth profiles. This in turn will allow shareholders the option to decide whether they wish to retain a shareholding in one or both companies, and therefore industries, after the spinoff.

A spinoff is likely to be more straightforward and therefore quicker for SAG to organise. This is particularly the case as SAG's medical devices SBU is number two in its industry and therefore any acquisition is likely to be investigated by competition authorities and require regulatory approval. This will complicate and slow the conclusion of any agreement.

However, a drawback of the spinoff option is that it does not generate any cash; either to reinvest in the remaining SBUs or to distribute as dividends to shareholders.

Conclusion

There are benefits and drawbacks to both disposal options. The senior management of SAG should canvas the company's largest shareholders, in particular institutional shareholders, for their opinion on both alternatives. The agreement of shareholders will be necessary in any event for the disposal, so senior management need to ensure that the form the disposal will take, is something with which the majority of shareholders agree. Once this research process is completed, senior management should begin the arrangements to complete either the trade sale or the spinoff.

Solution 4: Indicative Marking Scheme

		Marks
(a)	Explain the nature and importance of corporate strategy	
	• Relate explanation to context of Swartz AG	2
	Possible issues in diversification and concentration:	
	• Diversification facilitates synergy and leveraging of resources and competences	2
	• Diversification (and size) provides market power	2
	• Diversification reduces business risk	2
	• Concentration reduces the dilution of firm's resources, especially management	2
	• Markets sometimes undervalue diversified firms	2
	• Any other relevant issue	<u>2</u>
	Any 5 issues x 2 marks; maximum 10 marks	10
	Recommendation	<u>3</u>
		<u>15</u>
(b)	Explain the nature of a 'trade sale'	1
	Possible issues in using a 'trade sale':	
	• Generates cash inflow to reinvest	1
	• May be able to auction up the value of the division being divested	1
	• May take a long time to negotiate	1
	• Divesting to a competitor may have regulatory implications	1
	• Any other relevant issue	<u>1</u>
	Any 3 issues x 1 marks; maximum 3 marks	3
	Explain the nature of a 'spin off'	1
	Possible issues in using a 'spin off':	
	• Shareholder may welcome opportunity to hold shares in separate firms	1
	• Relatively fast to execute	1
	• Avoids need for complex acquisition process	1
	• Does not generate cash for the remaining divisions	1
	• Tax free benefit to shareholders	<u>1</u>
	Any 3 issues x 1 marks; maximum 3 marks	3
	Recommendation	<u>2</u>
		<u>10</u>
	Total Marks	<u>25</u>