

# STRATEGY & LEADERSHIP

## PROFESSIONAL 2 EXAMINATION - APRIL 2016

### 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

Healy Associates (HA) is a recruitment consultancy firm established in 1995 by Mathew Healy. He had graduated from university in Dublin with a degree in psychology in 1984 but due to the poor economic climate at the time, was unable to find work and emigrated to the USA in 1985. Mathew is a very driven 'Type A' personality and, with his affable nature and strong people skills, he was very successful while in the USA. By 1994, Mathew was the Vice President for HR in a large Boston accounting firm. However, in early 1995 he decided to return to Ireland for family reasons.

Mathew had always wanted to run his own business. Back in Dublin, and after doing much research, he decided to set up his own recruitment firm. He had met with several recruitment firms on his return from the USA while looking for work and had not been impressed by them. Mathew believed that a combination of his personality and drive, his HR expertise, and his business experience in the USA, would be the perfect ingredients to succeed in the sector. His management style and approach to the business was strongly influenced by his time abroad. It took long hours and a lot of stress, but by 2000, 'Healy Associates' was a well-established recruitment consultancy firm. HA used the tagline, "Healy Associates: our professionalism, our networks... filling your management needs..."

The recruitment of staff is a key activity for any firm. However, for several reasons, employers have increasingly turned to recruitment consultancy firms to help facilitate their recruitment needs. These reasons include the increasingly specialised nature of organisational roles, the complex legal regulations relating to the recruitment process, diminishing in-house expertise, and the drive to reduce staff recruitment costs. In 2015, the National Recruitment Association in Ireland estimated that the recruitment sector was worth in the region of €1.7 billion a year. The Federation also forecast that the sector would grow in size over the coming years as the economy continues to improve.

Industry practice is to price per recruited role, based on a percentage of the annual salary for the position: the percentage charged is generally incrementally increased for higher salaried positions. If a client is seeking to hire for a large number of positions, for example 30 operatives for the factory floor, a flat fee is usually charged. While price is obviously an issue, in general, clients choose a recruitment consultancy firm based on its reputation and the client's previous experience with that recruitment firm.

A combination of his research and instinct led Mathew to consider that there was a gap in the offerings available to clients, and especially multinational clients. He developed the business as a 'boutique' recruitment consultancy firm which would focus on sourcing and filling management and executive level roles, predominantly in the greater Dublin area. He leased a premises on a well-known street in the business district in Dublin and spent a lot of money fitting it out as HA's head office, as he said, "*To succeed, we have to project the right image.*"

The recruitment process is both sensitive and time-consuming. A typical recruitment process for HA would involve the following:

1. The HA consultant meets with the HR Manager of the client firm to discuss both the role and person specification and, in particular the client's organisational culture and 'candidate fit'.
2. The consultant then meets with up to three managers in the client firm, and especially the manager to whom the new hire will report, to further understand the role and organisational culture. If the client firm is a repeat client, which many are, the recruitment consultant will usually only meet the HR Manager and the new hire's direct manager.
3. After meeting with the client, the recruitment consultant then searches HA's candidate database to identify possible candidates. The recruitment consultant will usually contact 10-12 possible candidates and shortlist five for interview in consultation with the client. Over the years, HA has developed a large

database of possible management-level candidates. HA spends considerable effort in keeping this current and maintaining relationships with possible candidates - especially those it has successfully placed previously. Maybe even more so than its client list, Mathew considers the candidate database to be among the firm's most important resources.

4. If the search requires looking beyond the existing candidate database, HA uses its own website and the recruitment section of one of the national newspapers to identify possible candidates.
5. If asked, the recruitment consultant will also take part in the interview, although the hiring decision will always be that of the client.
6. As a last step, HA will contact both the client firm and the candidate that was hired, three months and then one year afterwards to get feedback from the client and the candidate. In addition to obtaining valuable feedback, this follow-up is also used to highlight HA's 'unique level of service'.

For this level of service, HA charges a fee of up to 20% of the candidate's first year's remuneration. This is higher than most of HA's closest competitors, but as Mathew emphasises, *"HA is a premium-level service and there is a cost that goes with that. The failure rate of the candidates we place is relatively low compared to our competitors so clients get what they pay for."* At any one time, HA has had between 20-30 positions available on its books.

By 2007, while still a boutique recruitment consultancy, HA had grown to employ nine recruitment consultants specialising in recruiting for management-level roles in particular specialisms, including accounting, healthcare, engineering, IT, and marketing. Overall, HA had 18 employees. At this stage, Mathew did less of the recruitment activities and spent more time meeting potential clients and building links. As he commented frequently, *"in the final analysis, it's all about building relationships and networks. We need to project our premium image"*. In fact, HA had won an award as "Boutique Recruitment Firm of the Year" twice, which was a key element of Mathew's sales pitch.

The sudden impact of the economic crisis in 2008 took Mathew by surprise; in retrospect he accepts that he had become complacent because it was "so easy to place candidates during the Celtic Tiger years". For example, even before the crash, the success rate of placed candidates had declined and a number of clients had moved their business from HA. There are estimates suggesting that the recruitment consultancy sector contracted by up to 70% during the economic crisis, as hiring froze and job cuts became the norm.

HA was initially slow to respond, but by 2010, Mathew had restructured the business into what he called survival mode. Resilience is an important personality trait for a recruitment consultant, who frequently has to give bad news to unsuccessful candidates. Mathew took pride in the collegiate atmosphere in HA, but knew the business was going to fail. He made all staff redundant, except for a receptionist/administrator in the head office and two recruitment consultants; who specialised in the accounting and IT sectors. He cut HA's fees by one-third, the remaining employees' salaries by one-quarter, and did not take a salary from the business for four years, instead living off savings during that period. At one stage, he was out ill - with stress - for over a month, and on his return there were only four positions open on HA's books. It was a very difficult period for the business and for Mathew personally.

By 2013, the business was beginning to improve, in line with the economy, and HA had an average of ten positions on its books. Mathew has slowly rebuilt HA from there, and now has four specialised recruitment consultants, focusing on accounting, IT, software, and banking. HA has slowly increased its fees although they are still 10% below 2007 levels. Mathew still works to build business contacts and networks, but also retained a marketing consultant to advise on how to best promote the business. This has led to a new website, a Facebook page, and a LinkedIn presence. Currently, these are all managed externally for HA. HA's tagline, "Healy Associates: our professionalism, our networks... filling your management needs..." has been retained.

Mathew is determined not to make the same mistakes as before, but is also concerned that while business is improving, it has not improved in line with his expectations or with the general economic or sectoral recovery.

**REQUIREMENT:**

Prepare a report for Healy Associates in which you:

- (a)** Critically analyse the strategic position of Healy Associates, 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 Healy Associates and evaluate the options for it in dealing with such issues; and
- (c)** Recommend an appropriate strategy to ensure the best way forward for Healy Associates.

*(Note: The scenario presented on Pages 1 and 2 is not intended to be comprehensive. You are expected to make whatever additional logical assumptions about Healy Associates and its environment necessary to 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. ICEYY plc is a large Irish civil engineering firm that has been in business for over 30 years, and has grown to have over 2,500 employees. It has developed considerable experience, particularly in the areas of major road construction and airport runway and terminal construction. While the firm always had some international activities, since 2008 it has aggressively expanded internationally. The international focus has primarily been on newer member States of the EU. In 2015, over 90% of ICEYY plc's revenues derived from its international operations.

In the past number of years, rumours have circulated about the possibility that ICEYY plc may have used 'facilitation payments' to win contracts and influence government officials and union representatives in these countries. These rumours culminated in a business magazine investigation and 'exposé' last year. There has been no criminal investigation, either in Ireland or in the countries where the payments were allegedly made. ICEYY plc completely denies any wrongdoing, stating that there was no evidence of such payments and that the firm won contracts based only on their contract tender and reputation. In spite of this, the share price of ICEYY plc has fallen by 20% in the past year, although the firm posted good financial results.

While there was no suggestion of the then CEO being involved directly, he resigned "in the interests of the reputation of the company". In fact, privately, the Chairman of ICEYY plc is surprised at the share price fall. He has commented in Board meetings that people need to be realistic and that these types of payments are "merely the cost of doing business in some countries". The comments were not minuted.

After a lengthy search process, Ms Sonja Hafstede has been appointed as the new CEO of ICEYY plc. Sonja is originally from The Netherlands but has worked for several large European civil engineering firms. Immediately prior to her appointment, she was employed by a major German civil engineering firm, Build AG, which enjoys an excellent reputation generally, including for its ethical practices. Sonja recognises that this was probably a factor in her obtaining the position as CEO of ICEYY plc.

ICEYY plc has a written ethical policy that explicitly prohibits the use of bribes to obtain new business or facilitate ongoing operations. However, there has been no attempt to build an ethical framework and culture within the organisation to ensure the day-to-day implementation of its ethical policy.

### REQUIREMENT:

- (a) Prepare a report for Ms Hafstede that advises her on how to develop an effective ethical framework and culture within ICEYY plc. (15 Marks)
- (b) Critically assess Ms Hafstede's own role, as the CEO and strategic leader of ICEYY plc, in creating the desired ethical framework and culture for the company. (10 Marks)

**(Total: 25 Marks)**

3. SEM Publishing Ltd is a small publishing house located in Blackrock, Co. Dublin. It is owned and run by Susan and Éamonn Murray, who started the business in 1987, “to publish books about Ireland, its history and its culture”. The business has been quite successful and provides Susan and Eamonn with a comfortable living. SEM Publishing Ltd has 23 employees, including commissioning editors, editors, production managers, a marketing manager and sales staff, as well as administration staff. Susan is the Managing Editor and Éamonn is the Managing Director. The Murrys pride themselves on the fact that the business is dynamic and entrepreneurial, and “like another family”.

Today, as well as publishing Irish-oriented history, current affairs, biography and sports books, SEM Publishing also publishes a range of lifestyle, home and culture magazines. Each year for the past five years, SEM Publishing has also organised two major annual literary festivals: one in Dublin in May and one in Galway in September. The festivals have been very successful to date, both critically and commercially.

Toby Murray, Susan and Éamonn’s son, has worked in the business during school holidays since he was 16 years old. He has graduated from university with a degree in business after which he spent five years working in London for three different publishing houses. Toby has recently taken up employment in SEM Publishing Ltd again, on a full-time basis. Toby sometimes despairs of the “organised chaos” that is SEM Publishing and has suggested that the business should use a more formal approach to strategy and planning.

Susan and Éamonn do not see the need for a more formal approach. As Éamonn responded, “We are too small to need a strategy; whatever that really means. It’s just bureaucracy. The whole thing would just slow us down. It would stop us chasing after the next opportunity”.

**REQUIREMENT:**

Prepare a report for SEM Publishing Ltd that critically evaluates the usefulness of a more formalised approach to developing strategy, and advise the business on how this more formalised approach could be implemented.

**(Total: 25 Marks)**

4. TotUp Ltd is a producer of accounting software for SMEs. The software is very easy to use, even for a layperson, and has significant functionality for the price level of €99 per annum. For example, the package includes all functionality to comply with tax payments, including income tax, PRSI and VAT, as well as creditor and debtor accounting and some customer relationship management functions. The firm also has an enhanced package that includes telephone support and free updates for €199 per annum.

TotUp Ltd has been very successful in Ireland, even during the downturn. This has led the firm to expand internationally, developing a business in the UK over the past five years, mostly in London. This was done organically and slowly, and the only staff the business has in the UK are a Business Development Manager and four sales associates. The software, technical and support services are all still provided through its base in Mahon Point, Cork, Ireland.

TotUp Ltd management, and especially its CEO, Ger Ryan, are young and ambitious. Due to its current success, TotUp Ltd has decided to expand into the European market. As an initial step, the business has chosen to enter the French market and has decided to acquire a French accounting software business as an entry route into the market there, as it is perceived to be so different from the Irish market.

**REQUIREMENT:**

Critically assess the use of an acquisition as an entry strategy for TotUp Ltd into the French market and advise TotUp Ltd on how to effectively address the challenges they may face in planning and completing such an acquisition.

**(Total: 25 Marks)**

**END OF PAPER**

## SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

# STRATEGY & LEADERSHIP

PROFESSIONAL 2 EXAMINATION - APRIL 2016

### SOLUTION 1

CPA Consultants  
Dublin  
Ireland  
25 April 2016

To: Matthew Healy  
Healy Associates  
Baggot Street  
Dublin  
Ireland

Re Strategic Review of Healy Associates

Dear Matthew

Thank you for inviting CPA Consultants to evaluate and report on the Strategic Direction and Options open to Healy Associates 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 Healy Associates 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 Healy Associates

A number of strategic analysis frameworks are used below in order to better understand the strategic position of Healy Associates:

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

#### The General Environment (PESTEL)

##### 1. Political and Legal Factors

The recruitment consultancy sector is not overly influenced by the political system. The most important impact of politics in the sector is through the political system's influence on the economy and business in general. As a rule, businesses are more confident when the political system is relatively stable - as medium term policy is easier to predict and feed into business and investment decisions. At the moment, the run-in to the general election, and the subsequent uncertainty about the formation of the next government, has led to greater political and economic uncertainty. This reduced stability tends to spillover into the business community and leads to uncertainty and lower business confidence.



As a consequence, the recruitment consultancy sector may suffer, at least to some extent, as the potential reduction in business investment leads to a reduced demand for recruitment services – at least until the political situation resolves itself. Another issue that may be relevant is the possibility of the UK leaving the EU as a result of the referendum in the UK in June. The chain of influence is similar to above in that the possibility of a “Brexit” creates a general political unease and uncertainty which tends to dampen business confidence.

The recruitment consultancy sector itself is not highly regulated. The Work Place Relations Licensing Section in the Department of Jobs, Enterprise, and Innovation, is the relevant competent authority. A licence and Garda vetting is required to open a recruitment consultancy. However, this is only an administrative process and for “people of good standing” there is no real barrier to entering the sector. This creates a potential problem for sector incumbents as new competitors can enter the market relatively easily.

## **2. Economic Factors**

The recruitment consultancy sector is strongly influenced by the economic cycle, pro-cyclically. This has been clearly evident in Ireland over the years of the “Celtic Tiger” as the sector expanded and performed so well, and since, as the sector nearly collapsed – contracting by an estimated 70% - during the economic crisis. The unemployment rate has changed over the past decade in line with economic activity. According to the CSO, in 2007 the unemployment rate was 4.5%, this increased to a high of 15.1% in 2011 but has since fallen back to 8.9%. In line with this, the numbers in employment have increased by 95,000 in 2015 alone. The ESRI project that the Irish economy will grow by 4.5% in 2016 and unemployment will fall below 8%. This increased level of economic activity translates into a large increase in both employment and open job positions. This is very positive for the recruitment consultancy sector and it represents a significant opportunity for new business.

## **3. Social and Cultural**

There are a number of societal and cultural trends that are relevant for the recruitment consultancy sector. In general, people – job candidates – are more educated than in previous generations, even compared to only 20 years ago. These people therefore tend to have higher expectations, both in terms of the work environment and the job search process itself. In addition, and perhaps linked to the increase levels of expectation, people have become more work mobile, changing employers more frequently than in the past. This creates both an opportunity and a challenge for the recruitment consultancy sector. The increased churn of employees means that job openings arise more frequently, giving the sector more opportunity to sell its services. On the other hand, this trend may make it more difficult to place people who will stay long-term in a firm, perhaps undermining the recruitment consultancy’s reputation when they “too quickly” leave.

The heightened education levels and expectations also influence candidate’s job search process. Potential candidates are better informed and prepared than heretofore. They use online and social media to make themselves more aware of positions, expected salaries, information about employers as well as their rights as candidates and employees. This leads to heightened expectations on the part of candidates with regard to their interactions with recruitment consultancy firms and prospective employers.

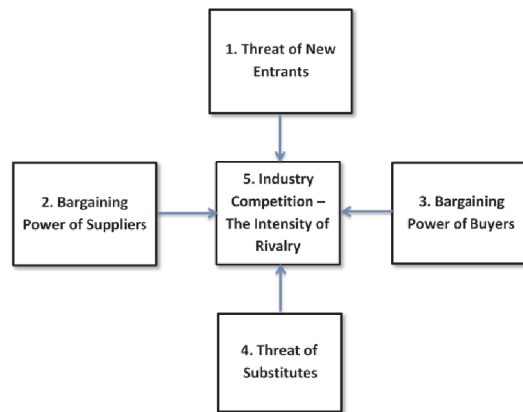
During the Celtic Tiger years, and to a lesser extent even during the economic crisis, there has been a significant level of immigration into Ireland, in particular from Central and Eastern European countries, such as Poland, Slovakia, Lithuania, etc. Including non-EEA immigration, around 15% of the people who live in Ireland were not born here. Again, this presents both an opportunity and challenge for the recruitment consultancy sector. Immigrants are a different market segment which recruitment consultancy firms may target, but they also present additional challenges, particularly in the areas of language differences, levels and recognition of qualifications, and sometimes, depending on where they originally were from, visa and immigration law requirements.

## **4. Technology**

While technology has an impact on the recruitment consultancy sector, the sector is not overly technology dependent. An important and obvious impact of technology in the sector is online job advertisement/search that has to a great extent replaced advertising through newspapers. This does speed up and facilitate the search to obtain a pool of candidates for any particular open position. Also, websites such as LinkedIn provide a new route for recruitment consultancy firms to find potential candidates. Technology may also allow a more systematic comparison of prospective candidates’ qualifications, experience, etc against job specifications. Similarly, organisational technology such as email, online phone services, etc facilitate the management and operation of the recruitment consultancy firms themselves. That stated, once a recruitment consultancy firm keeps up and appropriately leverages technology, it will provide only competitive parity rather than any advantage per se.



## Competitive Environment (Porter's Five Forces Model)



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

### 1. The Intensity of Rivalry

The recruitment consultancy sector is very fragmented: there are numerous smaller local and niche incumbents and not many larger national, or international, rivals. For example, according to the Workplace Relations Commission, there are around 225 recruitment consultancy firms in Dublin alone, focusing on more general recruitment, to very specific sectors, for example, modelling. The sector incumbents seek to provide a differentiated service predominantly based on expertise, reputation, niche experience and access to pools of potential candidates. The sector's service is not restrictively regulated. Client firms tend to focus more on a recruitment consultancy firm's reputation and their past interactions with the recruitment consultancy firm rather than focus completely on price (although this is obviously a major influence on the decision). Therefore, switching costs tend to be a higher because client firms will have built a relationship and a confidence in their current recruitment consultancy provider. The recruitment consultancy sector is again going through a period of strong growth, in line with the economy. Overall, this tends to suggest that the level of rivalry in the sector is low to medium.

### 2. The Threat of New Entry

The threat of new entrants into the recruitment consultancy sector will be influenced by entry barriers into the sector and the future potential of the sector. As already referred to incumbents in the sector try to create barriers to entry by developing differentiated services. Relatedly, reputation and experience, are important criteria for potential client firms, and these are qualities which new entrants, by definition, cannot possess. These impose switching cost on client firms that make it difficult for new rivals to break into the sector. Therefore, there are likely to be two sources of new entrant: an existing international competitor entering the Irish market or an existing recruitment consultant who leaves a recruitment consultancy firm to start her/his own. In the latter case, this may prove difficult as non-compete clauses in recruitment consultants' own employment contracts may severely limit what they may do if they leave an employer. Overall while finance and licensing present relatively little impediments, there are significant barriers for new entrants to overcome, so the risk associated with new entrants tends to be low to medium, aside from a highly determined potential new entrant.

### 3. The bargaining power of buyers

The recruitment consultancy sector provides recruitment services to client firms (perhaps in addition to other services). As such it is a business to business sector. Business buyers tend to be more informed and more motivated when purchasing compared to the general public. This tends to increase the level of bargaining influence they may deploy. However, as has been previously mentioned, the recruitment consultancy sector is quite specialised, and provides a key resource for client firms – suitable employees. In addition, incumbents have succeeded in differentiating themselves, at least to an extent, based on reputation, niche and expertise, thus increasing buyer switching costs. Overall therefore buyers have low to medium levels of influence, although individual client firms must be happy with service provided or they will likely change provider.

### 4. The Threat of Substitutes

A substitute is another sector that provides an alternative service that fulfils to a greater or lesser extent the same requirement. If a service is to be perceived as a genuine substitute, it must be comparable, similarly priced and as readily available. The recruitment consultancy sector is effectively an outsourced solution to the recruitment process, so the ability and extent to which organisations return to undertaking the recruitment process in-house may be viewed as a substitute. While in-house recruitment is potentially a good "substitute", the reasons why external recruitment consultancy firms were used in the first place remain relevant: expertise, potential cost

savings, the legal complexity of recruitment, etc. Similarly, a website such as LinkedIn may be viewed as a substitute, in that it allows the hiring firm to more easily identify potential suitable candidates. However, the identification of technically suited candidates is only one part of the recruitment process, and does nothing to ensure, for example, that the candidate's personality and the firm's culture match. Overall, the influence of substitutes seems to be relatively low.

## **5. The Bargaining Power of Suppliers**

The recruitment consultancy sector is a person-based service sector. As such, it is difficult to identify suppliers for any "key inputs". Obviously, any firm in the sector will need premises, employees with HR knowledge, IT solutions and the like, however there is no meaningful limitation on these at present. For example, apart from recruitment consultants who would have been made redundant during the economic crash, there are also significant numbers of appropriately educated business graduates who could take these roles. Overall therefore, suppliers seem to have little influence in the sector.

In general, the underlying determinants of competition are generally low to medium in the recruitment consultancy sector, and effectively managed firms may be quite successful in the sector.

## **Resources and Competences**

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**

Physical resources do not play a decisive role in the sector. That said, HA does have a well-appointed office in an expensive and prestigious location. This probably adds to HA's premium image and status.

### **2. Human Resources**

Mathew Healy, the owner-manager, is clearly the most important human resource of the business. Similar to most SMEs, Mathew is the heart and engine of the business, as well as the decision-maker. In addition, HA at this point has four recruitment consultants with an expertise and recruitment experience in specific sectors: accounting, IT, etc. HA also have two administrators to run its office.

### **3. Financial Resources**

It is likely that HA made significant losses over the years of the economic crises, despite the significant cuts that Mathew made, including taking no salary himself. Despite the turnaround in financial performance for the past two/three years, it is unlikely that HA has completely rebuilt its financial position. This is exacerbated by the high cost base of the firm. The recruitment consultant sector is a high margin industry, however, probably due to competitive pressures, HA is still only charging 90% of the fees charged in 2007.

### **4. Intangible Resources**

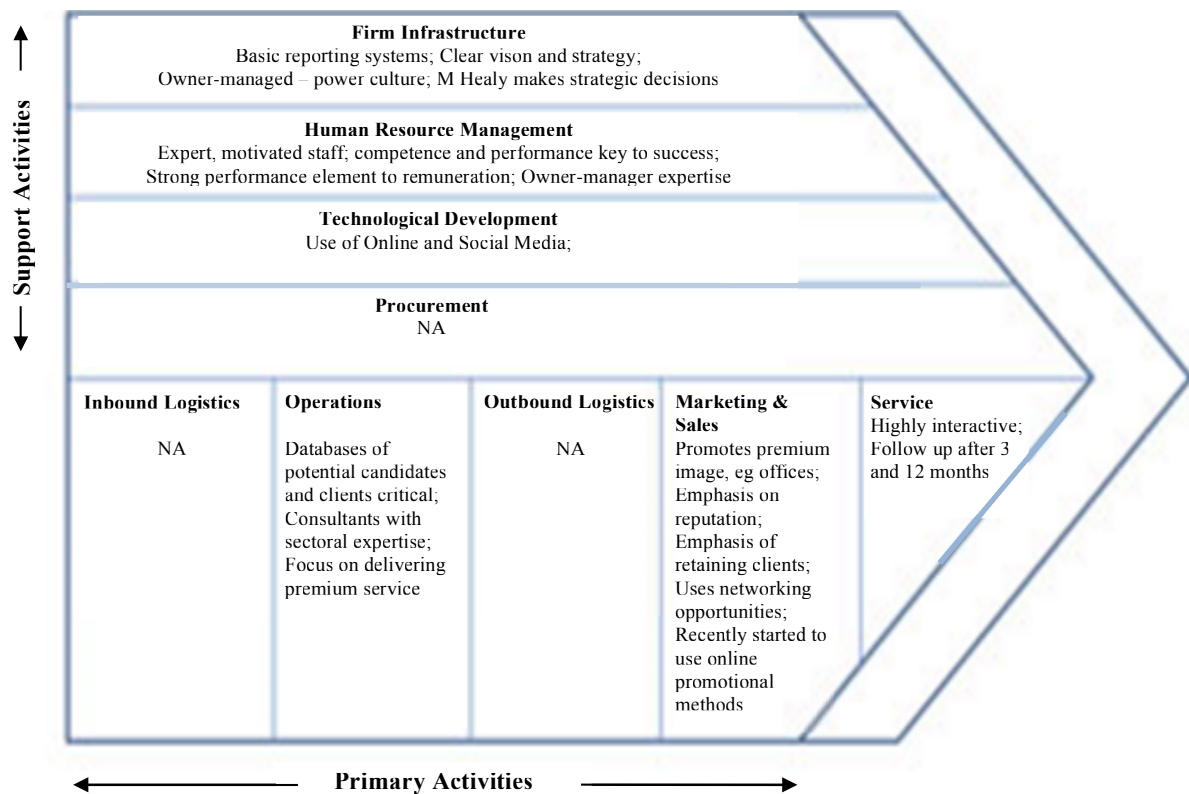
HA's most important resources are probably all intangible. HA is perceived as a premium level recruitment consultancy firm, with a relatively long history in the sector and it enjoys the brand recognition that goes with that. Its experience provides it with significant sectoral knowledge and expertise. In some ways, HA's most important resources are the pool of clients and database of potential candidates that it has developed over the years.

### **5. Unique resources and competencies**

The resource based view of the firm and of strategy suggests 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 HA may leverage include

- Brand name and reputation
- Mathew Healy's ability to develop contacts and clients
- Mathew Healy's management experience and expertise
- Expertise in recruitment process, in particular for management level positions
- Database of clients and contacts
- Database of potential candidates
- Image portrayed by expensive office

## Value Chain of Healy Associates

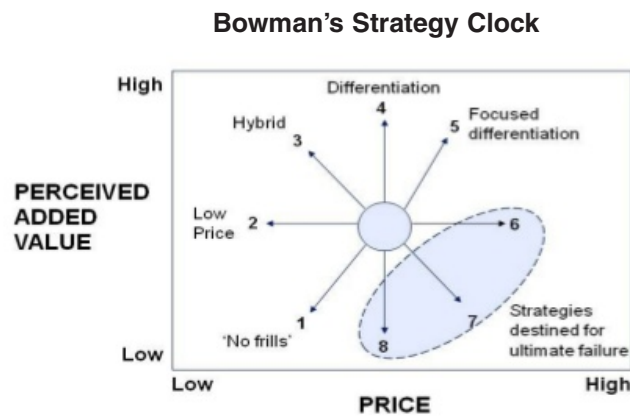


## SWOT Analysis

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.

<b>Internal</b>	<b>Strengths</b> <ul style="list-style-type: none"> <li>Mathew Healy, owner manager <ul style="list-style-type: none"> <li>His experience, knowledge, drive, etc</li> </ul> </li> <li>HA in business for over 20 years <ul style="list-style-type: none"> <li>Strong brand and reputation</li> </ul> </li> <li>Clear vision / positioning of HA</li> <li>Proven business model</li> <li>[Four] expert recruitment consultants</li> <li>Recurring client pool</li> <li>Significant database of potential candidates</li> <li>Ability to develop and manage contacts <ul style="list-style-type: none"> <li>Both clients and candidates</li> </ul> </li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>Over-reliance on Mathew Healy</li> <li>Potential mismatch between pricing point and quality of service</li> <li>Potential undermining of reputation in the past</li> <li>Relatively high cost base</li> <li>Financially weak after several years of poor performance</li> </ul>
<b>External</b>	<b>Opportunities</b> <ul style="list-style-type: none"> <li>Economic recovery in Dublin area and Ireland in general</li> <li>Increased level of demand for recruitment services</li> <li>Increasingly specialised nature of recruitment</li> <li>Geographic expansion, for example, opening an office in Cork</li> <li>Use reputation to provide other related services to existing clients</li> <li>Provide other services to potential candidates <ul style="list-style-type: none"> <li>For example, career and interview planning</li> </ul> </li> <li>Increased and improved use of social media and online presence</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>Increased competition in highly fragmented market</li> <li>Fragility of economic recovery, especially in light of international economic and political uncertainties</li> <li>Clients may remain more price sensitive than in the past</li> <li>Sector may be undermined by return to in-house recruitment and web-based searches (for example, LinkedIn)</li> </ul>

## (b) Issues and Challenges Facing Healy Associates

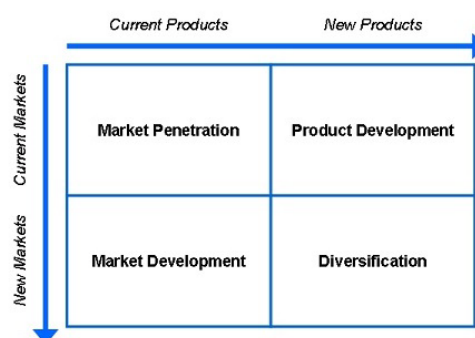


Looking at Porter's generic strategies in a slightly different way, Bowman developed Bowman's "Strategy Clock". This model of corporate strategy extends Porter's three strategic positions to eight, and explains the cost and perceived value combinations many firms use, as well as identifying the likelihood of success for each strategy.

The firm's choice of generic strategy depends on an analysis of its strengths, either managing costs or innovation and service, and whether it has the size to compete in the wider market, or whether it only has the resources to compete effectively in a niche. HA does not have the scale to pursue several of the strategies detailed by Bowman. For example, points one to four require scale to either provide the economies necessary to reduce cost, or the sales level to fund research and marketing. In fact, Mathew seems to have always seen the firm as a niche, or boutique, player, combining a focus on management level positions and a focus on the greater Dublin area. HA attempts to compete within this defined niche by using a combination of superior service and expertise. For example, its consultants meet with several managers to better understand the client firm's organisational culture. In addition, its consultants tend to focus on one industry, allowing them to develop deeper sectoral knowledge. This in turn allows HA to charge a fee at a premium to its competitors. This reflects almost a classic focus differentiation competitive strategy.

Unfortunately, in the context of the concerns expressed by Mathew and the less than expected growth recently being achieved by HA, it is possible that the firm's ability to deliver this strategy has slipped, and the firm is in reality competing at point six on Bowman's Strategy Clock, "Risky High Margins", where the service provided does not fully justify the fees charged. This is unsustainable in the medium run and HA need to review its competitive strategy implementation and ensure that the service it provides justifies the premium fees it charges. This is no less the case even when fees remain 10% below their 2007 levels.

## Ansoff's Matrix



The generic growth strategies described by Ansoff's framework illustrates the present and potential products and market combinations that a firm may pursue. Ansoff identified four possible product-market combinations, depending on a combination of existing products and new products and existing markets and new markets.

In the first instance, HA needs to penetrate and consolidate its current market position. It has not recovered as Mathew hoped, so it is important that the firm focuses on its existing client base to ensure that they continue, or return, to use HA's recruitment services. HA will need to review the nature and the level of service it provides – in the context of the fees it charges – to maintain clients' loyalty. HA may also target previous clients who are now using a competitor to try to win back their business. Finally, HA may increase its use of more traditional, as well as newer, forms of advertising to attract new potential clients.

In addition, HA may look towards new service development: that is providing new services to its existing clients. There are a range of possibilities for new services, such as providing management development training to client firms, consultancy in areas such as HR policy development and building management remuneration packages, as well as possibly providing coaching and advice to potential candidates. While these options are all reasonably feasible, they will require investment to develop and promote them, as well as hiring new people to provide the service. As an alternative, HA may seek to develop a new market for its existing services. An obvious alternative for this approach would be to open a new office in Cork or perhaps Galway. Again, while feasible, this type of expansion would require investment and new people, and may distract HA from its core Dublin client base.

In the context of the above analysis and the concern that Mathew has expressed about the somewhat disappointing recovery and growth that HA is currently experiencing, the following are the key issues that HA needs to reflect on and on which it will have to make choices.

1. The perceived position of HA in the marketplace, and in particular, with clients. Although HA has recovered, it has not done so to the extent that Mathew expected. Mathew admits that service slipped during the Celtic Tiger, and there may still be a legacy belief among clients that HA's level of service does not justify the fees charged.
2. The level of margins. Notwithstanding point one, the level of fees remains 10% below the fees charged in 2007. Although the cost base in the firm is not clear, especially remuneration levels, and whether these are at 2007 levels or higher, the margin being achieved is likely tighter than previously.
3. The long-term direction and leadership of the firm. As is the case with many owner-managed SMEs, Mathew seems the only person with the power – and maybe the incentive – to drive the firm. Mathew cannot continue in the firm forever, and he perhaps should start considering the future of the firm. Is there someone, a relative perhaps, that will have the same ambition and expertise to whom Mathew can incrementally transfer his role?
4. Future growth and development directions. In addition to initially consolidating HA's market position in Dublin, there is the opportunity for the firm to develop in new and potentially attractive directions. The continuing economic recovery will allow HA the chance to provide a wider range of HR services to clients, as well as expanding the firm's client base, for example, geographically.
5. The use of technology in the operations and marketing of the firm. HA has only recently begun to invest in more online and digital technology. The firm may be able to leverage these technologies both operationally and to promote the firm in a more contemporary and impactful manner.

**(c) Recommendations for Healy Associates**

The following are recommendations that Healy Associates may use to address its current concerns and to develop into the future.

1. HA should continue with its current focussed differentiation competitive strategy. This has been successful for the firm in the past and the firm has the experience and expertise to effectively deliver a premium differentiated service. (However, note point two below.)
2. HA need to complete a research project to investigate how both its current and former clients perceive the service level and value delivered by the firm. HA is not benefiting from the economic and job recovery to the extent that it expected. As alluded to by Mathew, it is possible that the firm has slipped in its level of service. The firm risks competing at point 6 on Bowman's Strategy Clock: "risky high margins". This position is unsustainable, and HA need to understand how it's perceived so that it may adjust its perceived value / price combination to remain competitive.
3. In the context of recommendation two, Mathew may need to closely examine the performance of its current four specialised recruiters. In a service firm such as HA, clients' experiences and interactions with the recruitment consultants will strongly inform their perception of the firm. Mathew needs to reassure himself that they are in fact delivering the expected level of service and have the necessary expertise for this.
4. It is not clear (from the case) what is HA's current incentive/remuneration structure. Bearing in mind the importance of these in shaping employees' behaviour, Mathew needs to reassure himself that the recruitment consultants, and other staff, are effectively incentivised to deliver the necessary standards of performance.

5. Mathew Healy needs to consider his long-term role within the firm. Like many owner-manager SMEs, it is clear that he is the power and dynamic behind the success of the firm. HA is too reliant on one person. He is now in his mid-to-late fifties and has had previous health problems. If the firm is to continue after he retires from the firm, Mathew should start looking at succession planning and / or bringing in either a partner or a professional manager to develop the firm into the future.
6. HA is focussed on the greater Dublin area. As mentioned in the report, there is a large number of competitors in this market. HA should consider developing a similar premium service in either Cork or Galway, the next two largest markets. These are both less congested in terms of the number of competitors.
7. A second growth strategy that HA should investigate is widening the number of services that it provides. In general, HA seems to have a good reputation and it has a wide range of client firms as well as a large database of potential job candidates. HA could use these pre-existing potential markets to target other services. For example, providing management development training, either to client firms, or to individuals to improve their career prospects. This would require taking on alternatively trained and experienced staff to deliver these programmes to the necessary professional level.
8. HA have started to use digital and online media as part of its marketing strategy, it should continue and expand this, and in particular use sites such as "LinkedIn" to promote its services.
9. HA emphasised a positive, collegiate organisational culture, which may have been undermined as a result of the severe, though necessary, staff and salary cuts to stay in business through the economic crisis. HA should seek to redevelop this organisational culture into the future as it can underpin the firm's success.



## **SOLUTION 2**

**(a)**

To            Ms. Sonja Hafstede  
                 ICEY plc  
                 Dublin, Ireland

From        A Student  
                 CPA Consultants  
                 Dublin, Ireland

Date         25 April 2016

### **Introduction**

The prevention and detection of unethical or illegal conduct is an imperative for a business of any size, but especially a plc where malpractice may negatively impact on the firm's share price, as has happened ICEY plc (ICEY). Building an organisational culture where leaders and employees collectively focus on high ethical standards is both desirable and possible. The FTSE even has its own ethical indices!

Ethics is not easy to define, but generally it refers to standards of conduct, morals and good character. It is important that each organisation clearly define its own ethical guidelines, though while ICEY has an "Ethical Policy", the firm has not effectively operationalised it. This requires not only dealing with misconduct but also establishing a culture and framework that drives ethical behaviour.

### **Building an Ethical Framework**

The following actions, if implemented effectively, should allow ICEY to improve both its ethical performance and reputation. However, this will take time, and will require ICEY to provide leadership and resources, including financial resources, to realise the benefits.

1.     Appoint an Ethics Officer
2.     Create an Ethics Steering Committee
3.     Implement a Code of Ethics
4.     Invest in Ethics Training
5.     Communicate Ethical Values and Standards

### **Appoint an Ethics Officer**

The Ethics Officer serves as the firm's internal control point for ethics and improprieties, allegations, complaints and conflicts of interest. The core responsibility of the Ethic Officer is to design and manage an effective ethics framework and culture. ICEY will need to make the appointment at a senior management level, and the officer should ideally report directly to Ms. Hafstede. There are two reasons for this: it illustrates the importance that the firm is now giving to its ethical obligations and it provides the incumbent with the visibility and independence to effectively fulfil the role. In the current circumstances, it is recommended that the Ethics Officer would be an external appointment.

### **Create an Ethics Steering Committee**

Chaired by the Ethics Officer, ICEY should put into place an Ethics Steering Committee. The Committee will guide the development of ICEY's ethical framework, and should have membership from across the firm, including the Board of Directors. As well as providing guidance, the existence of the Committee will again emphasise the firm's commitment to a more ethical business approach.

### **Implement a Code of Ethics**

Building on the general ethical policy that ICEY has already, the firm needs to develop a detailed Code of Ethics. This will set out ICEY's ethical values, as well as management and employee responsibilities in upholding these values. The firm's Code of Ethics should also give guidance to its employees on how to deal with certain ethical situations, particularly in the areas where it has already been seen to fail ethically. The Code should ideally also set out the penalties, including dismissal, for breaches of the Code. It will take some time, and likely some external support and advice, to ensure ICEY develops a Code of Ethics that will be effective.

As part of the Code, or separately, if ICEY considers it more appropriate, the firm needs to implement a "Whistle Blower's Charter". This should detail the obligations for staff to report colleague's suspect behaviour and potential conflict of interests, but must also include the protections that will be given to the Whistle Blower, for example, anonymity, career progression, the opportunity to transfer to a different unit of the firm.

In addition, the Code will need to include practical reporting and investigating procedures for ethical infringements as well as clear consequences for ethics violations.



## **Invest in Ethics Training**

ICEY will need to invest in Ethics Training for employees and management. Ethics training aims to enable all staff to understand, share and apply the values stated in the Code of Ethics. Training in ethics enables staff to judge the moral legitimacy of their decisions and fosters the employees' agreement and compliance with the organisation's ethical vision. The training should include identifying ethical dilemmas and problem solving. The ethics training programme should not be a once-off for staff, but should be recurring and "topped up". This will require a commitment and the investment of significant resources by ICEY.

## **Communicate Ethical Values and Standards**

ICEY needs to ensure that all staff are aware of the ethical standards and behaviours expected of them. This will require ongoing communications using various media and fora. The possible communication alternatives may include the training course mentioned above, induction courses, an ethics booklet, email reminders, and speeches on the part of management, especially Ms. Hafstede. An ongoing reiteration of the importance of ethical behaviour, alongside reinforcement through HR policies, will be core to ICEY creating a more ethical culture.

## **Conclusion**

It is critical in the current business environment that firms pursue a more ethical approach to business and act responsibly. Changing a firm's culture is difficult, and Ms. Hafstede will find it challenging to address the ethical shortcomings in ICEY plc. It will take some time and a significant investment to alter the staffs' current ethical approaches and mindset. There are two factors exacerbating the situation for ICEY. Firstly, the countries where the firm seems to focus its international activities are perceived to have weaker ethical and compliance standards than Ireland. Secondly, it is not clear to what extent Ms. Hafstede will enjoy the full backing of the Board: to succeed, the ethical initiative will require active support from senior management, as well as significant financial investment. A key to success will be the leadership of Ms. Hafstede – see below.

### **(b)**

Leadership is a key element of the effectiveness of any organisation; without strong leadership organisations tend to drift and lose purpose. In general, leadership is seen to be the ability to influence other people toward the achievement of the organisation's goals. When one considers successful Irish organisations, such as Ryanair plc or Glanbia plc, it is difficult to envision their success without the impact of the CEOs, Michael O'Leary or Siobhan Talbot respectively. As they are at the apex of the organisation, senior management have both the greatest opportunity, and responsibility, to influence the organisation. This is true for all aspects of the organisation: operational, financial as well as ethical.

The role of the strategic leaders of a business is multifaceted. The strategic leaders establish the context for the firm's stakeholders to contribute to the firm. Strategic leadership involves anticipating the future envisioning the organisation, and empowering others to create strategic change. Rowe (2001) emphasises the need for "Strategic Leadership" if organisations are to be successful over the longer term. At the heart of Strategic Leadership is the need to effectively balance long-term viability and short term financial stability.

Within organisations, no major initiative or programme can succeed without active senior management support. If senior management do not actively spend their time and political capital, as well as the organisation's resources to support an initiative, it will inevitably wither over time. This is because only the senior management are in the position to mobilise significant organisational resources, especially money and time, to any given initiative. And, since there is always a scarcity of both, senior management can quickly establish the priorities for the organisation in how they allocate these resources. Middle and lower level management, as well as employees, will evaluate this and prioritise their own activities in light of this: "if the CEO does not care about it, why should I?"

One of the first and obvious things that Ms. Hafstede must do in her new role is to communicate widely and on a recurring basis the need to a more ethical approach across the firm. She should use fora such as management meetings, employee gatherings, newsletters, emails, etc, to highlight the new ethical expectations of the firm. While the legitimate power she possesses will allow her to do this, perhaps more important is the referent power she possesses; management and staff will look up to and respect her. In addition to talking about ethical standards, through her actions, Ms. Hafstede will be able to reinforce the need to act in accordance with the firm's ethical expectations: that is, "actions speak louder than words".

In addition, Ms. Hafstede can negotiate for budget allocations to be released for the various activities identified above – ethics training, the appointment of an Ethics Officer. These will require relatively significant budgets but with no direct or immediate impact on ICEY's profitability. Similarly, she can influence HR policies, including performance evaluation measures, to explicitly include reference to ethical practice. While at the same time she will be able to ensure that any identified ethical infringement is appropriately investigated and disciplined.

As identified by Rowe (2001), an emphasis on values and ethics is central to strategic leadership. Strategic leaders use these to help build a more effective organisation, and therefore a more successful organisation over the longer term. This is a point that Ms. Hafstede needs to remember and perhaps needs to reinforce with her senior management colleagues, if the suggested attitude of the Chair of the Board is to be eradicated in the firm. Research clearly supports the belief that the senior management of a firm, and obviously, in particular the CEO, can have a large impact on the prevailing organisational culture. This is true for all aspects of culture, including the ethical ethos of the firm. Ms. Hafstede has the legitimacy, the influence and the experience to reshape ICEY's ethical culture and with that its long term success. However, she will only succeed if she invests her time, energy, influence and organisational resources into the initiative.

## SOLUTION 3

To Susan and Éamonn Murray  
SE Publishing Ltd  
Blackrock, Co. Dublin, Ireland

From A Student  
CPA Consultants  
Dublin, Ireland

Date 25 April 2016

### Introduction

A high proportion of SMEs fail; for example, the estimates for Irish SMEs that fail in the first five years range from 50% to 66%. There are various reasons given for this, an important reason though is a lack of robust strategic planning. SE Publishing Ltd (SE Publishing) has been in business since 1987, and as mentioned in the briefing for this report, the current management do not necessarily see the need for a more formalised strategic management approach. This report will evaluate the usefulness of a more formalised strategic management approach for SE Publishing, and highlight the benefits to the business of such an approach.

There are many definitions of strategic management, but essentially it involves the ongoing planning, monitoring and analysis of everything necessary for an organisation to meet its objectives. To achieve its objectives a business must understand the business environment it faces and its own capabilities; from this the business needs to develop realistic plans and effectively implement those plans.

### Why SMEs do not Plan

There are various reasons why SMEs do not embrace strategic management to the extent they should, or to the extent that larger businesses do. Some owners are happy to be “lifestyle” owners. They have little concern or desire to bring performance to the next level having found the ideal balance of income and leisure time. This balance is something that Susan and Éamonn need to decide before moving forward.

Strategic planning may be seen as too “grandiose”, as suggested by Éamonn, for the smaller business that is “doing fine”. Strategic planning may be seen as cumbersome and time-consuming, and therefore not worth the effort.

Any change can create fear of the unknown or an uncertain pay-off. It may be that the firm has tried to implement planning in the past and it failed or certain departments and individuals may feel that sharing and cooperating with other areas of the business in strategic planning may reduce their power base. Susan and Éamonn need to review the firm's past management approaches and identify if there were difficulties in implementing decisions made.

### Usefulness of a More Formalised Approach to Developing Strategy

A more formalised approach to strategic management is generally only associated with larger firms but it is equally important for SMEs. The scale of the formalised process for an SME may inevitably be lower, but the principles remain the same.

A more robust and comprehensive environmental analysis means that SE Publishing will have an improved understanding of the sector, its competitors, the intermediaries, the customer base, etc. Susan and Éamonn have many years' experience in the sector and therefore a great “feel” for the sector, however a more systematic analysis of facts and figures will certainly augment their experience.

Relatedly, it is likely that sectoral trends, opportunities and threats will become clearer as a result of strategic analysis, and possible important opportunities are less likely to be missed. SE Publishing may become more proactive in shaping its future as it identifies these trends etc earlier in the cycle, and rather than reacting, it will be positioned to move earlier.

A more planned approach to strategic management should enable SE Publishing's objectives and plans to be more effectively communicated. This would allow SE Publishing to interact with its bank or other external parties to obtain financing etc. SE Publishing can basically state, “This is where we intend to go, and this is how we plan to get there”. Related, the process may be used to communicate with staff and to obtain continued buy-in and commitment from them. This is especially true if staff are involved in the development of the business plans rather than been informed after the fact.

Overall research suggests that a more systematic and logical approach to strategic management results in the business formulating better business plans and as a corollary, leads to improved financial results.

### The Potential Pitfalls

A phrase sometimes used when assessing the strategy process is “Paralysis by analysis”. This is less likely to happen in an owner-manager SME such as SE Publishing, but Susan and Éamonn need to guard against over-detailed analysis and documentation. The research and analysis done needs to lead directly to strategic choices and outcomes for the firm, rather than being an end in itself.

Another criticism of more formalised and rigid strategic planning systems is that they can stifle innovative ideas. For example, Henry Mintzberg has attacked the idea that strategy-making can be reduced only to planning processes; he argues that creativity cannot be planned. Strategic management requires intuition and judgement and these cannot be analysed into planning steps. Relatedly, when a plan is locked in place, people are frequently unwilling to question it. Susan and Éamonn again need to ensure that while they may use a more robust strategy development process, they allow for organisational flexibility and feed in creativity ideas when they happen and not try to timetable them!

A last criticism of the more formalised strategic planning process is that it is frequently divorced from organisational reality. Two important reasons underlie this problem. Firstly, senior management (certainly in large organisations) have little real understanding or “feel” for the day to day business. Secondly, there is an over-use of external consultants – who again do not really understand the business - to support and build the organisation’s strategy. This lack of real understanding, and the consequent lack of input and ownership by the organisation’s management, particularly middle management, can be a significant problem. These issues are less likely to be of a concern to Susan and Éamonn. They are involved daily in the running of the business and with their years of experience have inevitably built a strong intuitive understanding of the business and the sector. While it would be useful for them to retain a consultant to support and advise them on the development of the firm’s strategy, they need to maintain “ownership” of the process and the strategy.

### **Implementation**

A starting point in the implementation of a formalised development process for the SE Publishing’s strategy is a necessary change in the mindset and approach of Susan and Éamonn. They need to recognise that developing a long term strategy for SE Publishing is a separate process, distinct from the management of the business day-to-day. This will require them to separate the two management activities – operational and strategic – so that they are in the appropriate frame of mind to consider the firm’s strategic direction.

A more formalised strategy development process will give Susan and Éamonn, and their colleagues, a framework to look at the firm and the sector in a more reflective, analytical long-term manner. This will avoid the seemingly ad hoc approach taken to date. The use of meetings and strategy workshops away from the firm’s premises will emphasise the separation of operational and strategic management activities. Similarly, the use of a consultant, for example the firm’s existing CPA Accountant, will further contrast the two processes.

SE Publishing have 23 employees, so even in the context of a more formalised approach to the development and implementation of strategy, the process would be scaled back to the size and scope appropriate for an SME. The process does not require the documentation and bureaucracy of which Éamonn is fearful. Similarly, a more formalised process does not – should not – mean a much more rigid process. There is always room, especially in an SME, for flexibility.

Initially, as part of the process, SE Publishing need to reflect on and articulate their core values and vision. For many family run SMEs it is about more than money and profits and Susan and Éamonn need to articulate, even for themselves, the place the business has in their lives, especially as they get older. SE Publishing also need to make an objective and robust analysis of both the publishing sector and the firm’s capabilities. They may use scaled back versions of PESTEL, five forces, and organisational competences to do this. This may be a particularly important use of an outside consultant, who can objectively probe and question Susan and Éamonn’s logic and conclusions. A comprehensive, evidence based SWOT would be a useful way of capturing this analysis. This can be used to identify SE Publishing’s key objectives, to make choices and plans to achieve the objectives and to set out timescales, resource requirements, etc to implement the plans.

### **Conclusion**

A good strategic plan provides the framework in which a business can grow. Analysis and reflection will allow SE Publishing to identify what it can achieve in the next several years, and then the firm can break down the steps it must take to get there. Planning these steps using a more objective, formalised process will increase the likelihood of the business continuing to be successful going forward.

## **SOLUTION 4**

To Mr. Ger Ryan  
TotUp Ltd.  
Mahon Point, Cork, Ireland

From A Student  
CPA Consultants  
Dublin, Ireland

Date 25 April 2016

### **Introduction**

There is a growth imperative in the nature of most firms: firms want to become larger and more successful. This is certainly true in the case TotUp Ltd. Organic growth is the most common and most important growth strategy used by firms, but the use of acquisitions are a second important growth strategy. An acquisition is where a company buys most, if not all, of the target company's share ownership in order to assume control of the target firm. While there are many large acquisitions, where one plc acquires another, the vast majority of acquisitions are small scale, private and so tend not to be reported in the business press.

Acquisitions are often made as part of a firm's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to the acquiring firm expanding on its own. There are other important reasons, other than taking over a competitor, for acquisitions: to diversify into other industries, including to widen market cover, to capture target's R&D, and as in the case of TotUp Ltd., to enter new – foreign – markets.

### **Acquisition to Enter French Market**

In seeking to enter the French market, TotUp Ltd. is moving into a different country with a very different legal, regulatory, accounting and tax environment. In general, to succeed in a foreign market entry a level of local knowledge and understanding would be necessary. However given that the product / service sold by TotUp Ltd. is directly and innately linked and responsive to the local regulatory, etc environment, it is critical to the success of the venture that deep local knowledge is available from the beginning. An acquisition allows TotUp Ltd. to capture such local knowledge as it is embedded in the target firm.

There is no technical or legal reason why TotUp Ltd. cannot organically develop in France; it could develop new localised accounting software, hire local staff and build a brand and market position from nothing. This however takes considerable time – several years – and there is no guarantee that TotUp Ltd. would be successful. TotUp Ltd.'s management are ambitious and aggressive; if the firm is to develop organically, and slowly, in France, and presumably subsequently in other EU countries, it is unlikely that the ambitions of TotUp Ltd.'s management will be achieved. Acquisition is a much faster expansion strategy, and seems more suited to TotUp Ltd.'s expansionary vision.

Foreign businesses are sometimes viewed with scepticism, even distrust, by locals. There is no shared history or connection, and so some can find it difficult to trust the outsider firm. The acquisition of a local business should allow TotUp Ltd. to avoid this problem. If not fully avoided, using an acquisition at least means that existing, or potential clients, will still be dealing with locals and perhaps even the staff they have always dealt with. This should be reassuring for these clients and allows TotUp Ltd. to underplay the foreignness of the subsidiary. It may for example, keep the original name of the target firm and not change it to TotUp Ltd. at all.

The possible creation of synergy is a key underpinning rationale for most acquisitions. Synergy is the potential for efficiencies or improved competitiveness that arise as a result of the new combined firm having larger scale or being able to leverage R&D, brand names, facilities, etc. In this instance, market entry rather than synergy opportunities is the main objective of the acquisition. TotUp Ltd.'s acquisition is what is sometimes called a "market extension acquisition" and may not result in significant synergy initially. Though over time there is potential for cost savings and potentially using and adapting Irish services for the French market and vice versa.

Obviously, there are clear and significant risks associated with an acquisition; these will be discussed later in the report. However, if TotUp Ltd. research carefully and acquire an already successful local French firm, it will obtain a pre-existing client base, product / service range as well as local knowledge and talent. These are all critical elements for business success and can significantly reduce the business risk facing TotUp Ltd. in France compared to if it were to develop there organically.

### **Challenges in Successful Acquisitions**

While it is clear that there are several benefits to acquisition as an entry route for France, TotUp Ltd. will also face real challenges. There are several difficulties associated with the acquisition process.

- The target business does not perform as well as expected
- Costs savings and other synergies do not materialise
- Key people in the target firm leave

- The organisational cultures of the two firms are incompatible. This is particularly the case when it is a cross-border acquisition.
- The acquirer is unable to manage the acquisition and integration process effectively.

The extent and quality of the planning and research TotUp Ltd. does before it pursues an acquisition deal will probably largely determine the outcome. If TotUp Ltd. is careful and extensive in its research, it is more likely that the acquisition it negotiates will bring the expected benefits. In addition to this, TotUp Ltd. need to recognise that this is the first time it has attempted an acquisition, and it is even further complicated that the target firm is going to be foreign – French. TotUp Ltd. will need to obtain good accounting and legal advice, and similarly, the use of a consulting firm / investment bank with experience in such acquisitions would be important. This unfortunately will likely add substantially to the cost of the deal – but does significantly reduce the risk of significant unforeseen problems.

TotUp Ltd., and its advisors will need spend an amount of time researching the French accounting software sector to identify possible acquisition targets. In some ways, this is probably the most important step. If TotUp Ltd. can identify a target that matches its business objectives and which seems to be a good organisational and cultural fit, this will increase the probability of success.

Any deal with have to be friendly. TotUp Ltd. cannot push private firm's shareholders to sell, as can happen with the hostile take-over of a plc. Therefore as part of the target search, understanding the goals of the target's existing owners is key. This may usefully be linked to the retention of key staff after the acquisition: TotUp Ltd. may be able to stipulate that existing owner managers must/may stay for eg three years after the acquisition. This can tie in key staff and simultaneously reassure the target business's owners.

Another important step for TotUp Ltd. will be to complete a comprehensive due diligence on the target firm. This is another area where TotUp Ltd.'s advisors will play a key role. As well as the usual financial, legal, HR elements, the due diligence should pay particular attention to the organisational culture of the target firm, and to what extent it may facilitate the acquisition. This is particularly important as the target firm is to be French. In effect, the objective of the due diligence is to ensure that TotUp Ltd. really understands the organisation it intends to acquire and that there are no surprises later.

The last, and major step, in successful acquisitions, is to integrate the acquired firm into the acquiring firm's organisation and systems. TotUp Ltd. needs to make the decision on the relative merits of leaving the acquired French firm as a stand-alone entity versus the benefits of absorbing it into TotUp Ltd. On balance, it seems more logical to allow the French firm initially maintain its independence and to only incrementally integrate it. This will minimise the organisational disruption of the acquisition, reassure the French managers and staff, while still providing TotUp Ltd. with access to the French market, new services and products and the opportunity to learn about the French firm and market over time. This is important because of the large differences between Irish and French culture and business culture.

## **Conclusion**

Acquisitions are an important and frequently used means of growing a business. If TotUp Ltd. decides to pursue an acquisition of a French firm as a means to enter the market, it will obtain several benefits, including the speed of market entry, local knowledge and an existing customer base and product range. However, the majority of acquisitions do not in fact deliver value for the acquiring firm. If TotUp Ltd. is to maximise the probably that the acquisition will be successful it needs to ensure that it completes a lot of research to find a suitable target, that it obtains a lot of advice, that it understands what it is actually acquiring and that it manages the process, especially integration, effectively.



### Indicative Marking Scheme for Question One

	Marks
<b>(a)</b> 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	
• Indicators 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
<b>(b)</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
<b>(c)</b> Strategy / Proposals	
• Must be logical and clearly relate to previous analysis	
• Recommendation(s) should be prioritised, not just listed and justified	8
<b>Total Marks</b>	<hr/> 50

### Indicative Marking Scheme for Question Two

	Marks
<b>(a)</b> Importance of business ethics to ICEYY plc	3
Developing an ethical organisational framework. Possible issues include:	
• A code of ethics	2
• Employee ethics training	2
• Whistle blowing policy and process	2
• Communication of ethical values and policies	2
• Develop and disseminate relevant HR Policies	2
• Appoint an ethics officer and committee	2
• Any other relevant issue	2
• 6 issues x 2 marks; maximum 12 marks	12
<b>(b)</b> Importance of strategic leadership	2
Ms Hafstede's role in developing an ethical organisational framework, including:	
• Exhibit personal integrity and fairness	2
• Role model expected behaviour and attitudes	2
• Communicate and support the actions identified in (a)	2
• Allocate budgets, time and attention to ethical training, etc	2
• Shape and influence relevant HR policies	2
• Influence organisational culture	2
• Any other relevant issue	2
• 4 roles x 2 marks; maximum 8 marks	8
<b>Total Marks</b>	<hr/> 25



### Indicative Marking Scheme for Question Three

Nature of strategic process	<b>3</b>
Potential benefits of a more formalised approach to developing strategy may include	
• Evidence and research based strategic decisions	2
• Improved understanding of the sector, competitors, etc	2
• More likely to identify opportunities and threats	2
• Wider range of options evaluated	2
• Improved communication of strategy, eg to employees, lenders, etc	2
• Any other relevant benefit	2
• 4 benefits x 2 marks; maximum 8 marks	<b>8</b>
Potential concerns of a more formalised approach to developing strategy may include	
• Time consuming	2
• The process may become an end in itself, rather than leading to better decisions	2
• The process may be unrealistic, separated from the reality of the organisation	2
• May restrict innovation and creativity	2
• In a “lifestyle business”, current performance may be acceptable	2
• Any other relevant concern	2
• 4 benefits x 2 marks; maximum 8 marks	<b>8</b>
Implementation of more formalised approach may involve	
• Change firm’s management mindset	
• Recognition of strategy process as separate and distinct from operational issues	
• Retaining a management consultant to support the process	
• Timetabling the process, strategy meetings, etc	
• Scaled back process: Vision, PESTEL, SWOT, 5 Forces, Capabilities, etc	
	<b>6</b>
<b>Total Marks</b>	<b>25</b>

### Indicative Marking Scheme for Question Four

Nature of acquisitions	<b>3</b>
Critically evaluate acquisition as entry strategy for France. Potential issues include:	
• Speed of entry	2
• Obtaining existing service portfolio, clients, etc	2
• Acquisition premium	2
• Risk	2
• Accessing local cultural knowledge	2
• No international experience	2
• Reduce perception of foreignness in France	2
• Service/software country specific	2
• Any other relevant issue	2
• 6 issues x 2 marks; maximum 12 marks	<b>12</b>
How to address challenges of acquisition in France. Actions may include	
• Careful planning and research	2
• Obtaining local legal and financial advice	2
• Completing an effective due diligence	2
• Considered post-acquisition integration strategy	2
• Any other relevant concern	2
• 4 actions x 2 marks; maximum 8 marks	<b>8</b>
Conclusion	<b>2</b>
<b>Total Marks</b>	<b>25</b>