

Chartered Secretaries Qualifying Scheme – Level 2

Strategy in Practice

Sample paper

Time allowed: 3 hours and 15 minutes
(including reading time)

Do not open this examination paper until the presiding officer or an invigilator tells you to.

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

The examination paper contains **six** questions. Each question carries 25 marks. You must attempt **four questions only**.

Case study

The Jones Motor Company

The Jones Motor Company ('JMC') is the world's oldest privately owned car manufacturer. It was founded in the west of England in 1912 by Herman Jones and is still a family company. In the 1990s, Herman Jones' son Peter Jones ('Peter') ran the company with his son Charles Jones ('Charles'). Peter owned 51% of the shares and Charles owned 20%. Four of the seven directors were also family members and the remaining two family members owned 10% of the shares each. The remaining three directors owned 3% each.

The main product in 1992 was based on a car model introduced in 1935 and was substantially hand-made. The original factory, which is still used, once produced 2,300 cars a year, five times the number produced in 1992. Surprisingly, JMC had survived as a small car manufacturer through the fluctuations in demand which forced most of its competitors out of business or into acquisition by mass-production firms.

The waiting list for a 'Jones' car in 1992 was four years. Peter realised that this deterred potential customers, but his father had told him always to keep demand slightly ahead of supply. In fact, there was such high demand that Jones cars were often sold with delivery-only mileage for 20 per cent more than the list price.

In 1992, JMC was making money but not enough to guarantee its survival. The company, therefore, set the modest aim of increasing the weekly production from nine to ten cars. The reluctant workforce agreed, and were promised extra money if they succeeded. But, like previous attempts to increase production, this foundered because not all the departments could sustain the increased level of production. They slipped to the original level, one with which they were more comfortable.

A consultant, engaged in 1992 by Charles, noted:

- **Production** – The factory gives the impression of being run by enthusiastic amateurs. The works manager sees the need for some change but likes the way things are. There is no logical flow of production and very little production planning. The machine shop is badly undercapitalised and in need of investment. The layout of the factory has not changed much since 1919 and needs a complete overhaul.
- **Sales and marketing** – The sales director has not had to sell a car for 20 years and is effectively JMC's customer liaison person. JMC's sales department is production-led. They do not think in terms of how many they can sell but how many they can produce. The company is introducing a clean-burn engine to meet United States regulations, but is doing this without any idea of how many cars they could sell. Overall, the company has absolutely no idea of the demand for the car!
- **Information technology** – There is no computer in the stockroom and the average stock level is between three and four months' supply. Nobody knows what the optimum stock levels ought to be. They are probably higher than necessary and JMC has too much money tied up in stock.
- **Human resources** – Shop-floor workers are paid a basic wage and a production bonus. However, the bonus does not work as an incentive to increase production and the workforce appears unenthusiastic about changes. Most workers have been with the company for all their working life and are skilled in traditional car building techniques. Problems in the production flow often slow things. Supervisors have no financial incentive to encourage their team to work harder.

- **Design development and technology** – The chief development engineer has a clearer sense of what is wrong with the company and a vision of what it could become. He thinks the way the car is made is wrong, is convinced the factory could be better organised and would like to build the body and chassis separately. Apparently, he has been saying this for years but whenever this is mentioned, the reaction is always the same: the customers like the car made the way it is, and this antiquated approach actually sells the car.
- **Summary** – The car has an enthusiastic following, a large global waiting list and exports half its production. But there is no direction and profits appear insufficient. Labour costs are high and a high proportion of the car's cost. Such a product will eventually become uneconomic if the problems are not addressed. Complacency is a big problem and the company is very risk averse. The management believe they are doing well enough and see no need to change. None of them are really aware of the dangers. Every department needs new investment. JMC seems dedicated to making things in the most expensive way. Everybody defends their own corner and there is a strong belief that any change will alter the attraction of the car. The company is in real peril unless it can accept the need for change.

While management was united in public, there were latent disagreements about the long-term direction of the company. Peter's experiences made him cautious. Charles was more ambitious but also ambivalent: he wanted to take advantage of demand by increasing production, had plans to bring in new tools and computerised stock control, wanted more research and development and had ideas to market Jones-branded clothing and accessories. On the other hand, he was reluctant to confront his father about the dilemmas the company faced: between new and old methods, computerisation and the personal touch, the waiting list as unsatisfied demand and the waiting list as insurance policy. Peter seemed to dominate Charles and they rarely discussed strategy together. Neither seemed to want to say anything that would upset the other. In the end, they prevaricated over and rejected the consultant's views.

Yet ten years later things had changed. In 2002, the new Whizz 4 model won its class at several motor shows. AutoMoto magazine voted JMC 'Specialist Manufacturer of the Year', saying: 'the company has transformed not only its product but its business.' By 2004, the company's production was greater than at any time since the 1920s.

Developments in the clean-burn engine for the US market meant that JMC won approval for its new model and had to anticipate greater demand. This galvanised Charles into action. He had studied modern manufacturing techniques and visited advanced factories. He and the chief development engineer began to work on a plan to increase production by changing the layout and sequence, although Peter was prepared to accept some incremental change. Peter continued to work aged 80.

But change was beginning to take place. A TV documentary about JMC had the effect of increasing orders. Charles introduced a manufacturing resource planning computer system and prices were increased in advance of inflation. On the technical side, engines were updated and new developments were trialled. Production improvements also included a major investment in the paint department and a new CAD/CAM system. Output reached 11 cars per week from 2002.

A new standard European approval system required much work to ensure all JMC cars complied. Although small manufacturers usually have an exemption, with JMC's dependence on export markets (50% of sales), Charles felt that they could not rely on this. The production of the Whizz 4 required its own production line, the trim shop was extended, the repair shop modernised to free space, and the whole factory seemed transformed. By 2002, they even had a website where you could buy Jones merchandise, and even order your new Jones for delivery – in only 18 months.

Peter died in 2008, but the momentum of change with a traditional feel continued. The Whizz 4 gave way to other models, including a recent prototype with an electric option and aerodynamic styling that delivers four times the usual fuel economy and zero toxic emissions. An article in *Envirocar* argues that JMC's cars, partly because of their lightness (using ash and aluminium), are the world's most environmentally friendly. The car has become 'state of the art' in its niche and the company a business model for the world in 2010. The article classified JMC as an example of the new micro-factory retailing approach which is customer friendly, flexible, focused on high satisfaction and highly environmentally friendly.

Questions

(Answer **four** questions from this paper)

1. (a) Using an appropriate framework, analyse the culture of JMC in the 1990s.
(15 marks)
- (b) Evaluate the extent to which JMC's culture at this time may be regarded as a liability.
(10 marks)

(Total: 25 marks)

2. (a) Evaluate the extent to which resistance to organisational change may be regarded as inevitable in the JMC case.
(15 marks)
- (b) Analyse the potential sources that a change agent might use to help overcome resistance and bring about change at JMC.
(10 marks)

(Total: 25 marks)

3. One commentator on JMC said '... from a business school point of view, the company has done almost nothing right in its 83 years of existence. It has failed to automate or expand, failed to diversify, failed to change its product line, failed to turn to the stock market for new capital. It has, in short, failed to do everything but succeed.'

Critically review the rational planning model in the light of the JMC case.
(25 marks)
4. (a) Assess the contribution of stakeholder analysis to an organisation like JMC.
(15 marks)
- (b) Critically review the way in which JMC managed its stakeholders during the period of the case.
(10 marks)

(Total: 25 marks)

5. A common view ...is that business ethics is an 'oxymoron.' This suggests that it is contradictory and incongruous to speak of business and ethics in the same breath (McKenna, 1999).

Using examples, evaluate this statement.

(25 marks)

6. Using examples, explain the significance of the link between corporate strategy and reputational risk.

(25 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.

