

## **CGMA STRATEGIC CASE STUDY MAY 2019 EXAM ANSWERS**

### **Variant 5**

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#### **SECTION 1**

##### **Requirement 1 – PEST analysis**

A PEST analysis offers a structured approach to understanding the risks affecting recruitment that arise from the broader environment in which Denby operates. Given that nursing staff are a key resource, it is crucial that Denby understands the factors that might interfere with their recruitment and retention. The PEST structure requires that the environment be analysed in different ways, which could reveal areas of concern that might otherwise have been overlooked. The only real question arises from whether the risks are serious enough to deserve attention. It could waste a great deal of time to conduct a proper PEST analysis if there are no real concerns to be dealt with. The recruitment of nurses does not appear to present any problems at present, although that does not mean that this area will be problem free in the future. Denby's real concern is that it loses a great deal of nurses to other employers.

The HR report focusses on the economic issue arising from the costs of recruiting and training nurses. It may be that a cursory review of the risks associated with recruitment and retention would indicate that the economic dimension is the only one that matters. Denby pays a premium salary that is effective at attracting nurses. It may be that it would be more cost-effective to increase the premium even further, so that other employers would find it too expensive to match Denby's terms. Investigating that one issue might be a more efficient response to the problem than introducing further complexity by reviewing political, social and technological risks. Denby could simply conduct exit interviews with departing nurses in order to establish whether there were salary issues that led to them moving on.

A full PEST analysis would require Denby to consider the political and social dimensions of the management of nursing staff. Those do not appear to be problems at the moment, but they could easily emerge as issues. Politically, the governments of Keeland and other countries are spending significant amounts to train nurses, presumably for their own health services. They may act to curtail Denby and other private hospitals' efforts to recruit these nurses once they are qualified and experienced. Socially, Denby's actions could attract serious adverse publicity if the KHS and foreign health services struggle to treat patients because of a lack of qualified nurses. Private healthcare already has a poor reputation because it can be associated with patients skipping queues for treatment because they can afford to do

so. Public concerns that those hospitals are subsidising their training costs by recruiting KHS nurses could inflict further reputational damage.

It seems unlikely that Denby faces a technological risk and so that dimension could be dispensed with. Medicine is constantly changing, so it could be argued that having a steady throughput of nursing staff is advantageous. Newly recruited nurses will have been trained in the latest techniques during their training and will come in to replace older nurses. That upside has limited value, however, because nurses are professional people who are required to remain current in terms of their continuing professional development. It is unlikely that the departing nurses are outdated in terms of their training or they would be of little value to the hospitals that are keen to recruit them.

## **Requirement 2 – ethical aspects**

The basic ethical dilemma is that governments fund the education and initial training of nurses so that they have a strong pool of applicants for nursing jobs in local health services. Nurses have university degrees and require further training before they are professionally qualified. Governments bear significant costs before nurses become qualified. Denby acts as a free rider by recruiting those nurses away from public healthcare only once they are starting to become useful. The recruitment and induction costs borne by Denby are far cheaper than the costs it would bear if it had to support school leavers through university and initial training. Denby, as a private company, is effectively being subsidised by taxpayers from Keeland and the other countries from which it recruits nurses.

On a related note, Denby responds to its need for experienced nurses by recruiting qualified nurses from public healthcare. That diminishes the numbers of experienced nurses in public hospitals. The KHS cannot easily replace those staff because more junior colleagues will not have the experience and so they may be forced to take staff from other KHS hospitals. Denby sets out to attract the very best of the experienced staff by offering them enhanced salaries, so this is a deliberate act on its part. Denby's policy quite deliberately uses its financial strength to take key staff from the public sector. That may further benefit Denby because the KHS often refers patients to private hospitals when it cannot treat them on time.

While these are serious conflicts, it is debatable whether Denby is in breach of any of the fundamental principles. In terms of acting with integrity, Denby is perfectly open about its policy of offering attractive jobs to qualified nurses. Employment law permits the nurses to submit notice and resign from the KHS if they wish to take a job offer from someone else. The fact that Denby can pay 20% more might even suggest that the KHS underpays its nurses for the skills that they can offer and that Denby is simply paying a fair rate. The KHS is free to make counter-offers to its staff in order to retain them, either improving their salaries or finding some other way to encourage them to stay.

It could be argued that the principle of objectivity applies in terms of allocating responsibility for this recruitment issue. There is clearly a market for nursing staff that affects Denby's ability to recruit and also its ability to retain experienced nurses. Economic forces appear to create a steady flow of nurses from KHS to Denby and from Denby to other employers. The KHS is well aware of that market because it loses a proportion of its nursing staff once they reach a given level of experience and so it should take that into consideration when planning its needs for training nurses. It could be argued that Denby is being blamed unfairly for poor HR management in the KHS

and that an objective analysis of the facts would impose a greater burden on the KHS to train more nurses or make it less attractive to leave after three years.

## **SECTION 2**

### **Requirement 1 – valuing BNC**

BNC's value to Denby depends on a variety of potentially unrelated factors. The upper limit depends on the lower of two possibly unrelated factors. Firstly, Denby must consider the potential net cash flows associated with using BNC to train nurses as opposed to existing methods. Secondly, Denby needs to consider how much it would cost to acquire the same capabilities that are offered by BNC. That is essentially the opportunity cost of buying BNC rather than an alternative. There is a lower limit arising from the fact that Denby should estimate how much BNC's founders would be willing to accept for the college because there is no reason to pay more than that. BNC's value to Denby may be affected by each of these. Indeed, they may establish that BNC has no real value to Denby because the same benefit could be obtained more cheaply by another means.

Denby's valuation of BNC should start with an evaluation of future cash flows associated with its operations. That will be complicated because BNC will be training newly-qualified nurses rather than the experienced nurses whom Denby presently recruits. Denby will have to consider the business model that it will apply. For example, will it continue to charge students fees? The recruitment of nursing graduates will also have to be considered. Denby may plan to change its policy with regard to recruiting experienced nurses, in which case the whole cost of nurse staffing could be altered. Denby should also take account of any cost savings arising from any reduced need to recruit and induct nurses who have come in from the company's traditional routes.

The opportunity cost of acquiring BNC would require Denby to evaluate the cost of creating a suitable teaching space and staffing and equipping it to a satisfactory standard. The teaching space may require facilities that enable students to practise practical techniques, so it may be more complicated than simply having lecture and tutorial rooms. Denby would also have to recruit teaching staff who have the required qualifications and experience to teach nursing to degree standard. Finally, Denby would have to seek whatever accreditation would be required before graduates from its college were deemed competent to continue into a training programme.

Finally, Denby would have to consider the value of BNC to its present owners in order to determine a starting point for negotiations. That is likely to be influenced primarily by the market value of BNC property, plant and equipment. BNC is barely breaking even, so the founders would attribute only a very small value to future profits. Many of the intangibles, such as BNC's experienced teaching staff and goodwill arising from its reputation for producing good graduates could become interesting bargaining points. BNC's founders will lose the value of those assets if they close the college down and sell the tangible assets on the open market, which Denby could use in its favour. The founders will, however, be able to argue that those same intangibles will have value to Denby and should be reflected in the price. Ultimately, the value to BNC's founders is a matter for negotiation.

### **Requirement 2 – critical success factors**

BNC must attract students whom Denby would wish to employ after they complete their training, otherwise there is no point in Denby's purchase of the college. Denby

should investigate the recruitment and selection criteria used by BNC and determine whether they are consistent with the criteria that it uses when it recruits junior nurses. It seems likely that a college would apply different criteria to recruiting students than an employer would in interviewing job applicants. Denby should consider whether any gaps between the college's criteria and its own could be addressed. For example, by interviewing applicants for places in order to establish inter-personal skills.

BNC's curriculum must be relevant to Denby's needs, bearing in mind that the college must also satisfy the requirements for accreditation. There could be scope for making changes to reflect the fact that some present skill sets are less relevant to the needs of private hospitals. For example, Denby's nurses need not be trained in A&E care. Denby could have BNC's degree programmes reviewed by its own senior nursing staff with a view to recommending realistic changes. There may be degrees or courses that could be eliminated altogether without necessarily affecting accreditation, such as paediatric nursing.

BNC must retain whatever accreditation is required to enable its graduates to become professionally qualified nurses. The college authorities should ensure that they keep the accreditation requirements under constant review, with a designated staff member taking responsibility. That staff member should submit regular reports to demonstrate that no problems are anticipated. External examiners should be briefed on accreditation requirements and should be asked to confirm that BNC is compliant. Any feedback from the accrediting body should be noted and a written response provided. That response should highlight the manner in which the concerns have been addressed.

BNC must retain its teaching staff. Losing staff could threaten the college's ability to attract and educate students. It could also lead to a loss of accreditation. There should be a clear annual review process in place that ensures that staff can feed back any concerns, in addition to them receiving feedback. BNC should ensure that staff effort is recognised and rewarded and that promotions are granted when they are deserved. There should be plans in place to deal with vacancies when they arise. Apart from being ready to recruit replacement staff, BNC should have a succession planning system in place to ensure that gaps at senior levels can be filled by junior staff who are ready to step up.

### **SECTION 3**

#### **Requirement 1 – loss of tutors**

Denby should have expected that its acquisition of BNC might lead to the departure of experienced teaching staff because any acquisition can create uncertainties for employees. The college had previously been owned by its founders and it had a good reputation for providing nursing degrees. Staff may have been concerned to have ownership passed to a foreign quoted company that seemed keen to acquire a source of nurses for its hospitals in Keeland. The teaching staff may have had concerns about the impact of those changes on their job security and prospects and could have been receptive to any opportunity to work elsewhere in a more conventional environment.

Denby should also have considered the possibility that it was likely to be competing for students with Bordian universities that offered nursing degrees. Those universities might have decided to exploit the opportunities created by the change of ownership to promote their own programmes vigorously, which would have created a need to appoint experienced tutors to cope with any additional student numbers. Universities can offer opportunities that BNC could not, such as scope for promotion into higher

academic and administrative positions, further threatening the loss of staff. Denby should have predicted this possibility and should have acted to encourage staff to remain with BNC, without waiting for signs that they might actually move.

### **Requirement 2 – restoring value**

The first thing that Denby must do is evaluate the implications of the lost staff. This is more than a matter of counting lost staff; there could be problems with teaching specialisms suffering significant losses and key courses being left unstaffed. Denby must aim to implement some immediate remedies because otherwise the students on the course may start to complain and that could undermine the confidence of potential applicants for future years. Denby could approach the staff who have left and ask whether they would be prepared to continue on a part-time basis to cover major gaps. Denby could seek advice from remaining staff as to whether there are suitable replacements who might be recruited from other institutions or even from local hospitals.

Denby should also bear in mind that the value expected from this acquisition was never a function of BNC's capacity to teach large numbers of students. The staffing crisis should be managed with a view to ensuring that BNC can provide sufficient high-quality graduates to feed into Denby's nursing requirements. It may be worth considering a review of the position that BNC finds itself in and establishing whether there are enough staff of appropriate quality to teach a high-quality programme for a reduced student intake. BNC could then create a programme that stresses quality over quantity and enables the value, in terms of attracting excellent quality trainee nurses, to continue.

### **Requirement 3 – controls**

The staff at BNC require clear guidance concerning the entry qualifications required of students. In theory, that could be as simple as Denby instructing the staff at BNC on the entry qualifications for the programme, but that may not be sufficient. Denby must investigate the education system in Bordia in order to identify the types of academic profiles that it might see from applicants for its degree. The staff at BNC should be asked to explain what might be the minimum acceptable entry and what might be viewed as an excellent profile.

The controls must permit the staff at BNC to be able to respond to market forces. In other words, if demand for places is high then they must be free to increase entry requirements in order to ensure that only the very best students are accepted. If demand is weaker then the staff must have some discretion to offer places on the basis of lower entry qualifications, otherwise they will risk starting the academic year with unfilled places. The controls should set out the discretion that the staff have in making this decision before they have to seek confirmation from Denby. If no discretion is granted then they will possibly be unable to respond sufficiently quickly to prevent acceptable students from being offered places on competing degrees. The control might set an absolute minimum below which the course team cannot go.

### **Requirement 4 – internal audit**

Internal audit focusses on compliance and so it should not be asked to investigate unless there are clearly defined rules and procedures in place. Checking compliance would be helpful because the staff at BNC may be under pressure to enroll students

and may be willing to make unauthorised offers simply to fill the degree course. An internal audit may have the impact of establishing Denby's authority over this newly acquired subsidiary. By conducting an internal audit of any description, the managers at BNC will see that Denby cares about the implementation of standards and wishes to help.

The audit could, however, be conducted at a bad time, given the staff losses at BNC. Denby has no prior experience of managing a degree course and so BNC's remaining staff may be even further discouraged to see that Denby is actively investigating its student intake. The audit team should be briefed to work closely with the BNC course management team and to seek explanations for any deviation from the official entry qualifications. For example, BNC may have a policy of offering places to mature students whose qualifications are a little weaker, but who might have other non-academic qualities. Such cases should not necessarily be listed as compliance failures.