

## **CGMA FEBRUARY 2018 EXAM ANSWERS**

### **Variant 5**

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*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **SECTION 1**

##### **Macro environmental factors**

###### *Economic*

The economic recession has arguably had a positive impact on the ability of people to exercise at an affordable price. Royals itself and a range of other budget gyms have opened, making exercise easier and more affordable to the people of Hylandia. The economic climate has created a need for budget gyms. However, if recession is sustained into the future and people's disposable income is squeezed, this may impact negatively on exercise, as choices on disposable income have to be made and it is likely that exercise is not considered to be a necessity.

###### *Social*

The population of Hylandia has many opportunities to do more things with the money they earn. There are many forms of social entertainment which are alternatives to exercising and keeping fit, such as TV, cinema and gaming. However, society is now far more aware of the benefits of a healthy life style, largely due to better and wider sources of information provided through technological information sources such as the internet and through initiatives and information provided by the Government.

###### *Technological*

Technology can be a distractor to people to undertake exercise. Multimedia technology and 24-hour streaming of TV, gaming and films directly to mobile devices means that people have a huge variety of alternative technological sources of entertainment. Also, technological devices are replacing the need to stay active (voice activated devices for example). However, technology can also be a driver for fitness and exercise and can be used to encourage health and fitness, such as the development of exercise apps.

###### *Political*

The Hylandia Government is actively promoting healthy lifestyles through initiatives such as the one proposed. National health budgets are being put under increasing

pressure by ageing populations and by illnesses caused by unhealthy living, such as diabetes and certain types of cancer. Therefore, it is in the Governments interests to promote health to reduce this cost to the tax payer and to reduce the strain upon national health providers.

### **Opportunities and threats**

It should raise our profile nationally and bring us recognition as a leading health and fitness provider in Hylandia. It should improve our reputation in the industry and attract more customers to Royals as a result. Gym usage is predicted to rise by 2% each year giving us access to more potential customers if our profile is boosted by participation on this initiative. Future initiatives and partnerships both with the government and with the other private sector partners linked to this initiative such as supermarkets and food manufacturers are possible

Potential threats are that if the initiative is perceived by the public as a failure it could damage our reputation. Public and private sector collaborations often do not succeed. There is also a risk that taking on extra customers adversely affects our current customers, leading to reduced customer satisfaction levels. Customers may leave to join rival budget gyms.

### **Benefits and challenges of working in public/private sector collaboration**

Both Royals and the Ministry of Health are working towards the same aim of improved levels of health and fitness for the people of Hylandia and to make exercise accessible to the population. Therefore, this should be a positive aspect of the collaborative partnership.

As a public sector body, the Ministry of Health will have different strategic objectives and its focus will be on the overall effectiveness of the programme in terms of the measurable improvements to health and fitness of the patients, whereas for Royals, our primary objective is to be the leading gym provider in Hylandia. So, Royals will be considering the outcomes of the initiative in terms of its impact on this objective. In addition, our investors will want to ensure that we focus on our aims of target number of gyms, membership and operating profit.

A public sector partnership carries the potential for significant benefits for the Hylandia Health Ministry. These could include reduced government spending (eliminating long term expenditure of scarce public funds by creating a healthy population), greater efficiency (due to the efficiency of our own operations as a low-cost provider) and better healthcare management (scarce funds relocated to other areas of healthcare). It could be a valuable method of leveraging our own fitness management expertise, which they do not possess. From our perspective, the benefits will be the improvement in our profile in the health and fitness market and the potential to increase our customer numbers and improve accessibility.

There are also challenges to manage and planning an effective partnership will involve careful up-front review of the allocation of financial risks and rewards, decision-making mechanisms and responsibilities, and an applicable contractual framework. Appropriate monitoring and managing of quality and performance are particularly important but also will be particularly challenging. Monitoring and evaluation mechanisms, performance indicators, targets and outputs, as well as any performance bonuses will need to be considered upfront. It may also be worthwhile consideration of setting up an advisory board, and/or project management office for the duration of the initiative.

Obviously, the national Government of Hylandia will need to establish an overall measure of the outcomes of the programme in terms of improvement to the health and fitness of the participants. The challenge will be for Royals to provide a mechanism to measure such an outcome which will be very difficult to measure with any certainty. Royals has no need to measure the overall improvement in the health and fitness of its existing customers and therefore this will be something completely new to Royals. Guidance and advice will need to be sought from the Ministry of Health on this matter.

It will also be very difficult to establish the direct impact of Royals on the health and fitness of the patient, as it could and will be influenced by many other external factors. However, Royals performance in terms of the outcomes, as chosen by the Ministry of Health, could impact on our overall reputation. Obviously, the government will be aiming to minimise costs which will have a detrimental effect on us as this will mean less revenue for us.

We also would want to know how the Health Ministry will measure the overall success of the initiative. It is likely that any certain outcomes can only be found in the long term, at a time considerably beyond the timeframe of the programme. Therefore, our own expectations of the outcomes in terms of timeframe may not be aligned with the Ministry of Health. It is likely that our own timeframes of success will be much shorter.

Royals reputation could also be affected by the actions of any other partner in the collaboration. For example, the actions of supermarket chains or food manufacturers could impact on us detrimentally through our involvement in the collaboration.

## **SECTION 2**

### **Risks of poor staff motivation**

It would appear that potentially there could be a lot of extra work for gym staff. Inductions are time consuming and 300 patients, over a very short space of time at the beginning of the programme, is likely to be onerous and could be demotivating, unless we offer some incentives to staff to undertake these. Coping with potentially up to 300 inductions within the space of one or two weeks is likely to put gym staff under significant pressure. This may lead to staff absences or illness.

Currently our staff only work between the hours of 6am and 10pm but the proposal requests 24/7 availability. This is likely to be demotivating to staff if we force them to work unreasonable hours, unless again we offer them incentives such as overtime payments or a fee per induction carried out. This is likely to be costly for us.

The proposal also stipulates that supervision is required for all referred patients at all times which means that gym staff would have to be available 24 hours a day for the whole trial period. This is clearly not feasible. In fact, any additional time involved in the proposal will likely be demotivating to staff unless they are offered some form of bonus payment for this extra workload. This is likely to be an additional cost for us, if we then have to pay overtime or have to pay for more gym staff to be temporarily hired to cover this programme,

This additional supervision by gym staff of referred patients may mean gym staff will have less time to assist existing gym customers. This may put them under pressure from complaints from long standing customers and may cause demotivation.

Also, some of the patients may not want to be there and have been recommended to the programme without their full consent. Gym staff will be used to dealing with gym customers who are motivated and who have chosen to be there and may not have the skills to motivate these referred patients. Staff may feel pressured that the success of

the programme will depend on them and may put them under additional stress to make sure the initiative is a success.

Although administration activities are not specified in the document from the Ministry's financial controller, it is likely that Royals gym staff will be required to manage the administration of the programme, which they may not feel qualified to do. This must be clarified with the Ministry of Health before commencement of the programme, as administration of the system will be costly and we may wish to consider negotiating additional payment for this. Staff may also need to be trained how to do this correctly. In particular, monitoring levels of participation and attendance will be very important as this will drive the success and commitment of participants.

Finally, we must also consider the risks that the programme may lead to some reputational damage if staff are not committed to it. Unmotivated staff may not present the image that we are used to presenting to our current customers and any extra pressure or stress may cause gym staff to leave and work for our rivals.

### **Value for Money (VFM) principles**

VFM principles normally focus on the three aspects of Economy, Efficiency and Effectiveness. Economy represents value for money and delivering the required service on budget, on time and within the resource constraints. Efficiency is concerned with getting an acceptable return on the money and resources invested in a service and is all about getting as much out as possible from the amount put into a system. Effectiveness describes the extent to which the organisation delivers what it is intended to deliver.

As a budget gym operator, these three principles are in fact in line with our own business principles and way of operating. In terms of 'economy' we would most definitely consider ourselves as 'value for money' and our focus on affordability and low cost provision is a key differentiator of our business. Just like the Government, our principles of 'low cost' will be based on providing the highest quality to our users for the most appropriate/ lowest cost possible. Low cost for neither organisation means low quality and this will be an important expectation of each party in this initiative.

In addition, one of our critical success factors of this initiative is the expectation of the delivery of operational 'efficiency' in order to minimise our costs. Therefore, our own focus on the efficiency of operational activities is very much in line with the Value for Money approach of the Ministry of Health. One of our critical success factors is to drive efficiency of our operations and therefore this is likely to be an important determinant of our success in undertaking our part in this initiative.

In terms of effectiveness, we are a business which very much prides itself on the overall quality of delivery of the service we offer. However, it must also be taken into consideration that the effectiveness of this programme will be very much dependent on the commitment and effort of the patients participating in the programme. Royals cannot and should not be held responsible for the engagement and effort of the patients that are recommended onto the programme. We would therefore need to closely monitor level of attendance and participation of patients and report this information back to the Ministry in order to demonstrate as clearly as possible our own effectiveness in the initiative.

However, as a private sector organization, we also have an overall aim to maximise our profitability for the owners and shareholders and therefore to this extent, our principles are not completely aligned with the Hylandia Government, which has no such profitability objective.

Royals is not a listed company, so the shareholders and investors may be more supportive of being involved in this governmental initiative if it brings us extra awareness in the market and long term success in developing new customers. It may also present Royals with further involvement in initiatives with the Hylandia Government.

### **SECTION 3**

#### **Ethical issues**

Royals has a duty of care to our employees to train them to carry out their job effectively. I do not believe that we have achieved this in this instance. We must investigate if the claims made by the gym instructor are true, as he could be merely making an excuse for his poor behaviour. But if we find out that gym staff were not fully informed or provided with sufficient guidance regarding this initiative and that gym staff have been over-worked or not given appropriate guidance and support, then this is lack of professional competence on our behalf.

Nevertheless, the gym staff member in question did not act with the correct level of professional behaviour in his responses to the customers using his twitter account. He lacked integrity and objectivity in his responses and in his manner of communicating to customers. There is no excuse for these kind of comments, whatever the pressure he was under. It is certainly not acceptable, particularly if these were carried out via Royals own twitter account.

We must investigate this situation before we terminate the employment of this gym staff member. It could be considered as gross professional misconduct if proved to be true but we must find out the opinion of other gym staff as to whether his claims about no communication are true. If we do not operate a twitter usage policy and have no training on this as a communication tool, then this is a significant weakness in our training programme and we must immediately instigate a social media usage policy and guidance to all staff immediately.

#### **How do we motivate gym staff in the future?**

It would seem that communication is poor between Head Office and the staff in the gyms. Therefore, we must ensure that for any future initiatives we communicate with them, both before the initiative in order to gain their interest and support and during the process in order to gain their feedback and to learn from any on-going feedback.

It would be useful to obtain gym staff input into how the initiatives could be run more effectively in terms of staffing and timing issues. Had we spoken and taken advice from experienced gym staff members we may have identified staff issues earlier and put in place mechanisms to overcome resistance.

We need to ensure that Regional Managers speak to individual gym staff members on a regular basis in order to take on board any concerns and feedback to Frederick and the Board about future initiatives. As this is the first time we have taken part in such a programme, the lessons learned from this experience will be invaluable and hopefully improve success in future programmes.

We need also to consider incentivising gym staff to fully engage in any new initiatives. Bonus payments could be paid based on customers' satisfaction survey results or for retention rates of customers. We also need to make sure staff are suitably trained for any new initiatives that we decide to implement. Training in motivation techniques, training in certain types of health conditions or training in a wider range of health

initiatives such as healthy eating could help to motivate and incentivise gym staff to feel that they are adding value to the initiative.

### **Benefits of social media as a business communication tool**

Social media can help us to generate a huge amount of data about Royals customers in real time. Social media activity could provide us with a wealth of information about our customers, such as who they are, what they like, and how they feel about our brand. Through active engagement and social listening, we can gather relevant customer data and use that information to make improved business decisions.

A presence on social media will also make it easier for our customers to find and connect with us. By connecting with our customers on social media, Royals is more likely to increase customer retention and brand loyalty. Social media ads are also an inexpensive way to promote the business. Social media increases sales and customer retention through regular interaction and timely customer service.

It is now an expectation of customers that businesses have a social media presence. Customers expect fast response times and 24/7 support—just like our service delivery. One of the biggest benefits of social media is using it to increase our website traffic. Not only does social media help direct people to our website, but the more social media shares we receive, the higher our search ranking will be. Also, with social media monitoring we can gain key information about our competitors. This kind of information will allow us to make strategic business decisions to stay ahead of them. With the help of social media, specifically when it comes to sharing content about the business, all we need to do is share it on our social network accounts. Importantly, social media is a two-way channel where we have the opportunity to enrich relationships with our customers. This kind of social media dialogue between us and our customers is something traditional advertising cannot achieve.

### **Controlling social media environment**

Royals must implement a company-wide staff policy on the usage of social media as soon as possible. Regional Managers should be responsible for initial training and any necessary on-going training and updates on social media usage by staff in their own regions. All new members of staff should be inducted and trained on the appropriate usage of social media when operating as a Royals employee and we must make it clear in staff contracts that violation of our corporate social media usage policies will result in disciplinary action or in extreme cases, dismissal.

Guidance and training should also be given on personal usage to ensure that staff are aware that personal usage violations could have repercussions for Royals. It must be made clear in our social media usage policy that any contact with customers must be carried out in a professional and objective manner and that any correspondence which brings the company name into disrepute will be disciplined. We must make available to staff our disciplinary procedures for any abuse of social media activity.

We should also ensure that a member of the IT team is responsible for monitoring Royals social media activity and that we have some form of process whereby we can actively track any social media activity related to Royals. We must keep up to date on what customers and staff are saying and ensure that it falls within the bounds of what is acceptable to us.

All social media communications from Royals should be provided via one source. We should consider only having one or two members of staff, probably from the marketing team, who respond to any social media comments made by customers, rather than

allowing any direct comments from staff to customers. However, we would need to investigate this as we would not want to lose our personal touch with customers.