

**UNIVERSITY OF BOLTON**  
**INSTITUTE OF MANAGEMENT**  
**MSC ACCOUNTANCY AND FINANCIAL**  
**MANAGEMENT**  
**SEMESTER 2 EXAMINATION 2018/2019**  
**STRATEGIC BUSINESS LEADER (SBL)**  
**MODULE NO. ACC 7530**

Date: Monday 20 May 2019

Time: 2.00 – 6.00

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**INSTRUCTIONS TO CANDIDATES:**

There are THREE questions on this paper.

Answer all questions.

This examination is 4 hours.

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## BELMONT ENGINEERING INC.

### Introduction

Assume that 'now' is June 2018. You are a senior finance manager, employed by Belmont Engineering Group Inc. Belmont is a global company, with a diversified portfolio of business interests, based in the USA. Belmont is listed on the New York stock exchange. A few weeks ago, Belmont acquired all of the share capital of Summer Fabrications Ltd (Summer), a specialist manufacturer of fabrications for the Oil and Gas industry. Summer is based in Sarland, a small European country that is not part of the Eurozone. Following the acquisition, one of your previous managers from Belmont was appointed as CEO of Summer. She asked you to accept a secondment to Summer as her 'Special Projects Assistant', for a period of 12 months, to help her familiarise herself with Summer and deal with any initial integration issues. As you respect her, both as a manager and a mentor, you readily agreed. Your days are very varied, with members of the Summer Board approaching you for advice on a wide range of strategic matters. Today, you find three significant requests in your email inbox. From your own files, you have gathered the following:

- Exhibit 1 Overview of Belmont Engineering Group Inc
- Exhibit 2 History of Summer Fabrications Ltd
- Exhibit 3 Briefing notes – 'Welcome to Sarland' (provided by the HR Manager)
- Exhibit 4 Engineering in Sarland – Department of Industry publication
- Exhibit 5 Investment Proposal – Integrated Manufacturing (email attachment)

The case requirements are given below:

1. According to minutes that you have seen, The Board recently discussed Summer's approach to strategic planning. The new CEO was alarmed to learn that Summer has never done any formal strategic planning as (to quote one of the Directors) "Joe Summer didn't believe in it". The CEO reminded the Board that Belmont expects submission of a formal strategic plan in three months, and suggested that each Director take responsibility for one part of the 'strategic analysis' stage of the planning process. The Marketing Director offered to provide a 'competitor analysis' to the next meeting, and the Operations and Finance Directors agreed to work together on the production of a 'position analysis'. The HR Director reluctantly agreed to analyse Summer's stakeholders.

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This left only the 'environment analysis' outstanding and, as there were no volunteers, the CEO agreed to ask you to assist. She also thought that it would help you to familiarise yourself with Summer and Sarland.

**Question 1**

Required:

You have been asked to produce a report to the Board, which:

- (a) Assesses the macro-environment of Summer , using an appropriate model or structure. (12 marks)

Professional skills marks are available for demonstrating evaluation skills in assessing the business environment. (3 marks)

- (b) Evaluates the opportunities and threats posed by the macro-environment of Summer. You should refer to your environment analysis, throughout. (8 marks)

Professional skills marks are available for demonstrating commercial acumen skills in recognising how external factors might affect the organisation's achievement of its objectives. (2 marks)

- (c) Proposes TWO alternative scenarios, on which Summer might base different versions of its strategic plan. The scenarios should be based on the 'key question': "What will our external environment look like, in 5 years' time?".

You should refer to your environment analysis, where appropriate. You are NOT expected to suggest the 'detailed implications' of, or 'courses of action' to respond to, your scenarios. (18 marks)

Professional skills marks are available for demonstrating analysis skills in the preparation of scenarios. (4 marks)

(47 marks)

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2. After the recent Board meeting, the CEO called you into her office. She related a conversation she had with one of the Non-Executive Directors, Antoine Cluny. Antoine: "I think you might be a little shocked by the results of the strategic planning exercise."

CEO: "Why?"

Antoine: "Well, I just think Summer has benefitted from being in the right place, at the right time, to be honest. When Joe formed the company, the oil boom was just beginning. There were so few others involved that it was difficult NOT to succeed. The glory days are over. We have so much competition around the World, we're going to struggle to survive. You just have to look at our recent results to see that."

Alarmed by this conversation, the CEO asked you to think about Antoine's 'right place, at the right time' comment, and to let her have your views.

### **Question 2**

Required:

Produce a briefing paper for the CEO, which evaluates the contribution which being based in Sarland might have made to the success of Summer in global markets. You should make use of an appropriate theoretical model in structuring your answer. (10 marks)

Professional skills marks are available for demonstrating evaluation skills in your application of the model. (3 marks)

(13 marks)

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3. The Chair of the Risk Committee (a Non-Executive Director) has emailed you. He is concerned that a major investment, supported by the Operations Director, is going to be discussed at the next Board meeting without an accompanying risk analysis. You are aware that the Risk Manager left Summer shortly after its acquisition by Colossal, and has not yet been replaced. A summary of the proposal (Exhibit 5) was attached to the email.

**Question 3**

Required:

Produce an email response to the Chair of the Risk Committee, which:

- (a) Identifies and evaluates EIGHT risks relating to the proposed 'IMF' investment. (16 marks)

Professional skills marks are available for demonstrating scepticism skills in your use of the Project Manager's notes. (4 marks)

- (b) Recommends how each of the risks you have identified should be managed or mitigated. You should justify each of your recommendations. (16 marks)

Professional skills marks are available for demonstrating commercial acumen skills in recommending practical and feasible mitigation methods. (4 marks)

(40 Marks)

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## EXHIBIT 1

Overview of operations – Belmont Engineering Group Inc (From the Annual Report, 2017)

### HISTORY

BELMONT ENGINEERING INC was formed in 1917, in Norfolk (Virginia), in response to US Government requirements to produce naval vessels. Its origins are in shipbuilding, but Belmont diversified during the 50s into activities in a wide range of transport sector industries.

Growth by acquisition began in the 1970s, and continues to the present day.

Belmont has an enviable track record for achieving synergies through rationalisation, turnaround of struggling businesses, and transfer/sharing of competences and intellectual property.

In 1981, Belmont Group Inc was listed on the New York Stock Exchange. It has a Head Office in Norfolk and operations in 27 countries.

### CURRENT SECTORS

Belmont Group has activities in, and reports performance against, the following segments:

- Residential and commercial construction
- Marine
- Oil and Gas engineering (not extraction/supply)
  - Transportation (infrastructure and hardware)
- Aerospace (including military)
- Government
- Others (representing less than 5% of revenue, in total)

### FUTURE EXPANSION

Belmont has substantial cash balances, which puts it in a strong position to pursue further acquisitions without recourse to shareholders.

The key sectors in which Belmont has growth aspirations are Oil and Gas, Marine and Transportation infrastructure. However, other sectors are also of interest.

Belmont has a publicly stated aim of building a substantial presence in Alternative Technologies, an area which currently represents less than 2% of revenues.

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Exhibit 1 continued

## GOVERNANCE

Belmont aims for full compliance with SOX. It has rigorous control and compliance systems, overseen by a Group Compliance Committee, chaired and staffed by independent Non-Executive Directors. All Belmont Group businesses, and employees, are expected to comply with the Group Ethical Code.

## EXHIBIT 2

A brief history of Summer Fabrications Ltd (from 'The Sarland Oilmen', J B White, Sarland University Press. 2016)

Joseph Summer 1916-2004 Joseph (Joe) Summer came early to the oil industry, having previously trained as a motor mechanic. At the age of 22, Joe took work as a roustabout on Mitch McFarlane's rig, during which time he suffered a serious accident that caused permanent damage to his left leg. Joe was forced to cut short his offshore career after only a few years.

Having had a taste of the offshore life, Joe understood the importance of component reliability. He began his engineering career repairing and refurbishing oilfield components from a warehouse in Fairport. Neighbouring businesses, all focused on the rapidly-growing Oil and Gas industry, found it more and more difficult to compete with Joe's excellent service and technical integrity. Within a few months, all the rigs and supply ships in the area were sending their gear to Joe. The growth in his business, and the acquisition of a couple of struggling rival firms, meant that Summer soon had to move to a purpose-built engineering site near the port. Joe incorporated his business as Summer Engineering Ltd, and invited his three mechanics to take shares in the business.

It wasn't long before Joe's customers realised that his repaired equipment was often better than the original part. They began to ask Joe to make replacement parts, and Summer Engineering changed its name to Summer Fabrications. Enlarged premises, and additional staff, soon followed.

Word of Joe's products spread, and Summer made its first export sales within three years of changing its name. Rapidly gaining a reputation for quality and reliability, Summer components were fitted to many sea- and land-based rigs, as well as supply vessels. Joe was contacted by two major rig manufacturers, one in Sarland and the other in the US, who wanted to fit Summer components to their new rigs. An expansion into refinery equipment soon followed. The Oil & Gas industry still represents by far the largest market for Summer's products.

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Exhibit 2 continued

Summer components are distributed worldwide by rail and air, the transport links from Fairport, including its connection to the continental rail network from Fairport

Parkway and the close proximity of Fairport International Airport, making distribution easy.

Joe is fondly remembered both as a local character, and as a pillar of the local community. Summer endowed a Chair in Oil and Gas Engineering at Sarland University, and many of Summer's current technical staff are graduates of that degree programme. A few of the older oilmen also remember Joe lecturing at what was then The Sarland Technical College, in the years before he retired.

EXHIBIT 3

'Welcome to Sarland' – a guide for expatriates Geography

Sarland is a temperate, coastal country. In the north, heavily forested mountains begin at the coast. To the south, much flatter and greener land stretches inland for many kilometres. In addition to the mainland, Sarland also has over 500 islands in its shallow territorial seas to the west.

Sarland occupies a total land area of 70,000 sq.km., which makes it about the same size as Scotland or the Czech Republic. Sarland shares three land borders; with Northland to the north, Southland to the south, and Innland to the east. Sarland uses Central European Time (CET).

Climate As Sarland stretches over 1,000km from north to south, weather patterns tend to be regional. The climate of Sarland is temperate and oceanic, and tends to be very changeable. As it is warmed by the Atlantic, it has much milder Summer s (but cooler, wetter summers) than areas on similar latitudes, such as Labrador, southern Scandinavia, the Moscow region in Russia, and the Kamchatka Peninsula. The coldest ever temperature of  $-27.2\text{ }^{\circ}\text{C}$  ( $-17.0\text{ }^{\circ}\text{F}$ ) was recorded at Kilhavn in the Northern Mountains, on 11 February 1895. Summer maxima average  $6\text{ }^{\circ}\text{C}$  ( $42.8\text{ }^{\circ}\text{F}$ ) in the Lowlands, with summer maxima averaging  $18\text{ }^{\circ}\text{C}$  ( $64.4\text{ }^{\circ}\text{F}$ ). The highest temperature recorded was  $32.9\text{ }^{\circ}\text{C}$  ( $91.2\text{ }^{\circ}\text{F}$ ) at Distamm, in the south, on 9 August 2003.

The west of Sarland is usually warmer than the east, owing to the influence of ocean currents. Rainfall varies widely across Sarland. The western highlands of Sarland are the wettest, with annual rainfall in a few places exceeding 3,000 mm (118.1 in). In comparison, much of lowland Sarland receives less than 800 mm (31.5 in) annually. Heavy snowfall is not common in the lowlands, but becomes more common with altitude.

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Exhibit 3 continued

POPULATION

The population of Sarland at the 2000 Census was 5,062,011. This rose to 5,295,400, the highest ever, at the 2010 Census. Although Midville is the capital of Sarland, the largest city is Fairport, which has just over 580,000 inhabitants. In general, only the more accessible and larger islands remain permanently inhabited. Many of the smaller islands are dotted with holiday cottages, used only in the summer months. The Southern Lowlands are essentially rural in nature and dominated by agriculture. The North of the country is dedicated to forestry, with a sparse population.

ECONOMY

Sarland is a member of the Uplands Economic Area (UEA). Formed in 1969, the UEA is a 'free trade area' within which member States can trade without economic barriers. In 1986, the UEA also introduced 'free movement' for citizens of its member states and all the physical borders within the Area are 'open': there are no restrictions on travel between member States, and no customs or immigration inspections at internal borders.

The largest sectors of the Sarland economy, by revenue, are:

- 1 Financial services
- 2 Oil and gas
- 3 Agriculture and forestry
- 4 Public services
- 5 Tourism

Sarland has three 'special development zones' (established in 2005) and companies based in these zones receive financial assistance in the form of subsidised finance and preferential corporation tax rates. Such incentives are tolerated by the UEA, provided they are offered as a direct incentive to create employment and exploit natural resources, rather than as a barrier to imports.

Economic growth has averaged 2.8% per annum, over the past decade. This is slightly higher than the UEA average.

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**POLITICS**

The right-wing Reform Party has held a majority of the seats in the Sarland parliament since 2004. It actively supports businesses, and tends to favour the better-off members of society. As a result, the basic rate of income tax is higher than the UEA average, while the highest rate is significantly lower.

In the last general election, in 2014, the parliamentary majority of the Reform Party fell to its lowest level since it took power ten years earlier. The Sarland electorate has become increasingly disillusioned with failing public services and education, and opinion polls suggest that the Reform Party is unlikely to maintain its majority at the current level. The next general election is due in 2019, and recent local elections have shown swings away from the Reform Party.

The main opposition party is the Democratic Alliance (DA). The DA is positioned in the centre-left, and generally favours greater spending on public services and a taxation regime that is 'fairer'. When the DA last held a majority, between 1996 and 2004, corporation tax and higher rate income tax levels were much higher than at present, and there were few subsidies and financial incentives available to employers and companies. The DA has never been a supporter of UEA membership, and has hinted that it would call a referendum on leaving the free trade area, if re-elected.

**CURRENCY**

Sarland uses the Doubloon. The currency has an active market within the UEA, but is not generally accepted or traded outside the Economic Area. Official exchange bureaux are common, and foreign currency can also be exchanged at banks and Post Offices. Derivative instruments are only available in Sarland, against major World currencies.

**CULTURE**

In common with most of the UEA, Sarland is a very traditional country. The residents are easy-going, with a strong sense of history and heritage. They like order, and inappropriate or disruptive behaviour is not tolerated. Sarland suffers far less crime than other countries in the region, and expatriate residents will find Sarland a very safe place to live.

Sarland has local traditions for folk music and handcrafts. It is also home to an extensive modern art movement, and cities are full of small galleries and artists' studios.

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Exhibit 3 continued

**SOCIAL**

Sarland residents tend to travel less than most. Many holiday at home, and it is still common for families to own a traditional holiday home (often a log cabin) in either the mountain or coastal region, or on one of the islands.

Although disposable incomes are relatively high in the major cities, many of the rural population have little surplus wealth. This makes them low consumers of FMCG and luxury goods.

Attitudes to work are generally quite serious, with many members of a family working in the same industry. Sarland folk also tend to be loyal to one employer, seeing employment as a lifetime of loyal service.

Industry The largest sectors in Sarland, by employee numbers, are:

- 1 Tourism
- 2 Financial services
- 3 Agriculture and forestry
- 4 Retail
- 5 Public service

Oil & Gas is a large sector, by revenue, but does not rank in the top 5 by employee numbers. The numbers employed in Oil & Gas have fallen steadily, since 1990, due to automation and the gradual depletion of the offshore reserves. Sarland is expected to run out of economically viable offshore reserves by 2030. Onshore drilling and fracking have been promoted by successive governments, but the Democratic Alliance has always promised to withdraw licenses due to concerns for the environment and in response to public pressure.

**TRANSPORT INFRASTRUCTURE**

Travel within Sarland, and into the other UEA member States, is simple and efficient. Indeed, it is often difficult to recognise that a border has been crossed. Although many roads still have border posts, these are generally un-staffed. They are occasionally used for vehicle inspections, or during times of heightened terrorism alerts. Drivers should, of course, obey any requests by the police to halt and submit to inspection.

The rail system of Sarland is under national government control. While the network has a good reputation for punctuality, it has suffered from serious under-investment. Passenger numbers have fallen by 30% in the last ten years, and freight is now predominantly carried by road. The Sarland Government has begun a process of 'creeping privatisation', with rolling stock manufacture, catering, maintenance and construction all sold to the private sector. It is expected that franchises for passenger and freight services will be awarded within the next five years. This is expected to be preceded by a period of significant investment, as the Government tries to make franchises more attractive to potential bidders. The Democratic Alliance is, of course, opposed to all forms of privatisation.

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As in many developed countries, the Sarland road infrastructure is beginning to show signs of strain as traffic volumes increase. Congestion in major towns and cities can be severe, and longer distance travel is often delayed by road works and high traffic volumes.

## EDUCATION

Sarland has one of the highest rates of literacy in the region. Education is free, up to age 18, and those students who progress to higher education (either at university or 'technium') may borrow at very low interest rates to fund their tuition fees and living expenses. Repayment of student debt (through the taxation system) does not begin until the graduate earns a certain level of salary, and repayment periods depend on earnings. Any student debt not repaid within 10 years of graduation is written off. The five Sarland universities produce more graduates, in most disciplines, than are required by domestic employers. As a result, new graduates are a 'net export' for Sarland, with the number of university-educated citizens leaving the country to work elsewhere exceeding the number of foreign (non-UEA) graduates being granted work permits.

Although the prospect of debt is thought to deter some students from progressing to higher education, student numbers continue to grow. Technium attendance is static, though the Democratic Alliance supports the introduction of state-funded apprenticeships. Students would effectively be paid a wage, by the state, to learn a 'trade' (such as plumbing, machine-operation or electrical engineering). The DA has also proposed that apprenticeships should be available for 'semi-skilled' occupations such as administration, tourism and retail.

## EXHIBIT 4

Engineering (excluding Civil and Architectural – see separate report) in Sarland  
(Produced by The Department of Industry, Sarland Government 2015)

### INDUSTRY OVERVIEW

Engineering is dominated by a very large number of SME companies. While there are a few international operators, Sarland is not the home base of any significant multinational manufacturers.

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**TRADE BALANCE**

Engineering generates almost 20% of the Sarland GDP, but consistently shows a net trade deficit. The main export markets for Sarland production are within the UEA, while the main import markets are the Far East and the USA. Although Sarland has the potential to be 'self-sufficient' in engineering production, low-priced imports make this highly unlikely without Government intervention.

**KEY SECTORS**

- Power generation, transmission and distribution
- Gas, Water, waste
- Manufacturing and construction
- Building services, such as lighting, heating, ventilation and lift systems.
- Oil and gas
- Transportation – aviation, space, automotive and transport networks, including rail electrification and signalling
- Renewable energy sources, such as solar panelling, hydroelectric and wind turbines

**INVESTMENT SUPPORT**

Engineering is primarily supported indirectly, by Government expenditure on infrastructure projects. The only exceptions are where an employer can prove a significant increase in employment (see 'Employment Generation Incentives Order 152, May 2015') or is based in a Special Development Zone (see below).

**SPECIAL DEVELOPMENT ZONES**

Sarland has three 'special development zones': Fairport Industrial Zone, Midville Technopark, and Distamm Business Park. These three zones were designated in 2005, and no further zones are planned. Financial assistance takes the form of subsidised finance (for capital projects) and a lower corporation tax rate (currently 2% below the standard rate). All applications are subject to rigorous assessment, and must meet employment and social benefit criteria.

**EMPLOYMENT OBJECTIVES**

Demand for engineering skills is set to increase in the future with the requirements for advanced technology as well as significant investment in renewable energy. Technology is constantly evolving and the demand for skilled technicians (those with a level 3 qualification or above) is expected to continue to increase. With new technology come new skill requirements, so more engineers are required to be multi skilled. Those with an existing electrical or mechanical engineering background can up-skill into areas such as renewables (wind turbines, solar panelling etc.), or towards information and communication technology or environmental sustainability.

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## EXHIBIT 5

Notes relating to the proposed investment in Integrated Manufacturing technologies (provided by the Operations Director of Summer )

### OVERVIEW

As noted in the Project Initiation Document (PID 23/2017), this proposal is for the purchase, installation and commissioning of an Integrated Manufacturing Facility (IMF) in the main Fairport factory. This facility will replace a number of existing manufacturing machines (about half of the factory area), many of which are book-life-expired (though still in use).

### NEEDS ANALYSIS

Maintenance costs on the machines being replaced by the IMF have increased to intolerable levels. The savings in maintenance costs, alone, will more than cover the additional interest costs on the borrowing required for this investment.

Summer is increasingly being asked to produce large batches of identical products. The introduction of IMF will allow Summer to exploit economies of scale, reduced set-up costs (when amortised across the batch quantity) and reduction of work-in-process inventories. This will allow Summer to achieve a cost leadership position, and thus win more orders.

### SUPPLIERS

The manufacturing machinery for the IMF will be purchased from Sarland Factory Systems (FFS). Summer has previously used FFS, as its preferred machinery supplier, and enjoys a good relationship. FFS will, in turn, source machines from a range of domestic and foreign suppliers, and develop the software to control the IMF.

### SCALE OF INVESTMENT

The original plan for funding this investment was to issue redeemable bonds. Following the acquisition of Summer, by Colossal, we will need to approach our new Parent for funding. Although the investment falls within the authority level delegated to The Board of Summer, funds are currently not available. This project will therefore require approval by the Investment Committee of Colossal.

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Exhibit 5 continued

#### TIMESCALE

We are assured, by FFS, that the IMF can be installed and commissioned during the annual August factory closedown. This will mean that normal production will not be affected, as we can close down the existing manufacturing plant on 31 July, and re-open on 1 September using the IMF. CRITICAL PATH Final approval of this proposal is required by 30 June, so we can place an order with FFS in time for them to commence installation on 1 August.

END OF QUESTION PAPER

PAST EXAMINATION PAPER