

Part Two – Chartered Governance Qualifying Programme

Development of Strategy

Time allowed: 3 hours (plus 15 minutes reading time)

You must not take this paper out of the examination room.

The examination paper contains **6** questions of which you must attempt **4**. You must attempt **3 questions** in Section A and **1 question** in Section B. The questions in Section A are based on the pre-released case study whereas the questions in Section B are not based on the pre-released case study.

Each question is allocated 25 marks. There are **100 marks** available in total for the paper.

Note: Unless otherwise specified, you should assume that an Act or an organisation referred to in the question is a UK Act or organisation.

Pre-release case study

Solid Ground Limited (SGL) are specialists in concrete. Established in 1950, by Norman Ayresome, in Middlesbrough, UK. They have grown on average by 5% per year and provide services to heavy industry, the commercial building and infrastructure sectors. Their first customers were the local chemical and port companies that developed quickly in the 1950s and SGL used this to gradually expand from Middlesbrough across the north. They have taken few risks and always stayed within their comfort zone, responding to customers' needs rather than leading change. This proved very successful as by the end of 2022 they were turning over £750 Million. However, they are still seen as relatively small in a sector whose total turnover in 2018 was £113bn and they don't rank in the top 10 companies by activity. They have 5,000 employees and operate across the UK.

SGL is still a mainly family-owned business, with the grandson of the founder, Michael Ayresome as the Chief Executive Officer (CEO). They have attracted external shareholders. This allowed the family to release cash as well as using new funds to develop their own building technology in the 2000s for which they had defined and known customers. The Ayresome family retain 40% ownership of the business and control another 15% of the shares held by the SG Community Trust that is chaired by Michael, and funds environmental and social projects in Middlesbrough. They have received in the region of £35M per year for the last 10 years.

There is a strong Board of Directors of 10 people all based locally and holding industry relevant knowledge and backgrounds:

- Public sector and utility infrastructure works
- Road construction
- Finance
- Marketing
- Sustainability
- Human Resources (HR)

The Board has an independent Chair, Martin Alexander, a civil engineer, and the majority of the Board are non-executive directors (NEDs) and includes 4 women (above the industry average). The company has a strong balance sheet with reserves of more than £300M and has no debt.

Michael has a strong desire to explore and develop new market opportunities in the face of a rapidly changing global market and has a civil engineering degree with a strong focus on sustainability. Michael has grown up with the business and has worked for the business for 10 years.

During his studies, Michael has been strongly influenced by Jack Welch, the ex-CEO of General Electric, particularly the maxim, “if you are not number one or two in your market, you should get out”. SGL are not in the top 10 let alone the top 2. So, he has spent the last 2 years refining his own thoughts on future and considering the long-term prospects of the business by asking ‘Where can we be number 1?’. and ‘What do we want to be by 2050?’. A luxury he can adopt given the family control of the business. He has considered a range of issues that the sector and the UK have faced:

- **Net Zero targets**

The UK government’s plans to reach ‘Net Zero’ by 2050 is likely to impact road building and Michael foresees a reduction in road travel as the transport culture is affected. He predicts that this area will plateau.

- **Low Carbon Buildings**

Increasing interest in low carbon building (where organisations seek to reduce carbon emissions from new private and public buildings), Michael recognises that SGL have no position in private housing, although some in the field of large social housing units. In this they have developed techniques to speed up the build process for office blocks. This technology was initially taken up by other companies licensing SGL’s techniques in social housing in 2005. SGL followed suit in using the technology in its own work when customers came to them. Michael now wants to be more aggressive in using this capability as he feels that this is a potential growth area, with the market set to expand.

- **Working from home (WFH) culture**

A rise in WFH culture seems likely to reduce the number of office developments (historically an area giving strong returns) and one where SGL have made significant investments to innovate new construction methods which reduce build time for office blocks of up to 10 floors. Michael believes that office development will stagnate in the future and may prove difficult to grow. He believes that there will be replacement work.

- **Renewable Energy**

Michael believes that this will be a significant growth area in the future, but also recognises that other companies are better placed to exploit it and have a head start on SGL.

Michael believes that as SGL cannot be number 1 or 2 in their existing market, they must go for something new. He has spoken to leading academics and has identified what he sees as the big opportunity: the refurbishing of the existing housing stock to be low carbon (retrofit). He has reviewed the statistics on housing and sector by sector emission and has identified that retrofit is a significant opportunity. There is currently no dominant company in the sector, but there is significant projected future demand. However, to realise this opportunity will require investment in capability and capacity that is not happening across the industry. Existing companies undertaking this activity are small and over stretched. The investment required will be significant and few have the resources needed.

Therefore, Michael sees the opportunity in the retrofit of existing houses with low carbon technologies. In a further market segmentation, he wants to focus on terraced housing which makes up a large percentage of the housing stock, some of which has been bought by social housing companies. It also provides for future export as terraced housing is common in many northern European countries.

This market is clear from the statistics:

Table 1: Age of UK Housing stock number and percentage

Age of housing	Number (Ms)	Percentage %
Pre - 1919	5.87	20.5
1919 - 1944	4.28	15.0
1945 - 1964	5.47	19.2
1965 - 1980	5.70	20.0
1981 - 1990	2.28	8.0
Post 1990	4.90	17.3

Table 2: UK Housing Stock by type and percentage

Housing type	Number (Ms)	Percentage %
Terraced	7.83	27.4
Semi-Detached	7.13	25.0
Detached	5.11	17.9
Bungalow	2.50	8.8
Flat	5.96	20.9

Michael has spoken to Martin and has proposed a strategy that will use £150 million of their reserves to develop their retrofit capability and activity. One of the reasons the sector is difficult to enter is the need to work with local communities, as the work is best undertaken by collective street-by-street activity. It will require the development of local skills given that activity is required in every town. In both areas SGL are strong given their Trust activity and investment in local training facilities.

It has been estimated that an average of £20,000 needs to be spent on every house. Given this figure, Michael has been talking to investors to fund a new subsidiary of SGL to create the means for households to secure the necessary funds. He envisages a need to secure investment of around £1 Billion allowing the work to be done and being paid for by household bill savings as opposed to households paying on completion of the work, thus creating a new business model. Expecting households to pay upfront would limit the ability to undertake the scale of investment. Removing the financial barrier will make the work easier to undertake and minimise the disruption. The availability of a finance company working alongside SGL would allow them to become market leader in an emerging market. They would have an innovative business model, that given the number of homes that need retrofit will provide a constant workload through to 2050.

Michael is also talking to Middlesbrough's Mayor about accessing government funding to support the investment that SGL will make alongside private capital to address the issues in terraced social housing. His target is over the next 3 years to retrofit 200,000 homes.

This will fit the UK government's agenda which has highlighted a need to retrofit 19,000 houses a week for the next 25 years to meet its own target. The strategy is that over 3 years SGL will become the market leader, specialising in terraced homes and environmental retrofit construction. Michael believes this will allow them to dominate this specific market and to develop new services through by harnessing new technologies and approaches when undertaking street wide retrofit activity.

Michael sees a needs for a larger company to enter the market who can invest in training and skills development, as well as proactively working with new technology solutions that can drive down the cost of retrofit. He sees SGL as providing the catalyst for change. This addresses the issue that currently companies in the retrofit market are community groups or community-based companies.

They are geographically focused, small scale and lack finance. Building contractors in general are too busy on existing work and are not investing in the carbon zero agenda.

While homeowners are interested in reducing their carbon footprint, they have no trusted company to turn to leaving them frustrated. The investment by SGL would make them the first large company to enter the market with the funding to make it happen. They have the connections within the construction sector, access to the supply chain, and to the training providers in construction in the Middlesbrough area that can provide the skills needed.

Michael's strategy sees the continued operation of SGL's core business, but over a 10-year period, a progressive movement away from this to concentrate on the retrofit activity. This would maintain a steady revenue stream that would allow for the on-going investment in the new business from the consistent returns from the current business.

However, Michael has been met with resistance to his new strategy. The Chair, Martin, anticipates significant opposition from the Board, who want to continue business exactly as they have done for the last 70 years; steady growth, staying mid- market and achieving sustained profits. They see the new strategy as risking the future of the company and its 5,000 employees by backing a project where they don't see the necessary long-term commitment from the government or the wider market to make it happen. They hear the words of government ministers and local councils but think that resistance will be strong as convenient gas solutions are withdrawn, especially given the current cost of living issues. Therefore, making a significant 'bet', as they see it, on the future outcomes is a step too far and beyond the steady approach that SGL has always taken. There are four supporters for the proposed strategy on the Board. The second-tier managers are equally split: of the 10 second-tier managers who report into Michael, 6 are against the move, 4 are in support.

The size of the task does not phase Michael; he has a vision, and he believes that the business has resources and that he has the personal skills to make it happen.

Section A

Answer **three** questions in this section. Questions 1 to 4 are related to the pre-released case study.

QUESTION 1

SGL faces several choices given the marked change in strategic direction that is being proposed by Michael.

REQUIRED:

Martin has asked you, as an independent consultant, to examine SGL's existing strategy and proposed new strategy, using two or more strategic tools and to critically assess the challenges involved in the proposed new strategy.

(25 marks)

Pilot Papers

QUESTION 2

Michael's new strategy may not be readily accepted as the Board and the senior managers on balance oppose it.

REQUIRED:

Given this, as Company Secretary you have been asked to prepare a paper for Michael that:

- a) Discusses the potential reasons why most of the Board and Senior Managers are opposed to Michael's new proposed strategy.

(12 marks)

Pilot Paper

b) Consider the role of Directors and their responsibilities and assess the approach that Michael could adopt at an Annual General Meeting (AGM) to achieve the change of strategy. This should not undermine the current activity of SGL and make a recommendation as to the route to take.

(13 marks)

(Total: 25 marks)

Pilot Paper

QUESTION 3

Michael has the voting power to endorse his new strategy at an AGM. A sympathetic minority shareholder and Trustee of the SG Community Trust (but not on the main SGL Board) has asked you, as a consultant, to advise them on the potential for instability from an enforced change by Michael at the AGM.

REQUIRED:

They have asked for a report that:

- a) Prepares a stakeholder analysis and stakeholder map for SGL identifying the key stakeholders that Michael will need to support the strategy changes. In this assessment you should identify 3-5 key people/organisations that Michael will need to persuade to support this strategy with an explanation on your choice.

(12 marks)

Pilot Papers

b) Propose from this stakeholder analysis three scenarios that SGL's Board could consider as to how stakeholders may react, and the risks associated with each one and potential mitigations.

(13 marks)

(Total: 25 marks)

Pilot Paper

QUESTION 4

Michael has gained approval from SGL's Board to consider his proposed new strategy at a strategy awayday before the AGM. They have asked for a clear, detailed strategy and plan.

REQUIRED:

The Board has appointed you, as a consultant, to work with Michael to prepare a paper for the awayday on the how to develop a strategy that achieves the new direction but does not undermine the current business. This should use relevant strategic tools, and how to manage its organisational design and implementation.

(25 marks)

Pilot Paper

TOTAL FOR SECTION A = 75 MARKS

Section B

Answer **one** question only. Questions 5 and 6 do not relate to the pre-released case study.

QUESTION 5

Young Bright and Cool Group (YBC) are a 10-year-old online clothing retailer based in Manchester, UK. They were established to target young, middle class and higher income fashion conscious 18-25-year-olds. Their aggressive marketing strategies have been very successful in gaining market share, now hitting 40% of their target market.

The growth and the increase in market share has resulted in having a strong bank balance in excess of £100M. The Board believe that they have reached the limits of their growth potential within the current market. Therefore, they have explored new acquisition targets in different market sectors. They are actively exploring two new categories:

- Children aged 1-10; and
- 25-40-year-olds with young families

CEO Michaela Paige says that their strategy consideration is simple: 'Our current customers are great, and we have met their needs, we now want to grow with them as they marry and have children.'

YBC have chosen not to go for organic growth but to make acquisitions in these two categories. They have reviewed suitable regionally based clothing retailers that while having a good reputation have failed to keep up with technology and marketing shifts. These changes over the last 3 years have placed many of these more risk adverse companies in a weak financial position, though having a solid brand. YBC's CEO sees this an opportunity to make a big impact with minimal change.

YBC have agreed to purchase 75-year-old brand, Scottish Blue, who currently operate in Scotland and target professionals. Alongside this buying the Bristol-based 50-year-old children's brand Clothing West who operated in South West England and South Wales. Both companies are respected but have no online presence and are traditional bricks and mortar retailers with weak balance sheets.

YBC's strategy will be to take both brands online and nationwide, building on the reputation and heritage. They will keep on the current staff with the aim to breathe new life into the companies through YBC's design team and creative marketing skills.

REQUIRED:

Following the decision to buy both companies you have been appointed Strategy Manager for Integration and your first task is to:

- Critically review the challenges that will be faced by the parent and the newly acquired brands using appropriate strategy tools.
- Recommend how YBC can measure the success of integration by proposing a suitable approach to integrate the businesses.

(25 marks)

Pilot Paper

QUESTION 6

African Sustainable Education Trust (ASET) is an international sustainability educational charity. ASET's constitution details that their purpose and mission is to:

- Promote, pilot and fund education on African sustainability issues, specifically food, climate change and water.
- To develop pathways for disadvantaged groups, especially women and young people to promote sustainability in their respective communities.

The guiding principle of their work is inclusivity. They are known as an innovative organisation that has achieved significant impact in the advancement of women. They have attracted significant press coverage for this work, including an upcoming fly-on-the-wall series that follows their work over a six-month period.

ASET has a Board of Trustees made up of Non-Governmental Organisations (NGOs), and representatives of the political and the corporate world. ASET are a membership organisation, their members vote at their Annual General Meeting (AGM) on all issues related to policy. The AGM is typically a non-controversial where the budget is approved, and new Trustees are elected for a period of 3 years. The 2023 AGM is in August.

To fund their work, the charity undertakes sponsored development work, as well as partnering with global NGOs, European and American government funding agencies, and governmental bodies. Global funding programmes have declined in recent years and ASET has had to be scaled back and currently has plans to reduce their staffing. This has not gone down well with its members who typically make up 30% of ASET's revenue from membership fees and gifts left in wills.

AfriMin Inc (AMI) is a mineral and oil exploration company; they have been found guilty of significant environment damage through their exploration activities across Africa over the last 10 years. This has led to their global investors mandating the Corporate Board to donate a significant sum of £150M over three years to compensate for their actions and to rebuild trust.

There are no conditions attached to the funding. This represents about 10% of the profits made over the 10 years but is significantly less than the estimated harm caused of £250M in environment and social development losses. The Board of AMI has offered this funding to ASET. This has resulted in significant opposition from ASET's main stakeholders as well as concern from some charitable Aid Agencies. This year's AGM has caused a significant degree of activity on social media with a group of members looking to oppose taking the money from AMI.

As a strategy consultant to the Trust, you have been asked to assess the strategic position of ASET today and the challenges it is facing in terms of its strategy given the ethical issues involved. This should use appropriate strategy evaluation tools to draw out the critical issues and make recommendations to the members at the AGM.

(25 marks)

TOTAL FOR SECTION B = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.

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