

STRATEGIC CASE STUDY MAY 2015 EXAM ANSWERS

Variant 4

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Section 1

From: Finance Manager
To: William Seaton, Director of Finance
Re: Public relations crisis

Hi William,

We have to be careful here because our response to this news could easily become a major part of this story and we could make things far worse.

Suppress the story

Business News is just one newspaper. There are many other newspapers and television news channels which could break the story just as easily. This appears to be a significant environmental event that is newsworthy, so concealment is not a possibility. The spillage can only get worse in the short term and so any delay in the news coverage will simply make the story more dramatic.

There is a danger that any attempt to bully Business News will become part of the story itself. Their editor could decide to run any approach that we make as a separate “exclusive” story that will show the paper’s journalistic integrity. We will appear to be fearful and evasive and will risk serious reputational damage.

Some stakeholders will be badly affected by this spill. Leaving them uncertain and badly informed will simply make them more vocal. Politicians will be forced to take actions that could be harmful to all oil companies with a stake in that region. We could risk unsettling governments in other countries where we are using this extraction technique.

Stick to the facts

We should release a press statement to the effect that we do not yet know where the oil is coming from or why it is leaking, but that we acknowledge that it could be coming from our site. That will demonstrate a sense of us accepting responsibility for our actions while distancing ourselves from any harmful speculation.

It is inevitable that we will be blamed for the spillage, even if we are not its cause, because we have recently started exploration work in that area. It would be foolish to pretend otherwise. If we acknowledge the possibility that we are responsible and demonstrate that by launching an immediate investigation then we will be seen to be doing as much as we can.

Denying responsibility will be counterproductive, so we might as well adopt a policy of releasing statements that are consistent with the facts as we know them. For the moment, all we know for certain is that a spillage has been reported and that we have put arrangements in place for us to conduct an investigation.

We can commit ourselves to releasing further information as it is obtained and verified. If we become a source of realistic and reportable information then we will retain some control over the manner in which events unfold in the press. This is crucial in the short term because news outlets will be keen to report this event as quickly as possible, even though there will be very little credible information for them to publish.

Media team

The media team should be headed by public relations experts. We need to link our responses to the needs of editors and producers because the advent of 24-hour news channels and online reporting means that the media has a constant need for news from developing stories and any small event can be misreported if it is the only fresh material that is available.

We should consider the background and experience of our in-house PR team and hire in experts as necessary from a major consultancy. Ideally, this side of the response team should be headed by someone who has personal contacts with the major news outlets so that they can release information in a manner that will be regarded as credible.

The team should also include senior technical staff because the public will be expecting to hear from geologists and engineers who can discuss the actual problem and propose remedies. It might make sense to identify two or three technical experts who have some media training and use them to liaise with the engineers and geologists who are actually working on the project. Provided such experts were not required for the actual response, they would be able to interpret the technical implications of any reports from the site. Public relations experts might be tempted to put too positive a spin on any new facts as they are discovered and Slide's credibility could suffer in the process.

Communication

The biggest factor that should be borne in mind is that careless comments can be taken out of context and can become the story in some cases. Companies are often damaged by an angry or a flippant outburst from a senior manager. News footage can be edited and most people, including print journalists, carry smart phones that can record audio and video, making it easy to edit a particular sentence out as a documented news bite.

All communications should be routed through a designated press officer, whose responsibility is to obtain responses to requests for information. Any responses should be vetted by a member of the public relations department or consultancy to ensure that they will not damage Slide's reputation. Staff who are to appear on camera should be briefed as to what to say and to refuse to speculate over matters that could be misreported. For example, briefing the press on an attempt to stem the flow should be worded carefully to avoid making Slide appear incompetent in the event that the attempt is only partially successful or even fails.

The team should also isolate the technical experts from the distraction of constantly dealing with the press. There has to be a balance between making the Board and senior technical

managers available for comment and having them spend so much time answering press requests that they have no opportunity to work or rest.

Section 2

From: Finance Manager
To: William Seaton, Director of Finance
Subject: Share price

Hi William,

The risks that we face will interact with the impact on our share price, but I'll keep the two separate for the sake of clarity.

Risks

If it is shown that our actions caused this crisis then there is a strong possibility that we will have to pay a significant amount to rectify the damage. Given that the leak started shortly after we commenced extraction, it is very likely that we are responsible or that we will be blamed even if our liability is never proved. Clearing up an oil spill at sea is a very costly exercise requiring specialised ships and other equipment and large quantities of chemicals.

We will almost certainly have to cease production from the offending well, which will probably mean that we will have to write off our investment in that venture. If we stabilise the rock formation we are unlikely to be granted permission to recommence work there. It could be argued that these are sunk costs, but our reported profit will be affected and our future cash flows will have been forecast on the basis that this production would be forthcoming.

The press will be aware of any attempts that we make to resolve this problem. It will be obvious that we are moving in personnel and equipment and getting ready to attempt an operation. If attempts fail then our credibility will diminish and the press will speculate that we are not in control. Given the complexity of the problem, it is unlikely that we will resolve it at our first attempt.

We may find it difficult to obtain permission to operate in that country or the surrounding region for quite some time. The spill could affect the coastlines of several countries and their governments will be keen to demonstrate firm action, even if we are being blamed unfairly. There could be significant opportunity costs if this occurs, especially as the Middle East is our most important region.

We may come under unwarranted scrutiny wherever we are using this particular extraction technique. The heavy publicity will lead to public concerns that we are risking the environment whenever we recover oil using this technique. There could be costly calls for suspension of operations or disruptive site surveys.

We may have to pay significant compensation to affected businesses in that region, with claims being difficult to verify in the cases of small business owners who cannot furnish audited financial statements. We will be unable to press for evidence or to limit payments in such cases because it will appear in the press as corporate bullying and there will be emotive stories about families losing their livelihoods. We are effectively left open to a major financial fraud by anyone who wishes to claim to have fished in that area.

Share price

In an efficient market, the share price will reflect all of the information that is available to the market. For the moment, the market has very little information to process, other than that Slide faces costly rectification costs. The market's understanding will be different from ours because we cannot release all of the information that our geologists are working on and it is debatable whether the stock market will believe any such disclosures anyway. There will

always be a concern that it costs nothing to make a positive statement and so it may be disregarded.

There are also speculative forces at work that have little to do with the fundamental analysis of the clean-up costs. If market participants are expected to be nervous then it would make sense to sell Slide's shares in the anticipation that the price will fall even further. Some speculators may even choose to sell short in the expectation of closing out their position after a further fall. Such investors will have an incentive to stoke up rumours of further bad news and also to signal the intention to sell more shares in the hope that they can capitalise on this downward pressure.

Releasing our costing has advantages and disadvantages.

The market may be reassured by the news that we have a plan that is expected to resolve this threat at a relatively modest price (at least in comparison to initial fears). We could underpin this announcement with some form of external verification to enhance its credibility.

The market may not accept such a set of costs at this stage because of the fact that it is only a matter of hours since the news was announced and our technical experts have yet to conduct any form of evaluation. The announcement is likely to lack credibility and be viewed as an attempt to shore up the share price.

Slide's Board could damage its reputation and standing in the market if the attempt fails or if it costs far more than expected. The market will view the costing statement as misleading even if it was never the Board's intention to mislead.

From a public relations perspective, any such announcement will be viewed as self-serving and cynical. Slide will appear to have put the financial implications of the harmful spillage at the top of the agenda, which could lead to a backlash from many stakeholders.

Section 3

From: Financial Manager
To: William Seaton, Director of Finance
Subject: Crises management issues

This is a dilemma that will take careful handling on a variety of fronts.

Should we call in Block Associates?

The first question is the likelihood that our initial plan will work. Presumably, we have started on the work to prepare for the introduction of cement into the leak to plug the seepage. If we proceed with that plan then we may be able to bring this crisis to a swift and decisive conclusion. Presumably, Block Associates will require us to suspend any operations until it has drawn up its own response because any failed attempts on our part in the meantime could complicate its task.

Block Associates' track record in this type of spillage is a key factor. Every such disaster will be different and so its understanding of the problem may be no greater than our own. If Block has lots of experience of dealing with leaks due to the mechanical malfunctions of equipment or pipes then it may not be particularly competent at dealing with a geological fault.

The public relations aspects must be considered. Bringing in a leading consultant, at considerable expense, will demonstrate a clear commitment to dealing with the crisis. We will appear to be taking responsibility by paying for the very best.

We will also be passing much of the responsibility over to Block Associates in the event of a failure to stem the spillage. The public may start to view it as a sign of Block's incompetence rather than our failure in the first place.

Business relationship

We need to avoid micromanaging Block, whose terms would prevent us from doing so in any case. We need to avoid antagonising it so that it invokes its right to take sole charge and walk out. We also need to acknowledge that it is expert in its field and that our geologists are experts in finding and extracting oil and not in resolving spillages.

We do have to insist on having some understanding of what it is doing because we will be accountable for its actions to some degree. The longer the leak persists, the worse the damages that we will have to pay in the aftermath. We should require regular, perhaps even daily, updates.

We also need some assurance that Block is working to resolve matters as quickly as possible because its 25% mark-up will be greater if it delays completion or deploys unnecessary resources. We need to have some say in the costs of the alternative responses because we have a duty to the shareholders. The financial costs are likely to be a huge burden for the company as it is.

The public relations issues will be different with Block in charge. We will have to be careful to ensure that it does not exaggerate the problem to make it seem more credible at our expense. We also need to ensure that its press office does not contradict ours because that will make our management of the crisis appear ineffective.

Slide's geologists

The best way to motivate the geologists is to involve them as fully as possible. We can involve the geologists in the final decision as to whether to call in Block's experts so that they have the opportunity to quiz Block as to how they might stand more chance of success. If Slide's team can see that the consultant has skills that they lack in-house then the decision to call them in will be less contentious.

We can insist that Block's team consults with our geologists who will, after all, have a thorough understanding of the site and its features. Our technical staff will also have some experiences of the impact of our particular extraction techniques. We can, therefore, make a strong case for involving our experts in Block's response plan.

Retaining the geologists is partly going to be a matter of the response to the crisis.

Firstly, Slide has to take great care not to blame the geologists for the leak unless there was clear negligence. It will be important to learn all of the lessons that can be taken from this crisis and so the facts will have to be determined. The temptation will be to claim that staff carelessness was a factor and that those responsible have been dealt with, but Slide should be prepared to claim that the leak was unavoidable rather than to pin the blame on a bad site survey.

It may be worth considering training the experts in the skills required to handle any future spillage. The training itself will reduce the need to use Block and so future costs will be saved. The geologists will feel the value of the training and they will feel that they are less likely to be undermined in the event of a future crisis.