

Managing in a Strategic Business Context

EXAMINER'S REPORT

November 2007



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Chartered Institute of Personnel and Development  
**Professional Development Scheme**

**Leadership and Management**

# **Managing in a Strategic Business Context**

## **November 2007**

**8 November 2007      09:50-12:00 hrs**

**Time allowed - Two hours and ten minutes**  
(including ten minutes' reading time).

**Answer TWO questions from Section A and SEVEN of the ten questions in Section B.**

**Please write clearly and legibly.**

**Questions may be answered in any order.**

**Equal marks are allocated to each section of the paper.**

**Within Section B equal marks are allocated to each question.**

**If a question includes reference to 'your organisation', this may be interpreted as covering any organisation with which you are familiar.**

**You will fail the examination if:**

- **you fail to answer seven questions in Section B and / or**
- **you achieve less than 40 per cent in any section.**

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#### SECTION A

Answer ANY TWO questions in this section.

1. **Read the following passage paraphrased from Money Week by Chris Sholto Heaton (2006) and answer the questions which follow:**

Bank of England figures show household debt in the UK is standing at nearly £1.175 trillion, almost as much as our entire annual gross domestic product (GDP). Mortgage lending accounts for about 84% of that, the rest being consumer loans such as credit cards and overdrafts. Apart from the size of these debts, what is particularly notable is how quickly they have risen. Borrowings have almost doubled since 2000. The structure of this debt mountain does not look very safe. Optimists point out that the £980 billion owed on mortgages isn't that much of an issue as it is outstripped by the estimated £3.4 trillion value of the UK's private housing stock. But it's hard to find any positives about the amount of unsecured debt. Two million people owe more than £10,000 on credit cards, overdrafts and unsecured loans. That includes one in twenty people aged between 18 and 24 which is especially worrying because lower average incomes and assets in that age group means there is a greater risk that they will not be able to service such large borrowings.

- i) **Why have so many people taken on so much debt in recent years?**
- ii) **Why is the size of household debt described as being 'worrying' by so many commentators?**
- iii) **What public policy measures could be taken by government to help reduce the level of household debt in the UK?**

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2. **Read the following passage paraphrased from the chapter by Michael Rendall and John Salt in the government publication 'Focus on People and Migration' (2005:132-150) and answer the questions which follow:**

The second half of the twentieth century saw the foreign-born population of the UK more than double from 2.1 million in 1951 to 4.9 million in 2001. As a proportion of the UK population the foreign-born population almost doubled over this period from 4.2% to 8.3%. In 2001, 10.5% of the UK labour force was foreign-born. There are particular concentrations that reflect historical as well as contemporary immigration trends. London contains the 22 local authorities with the highest concentrations of foreign-born people: Brent (46.6%), Kensington and Chelsea (44.5%) and Westminster (44.2%). Immigrants are typically young when they arrive, almost half being individuals who are in non-family households. The foreign-born labour force is both younger and more female than the UK-born labour force.

- i) **Why has the proportion of the UK population that was born overseas increased so rapidly over the past fifty years? Why has this trend accelerated in the years since the 2001 census was taken?**
- ii) **Why are people who are born overseas concentrated so heavily in London and some other urban centres?**
- iii) **What are the major implications for the Personnel and Development function in organisations if current trends in this area were to continue?**

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3. **Read the following passage paraphrased from 'Business Strategy: An Introduction' by David Campbell, George Stonehouse and Bill Houston (2002: 166-7) and answer the questions which follow:**

A focus strategy is aimed at a segment of the market for a product rather than at the whole market or many markets. A particular group of customers is identified on the basis of age, income, life-style, sex, geographic location, some other distinguishing segmental characteristic or a combination of these. Within the segment a business then employs either a cost leadership or differentiation strategy. A focus strategy requires; identification of a suitable target customer group, identification of the specific needs of that group, production of products to meet these specific needs and a decision about whether to operate a differentiation or cost leadership strategy within the market segment. Many businesses use a focus strategy to enter a market before broadening their activities into other related segments.

- i) **In what circumstances is it most appropriate for an organisation to pursue a focus strategy? Illustrate your answer with examples.**
- ii) **Explain what is meant by the terms 'differentiation strategy' and 'cost leadership strategy'. Use examples to illustrate your answer.**
- iii) **To what extent do you agree with the view that it is difficult to sustain competitive advantage in an industry by pursuing a strategy that combines differentiation with cost leadership?**

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4. **Read the following passage paraphrased from 'Business ethics and work: questions for the twenty-first century' by Joanne B Ciulla (1999: 274-8) and answer the questions which follow:**

Truth in the workplace has become replaced by spin. By introducing the language of trust, loyalty and commitment to the workplace, managers upped the moral stakes and many corporations cannot live up to these principles. As a result, employees feel manipulated and betrayed. Managers are discovering that the moral values of trust and commitment are central to work. What they have not understood is that both of these are reciprocal values. You cannot expect commitment from employees without giving it to them, and the same is true for trust. The best way for corporations to begin developing trust is by keeping their promises and telling the truth. The best way to keep promises is to make promises that they can keep. In a volatile business environment people do not need therapeutic truths. They need to know where they stand so that they can have some control over their lives.

- i) **To what extent do you agree with the view that employers mislead employees in order to gain their commitment? Justify your answer.**
- ii) **What trends in the business environment might explain why employers are more likely to tell therapeutic truths or 'spin' than was the case in the past?**
- iii) **What *ethical* arguments could be advanced against always telling employees the whole truth about their position and that of the organisation?**

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#### SECTION B

**Answer SEVEN of the ten questions in this section. To communicate your answers more clearly you may use whatever methods you wish, for example diagrams, flow charts, bullet points, so long as you provide explanations of each.**

1. You attend a seminar at which the speaker argues that the most significant contemporary social trend is the huge increase in affluence that the UK population has recently enjoyed. Whereas thirty years ago only a minority of households had reasonable amounts of income to spend after paying for life's necessities, a good majority now do. The result is a situation in which we increasingly define our social identity with reference to how we spend our money rather than with reference to our occupations or social class. To what extent do you agree with this view and why?
2. Your manager reads an article which states that developments in biotechnology will have as big an impact on our lives during the coming twenty years as developments in information technology had in the past twenty years. She asks you to explain what is meant by the term 'biotechnology' and to explain its potential significance. What would you say? Use examples to illustrate your answer.
3. A government minister is interviewed about future energy policy. He states that as far as the generation of electricity is concerned, there are three possible approaches that can be taken. The first is to continue to rely on burning fossil fuels (coal, oil and gas) in order to generate electricity. The second would be to build many more nuclear power stations. The third would be to reduce electricity consumption considerably and to rely increasingly on renewable sources such as wind, wave and solar power. Which approach do you favour and why?
4. You read an article in which it is stated that the UK financial services industry has doubled in size over the past ten years. It now employs over a million people, despite having introduced technologies which have hugely reduced the need for labour. The industry generates over £20 billion in export earnings each year and accounts for around 10% of our gross domestic product (GDP). The city of London has regained its position as the world's pre-eminent financial centre. What factors explain the success the industry has enjoyed in recent years? What risks can you identify that might threaten future continued success?

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5. On the radio you hear a commentator regretting the fact that we are travelling by air so much more than we used to. Ten years ago fewer than 100 million people used UK airports each year. The figure is now 220 million and is projected to double again by 2020. You are asked to explain why there has been such a spectacular increase in the number of journeys by air in and out of the UK. You are also asked to set out the major advantages and disadvantages of this trend. What will you say and why?
6. A visiting manager from Germany debates with you the future prospects of the European Union (EU). He is particularly interested to hear views about the possible enlargement of the EU eastwards to encompass countries such as Turkey with its projected 120 million people. What are the major arguments for and against further enlargement of the EU? What is your opinion and why?
7. You are asked to explain why governments across the world have tended to privatise state-owned corporations in recent years. You are also asked to state whether or not you approve of this trend. What will you say and why?
8. Senior managers in your company have decided to give strong support to a campaign being set up by an employers' association with the aim of influencing government policy on training and development issues. The long term objective is to persuade ministers to subsidise some of the vocational training that is currently financed by organisations in your company's industry. You are asked to represent the organisation on the campaign team. What strategies will you argue should be adopted by the employers' association in order to achieve its major objective? Which approaches do you think will be most effective and why?
9. Managers at your organisation hear rumours that a major competitor has recently hired a consultancy which specialises in the development of 'social marketing' strategies. The aim is to associate the company with charitable causes, socially responsible activities and the arts. You are also asked to set out the arguments for and against your organisation adopting a similar approach. What would you say and what examples would you use to illustrate your points?
10. A recent CIPD survey found that two-thirds of P&D specialists now spend in excess of 20% of their time 'dealing with employment law issues' and that a quarter spend over 40% of their time in this way. This is a great deal more than was reported in previous surveys. Why do you think the amount of time spent on legal matters has increased so much recently? What are the major consequences for employing organisations and for the P&D profession?

**END OF EXAMINATION**

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#### Introduction

One hundred and fifty five candidates sat the MSBC paper this November and, as was the case a year ago, the numbers achieving passes and merits was impressive. The final pre-moderated pass rate was 68%, but this is likely to end up over 70% following the moderation of marginal fail papers. Over 20% of candidates were awarded merits or distinctions reflecting the sizeable number of outstanding papers that we marked from this cohort. It is very pleasing to see how CIPD students have risen so well to the challenge of attempting questions which are now very clearly positioned at M level, especially when it is considered how short a time is available for answering them and our expectation of effective justification to back up the points that are made.

As always there was a considerable variation in the standards across different centres. The candidates who did fail the paper invariably did so because on too many occasions they were unable to write a full, well-informed answer to the question asked, or sometimes to each part of the question. We also observed a few more instances on this occasion of students failing simply because they did not make an attempt at seven Section B questions.

The markers this November were all long-established members of my team: Carol Woodhams, Elisabeth Wilson and Alex Evans. Particular thanks are due to Carol Woodhams who carried out some of the moderation duties and also chaired the markers' meeting for this cohort of exams.

| November 2007 |            |                     |
|---------------|------------|---------------------|
| Grade         | Number     | Percentage of total |
| Distinction   | 3          | 2%                  |
| Merit         | 29         | 19%                 |
| Pass          | 74         | 48%                 |
| Marginal Fail | 10         | 6%                  |
| Fail          | 39         | 25%                 |
| <b>Total</b>  | <b>155</b> | <b>100</b>          |

*The figures shown are simply calculations based on the number of candidates sitting the examination in November 2007, whether for the first or a subsequent time, and are for interest only. They are not to be confused with the statistics produced by CIPD headquarters, which are based on the performance of candidates sitting the examination for the first time. It is from these figures that the national average pass rates are calculated.*

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### Section A

#### Question 1

This was a popular choice of question which was generally answered pretty well. Good answers correctly identified and explained a variety of factors, such as rising property prices and the need to borrow more to get on the property ladder, the need to borrow to finance higher education, lower interest rates, competition among lending institutions, the possibility of borrowing against the value of properties, the lure of consumer goods and leisure services, and the expectation of increasing wealth. The poorer answers tended to take too narrow a focus, for example by attributing increased debt purely to increased property prices over the past ten years or so.

Part 2 was also answered well. Here we were looking for an understanding of the role of excessive debt in triggering a recession. Debt makes individuals, and the economy as a whole, vulnerable to a crash should economic conditions change. Interest rate rises could trigger a collapse in the housing market as in 1989-91 and reduce economic confidence. This would lead in turn to repossession, bankruptcies, unemployment and a depression. Candidates who demonstrated an understanding of this issue and explained it fully picked up marks.

It was the third part that tended to be less well answered, there being a tendency to focus to too great an extent on just interest rates. The good answers took a broader view, advocating limits on amounts that lenders can make available to people, better financial education, measures to make saving more attractive generally and to restore confidence in FSI products.

#### Question 2

This question was attempted by almost all candidates, further confirming the great interest in demographic and social issues that candidates have. Part 1 was invariably answered fully and in a very well-informed way. Some weaker candidates struggled with parts 2 and 3, but most passed comfortably.

Part 1 was simply looking for an appreciation of the different patterns of immigration over the decades, most coming from the new commonwealth and, since 2001, from the countries that recently joined the EU. Most identified the major factors of significance, such as government relaxing rules on immigration to help fill skills shortages and to compensate for demographic trends, globalisation and more movement of people generally, the availability of cheap transport, and inequality in living standards making western industrialised countries attractive destinations for economic migrants.

The stronger answers to Part 2 went beyond asserting that more jobs are available in urban centres, to discuss the way that overseas immigrants tend to settle where their communities already exist and the perception that overseas born people are less welcome in non-urban areas.

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Part 3 required an appreciation of the range of HR implications. Effective diversity policy and practice is part of this, but the need to gain an expertise in overseas recruitment and the management of people with different cultural expectations was also significant.

#### **Question 3**

This question proved surprisingly unpopular as a choice, despite being very straight forward for anyone with a basic understanding of Michael Porter's theories of strategy-making. There were examples of very strong answers with points illustrated with examples and a full understanding demonstrated. Some weaker candidates, however, attempted the question without fully understanding what the quotation was referring to. As a result there were some poor marks awarded here too.

Part 1 was looking for an appreciation of what the term 'focus' means in the context of business strategy. Smaller companies or those developing new products are best to pursue focus strategies, at least at first, because less capital investment is required, fewer contacts are needed and less financial risk is incurred.

Part 2 required a similar understanding of the two alternatives from Porter's model. Cost leadership is about providing cheaper alternatives to those provided by competitors. Differentiation is about higher-quality specialised products that carry a price premium. Some candidates confused these terms somewhat, for example by seeing cost-leadership as playing a role in differentiation.

Part 3 was intended to be a bit more challenging, tapping into an interesting debate which can be argued either way. Some argue that it is possible to combine both (for example, large supermarket chains), while others, including Porter himself, claim that the importance of branding and the development of very clear brand images makes it necessary for most organisations to pursue either one or the other, and not both at the same time.

#### **Question 4**

This was a tough question, but one which plenty of candidates attempted, the stronger ones picking up plenty of marks in the process. Weaker candidates found Part 3 hard to write a convincing and sizeable answer to.

Part 1 was often answered with a heavy dose of personal experience. Good examples were given. Many argued that it happens in order to maintain a positive momentum despite the chances of success being few. Common examples from the HR perspective included false promises being made in selection interviews and in job advertisements.

In part 2 we were looking for straightforward developments such as tighter competition in both labour markets and product markets, and pressure to hit targets in the public sector. Employers are more desperate to secure peoples' services and to intensify their workloads, but this is often denied even when it is happening.

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Part 3 was challenging, but good candidates made a solid attempt, arguing, for example, that not telling the whole truth may often improve the competitive position of organisations vis a vis what it would otherwise have been, and that this is good for the maintenance of employment levels and profitability.

#### **Section B**

##### **Question 1**

This question was one which candidates found difficult, many writing about affluence and its causes rather than the narrower implications focused on in the question. Those who did address the question directly, however, did well. They correctly observed how the spreading of affluence has the impact of giving people more choice about how to create their own social identity and freeing them up from traditional social ties to forge their own lifestyle. Affluence also makes greater social mobility possible. This is a good example of a question which needs to be read carefully before an answer is written. Too often candidates failed simply because they just said that they agreed that growing affluence was a highly significant social trend. The question asked was somewhat different.

##### **Question 2**

A very straightforward question for those who are aware of what biotechnology is. Unfortunately rather fewer were comfortable attempting to define the term than we had anticipated. All that was needed was some demonstration of basic understanding; that is, the manipulation of living organisms or biological systems to provide useful products. There is nothing new about this in itself. Brewing alcoholic drinks, fertilising crops and vaccinating people against diseases all draw on biotechnological principles. It is the marriage of large-scale computer processing technology with biology that is creating a whole new field of knowledge with huge numbers of potential applications.

Prominent examples are GM crops, advances in medicine, stem cell research and the development of new, lighter plastics. These and other examples strengthened answers and led to high marks being gained.

##### **Question 3**

Answers to this question proved the immense attraction that renewable energy has for people, but also revealed a high degree of ignorance about the problems associated with its development and its use as a realistic alternative. In other words, there was a tendency to advocate its use in rather a naive fashion while simply disregarding the advantages of the other two possible approaches. In particular there was a lack of appreciation of economic and technological factors apparent. Marks were lost by those who just put a case for renewables in an idealistic manner without considering these.

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Stronger answers were more balanced and demonstrated an understanding of advantages and disadvantages of all three alternatives:

Fossil fuels = cheap, safe but running out, and contribute heavily to global warming. Over-reliance on imports from unstable regimes.

Nuclear = expensive, question mark over safety, politically difficult, but long term may be the only viable approach available.

Renewables = safe, clean, but question over capacity to produce required supplies.

#### **Question 4**

This was a difficult question which was only attempted by a minority. The most common weakness was to read the question (wrongly) as being focused exclusively on London rather than on the industry as a whole. The three key factors in the industry's growth are globalisation, the application of new technologies and the historic role of the City of London as a provider of financial services internationally.

The major threat comes from IT developments which permit companies to provide financial services to a worldwide client base from anywhere. Off shoring is thus the major threat to the UK industry and the position of London as the dominant financial centre in Europe. Those who could articulate most of these points effectively did well.

#### **Question 5**

By contrast this was a question answered by a large proportion of candidates, most of whom picked up plenty of marks by identifying a range of factors and pointing out both advantages and disadvantages. In other words they gave full, direct, well-informed and accurate answers to the question asked. The trend is partly due to increased affluence, partly to falling costs of air travel (thanks to de-regulation, enhanced competition and technological developments), the development of package holidays, partly due to more disposable income. Advantages relate to enhancing life experience, bringing the world closer together, the creation of wealth, and the facilitation of global competition. The disadvantages, which were particularly well-identified, are principally environmental but also include the adverse impact on alternative industries such as railways and shipping.

#### **Question 6**

Often when an EU-focused question is asked on the MSBC paper it is avoided by most and answered quite poorly by those who attempt it. That was not the case here. Most wrote with authority and knowledge about the issue of enlargement, giving an opinion and justifying it well. Sometimes answers were weaker on the particular issue of possible Turkish accession, but the more general case for and against was well understood. The major arguments for enlargement relate to the expansion of markets (and hence business opportunities), the spreading of affluence to poorer peoples and the increased

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political power of the EU. The disadvantages are associated with the problems of internal management, worries about mass migration from east to west and the costs to western countries required to subsidise developments further east.

#### Question 7

This was answered well by those who had some underpinning knowledge. They frequently used examples to illustrate their points. The advantages of competition and choice for consumers were the focus of many answers. Weaker candidates tended to ascribe the raising of revenue for government as the major motivating force. It was good to see so many candidates giving nuanced and well-balanced answers to part 2 rather than the more simplistic answers that tend to be given when an opinion is sought.

#### Question 8

This question was answered more poorly than any other on the paper. We were as flexible as we could be when marking answers, but those who focused *entirely* on the nature of the case for the policy change and ignored the strategy altogether could not be passed. The question was intended to invite answers about effective lobbying of government – gaining access to influential people/decision-makers, getting the media on side and forming alliances with other campaigners etc. The best answers covered these points at some length as well as the strength of the arguments that would be deployed.

#### Question 9

This was a popular question. The arguments for were better articulated on the whole than the arguments against. Better candidates made good points on both sides of the argument, illustrating them with examples – often making good use of from their own organisations' experiences. The best answers focused on the idea of positive corporate reputation and the role of these approaches in helping to foster it. Some good sceptical points were made too, particularly about insincere activities being seen as phony and hence failing to improve reputation, or even damaging it.

#### Question 10

This question was popular and answered well on the whole. The key points we were looking for were more regulation, and greater litigiousness on the part of staff and ex-staff. As far as consequences are concerned, it was the need to develop robust policies, to train managers thoroughly and to increase levels of expertise among HR people. These points were typically made well and illustrated with examples. Weaker answers tended to miss out one part or the other.

**Stephen Taylor**  
Examiner