

## **MANAGEMENT CASE STUDY NOVEMBER 2015 EXAM ANSWERS**

### **Variant 3**

**The November 2015 Exam can be viewed at**

<https://connect.cimaglobal.com/resources/management-case-study-exam/november-2015-management-case-study-exam---abc-solutions-variant-number-3>

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#### **SECTION 1**

##### **Resolve the problem**

The basic problem is that the department head, whose staff members have been seconded, is still being held accountable for their time. That has led to bad feeling and a refusal to permit the secondment to continue.

It is extremely difficult to ensure that this type of dysfunctional behaviour is avoided because there will always be some disincentive to cooperate.

The simplest approach would be to shift the hours available and the hours billed. If that had happened then the Data Centre's utilisation would have gone down to 100% and Security's would have increased to 20%. The security manager would be less aggrieved, although there could then be a sense that the contribution for that project would all go to the Data Centre department and so the problem would simply have been reduced.

If the departments are profit centres then there could also be a sense that the department which uses seconded staff is picking up slack created by the other manager's failure to bring in sufficient business. If unused staff hours are absorbed by more productive departments then every department could have close to 100% utilisation, whether there is a demand for their services or not.

If there is no incentive to employ seconded staff then it will only happen if managers are desperate for additional capacity so that they do not lose business through being late with a contract. That may not be desirable because there could be opportunity costs, with work being deferred by busy departments until the last possible minute and so uncharged time is effectively lost.

It might be possible to reduce these problems by measuring utilisation rates both before and after secondments, with appropriate attention paid to both sets of figures. Tracking the utilisation of staff within their home departments will give managers an incentive to ensure that they are working to generate new business. Utilisation rates after transfers will highlight

departments that are operating at full capacity but are not using available staff time from departments where there is slack. Those department heads should be required to indicate why they have not made use of the staff time that is available and they should be charged with the failure to make use of the time, unless there is a good reason for not having done so. Staff should always be taken from other departments unless they lack some necessary skill or experience.

### **Disciplinary action**

It is completely unacceptable to have a head of department risk the breach of a deadline. It has to be made clear to the manager that all staff are employed by ABC and that managers do not own that resource, even if they are accountable for its use.

Jeff should have resolved this matter differently, perhaps by voicing a complaint to ABC's senior management. Even that would have been a rather unhelpful response because senior management could not really have been expected to do anything other than confirm that the surplus security staff should be put to work if there was a need for them in another department. Jeff should really have been encouraged to find some constructive work for his own department, rather than wasting management time on a rather superficial grievance.

Formal disciplinary action would probably have been bad for morale. The staff in the Security department might feel threatened by the lack of business and they might have perceived Jeff's action as protecting their interests. Any action against Jeff could be interpreted as a further attack on their department. It could also undermine his authority as head of department.

It would be preferable to resolve the matter by counselling Jeff. Senior management could reassure Jeff that his department's contribution to the Data Centre project has been noted. Potential concerns should be addressed openly and honestly. For example, Jeff could be concerned about the threat of downsizing. Ideally, it should be stressed that any short term secondment should not be viewed as a sign that a more permanent redistribution of staff is under consideration. Nor is there likely to be a problem if the Security department wins a contract and requires its own staff to be returned in order to complete the work on time.

## Section 2

### Profit impact

By making this investment, we will probably have significant influence over Bengo and so it will be an associate. That will mean that we will need to show 25% of Bengo's profits in our statement of profit or loss. That would only be appropriate if we could demonstrate that we had significant influence, which probably depends on other factors such as the ownership of the remaining 75% or whether we could appoint a member to their board.

Our reported earnings would decline because of the loss of the contribution from the Security department. That was quite small because the staff were under-employed. Their utilisation would be higher in Bengo, but we would only be entitled to 25% of their profit. Bengo is also a specialist in this area and could be able to charge premium rates for our staff, meaning that 25% of their contribution could be an attractive sum. With the synergy of adding our staff, we could see a jump in earnings if Bengo can push for larger contracts. Of course, we would also receive 25% of the company's other profits, whether generated by Jeff's staff or from their existing consultants.

The finance charges on the funds borrowed for our investment in Bengo will also decrease our overall profit. That amount should be reasonably easy to predict.

In the worst possible case, Bengo will report a loss. We would then have to incorporate 25% of that into our financial statements. We will still have the loss of any contribution and any finance charges from the funding package. Overall, our earnings are likely to become more volatile.

### Strategic error

ABC's service lines offer scope for synergy. Many potential clients will be attracted by the fact that we offer a range of services. They may feel that having one firm provide all services will mean that they get a comprehensive overview of all aspects of their system. The company that designs and operates their system is more likely to fully understand their security concerns.

We can, of course, draft in expertise and subcontract security assignments. We will, however, have more flexibility and faster response times if we can utilise our own security experts. There could be a sudden call for security support in the aftermath of a major cyber-attack or virus incident. We will also be more confident about putting our own staff in a position of trust when designing security systems for sensitive applications. Clients will be more confident if we can vouch for our own employees on their assignments.

Security is likely to be a growth area and it would be short sighted to leave that market. The move to cloud-based systems will mean that client data will be more accessible using on-line access. That means that securing and protecting data integrity is far more complex than before because there is no longer the scope to isolate systems from the outside world. Security issues also arise from the fact that many cloud-based services are offered by third parties and so there is need to consider security in terms of potential access by operating staff.

A dedicated Security department will also be able to serve the needs of our own Data Centre. Consultants will have a broader understanding of the risks that we will face and so they will offer a higher level of protection than a few security experts employed in-house in the Data Centre.

## Section 3

### Permanent solution

The distribution of free copies of the software may mean that there will be a host of clients who decide to switch in time to make the transition while the upgrade is free. That could keep Jeff's department busy for several months, followed by a tailing off once the free upgrade period reaches an end. That may not be a permanent solution to the under-utilisation, but it could be a very lucrative source of fee income for that short period and could be viewed as a potential windfall for ABC.

In the longer term, there may be a significant number of potential clients who decide to wait until Operating System 2015 has been tried and tested before they implement it. Even if it would save a great deal of money, they could feel that it will be cheaper in the long run to implement a more mature operating system. That could mean that Jeff's staff will be able to count on many years of work, as clients make the decision to move into the new operating system. There may be a short period between the end of the free upgrade and the start of the upsurge in demand because there would be very little point in waiting until immediately after the six month period has elapsed before upgrading, but that would be a temporary lull.

By getting involved in the initial upgrades, the department will be able to develop experience and expertise with the new system. That will make it easier to sell upgrades in the longer term.

The fact that these consultants come from a security background could be to ABC's advantage because clients are likely to be particularly interested in the security flaws in the new operating system.

As time passes, there will be ongoing opportunities for these consultants. Upgrades and improvements will be issued by Petaware and clients may be keen to pay experts to maintain their systems and test for new vulnerabilities. Clients may also be keen to have some proactive security reviews on an ongoing basis in order to ensure that Petaware's upgrades are sufficient.

### Risks

The most immediate risk is that ABC will face claims for damages by dissatisfied clients. Hackers generally have an advantage over security professionals because they can use their ingenuity to identify vulnerabilities that had not been anticipated. The fact that ABC is taking a fee to offer security advice means that clients may feel entitled to seek compensation in the event that a weakness led to the loss of data or some other harm.

ABC's reputation may be damaged by a high-profile failure involving a client. The media will regard any major IT failures involving the new operating system to be newsworthy. Any problems encountered by one or more of ABC's larger clients could easily be blamed publicly on ABC because the clients' directors will be keen to divert any criticism of their governance arrangements.

There could be costly disputes over the respective responsibilities of ABC and its clients. The nature of the problems that may arise from the implementation of the new software may be difficult to foresee and it may be unclear whether their rectification is ABC's responsibility or whether a further fee should be paid. ABC could lose a significant number of chargeable hours in the process of resolving such problems.

OS 2015 is intended to facilitate transactions such as EPOS terminals. Those will be tempting targets for fraudulent hackers. Consumers who use credit cards to buy goods from ABC's clients may suffer losses if security problems cause identity theft or other problems. Unless responsibility for such breaches is very carefully managed, clients may hold ABC accountable for such consequential losses.

## **Section 4**

### **Investment**

The cost of the investment could be difficult to establish. The fees themselves are readily understood, but there is also a potential opportunity cost with consultants being unavailable for any urgent contracts that are available.

It is difficult to estimate the revenues that will be generated because of the training. Much of the consultants' prior knowledge and experience will still be relevant, so they could offer a credible service without being provided with formal training. Clients will not necessarily pay for a consultant who has completed a 10 day course because they would expect consultants to be established experts regardless.

The quality of the training may be difficult to foresee. It will be promoted effectively and it may legitimise the consultants' claims to expertise, but they may actually learn very little that is of value. The course facilitators will be in a very similar position to our own consultants, being faced with a new operating systems that they are unfamiliar with. The benefits of participating could easily be oversold because time will have to pass before anyone, including the trainers, can understand the new system.

### **Retain consultants**

There cannot be any guarantees. The best starting point would be to discuss the issues with the staff before sending them on the course. It will be more difficult for them to leave if they have made a commitment to stay, even if that commitment is only verbal.

It might be possible to impose a penalty, such as requiring that the course be paid for if the consultant leaves. The danger then is that ABC will have a disgruntled employee who decides to stay rather than pay the penalty. That could cost the company a great deal if that affects interaction with clients.

The most effective safeguard is to offer the staff realistic compensation for the work that they do. If the staff are well paid and valued then they will have little cause to go.

ABC could make it clear that they will consider matching any competitor's offer in the event that a consultant is approached. The danger then is that consultants may approach competitors in the hope of negotiating a rise.